



# Relatório Anual

Annual Report

ANO FINANCEIRO  
FINANCIAL YEAR

20  
14

No caminho da estabilidade de  
Towards a stable **Timor-Leste**



# Relatório Anual

Annual Report

**ANO FINANCEIRO**  
**FINANCIAL YEAR**

**20**  
**14**

# Índice

## Apresentação

2 

## 1 Evolução da Economia internacional

6 

<b>Economia mundial e Asiática</b>	8	<b>Quadro económico no espaço asiático</b>	13
O crescimento económico nas principais economias	8	<b>Canais de transmissão para Timor-Leste</b>	16
A evolução da inflação nas principais economias	9	Inflação importada	17
Mercados de commodities	10	Mercados energéticos e as receitas petrolíferas	20
Mercados financeiros de referência	11	Mercados financeiros e o fundo petrolífero	22

## 2 Evolução recente da economia nacional

26 

<b>Produção: actividade económica</b>	28	<b>Receita Pública</b>	41
<b>Preços e inflação</b>	32	<b>Despesa Pública</b>	43
<b>Balança de Pagamentos</b>	34	<b>Desenvolvimento monetários e financeiros</b>	46
Exportações	38	Desenvolvimento do Sistema bancário	51
Importações	38	<b>Conclusão</b>	55
<b>Finanças públicas</b>	40		

## 3 O BCTL: Missão e mandato principal, organização e governação, e actividades

56 

<b>Principais mandatos e funções</b>	58	<b>Box1. Implementação do Plano Diretor de desenvolvimento do setor financeiro em Timor-Leste</b>	71
<b>Organização e governação do BCTL</b>	59	Projeto de agências de actividades bancárias sem filiais	79
<b>As actividades do BCTL em 2014</b>	60	Projeto de esquema de garantia de crédito	79
<b>Sistema de Pagamentos</b>	63	Seguradoras	79
Arranjos quanto ao uso do dinheiro como meio de pagamento	63	Gestão do Fundo Petrolífero	80
<b>Importação e exportação de moeda</b>	66	Reforço institucional	81
<b>Estratégia de desenvolvimento do sistema nacional de pagamentos</b>	67	Pessoal e programa de formação	82
Rede de Transferências em Tempo Real (R-Timor)	67	Relações externas	85
<b>Sistema financeiro e serviços bancários</b>	70	<b>Box2. Plano de Acção do BCTL para 2015</b>	86
Licenciamento e regulação do sistema financeira	70	<b>Organização interna do BCTL</b>	92

## 4 Informações financeiras

94 

<b>Declaração de conformidade</b>	95	<b>Quadro de Cashflows</b>	99
<b>Balanço</b>	96	<b>Notas às contas</b>	100
<b>Conta de exploração</b>	97	<b>Relatório dos Auditores Independentes</b>	131
<b>Declaração sobre alteração do capital social</b>	98		

# Index

## Introduction

2 

## 1 International macroeconomic developments

6 

<b>Global and Asian Economies</b>	8	<b>Asian macroeconomic review</b>	13
Economic growth in major economies	8	<b>Canais de transmissão para Timor-Leste</b>	16
Inflation trends in major economies	9	Imported inflation	17
Commodities markets	10	Energetic markets and oil revenues	20
Main Financial markets	11	Financial markets and the petroleum fund	22

## 2 Recent developments for the national economy

26 

<b>Production: economic activity</b>	28	<b>Receita Pública</b>	41
<b>Prices and inflation</b>	32	<b>Despesa Pública</b>	43
<b>Balance of payments</b>	34	<b>Financial and monetary development</b>	46
Imports	38	Banking sector development	51
Exports	38	<b>Conclusão</b>	55
<b>Public finances</b>	40		

## 3 The BCTL: Mission and core mandate, organization and governance, and activities

56 

<b>Principal mandates and functions</b>	58	<b>Box1. Implementation of Master Plan for Financial Sector Development in Timor-Leste</b>	71
<b>Organization and governance of BCTL</b>	59	Agent Branchless Banking Project	79
<b>The BCTL activities in 2014</b>	60	Credit Guarantee Scheme project	79
<b>Payment System</b>	63	Insurance Sector	79
Payments and settlement system arrangements	63	Petroleum Fund management	80
<b>Importation and exportation of Cash</b>	66	Institutional strengthening	81
<b>National Payments System Development Strategy</b>	67	Personnel and training program	82
<b>Rede de Transferências em Tempo Real (R-Timor)</b>	67	External Relations	85
<b>Financial system and banking services</b>	70	<b>Box2. BCTL action Plan for 2015</b>	86
Licensing and Regulation of financial system	70	<b>Internal organization of the BCTL</b>	92

## 4 Informações financeiras

94 

<b>Declaração de conformidade</b>	95	<b>Quadro de Cashflows</b>	99
<b>Balanço</b>	96	<b>Notas às contas</b>	100
<b>Conta de exploração</b>	97	<b>Relatório dos Auditores Independentes</b>	131
<b>Declaração sobre alteração do capital social</b>	98		

# Introduction

This annual report summarizes and presents the national and international economic developments in 2014, as well as the set of activities of the Central Bank of Timor-Leste (BCTL), throughout the year. The Organic Law of the Central Bank describes the responsibility of the Central Bank regarding the President, the National Parliament, the Prime Minister and the Minister of Finance, on the submission of its annual report. The report consists of two main parts, namely, analysis of national and international economic developments and the presentation of the Bank's activity report, also including relevant financial information.



The world economy remained robust in 2014, with emphasis on the acceleration of economic growth rates in most advanced economies, led by the US, which offset the slight slowdown in emerging economies. For 2015 and 2016, IMF anticipates a slight acceleration of global economic growth, sustained by the good performance of both economic blocs. Note, however, that some of the major economies such as the Eurozone and Japan continue to experience significant levels of underemployment, and whose economic recovery since 2008, was not strong enough to recover the dynamism in these blocks. In emerging economies, it is natural to expect a gradual and slight economic slowdown in coming years, particularly with regards to China, after the high rates of GDP growth and debt levels, recorded from 2008 to date.

The US economy has been the star of the world economy, with the official unemployment rate to decline substantially in 2014 and the economy has registered moderate growth levels. This performance led to its central bank, the Fed, to end the large scale asset purchase program and announced that it hopes to start soon, as far as possible, a new cycle of rising reference interest rates.

In terms of international financial markets, we highlight two important developments, in particular, the appreciation of the dollar against most world currencies and the substantial fall in international prices of raw materials, particularly relevant to Timor-Leste, as regards the price of oil. The appreciation of the dollar was supported by the robust US economic performance in 2014, versus the key global blocks and increased probability of beginning a new interest rate hike cycle by the Fed. With regard to the fall in the price of raw materials, the causes generally identified relate to a slowdown in global aggregate demand of various goods as well as a substantial increase in supply surpluses of the various raw materials, the result of investments in the last years. The substantial decline in oil prices, especially in the last quarter of 2014 is particularly negative for our country, since the price of the end of the year is substantially lower than the forecast of the Government to calculate the yield of oil wealth, registered in the State Budget 2015.

In terms of Asian economic developments, the region's economies remained robust in 2014, benefiting also from the depreciation of their currencies against the dollar. In general, the various economies continue to show very favorable external positions, robust levels of growth and controlled inflation. The exception, on the negative side, has been the Indonesian economy, which has been experiencing high levels of inflation, a significant depreciation of the rupiah against the dollar and a perpetuation of the external deficit position. Note also that the combination of these controlled levels of regional inflation, together with the depreciation of Asian currencies against the dollar, resulted in a favorable development for Timor-Leste, in the sense that it reduced the external inflationary pressures on our economy.

With regard to the national economy, the BCTL estimates that the economy has recovered substantially in 2014, growing by about 8% after the slowdown in 2013, for which BCTL estimates an annual growth of less than 1%. Note that there are not yet known estimates of the National Accounts for 2013 and 2014, so the BCTL's estimates are based on a set of leading indicators available for the national economy, using a model developed internally. For 2015 and 2016, BCTL continues to project levels of economic growth close to the average recorded in recent years, between 7 and 8% on an annual basis. These forecasts remain naturally dependent on the materialization of a series of working assumptions, among which are: an increase of budgetary spending and continued growth of domestic investment levels.

From a structural perspective, although our economy has been growing robustly since 2008, GDP growth was overwhelmingly explained by the growth sectors of the public administration, services and construction. The agriculture and fisheries, as well as manufacturing, basic industry, fundamental sectors for job creation, have recorded anemic growth rates, at most, which resulted in significant loss of these sectors importance in total GDP. This development is another evidence that our economy remains overly dependent on the implementation of policies and public budget programs, which must be countered, by actively promoting the diversification of the economic base and the increase in domestic production.

With regard to price developments in Timor-Leste, we point out the favorable decline in inflation levels in 2014, after the high levels recorded in the previous 3 years. The average annual inflation in 2014 was 0.5%, compared to the annual average of 11%, recorded between 2011 and 2013. This decline was mainly due to the reduction of external inflationary pressures, which, as already mentioned, was due to the appreciation of the dollar against the Asian currencies and fall in international prices of raw materials, but also by the slowdown in the economy growth rate over the past two years.

In terms of annual activity of BCTL, the Bank remained actively committed in promoting monetary and financial stability and developing initiatives particularly relevant in this context. One of the main activities of the BCTL during the period was the launch of the Master Plan for the Financial Sector Development. This Plan was officially launched on 28 August 2014. The Master Plan sets 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 Taur Matan Ruak, who established the 29th November as the National Savings Day. The first national campaign to raise awareness and financial education was held in 6 districts.

At the end of 2014, BCTL, together with the Asian Development Bank (ADB), worked in developing the legal framework for Agent/Subsidiary Banking.

The BCTL also conducted a comprehensive strategic study of the National Payments System of Timor-Leste, which recommended the need of BCTL to implement an automated transfer system (STA / ATS), whose goal is to facilitate payments electronically between all banks, including the BCTL and the Ministry of Finance. The BCTL designated the ATS as R-Timor, short for "Rede Transferência iha Momento real". The system is designed to accept and process payments electronically between banks.

The BCTL continued to work with the Ministry of Finance as well as the Investment Advisory Board of the Petroleum Fund, in order to maintain an active and informed discussion of the challenges and priorities for strategic management of the Petroleum Fund.

The Bank continues to maintain its strong focus on staff training, allocating significant internal financial resources for this purpose. This has been reflected positively on the quality of work in the institution, admittedly one that works best in our country.

Finally, as has been usual, left me, as Governor of BCTL, thank all the staff of the Central Bank, our partners or partners of activity at various times, which continued to actively contribute to the consolidation of the Central Bank of Timor Leste and to the economic development of our country.



**Abraão de Vasconcelos**  
Governor  
Dili, 27 April 2015

# 1

## International Macroeconomic Developments

This chapter briefly reviews the main economic developments registered in 2014 for the major world economic blocks and Timor Leste's main economic partners. Additionally, it also summarizes the main trends in international financial and commodities markets, especially those that are more relevant for our country.

Building on this initial summary, the chapter then analyses the main transmission channels of international developments to our domestic economy, detailing relevant effects observed in 2014 and expected developments for 2015.



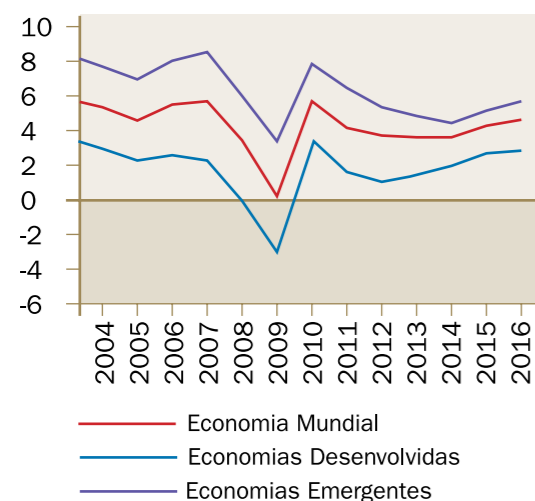
# Global and Asian Economies

## Economic growth in major economies

In 2014, the world economy continued to grow (3.3%) around the levels registered for the last 2 years, extending the economic recovery from the great international financial crisis of 2008-2009. In terms of major blocs, 2014 saw a slight pickup of growth for the more advanced economies to 1.8%, which mitigated the continued deceleration of growth across developing economies (4.4% in 2014). For 2015 and 2016, IMF expects a renewed but slight pickup in global growth, sustained by economic recovery in both blocks.

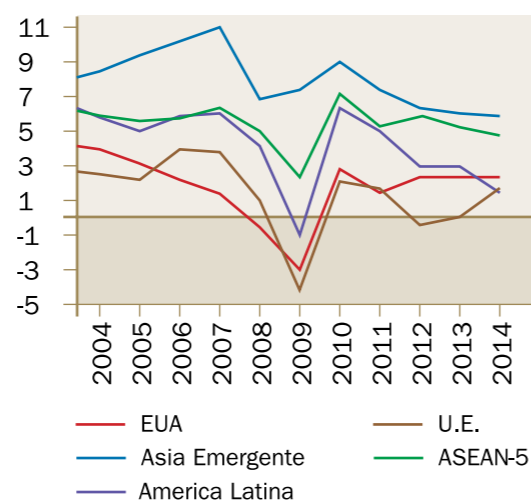
The global economy continued to recover in 2014, and just pick-up again in 2015 and 2016...

GDP - % Growth in Main Blocks



Fonte: FMI, World Economic Outlook, Outubro 2014

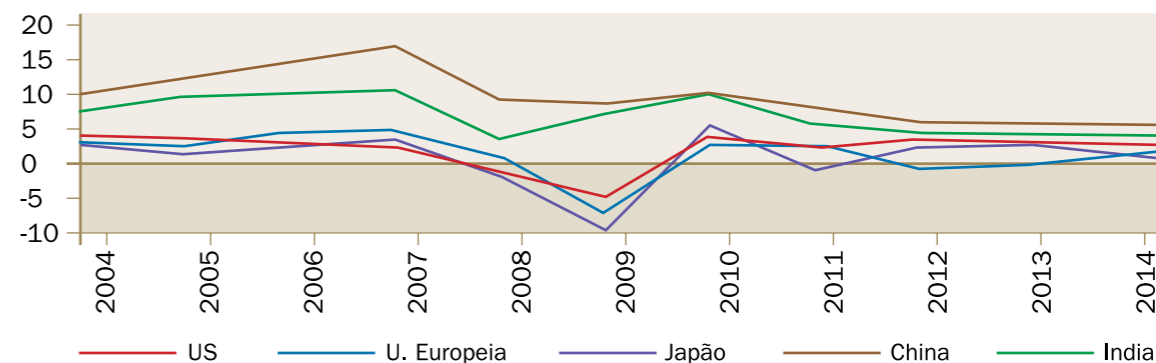
GDP - % Growth Selected Regions



...while ASEAN economies slowed down slightly in 2014.

In terms of regions, Emerging Asia and Sub-Saharan Africa continue to be the world's more dynamic regions, growing 6.6% and 5.7%, while European Union was the region with lower recorded growth in 2014 (1.4%). Nonetheless, it should be highlighted in 2014 the growth slowdown for ASEAN top 5 economies and the slight recovery in European growth in 2014, versus the stagnation registered for 2012 and 2013. For 2015 and 2016, the IMF expects a pickup in growth for every region, with particular optimism for US and ASEAN economies.

GDP % growth - 5 Largest economies



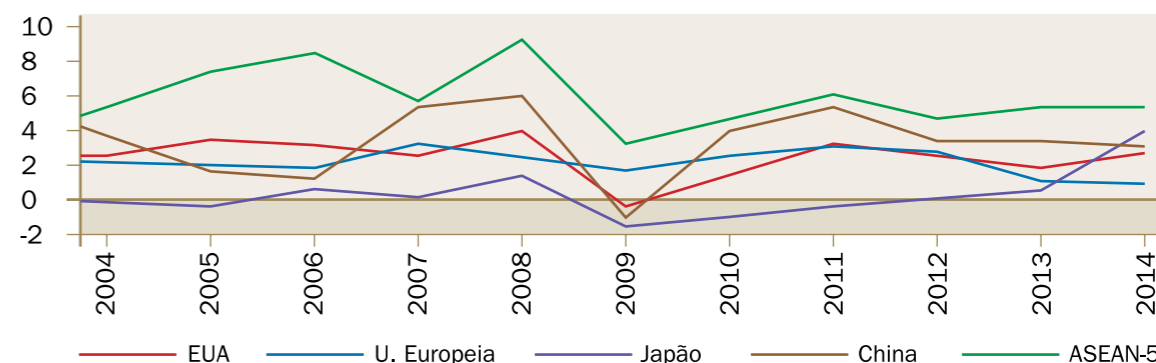
Last, comparing economic performance across 5 major world economies - US, EU, Japan, China and India - reveals that the 2 Asian emerging economies continued to grow substantially in 2014, although at a slower pace than in the last decade, and that the US has grown more rapidly than EU and Japan. In line with IMF optimism, growth in these major economies should even pickup in 2015 and 2016, with the exception of China, which should continue the much needed slowdown and sectorial rebalancing trajectory.

## Inflation trends in major economies

As for price trends in 2014, we highlight that EU inflation and respective expectations have fallen substantially below the long-term reference of 2% in 2014, and that Japan inflation increased to its highest level in the last 20 years. Asian economies, especially those from the ASEAN block, continued to register moderate inflation rates in 2014, whereas China has managed to keep inflation pressures contained.

Inflation remained low in global economy, and registered substantial fall in Europe.....

Inflation rates % year - 5 Selected Economies



Fonte: FMI, World Economic Outlook, Outubro 2014



.... due to the perpetuation of high levels of unemployment, sluggish recoveries and commodities prices fall.

EU inflation decrease is mostly due to the slow growth level of European economies along the last 3 years, which has resulted in low rates of employment of resources and labour across Europe, thus resulting in negative price pressures. This worrying trend has even justified the adoption of further and more radical monetary policies on the part of the ECB, who, at the beginning of 2015, announced the implementation of a massive programme to buy bonds across EU financial markets, similar to FED's QE programme. Japan registered positive inflation rates for the first time in years, due to the substantial expansion of Bank of Japan asset acquisition programme and the substantial depreciation of the Yen in 2014.

Overall, 2014 registered subdued inflation pressures across major economic blocks, which resulted from the growth slowdown in emerging economies, perpetuation of unemployment levels in many advanced economies and the substantial price falls registered for the major international commodities.

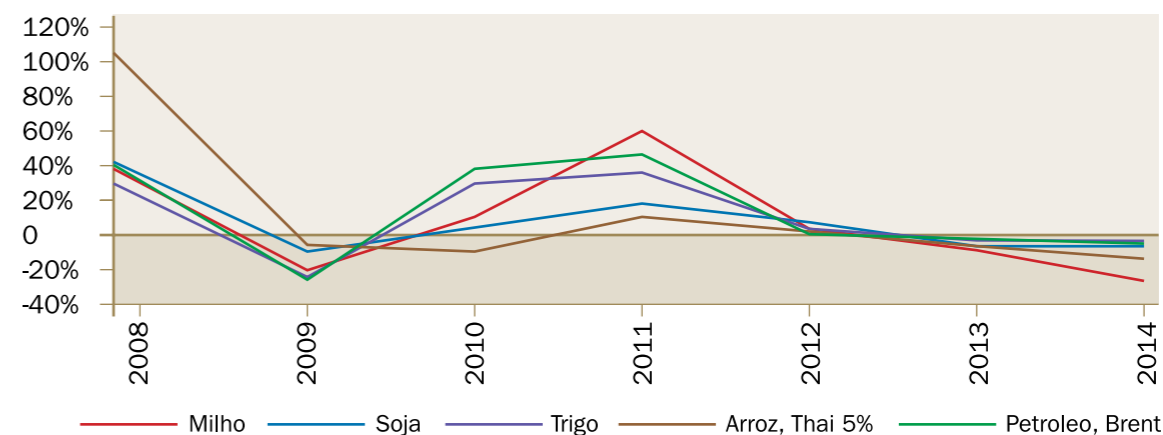
### Commodities Markets

In terms of commodities markets, 2014 registered generalized price falls for agricultural, energetic and industrial metal items. As shown below, the prices of these items registered annual price falls similar to those registered in 2009, a year marked by the recessive effects of the great financial crisis. Agricultural price falls were especially marked in the 1st half of 2014, while oil price has fallen mostly during the 2nd semester, particularly in the last quarter (-31% in annual terms). As the major world economies were essentially robust in 2014, the commodities price falls represents a boost for the economies, which import these items, thus supporting their economic growth. On the contrary, for the exporters of these goods, typically less developed countries, the fall in prices represents a negative shock for their incomes and, naturally, for their economies.

Commodities prices fell again....

.... supporting growth in importing economies, but representing challenges for exporters.

Inflation rates % year - 5 Selected Economies



Fonte: Banco Mundial, Commodities Datasheet, Fevereiro 2015

### Main Financial Markets

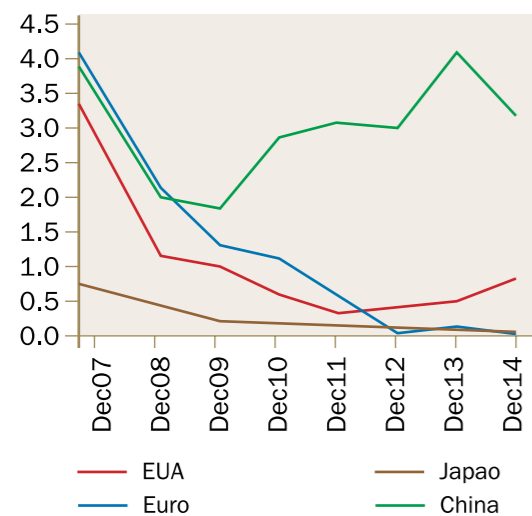
In terms of financial markets, we start with the trends registered in bond markets, especially Treasury bonds, which allow us to measure the impact of changes in monetary policies, expectations, growth rates and inflationary trends. 2 years interest rates, which are more sensitive to changes in monetary policy stances, show a clear divergence between the 3 largest world economies, with the markets gradually incorporating, in 2014, a future rise in US policy rates and the maintenance of zero policy rates in Japan and EU. On the other hand, 10 year rates have decreased across all economies, reflecting lower inflation pressures, amidst the deflationary developments of commodities markets in 2014. Note, however, that 10 year rates for EU and Japan have registered larger falls, since the anaemic growth rates of these regions resulted in a more pronounced inflation expectations fall and strengthening of lower for longer of policy rates, than in the US.

2 years interest rates rose in the US, but kept low in EU and Japan...



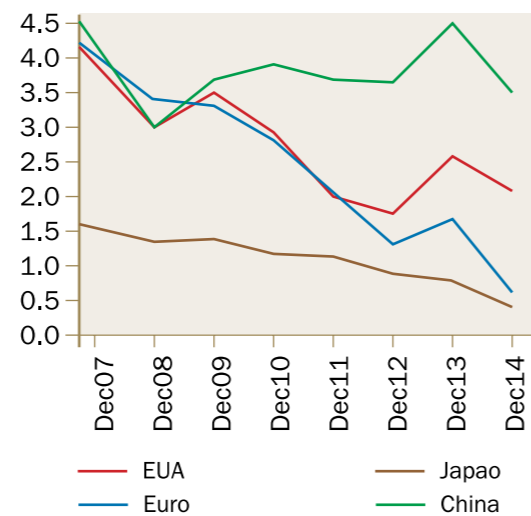


Treasury Bonds – 2 Years Rates in %



Fonte: Bloomberg

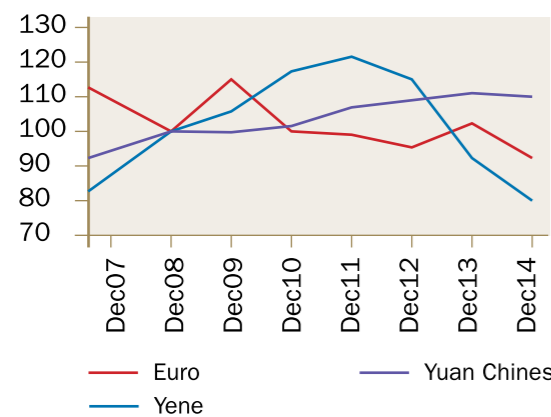
Treasury Bonds – 10 Years Rates in %



... resulting in the depreciation of the yen and euro versus the dollar.

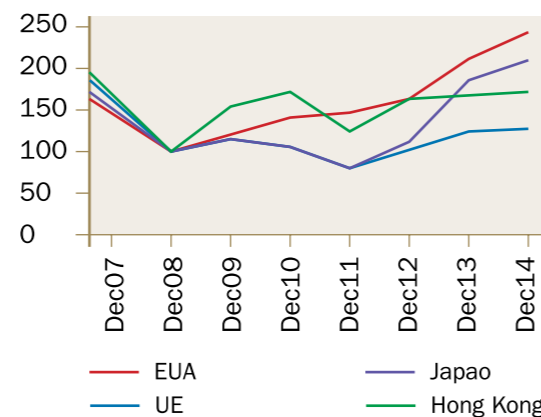
Naturally, these bond market trends, together with the already mentioned economic developments, determined a great part of the trends registered in global foreign exchange and equity markets. On the one hand, the divergence in expectations of monetary policy stances between US EU and Japan justified the substantial appreciation of the dollar versus the yen and euro in 2014.

Currencies versus the \$ US Dollar. 2008=100; decrease means depreciation



Fonte: Bloomberg

Main World Stock Indices. 2008=100



Fonte: Bloomberg

Global equity markets registered gains in 2014

On the other hand, US equity market continued to record gains above the remaining developed markets, due to the strengthening of US economic outlook. Nonetheless, practically all main world equity markets continued to register gains in 2014, given the recovery and stability of growth rates, inexistence of negative macroeconomic shocks and maintenance or intensification of monetary stimulus programmes for the respective economies.

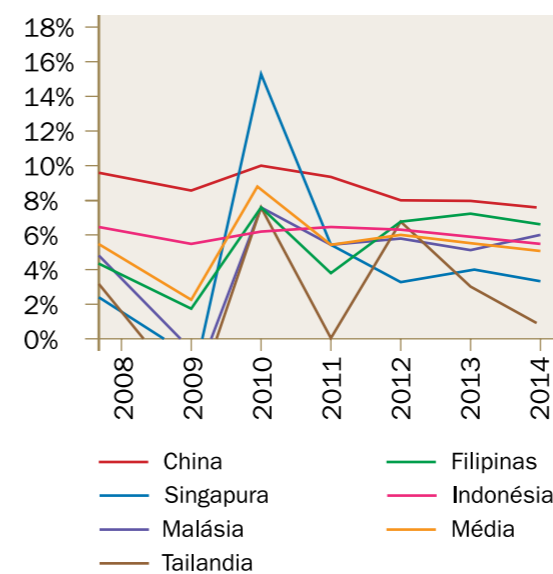
### Asian Macroeconomic Review

Once synthesized the global macroeconomic developments, it is also relevant to detail the important trends registered in the Asian space, especially for ASEAN, given that the major economic partners of Timor Leste are from this region. We focus specifically on the trends for the 5 largest ASEAN economies and China, because they are the main trading partners of our country. Additionally, Indonesia is the most important of these 6 economies, in terms of trading relevance, which justifies some detailed comments regarding this country.

In terms of the 2 major macroeconomic indicators, GDP growth and inflation, growth levels continued robust in 2014, with average annual growth at around 5%, although Thailand and Singapore registered slight slowdowns. As for inflation, average inflation in the region was around 4%, whereas Indonesia has registered high inflation rates due, mostly, to the substantial depreciation of the rupiah.

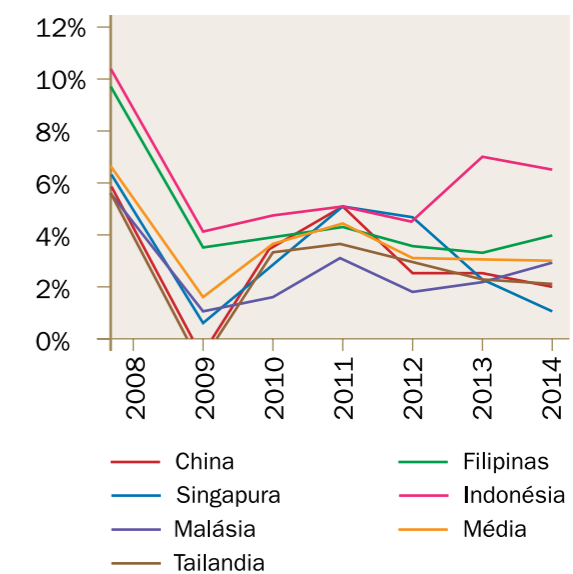
ASEAN economic growth continued robust but slowed down slightly in 2014...

GDP – annual % growth rates



Fonte: Bloomberg

Inflation - % annual rates



.... while inflation levels remain moderate, with exception of Indonesia.

The maintenance of robust and dynamic economic growth in the region in 2014, together with the depreciation of regional currencies versus the USD, explained the continued moderate inflation pressures in the region, notwithstanding the slowdown of global inflation expectations.

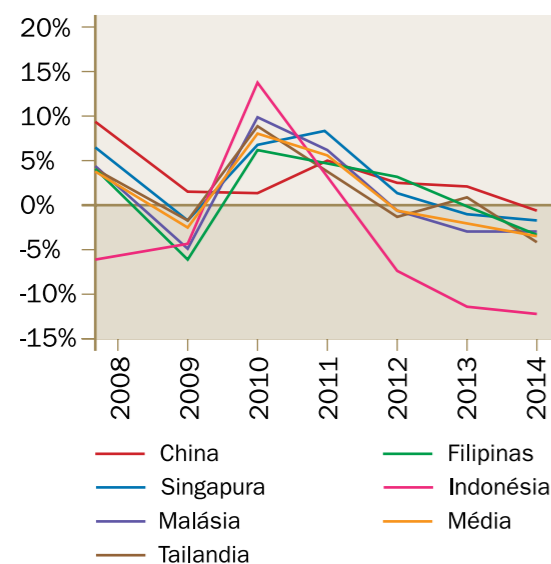
Regional currencies depreciated versus the dollar....

The change in macroeconomic drivers explains and is also explained by the developments registered in the 2 main financial markets, the bond and foreign exchange markets. In the latter, 2014 was characterized by the generalized depreciation of regional currencies versus the dollar, resulting from the gradual elimination of over-expansive US monetary policy. In the case of Indonesian rupiah, the excessive fall was explained by the deterioration of external deficit and the delay of respective central bank in facing the rising inflation pressures and foreign exchange depreciation.

As to what refers external and public accounts balances, the major part of ASEAN economies continued to register external surplus in 2014, except Indonesia, which recorded a deficit of 3% of GDP. Given that Indonesia is an exporter country of commodities, especially energetic and industrial metals, the decrease of international prices in 2014 yielded negative shocks to its economy in 2014, demanding more restrictive economic policies to contain domestic demand and correct external deficit and the fall in rupiah's value. 2014 was also marked by the continuation of small public deficits across the region, around the levels of 2013, of -2%. The 2 regional exceptions continue to be Singapore, on the positive, and Thailand, on the negative, whose public deficit ascended to -4% of GDP in 2014.

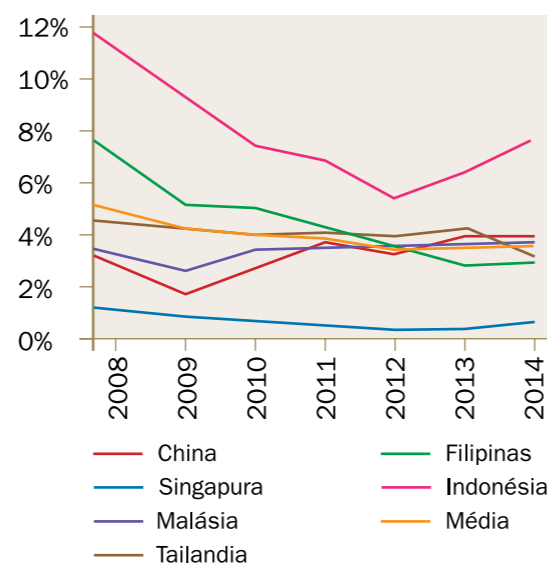
External accounts continued in surplus, except in Indonesia...

Exchange rates - % versus USD



Fonte: Bloomberg

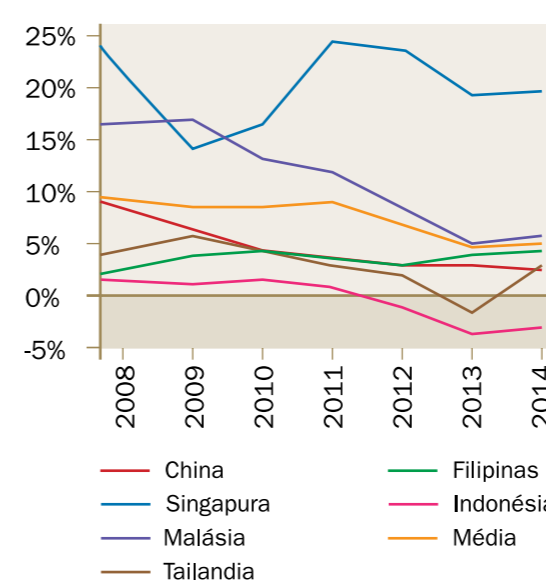
2 Year Bonds Yields in %



.... as 2 years rates were stable, except for Indonesia.

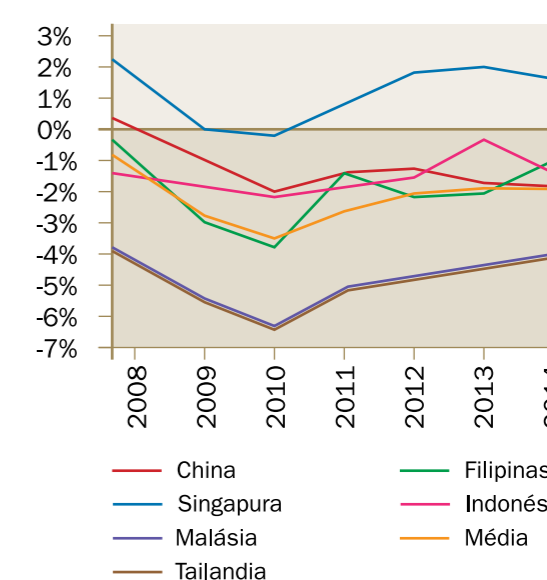
Bond markets interest rates, here represented by 2 years maturities, have been stable across the region in 2014, with Indonesia the notable exception. In the case of Indonesia, rates increased again in 2014, due to the hike in policy rates and increase of expectations of further needed rate hikes to answer to the depreciation in the rupiah and, simultaneously, to the pick up of inflationary expectations, especially needed given the perpetuation of the external deficit of the country.

Current Account in % GDP



Fonte: Bloomberg

Public Surplus in % GDP



In general, asian economies continued stable....



.... with the exception of Indonesia, which saw the rupiah depreciate substantially.  
.... due to high inflation pressures and external deficit.

Notwithstanding the positive regional backdrop, we note that Indonesia differs considerably from this picture. Note that the rupiah has fallen 11% versus the dollar in both 2013 and 2014, reinforcing domestic inflationary pressures, without yet correcting a significant part of the high external deficit position. Although experiencing high foreign exchange volatility levels, together with the referred macroeconomic imbalances, Indonesia still registered annual growth of 5% in 2014. The commercial and economic importance of Indonesia for our country implies naturally that we will continue to monitor the respective macroeconomic developments and spillovers, expecting that the recent policy measures introduced by the new incoming Government and a tighter vigilance by the Central Bank represents a positive step towards addressing these macroeconomic risks.

## Transmission Channels for Timor Leste

### Summary

The previous review of global and Asian macroeconomic and financial developments in 2014 is not complete, without an understanding of the respective impacts for our domestic economy. Here we identify the main transmission channels between the international developments and our economy. Currently, these channels are still few and limited to certain sectorial aspects of our economy. Specifically, this chapter illustrates the inner workings of the main transmission channels, which are: impacts on domestic inflation; influence on oil revenue and effects on the financial value of investments held in the Petroleum Fund. Foreign Direct Investment is also another variable highly influenced by external influences, but the dearth of effective investments and accurate data in Timor Leste, does not allow us to properly assess this interesting dimension.

Naturally, as our economy develops and deepens the interdependence relationships with its regional economic partners, we expect that external developments will influence even more domestic economic developments, expanding the number and influence of the various transmission channels.

### Imported Inflation

One of the more important transmission channels to our economy is the impact of international prices in Timor Leste domestic inflation and respective expectations. Given the high import dependence of our country – in 2012, goods and services imports amounted to 101% of non-oil GDP – it is natural that to expect a great degree of influence from international prices in our domestic inflation.

BCTL research and modelling efforts have in fact confirmed the empirical relevance of this channel. A major issue of our works in this context relates to the difficulty in defining an adequate variable that measures the level of external inflation for Timor Leste, since we still do not have an import price index variable and the basket of imported goods and services has varied considerably in terms of geographic origin and composition along the last decade. After experimenting different functional variables for external inflation, we have concluded that, the most successful measure, in empirical terms, seems to be an average of inflations rates for the 5 largest ASEAN economies and China, converted to dollars. In practice, this measure corresponds to the average of regional inflation rates in dollars, which includes simultaneously the impact of foreign exchange variations versus the dollar and local currency inflation rates.

As show in the chart below on the left handside, domestic inflation does tend to track developments in external inflations, although with less volatility. As external inflation corresponds to the average inflation of 6 economies, BCTL models used to explain and forecast inflation employ this variable to project domestic inflation. Additionally, as can be seen in the 2 charts below, the recent fall in domestic inflation coincides and was reinforced by the decrease in regional inflation rates, measured in dollar terms. Naturally, the relationship is not perfect, since there are other factors, such as the domestic non-oil economic cycle, especially along the last few years, that affect substantially domestic inflation rates.

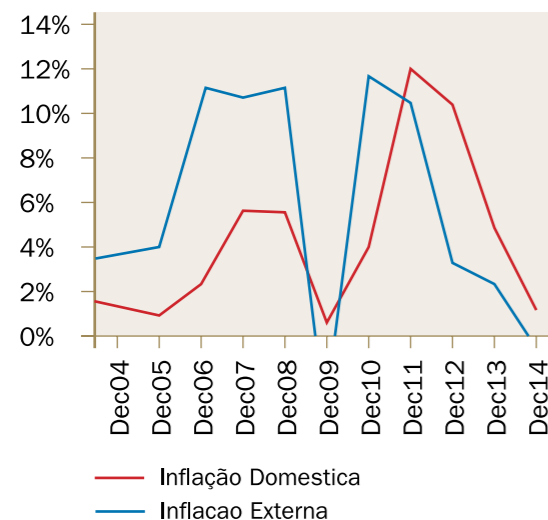
BCTL finised its model to explain and forecast inflation....

.... which included as drivers of inflation, the regional inflation in ASEAN and China and the domestic economic cycle.

External inflation influences domestic inflation....

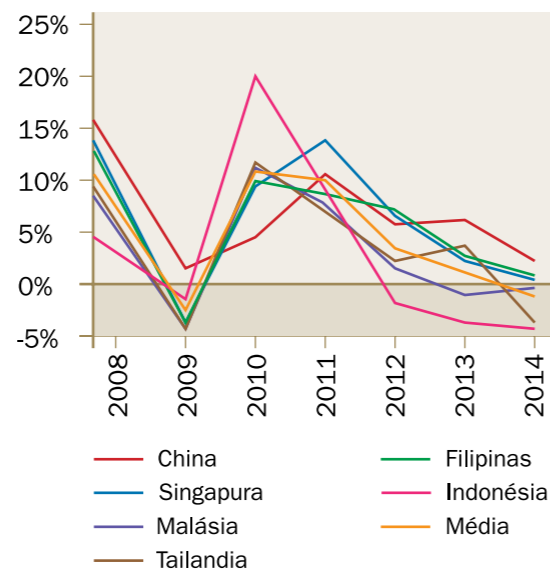
.... decrease in 2014 explained mosto f domestic inflation decrease.

**Inflation Domestic & External - % year**



Fonte: DNE e Bloomberg

**Regional Inflation rates - % year in USD**



Fonte: Bloomberg

**Lower regional inflation was mostly due to regional currency depreciation versus the dollar.**

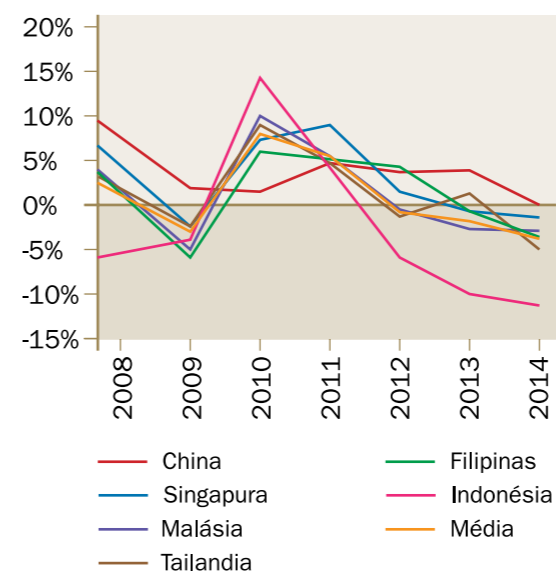
In 2014, the slowdown in regional inflation in dollars, observed for all 6 economies, particularly for Indonesia, was due to the depreciation of regional currencies versus the dollar, as can be confirmed in the charts below. In fact, this depreciation trend, registered in both 2013 and 2014, has been the main driving factor of domestic inflation rates in Timor Leste, as imported goods and services have become cheaper.

As local currency inflation rates are generally more stable, we conclude that foreign exchange movements are a major driver of domestic inflation trends. Note also that the commodities prices fall in 2014 also reinforced this downward movement in domestic inflation, as oil and food items prices have become substantially cheaper in 2014.



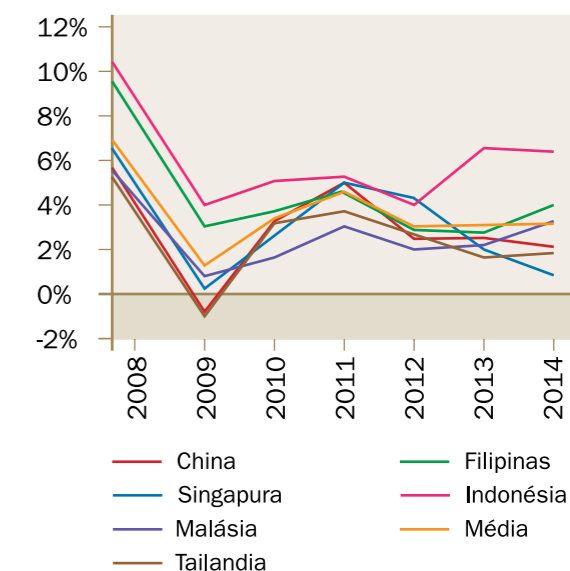
Given the importance of this channel, the outlook for domestic inflation is heavily determined by the movements of regional currencies against the dollar. In this context, BCTL continues to expect that the dollar will be relatively stable versus Asian regional currencies in 2015 and 2016, which, together, with stable and controlled local currency regional inflation rates, leads us to expect subdued external inflation pressures for the same horizon, contributing to controlled and lower domestic inflation rates.

**Asian Currencies versus USD - % year**



Fonte: Bloomberg

**Regional Inflation rates - % Local Currency**

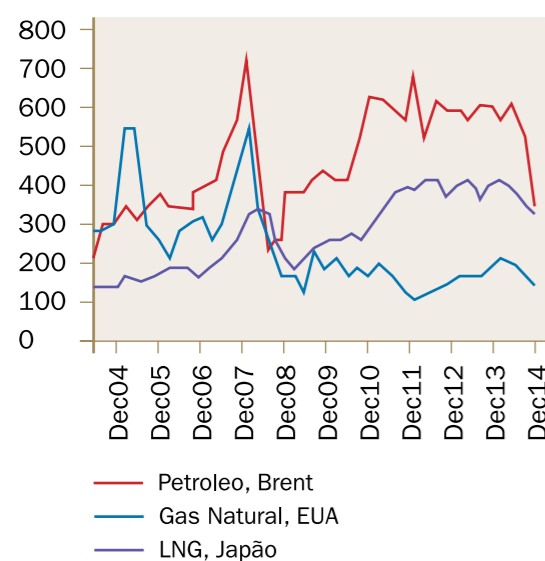


## Energetic Markets and Oil Revenues

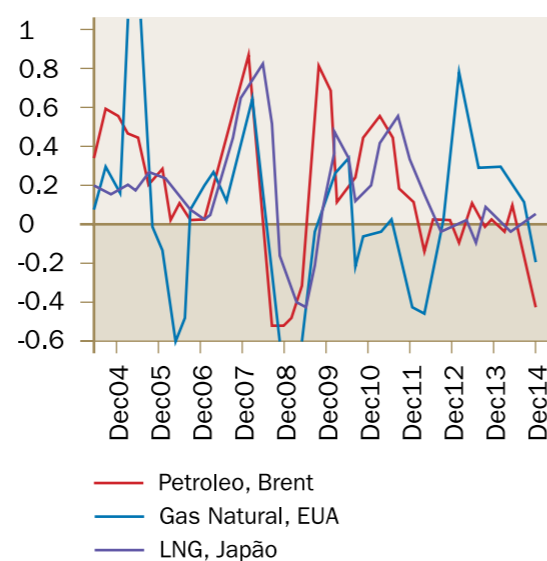
Oil price fell substantially in 2014, especially in the last quarter....

The change in prices of oil, natural gas and other energetic resources is highly volatile, oscillating wildly between periods of high and low price levels. The charts below depict these trends and allow us to put 2014 price changes within a broader pluriannual perspective. Note that it is not exceptional to register price falls of 50% and then subsequent price gains of 50% in the space of 1 year. In levels, the price fall of 2014 resulted in recording prices similar to those of 2006, eliminating all nominal price gains registered in the last 8 years. Interestingly, the oil price fall was not followed by an equivalent fall of natural gas prices, which resulted in the elimination of the premium of oil prices to natural gas prices.

Energy Spot Prices – 2001 Dec = 100



Energy Spot Prices – annual % change



Fonte: Banco Mundial

.... which was hardly predictable at the beginning of 2014.

The change in energetic prices is not, however, easy to forecast in advance, since it results both from the interplay of aggregate supply and demand in physical markets, as, and growingly, from the impacts, harder to quantify, resulting from the “financialization” of these markets, evident in the expansion of derivative markets and growing participation of financial intermediaries and speculators. As proof of such inability to forecast prices is clearly 2014’s price fall episode, whose speed and breadth were not, in anyway, foreseen by the generality of market players and analysts.

This note is important, because it warns us against accepting simplistic scenarios and extrapolations of further price decreases, only based in current price falls. On the other hand, the international price of oil continues to be very important for Timor Leste, because oil revenue continue to be fundament for the financing of domestic public spending and investments.

Taking into account the natural limitations of price forecasts to quantify future oil revenues of the country, it seems to be more reasonable to use various scenarios and assumptions for the price of oil and assess the degree of revenue sensitivity to each price scenario. The table below quantifies the impact of various mid-term oil price scenarios for oil revenues, total oil wealth and estimated sustainable income (ESI), which are compared to the figures included in 2015’s Government Budget. As can be seen, 2015 Budget assumes an average oil price level of 88.5 usd per barrel, between 2015 and 2021, which is above to 2014’s year end price of 60usd. The comparison with the relevant column, which presents calculations based on average oil price of 60usd, the present value of oil revenues decreases from 4716 millions usd to only 3198 millions. Importantly, the ESI, or the amount of annual income/spending which keeps oil wealth constant decreases from 638 million usd per year to 593 millions.

Continues to be very importante to monitor oil price trends for Timor Leste....

.... but use several and diferente price scenarios to evaluate future oil revenues.

ESI of 638 million usd was based in an oil price of 88.5 usd....

Sensibilidade do Valor da Riqueza Petrolifera e RSE ao Preço do Petróleo						
	Preço = 40 usd	Preço = 50 usd	Preço = 60 usd	Preço = 70 usd	Preço = 80 usd	<b>OGE 2015</b>
<b>Receitas Petroliferas</b>						
Preço Medio Petroleo, USD	40	50	60	70	80	<b>88.5</b>
Producao barris milhões	192	192	192	192	192	<b>192</b>
Valor Nominal	2405	3006	3607	4208	4809	<b>5323</b>
<b>Valor Actual</b>	<b>2132</b>	<b>2665</b>	<b>3198</b>	<b>3731</b>	<b>4263</b>	<b>4716</b>
Valor Activos Fundo Petrolifero	16567	16567	16567	16567	16567	<b>16567</b>
<b>Riqueza Petrolifera</b>	<b>18699</b>	<b>19232</b>	<b>19765</b>	<b>20298</b>	<b>20831</b>	<b>21283</b>
ESI - % Ano	3%	3%	3%	3%	3%	<b>3%</b>
<b>ESI – 3% x Riq. Petrolifera</b>	<b>561</b>	<b>577</b>	<b>593</b>	<b>609</b>	<b>625</b>	<b>638</b>

.... but 2014 year-end price was 60 usd, which will have indirecta impacta ver Timor Leste...

This analysis tried to offer an idea of the impact of international oil prices on our economy, whose transmission mechanism works indirectly, impacting first the oil revenues, then the value of Oil wealth and, lastly, the sustainable income and financing capacity of public spending and investment decisions. Note thus that the oil price considerably impacts, even if only indirectly, the management of Public Budget.

.... but this impact is lower than in the past, as financial assets are now larger than future oil revenues.

Nonetheless, we may state that today, given the expectation that oil production ends by 2021, the country, through oil revenue, is less exposed to international oil price changes than in the past, since the future revenues are today inferior to the savings already accumulated and invested in the Petroleum Fund. As an example, note that if the oil price decreases from 88.5 usd to 60usd (-33%) in the next 6 years, ESI is only lowered by 6.1%, from 638 to 593 million dollars on an annual basis.

### Financial Markets and the Petroleum Fund

In last, we analyse another relevant transmission channel, related to the Petroleum Fund, established to effectively manage the financial wealth of the country. This mechanism works in a way similar to the oil price mechanism, as financial assets prices determine the value of the Fund and, only subsequently, the annual ESI. As financial markets prices impact these 2 aggregates, they indirectly impact the public revenue available to finance the Public Budget and, consequently, the respective spending and investment policies.

Financial asset prices influence ESI and, subsequently Public Budget financing.

The Petroleum Fund (PF) closed 2014 with a total financial assets value of 16,830 million dollars, invested in global treasuries markets (60%) and global equities markets (40%), including thousands of companies stocks headquartered around the world. Since its establishment, the PF has gradually widened its investment universe, starting initially by only investing in US Treasuries, then moving into equities markets investment and, lastly, by spreading its investments in Treasury Bonds across all developed markets. This gradual trajectory followed the search for a higher expected return for the Fund as a whole and higher diversification of investments and asset classes.

Naturally, this institutional development exposes the Fund to new risks and markets, but, benefiting from greater asset diversification, allows a more solid investment portfolio and a more efficient return, for the desired risk allocation. Currently, the Fund only invests in fixed coupon treasuries and stocks, so that the rolling yield and dividends provide a fixed and stable income for the Fund, at least a priori. By investing in bonds and equities markets, the Fund benefits from increases of respective market prices, or, on the contrary, might lose by their decrease. In this context, the main financial risks of the Fund correspond to eventual losses arising from the decrease of bonds or equities prices. Additionally, since the PF invests in several international markets, many denominated in currencies different than the dollar, the Fund is also exposed to foreign exchange risk in its investments, which corresponds to eventual losses arising from the depreciation of investment currencies versus the dollar. All considered, the financial risk of the PF includes 3 types of risks: equity risk, or risk of price decreases in the main global equity markets, interest rate risk, which corresponds to the risks of price falls for global treasuries investments; and foreign exchange risk, which is driven by the risk of currency depreciation versus the dollar.

Presently, PF allocation consists of 60% for bonds and 40% for equities.

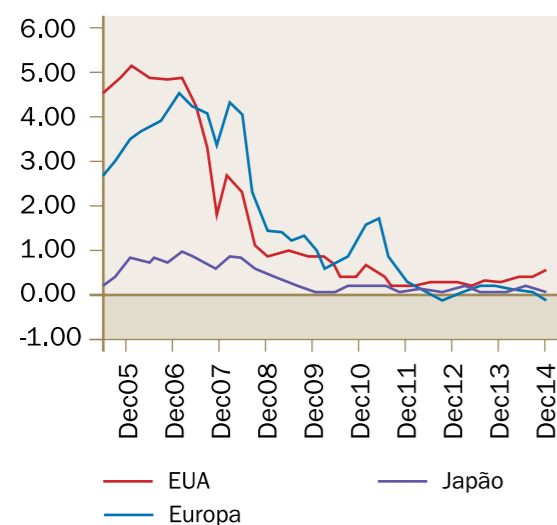
In 2014, the PF had positive returns for the 2 asset classes, but lost on foreign Exchange exposure.

The change in asset prices and investment currencies of the PF is thus the true transmission mechanism between international financial markets, the PF value and annual ESI. In terms of returns, 2014 was positive for the PF, which registered gains in treasuries investments (2.14%) and equity markets positions (5.20%). Nonetheless, the PF was negatively impacted by the depreciation of investment currencies versus the dollar, with total non-realized losses of -199 million usd at the end of 2014. Note also that the equities and bonds aggregate returns were above the respective dividend and yield returns, which implies that the respective securities registered price gains in 2014, which is confirmed in the charts below.

Lower yields resulted in higher prices for PF bond investments.

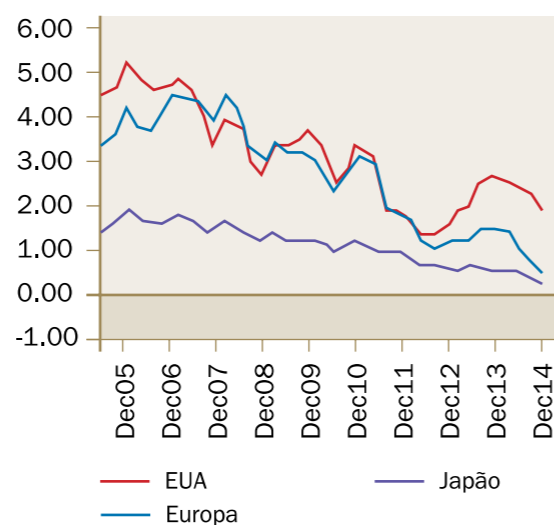
As to what relates to global treasuries markets, most of the relevant interest rates, across markets and maturities, registered small falls in 2014, which resulted in a generalized price rise of bond prices. The rates decreases were larger for the longer maturities of the curve, but in the case of the US shorter rates, they even registered small increases. Note, however, that, given the existing strategic framework, the bonds portfolio of the Fund has a “moderate” duration, thus reducing the benefit for the Fund of the decrease in longer rates.

2 Year Treasuries Yields in %



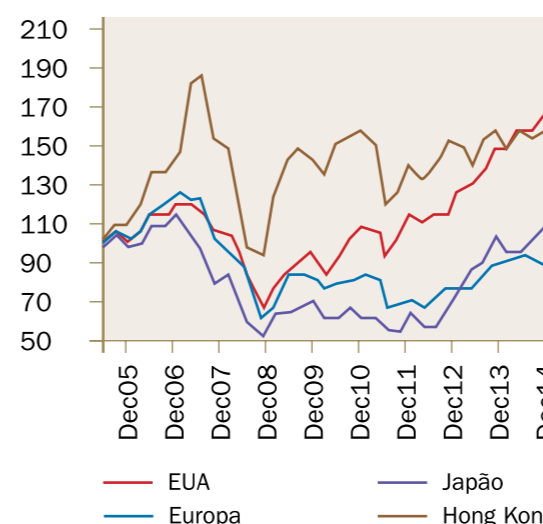
Fonte: Bloomberg

10 Year Treasuries Yields in %

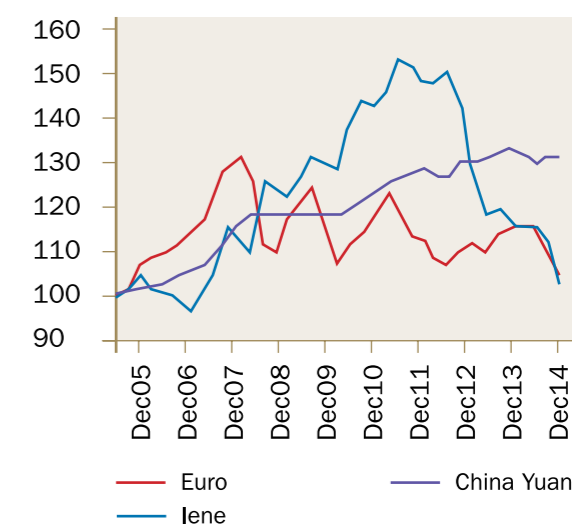


In terms of equity markets, practically all regions and countries registered gains in 2014, with particular highlight for the US, given its stronger economic dynamism. These positive developments, given the substantial investments of the Fund in equity markets, benefited the Fund's return in 2014.

Equity Markets - 2005 Dec = 100



Currencies versus USD - 2005 Dec = 100



Fonte: Bloomberg

Lastly, the generalized appreciation of the dollar versus several of the investment currencies, following the announcement of a more restrictive monetary policy in the US, resulted in foreign exchange losses for the Fund.

All in all, the Petroleum Fund holds today a fully diversified securities portfolio, invested in the main global fixed income and equity markets, so as to achieve the highest possible return-risk profile. Nonetheless, given the substantial investments in both equities and global bonds markets, the value and income of the Fund are intrinsically dependent of the performance of the respective financial asset prices.

PF value depends on the prices of both types of securities.

Within a broader and longer temporal framework, the risk of materialization of future losses in both equities and bonds markets is today substantial, given the high historical valuations of both asset classes. Nonetheless, given the long investment horizon of the Fund and its institutional framework, we expect to be able to face eventual market price oscillations rationally and even benefit from episodes of generalized price falls in the market, which tend to happen every once in a while.

# 2

## Recent Developments for The National Economy







## Production: Economic Activity

Government set annual growth Target of 11.3% per annum up to 2020.

The Government set as strategic objective that the country will be an “upper middle income country” by 2030. To achieve this objective, the Government has decided to front-load public investment policies, to build a set of basic infrastructure and enact programmes needed to support a robust and sustainable growth process. Consequently, the increase in public expenditure along the last 6 years boosted domestic economic growth, with the non-oil national economy growing annually on average by 11.8%, between 2007 and 2012, above the target of 11.3% defined up to 2020.

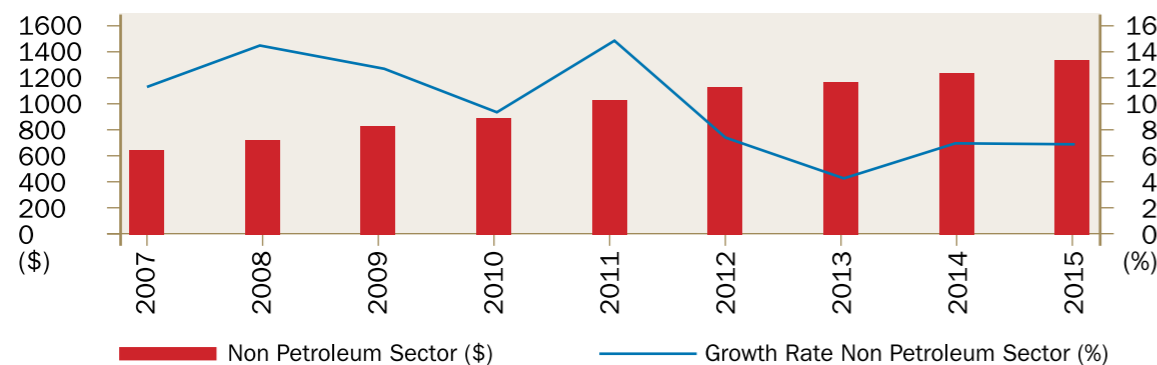
... DNE published in 2014 national accounts for 2012, which show annual growth of 7.8% in 2012.

National Directorate of Statistics (DNE) published, in 2014, Timor Leste National Accounts for 2012, where it stated that non-oil GDP growth in 2012 was 7.8%. (<http://www.statistics.gov.tl/pt/timor-leste-national-account-2000-2012/>).

Government projects growth rates of 5.6% and 7.1% for 2013 and 2014.

The Government still projects for 2013 a GDP growth rate of 5.6%, which, although substantial, will be below the strategic objective. For 2014, the annual growth rate is projected to be 7.1% (OGE15-Proposta inicial Livro 1, pg. 19).

Figure 2.3.2.2.1: Non-oil GDP 2007 - 2012 & Projections 2013 - 2015



Fonte: DNE e Ministerio das Financas

The IMF expects, as stated in its World Economic Outlook Database of October 2014, that the non-oil economy has grown 5.4% and 6.6% in 2013 and 2014, respectively, in line with Government estimates.

### Taxa de crescimento do PIB não petrolífero (%)

2010	2011	2012	2013	2014	2015
9.4	14.7	7.8	5.4	6.6	6.8

Fonte: IMF World Economic Outlook , Oct 2014 database

Given the known delays and difficulties with publishing timely National Accounts for Timor leste, BCTL has developed an “almost real-time” indicator that allows us to have crude, but more actual estimates of economic growth, fundamental to understand the changes of other important economic aggregates as inflation and, eventually offer quantitative support for needed policy making. This indicator uses monthly and quarterly data to quantify the growth estimate for the economy, using 9 variables that are considered good proxies of the economic cycle.

BCTL developed its economic activity indicator to have a more timely measure of economic growth...

### Subcomponentes do Indicador de Actividade Económica do BCTL

	Sectores	Subcomponentes
1	Importações	Materiais de Construção Combustiveis
2	Despesa Publica	Capital de Desenvolvimento Total Despesa
3	Receita Publica	Impostos s/ Rendimento Total Impostos
4	Financeiro	Depositos Particulares Credito Total Transferencias Liquidadas p/ Estrangeiro

Fonte: BCTL

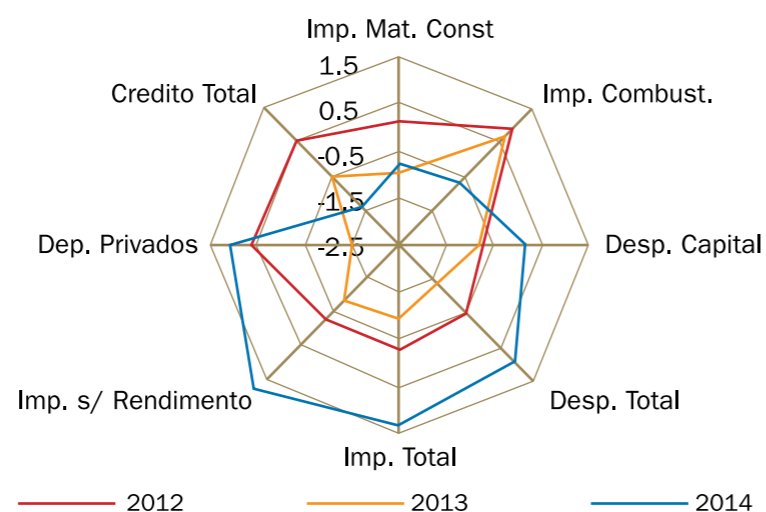
Based on BCTL economic activity indicator presented below, we estimate that the economy has practically stagnated in 2013 (growth of 0.5%) and came back to a robust pace in 2014 (8% annual growth), versus the annual average of 11.8% registered between 2007 and 2012. These estimates mean that for the last 2 years the annual growth rate should be around 4%, which reflects a clear slowdown of aggregate demand growth, versus the previous 5 years. Note also that our indicator closely tracks the changes in overall public expenditure, which fell in 2013 and picked up markedly in 2014.

... which registered growth of 0.5% in 2013 and a strong recovery in 2014 to 8%.

... while agriculture and industry have barely grown.

The chart below presents the annual change for each of the 8 subcomponents of BCTL activity indicator. These variables cover fundamental areas of our economy and are available on a monthly basis, allowing us to track developments for each sector on timely basis. The chart below presents the annual change for each variable, measured in millions of dollars for the years of 2012, 2013 and 2014.

**Sub-Indicators Performance – annual real changes in million USD, standardized**



We presented the data using their normalized/standardized transformations, to facilitate their joint comparison, given that the series have different levels, averages and volatilities. This chart allows us to identify the sectors, which are more or less robust for the 3 years. Note that the greater is the classification of each series, the stronger is the performance of the sub-indicator in the respective year. For example, total tax revenue registered 1.5 in 2014, versus the -1 of 2013 and -0.4 of 2012. This means that this indicator registered a very strong annual growth in 2014, compared to previous years.

Another important conclusion of the chart is the economic recovery of 2014, versus 2013, as most series pick-up growth in 2014, with the exception of imports and credit. In fact, the sub-indicators confirm the robust recovery of the economy in 2014, led by the increase of public expenditure and visible in the substantial rise of public revenues and retail deposits. Nonetheless, according to the chart, 2014 recovery was not materialized in the case of imports of construction materials and fuels as well as total banking credit.

Below, on the right hand side, we also present an indicator developed by BCTL that allows us to estimate economic growth on a sectorial basis, for the years for which we do not yet have national accounts data.

This production indicator, after aggregating growth across the various sectors, allows us to obtain another useful estimate of GDP growth. As can be seen, 2013 was characterized by a generalized slowdown across almost all economic sectors, with the exception of public administration and agriculture, but in 2014, it has registered a strong recovery for all sectors, particularly for services and civil construction.

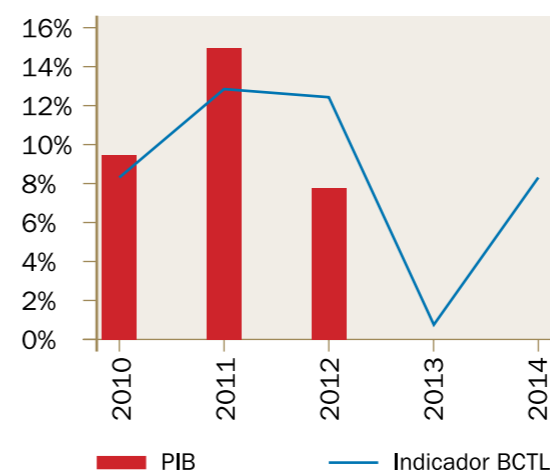
Within a longer timeframe, it should be highlighted that the strong economic growth of the last 7 years was essentially due to the growth registered for civil construction, services and public administration. On the contrary, the contributions of agriculture and industry, fundamental sectors for an effective and sustainable growth process, have been marginal along this period, resulting in the loss of importance of these sectors in overall national production.



BCTL also developed a complementary production indicator....

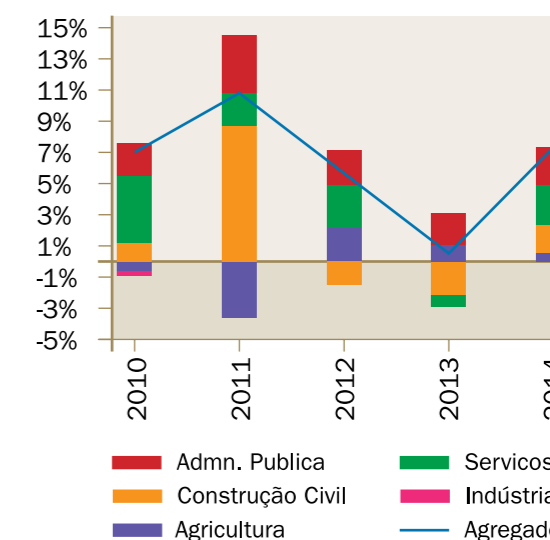
.... which shows 2013 economic slowdown visible across all sectors.

**GDP annual % growth**



Fonte: DNE e BCTL

**Sectors Contributions to annual % growth**



## Prices and Inflation

Annual inflation fell substantially in 2014 to 0.5%....

Domestic inflation rate, measured by DNE using the Consumer Price Index (CPI), has been high above 8%, since 2010 until the 3rd quarter of 2013, decreasing substantially there after until the end of 2014, registering a year-on-year 0% rate in December of 2014. CPI data reveal that annual average inflation rate decreased from 7.8% in 2013 to 0.5% in 2014.

TL: Índice de Preços no Consumidor (IPC) Díli 2012-14, (2012=100)														
Mês	Jan	Fev	Mar	Abr	Mai	Jun	Jul	Ago	Set	Out	Nov	Dez	Média IPC	Taxas IPC
<b>Índice 2014</b>	104.1	104.1	104.2	104.3	103.5	103.3	103.5	103.6	103.7	103.6	103.7	103.9	103.8	
Taxa mensal	0.1	0.0	0.1	0.1	-0.8	-0.2	0.2	0.1	0.1	-0.1	0.1	0.2		
Taxa homólogo	2.7	2.1	1.6	1.3	0.2	-0.7	-0.1	-0.2	0.0	-0.4	-0.4	-0.1		-0.1
Taxa média														0.5

Fonte: Direcção Geral de Estatística

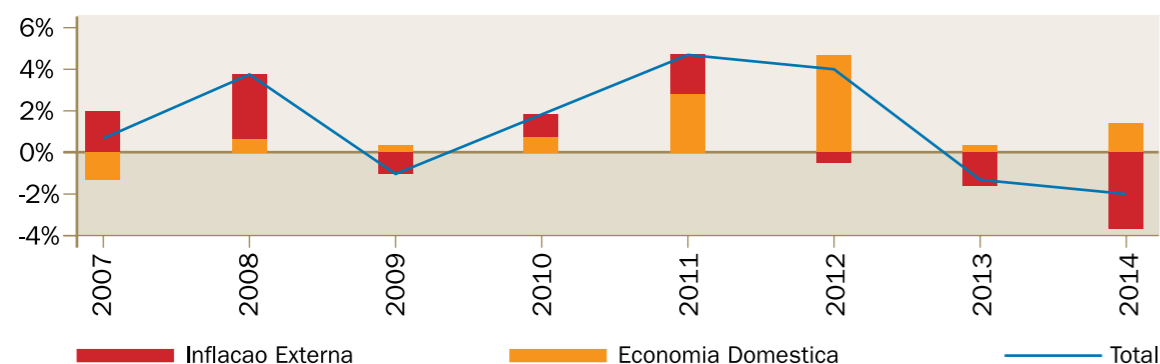
For the last 7 years, growth has been mostly visible for civil construction, services and public administration....

According to BCTL's empirical model, inflation slowdown in 2014 was mostly due to a substantial decrease of external inflation in 2014 (-1%), well below the average of the last decade, explained by the depreciation of regional currencies versus the dollar and decrease of commodities' international prices in 2014. The depreciation of partners' currencies resulted in lower prices for goods and services imported into our country. This effect was also reinforced by the impact of the domestic economy slowdown in 2013 and 2014, mostly evident in 2013.

.... mostly due to the fall in external inflation and the economic slowdown of the last 2 years.

The chart below compares the impacts of both factors in terms of the 2 drivers of domestic inflation, which presents the deviations of inflation versus its long-term average, explained by the 2 factors.

Inflation deviations versus Long-Term Average - Factors Contributions

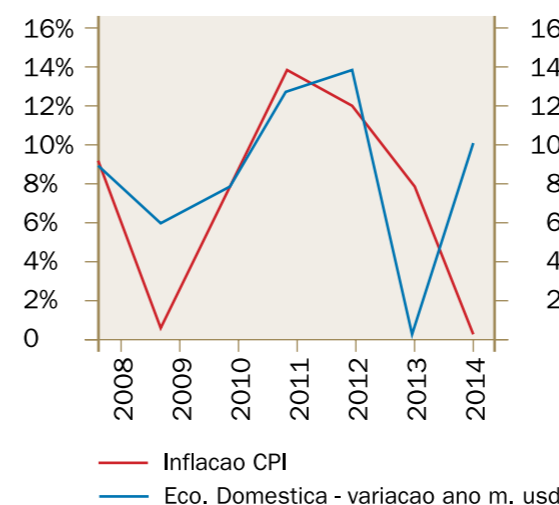


Fonte: BCTL

As can be seen, inflation slowdown in 2013 and 2014 is mostly due to the decrease in external inflation in the 2 years. As also can be seen, domestic economy does not influence inflation trends in 2013, but, in 2014, the substantial economic growth recovery comes back to exert upward pressures on prices. Note that this pattern inverts the trend registered in 2011 and 2012, when the high expansion level of domestic demand explained the larger part of high inflation pressures in our economy.

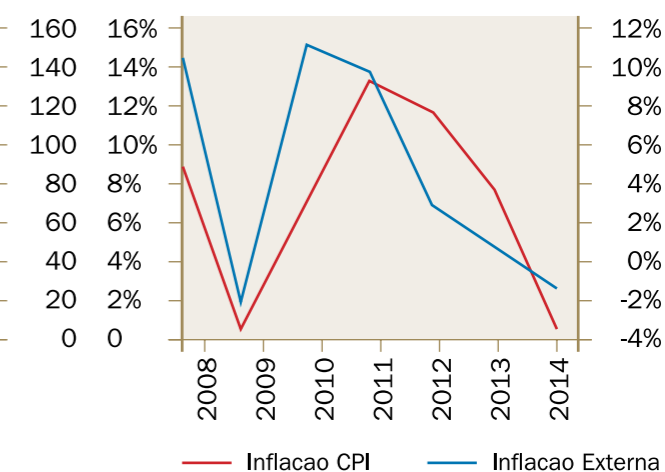
The 2 charts below further present the relationship between BCTL's model 2 inflation drivers and domestic inflation. As can be seen, both drivers present a strong contemporaneous correlation with domestic inflation, although some lags can also be identified in these relationships.

Inflation versus Domestic Inflation



Fonte: BCTL

Domestic versus External Inflation



The slowdown in domestic Inflation to a more subdued and stable pace constitutes a positive development for the national economy and consumers, since it reduces the price pressures evident in the last few years, which had negative socio and economical consequences, including the worsening of inequality and poverty levels.

Lower inflation benefited Timor Leste economy and population.

The current consumption basket of the national CPI is based on 2011 data and continues to overweight food expenditures (64.3%) in overall spending basket, similar to the previous version of the CPI, used up to 2012 (56.7%).

CPI basket is mostly composed by food items expenditures...

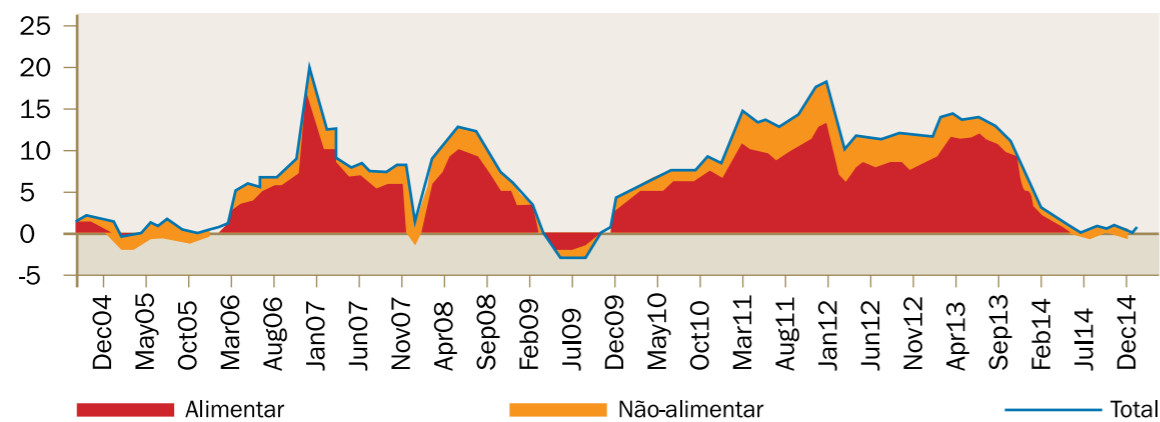
Timor-Leste: IPC			
Componentes		Peso	
		2001=100	2012=100
1	Alimentação	56.7	64.3
2	Alcoól e Tabaco	4.8	4.9
3	Vestuário e Calçado	8.9	5.9
4	Habitação	10.2	5.7
5	Despesas com a habitação	7.9	4.1
6	Saude	4.2	0.7
	Educação e Divertimentos	3.4	
	Transportes e Comunicações	4.2	
7	Transportes		6.4
8	Comunicações		2.3
9	Divertimentos e Cultura		3.3
10	Educação		2.3

Fonte: Direcção Geral de Estatística

...thus explaining why food inflation drives most of the overall inflation trends.

The fact that food expenditures constitute the majority of the CPI consumption basket, together with the highest historical levels of food inflation, results in the fact that food inflation mostly determines total inflation trends, when compared to non-food inflation contribution.

**CPI Total Inflation**  
Total and respective contributions



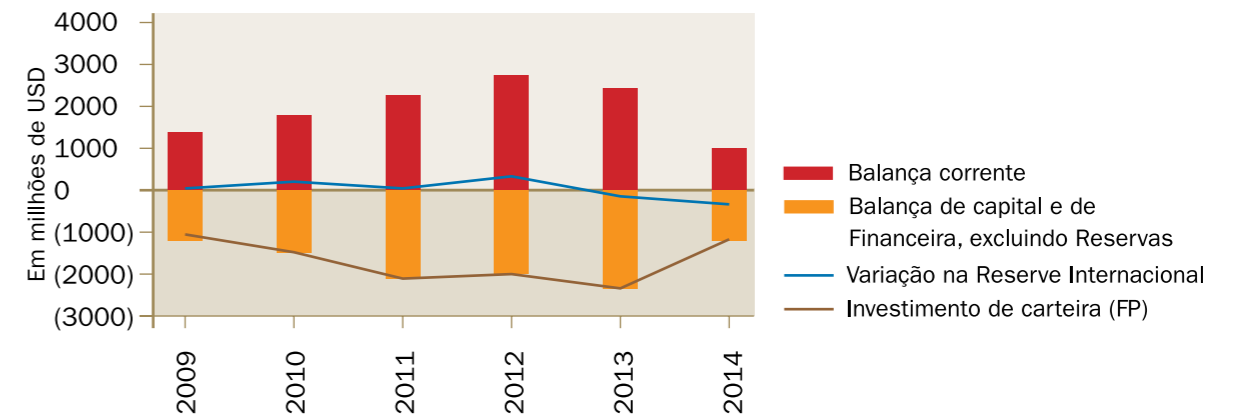
Fonte: DNE

## Balance of Payments

Balance of payments is an importante macroeconomic indicator...

The Balance of Payments (BoP), specifically its net balance, composition and change, is an important macroeconomic indicator, which numerically summarizes the net value of transactions, commercial and financial, between one economy and the rest of the world. In the chart below, you may find the recent change and value of Timor Leste BoP net statement.

**TL: Balance of Payments**



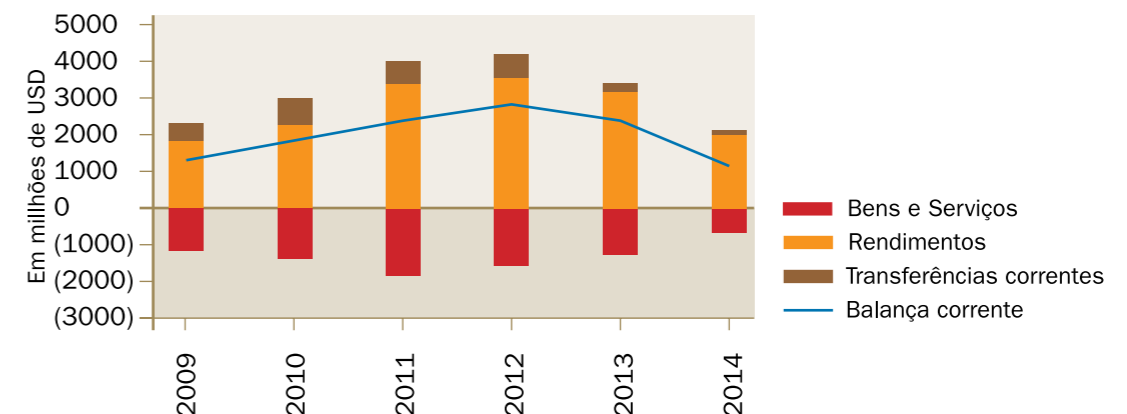
Fonte: BCTL

If we exclude the Petroleum Fund income, as well as oil and gas revenues, Timor Leste continued to have an external deficit in 2014. Nonetheless, if we include those revenues, the external position is in surplus. In the chart below, we present the total BoP of Timor Leste, including PF income and oil revenue, which has always been in surplus.

...which registers the net balance between incoming and outgoing comercial and financial transactions.

Timor-Leste continued to register an external deficit, if we exclude oil revenue and PF income.

**TL: Current Account including PF**



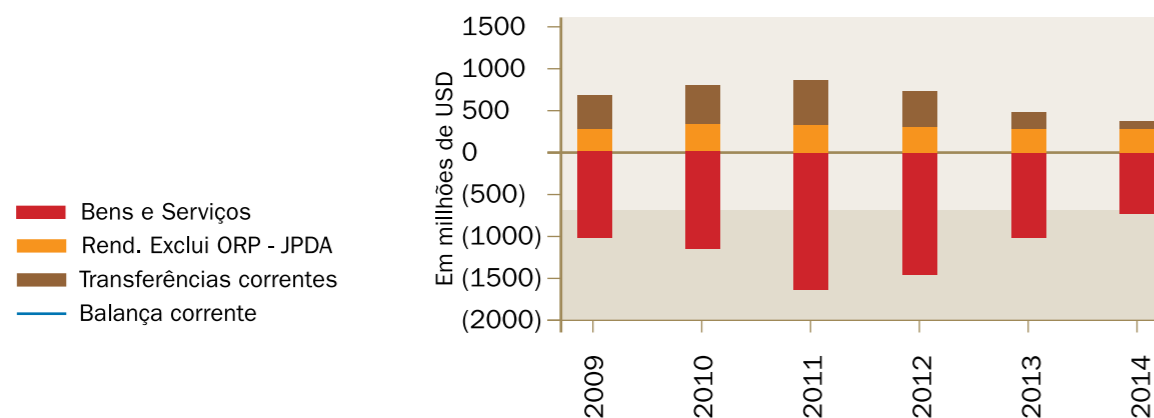
Fonte: BCTL

The following chart presents the current account, excluding the PF income and oil revenue. Note how the current account has always been in deficit, which has been due to substantially negative trade account deficit, which measures the net value of exports minus imports. In this context, it is also important to highlight that the current account deficit has been negative but relatively stable along the last 3 years.

Although including these items results in substantially surplus BoP.

Current account surplus as percentage of GDP has decreased....

TL: Current Account excluding PF



Fonte: BCTL

.... but current account excluding oil revenue and PF income continues to be in deficit.

Including the primary income, the current account surplus was 82% of non-oil GDP in 2014, substantially below the 196% registered in 2013. This decrease was due to the fall of oil and gas revenue and the maintenance of a substantial trade account deficit.

Balança de Pagamentos em % do PIB não petrolífero

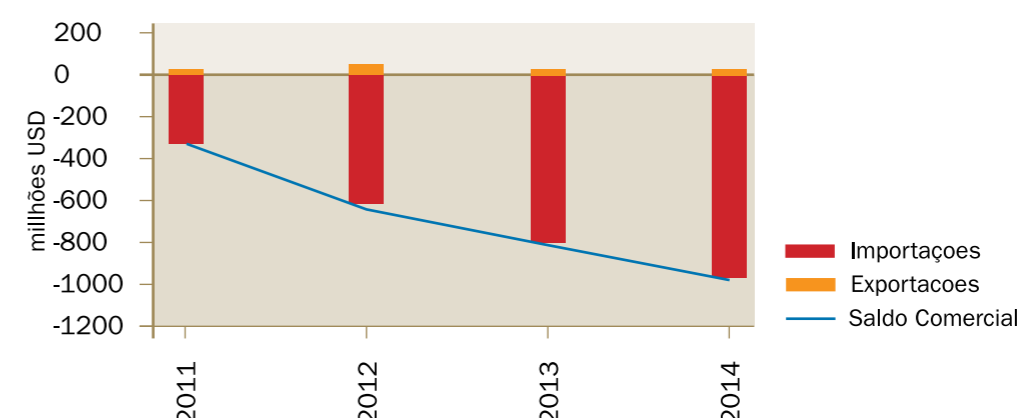
	2009	2010	2011	2012	2013	2014
em milhões de USD						
PIB não petrolífero	853	934	1071	1155	1220	1307
Conta Corrente	1284	1678	2352	2746	2397	1096
Bens e serviços	-1097	-1241	-1758	-1558	-1116	-1137
Rendimento	1930	2435	3577	3873	3333	2149
Transferência corrente	451	484	533	432	180	84
% do PIB						
Conta Corrente	150	180	220	238	196	84
Bens e serviços	-129	-133	-164	-135	-91	-87
Rendimento	226	261	334	335	273	164
Transferência corrente	53	52	50	37	15	6

Fonte: Direcção Geral de Estatística

Total exports are substantially below total imports....

The trade account continues to register a huge deficit position, given the low level of national exports and huge need to import merchandise to supply national aggregate demand. This aspect and its durability are and have been a major characteristic of Timor Leste's international commerce profile. Imports in 2014 amounted to 54% of non-oil GDP (710 millions of dollars, for a GDP of 1307 millions, as calculated by the Government).

TL: Annual External Commerce Statistics



Fonte: Direcção Geral de Estatística

As can be seen, the huge commercial deficit in 2014 was due to the continued imports dependence, whose growth remained robust in 2014. Exports continue to be low and concentrated, representing less than 10% of total commerce, and an annual growth of 1.4%. As is publicly known, the Government has already recognized the need to reduce this unbalance and defined as strategic priority the need to foster national production to reduce imports dependence, although the implementation of this directive still awaits specific and substantial measures.

.... explaining the huge trade deficit of the country.

Exports were only 1.4% of total international commerce in 2014...

TL: Estatísticas do Comércio Externo							em milhões de USD	
Month/Year	Importações			Exportações			Saldo Total	Saldo Mercadorias
	Mercadorias	Não-merc	TOTAL	Exportação	re-export	TOTAL		
<b>2013</b>	<b>842.79</b>	<b>0.00</b>	<b>842.79</b>	<b>16.04</b>	<b>63.29</b>	<b>79.34</b>	<b>-763.45</b>	<b>-826.74</b>
Janeiro 14	99.13	0.00	99.13	0.67	1.58	2.24	-96.88	-98.46
Fevereiro 14	37.54	0.00	37.54	0.83	1.68	2.51	-35.03	-36.71
Marco 14	42.16	0.00	42.16	0.45	0.72	1.17	-41.00	-41.71
<b>T1 - 2014</b>	<b>178.82</b>	<b>0.00</b>	<b>178.82</b>	<b>1.94</b>	<b>3.98</b>	<b>5.92</b>	<b>-172.90</b>	<b>-176.88</b>
Abril 14	36.95	0.33	37.28	0.07	0.46	0.53	-36.75	-36.87
Mai 14	245.14	0.09	245.23	0.04	1.48	1.52	-243.70	-245.10
Junho 14	50.17	0.12	50.29	0.50	1.22	1.72	-48.57	-49.67
<b>T2 - 2014</b>	<b>332.26</b>	<b>0.54</b>	<b>332.80</b>	<b>0.62</b>	<b>3.16</b>	<b>3.78</b>	<b>-329.03</b>	<b>-331.64</b>
<b>1º Semestre 14</b>	<b>511.08</b>	<b>0.54</b>	<b>511.63</b>	<b>2.56</b>	<b>7.14</b>	<b>9.70</b>	<b>-501.93</b>	<b>-508.53</b>
Julho 14	48.91	0.12	49.03	1.57	48.50	50.08	1.05	-47.33
Agosto 14	52.88	0.57	53.45	2.84	1.69	4.52	-48.92	-50.05
Setembro 14	95.17	0.47	95.64	2.39	10.14	12.53	-83.10	-92.77
<b>T3 - 2014</b>	<b>196.95</b>	<b>1.16</b>	<b>198.11</b>	<b>6.80</b>	<b>60.33</b>	<b>67.14</b>	<b>-130.98</b>	<b>-190.15</b>
Outbro	54.59	0.13	54.73	2.09	1.64	3.73	-51.00	-52.50
Novembro	98.81	0.52	99.34	1.66	2.45	4.11	-95.23	-97.15
Dzembro	122.43	0.39	122.82	0.76	6.54	7.29	-115.52	-121.67
<b>T4 - 2014</b>	<b>275.84</b>	<b>1.05</b>	<b>276.88</b>	<b>4.51</b>	<b>10.62</b>	<b>15.14</b>	<b>-261.75</b>	<b>-271.32</b>
<b>2º Semestre 14</b>	<b>472.79</b>	<b>2.20</b>	<b>475.00</b>	<b>11.32</b>	<b>70.95</b>	<b>82.27</b>	<b>-392.73</b>	<b>-461.48</b>
<b>2014 (Total)</b>	<b>983.88</b>	<b>2.75</b>	<b>986.62</b>	<b>13.87</b>	<b>78.09</b>	<b>91.97</b>	<b>-894.66</b>	<b>-970.00</b>

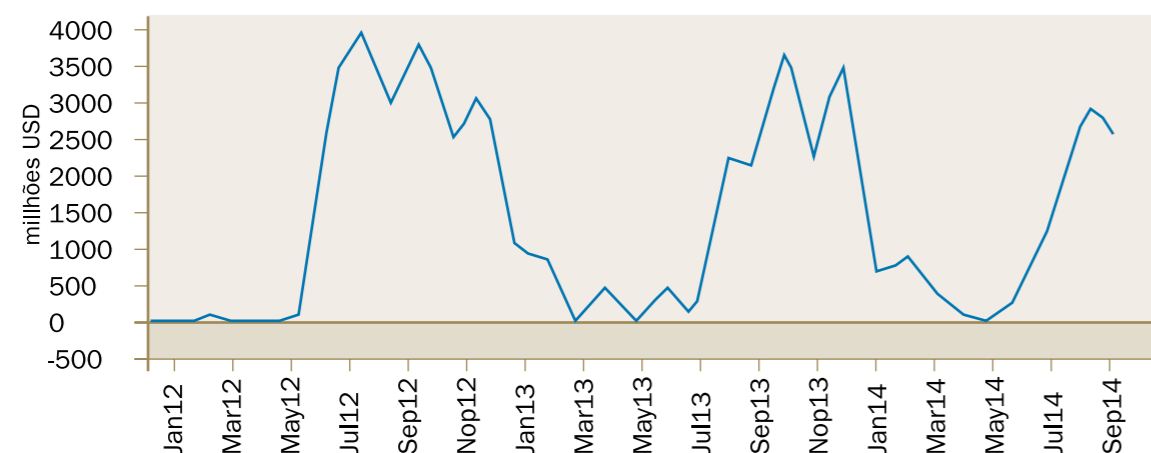
Fonte: Direcção Geral de Estatística

## Exports

.... and coffee continues to be the only relevant export.

Practically the only export of the country – which is systematically registered by the Statistics Office – is coffee. The chart below present the monthly nominal exports of coffee between 2012 and 2014. As can be seen, coffee export has a strong seasonality, peaking in the 2nd half of the year, after the annual crop. Note also that the value and volume of 2014 were below 2013's.

TL: Coffee Monthly Exports, 2012 - 2014



Fonte: Direcção Geral de Estatística

Valor (mil USD) e volume (toneladas) de café exportado					
	2010	2011	2012	2013	2014
<b>Valor</b>	15.987	11.923	18.813	15.781	13.646
<b>Volume</b>	25.671	22.203	33.775	13.252	9.643

Fonte: Direcção Geral de Estatística

## Imports

.... while the country continues highly dependent of imports.

The main imported products are fuels, followed by vehicles and electrical machinery. Energetic goods represented 15.8% of total imports in 2014, continuing to grow substantially, given the need to supply the country's 2 electrical power plants and growing vehicle usage.

TL: importações por tipo de produtos nos anos mais recentes

(Em milhões de USD)	2011	2012	2013	2014
Cereais (10)	11	31	23	32
Petróleo (27)	56	104	144	160
Máquinas mecânicas (84)	22	28	39	32
Máquinas eléctricas (85)	99	244	44	29
Veículos (87)	37	53	64	75
<b>Total</b>	<b>335</b>	<b>668</b>	<b>842</b>	<b>984</b>

Fonte: Direcção Geral de Estatística

Nota: 1 - o número entre parenteses na primeira coluna é o da classe da pauta aduaneira.

Cereals have registered a new annual increase in 2014, probably due to the rise of national consumption and, eventually, to the insufficiency of national production. In 2014, cereals represented 3.6% of total imports.

Cereals imports are mostly due to the physical incapacity of local production to supply national consumption.

The table below presents imports according to their geographical origin for the last 4 years.

Timor-Leste: importações por países nos anos mais recentes (milhões USD)				
	2011	2012	2013	2014
Total	318.7	661.2	526.8	561
Finlândia	68.6 (21.5%)	228.8 (34.6%)	0.9 (0.1%)	0.08 (0.01%)
Indonésia	98 (30.7%)	149 (22.5%)	181.3 (34.4%)	159 (28.4%)
Singapura	21 (6.6%)	45 (6.8%)	62.6 (11.9%)	125 (22.3%)
Austrália	15 (4.7%)	24 (3.6%)	15.9 (3.0%)	19 (3.4%)
China	60 (18.8%)	44 (6.7%)	39.8 (7.6%)	41 (7.4%)
Vietname	7 (2.2%)	31 (4.7%)	41.3 (7.8%)	33 (5.9%)
Estados Unidos			1.4 (0.27%)	12 (2.2%)
Portugal	4.8 (1.5%)	10.5 (1.6%)	12.3 (2.3%)	9 (1.6%)
Malásia	13.8 (4.3%)	51.7 (7.8%)	79.5 (15.1%)	36 (6.4%)

Fonte: Direcção Geral de Estatística

Nota: Este quadro exclui 2 itens: USD191 milhões importados dos E.U.A., classificados na categoria (49) 'livros impressos' que correspondem (na maioris) á importação de notas de dólar; e um valor de USD269 milhões, classificados na categoria (71) como metais preciosos, originários de Portugal. O valor total das importações registadas pela DNE, em 2014, foi de USD984 milhões, que incluíam estes 2 registos.

Simultaneously with growing imports in 2014, it should be noted that the origin of the imports has not been stable throughout time, with Indonesia losing importance, but still being the main commercial partner of Timor Leste.

Indonesia continues to be our main trading partner.



## Public Finances

As stated in Government's Budget for 2014, the State has defined as budgetary priorities the investments in Health, Education and Security, including building small and large scale infrastructure necessary to support a robust, inclusive and high quality growth process.

2014's budget foresees high inclusive growth as Government's priority.

Benefiting from previous State investment in new technologies, national citizens can today access a good database to assess the implementation of public programmes and activities, which is the "Portal das Financas" at <http://www.budgettransparency.gov.tl/public/index>. This website is updated daily allowing us to monitor the composition, change and value of public finance programmes, constituting a major source for the analysis that follows.

Despesas Pública	2010	2011	2012	2013	2014
Orçamento (milhões USD)	838	1,306	1,806	1,648	1,500
Variação (%)	23.1	55.9	38.3	-8.8	-9.0
Actual (milhões USD)	760	1097	1198	1082	1368
% do total Orçamento	90.7	84.0	66.3	65.6	91.2

Fonte: Portal de transparência de Timor-Leste

2014 saw a substantial growth in cash execution rates of budgeted expenditure,

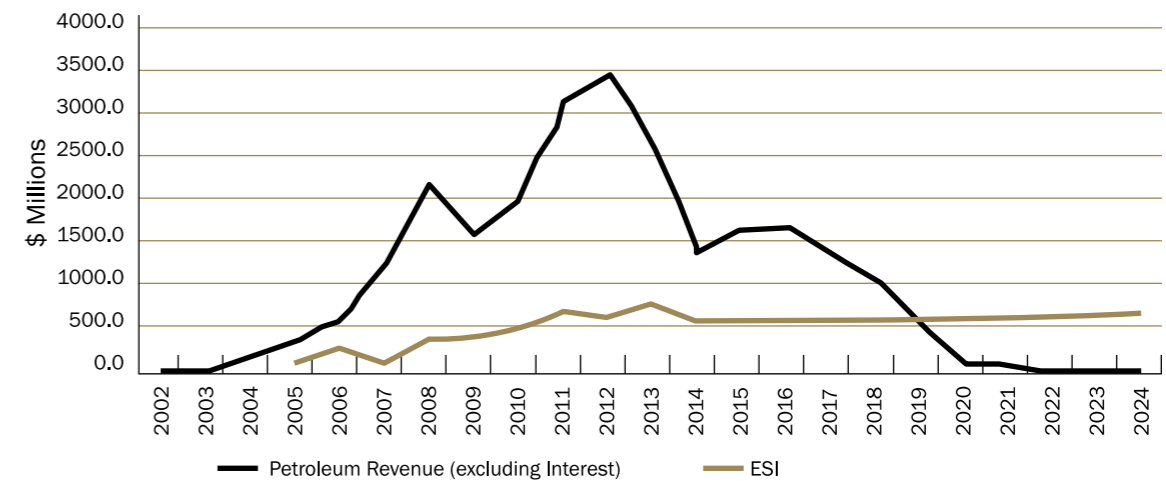
Notwithstanding the Government's concern with restricting public spending growth, the amount spent in 2014 was higher than in 2013, resulting from the higher budgetary allocations and increased spending execution rates. Note also that the years of 2012 and 2013, coincident with a domestic economic slowdown, registered low spending execution rates.

## Public Revenues

Public Budget financing has been overwhelmingly originated from Petroleum Fund's transfers, dully authorized by the National Parliament, when the annual Budget is approved. The so-called domestic non-oil revenues, due from taxes and fees, are fundamentally sourced from income taxes and customs taxes.

PF transfers have been the major source of financing for the Public Budget.

Figure 2.5.3.2.1: Timor-Leste's Petroleum Revenues and Estimated Sustainable Income 2002-2025



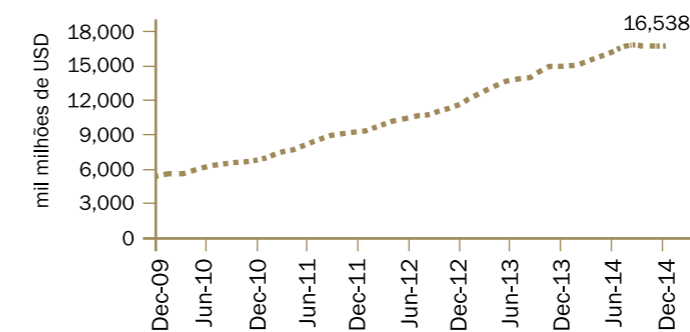
Source: Petroleum Fund Administration Unit

Petroleum Fund transfers, which depend on oil revenue and financial assets returns, were 902.9 million USD in 2014, well above the sustainable income (ESI), by 270.6 million USD. ESI was 632.3 million USD in 2014. This estimate is based on the current present value of the PF and estimation of future oil revenue, using credible price forecasts for the next 6 years. The approval of 2014's Budget in Parliament also approved the transfer of an amount above ESI for 2014, thus reducing total Oil Wealth of the country.

In 2014, 902.9 million USD were transferred from the PF to State's accounts...

.... while ESI was 632.3 millions. Thus the amount transferred was above the ESI..

## Petroleum Fund Capital, monthly data



Fonte: BCTL

Government also used public external debt as financing source...

... while also using 2013's remaining bank account balances.....

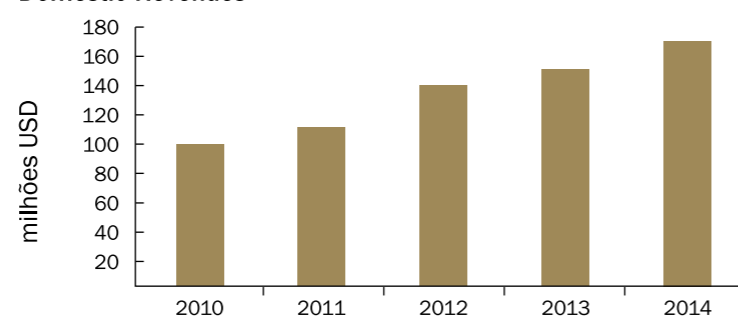
... and 2014's domestic non-oil public revenues.

Another financing source consists of issuing Public Foreign Debt, which, for 2014, was estimated at 51 million USD, to finance the recovery and widening of 3 main roads of the country.

The account balance of State's bank accounts left over from 2013 was also used to finance 2014 Budget, amounting to 379.9 million USD.

Domestic public revenue and its increase continue to be a main priority for the Government in terms of public finances, so as to reduce the dependency from PF transfer financing. Note that, in line with the expansion of domestic economy, domestic revenues have increased substantially from 2010 to 2014, amounting to 166.1 million USD at the end of the period.

#### Domestic Revenues



Fonte: OGE 2014

In the table below, it can be seen that total taxes, including customs taxes and taxes on income and consumption, are the most important category of domestic revenues.

Receitas Doméstica em 2014 (milhões USD)				
Categoria	Orçamento	Cobrado	Saldo	Execução %
Total	166.1	184.3	-18.2	110
Rendimento de impostos	120	142	-22	118
Rendimento não-fiscal	22.3	18.2	4.1	81
Rendimento de agências	24.8	24.1	0.7	101

Fonte: Portal de transparência de Timor-Leste

Although the value of domestic revenue has increased in 2014's Budget, these represented only 11% of total Budget financing, given that the total budgeted spending for 2014 was 1500 million USD. In 2013, the financing portion of these revenues was only 8.9% of total budgeted amount of 1648 million USD.

Taking only in consideration the cash expenditure levels (1367.8 million USD), effective domestic revenues financed 13.5% of the total in 2014. These values confirm the high level of dependency from PF transfers to finance the Public Budget.

Domestic revenues were only 11% of total financing needs.

#### Public Expenditure

Budgeted public expenditure and amounts effectively spent, according to their category, are presented in the table below (execution rates are computed by adding payments and assumed obligations).

Goods and services expenditures continue to be the largest spending category of Public Budget, increasing 11.8% versus 2013. This category amounted to 31.9% of total budgeted expenditure and 32.8% of total effective spending of 2014, highlighting the heavy weigh of recurrent expenditure in total Budget. Note, however, that this category includes substantial spending in fuel for the national power plants, amounting to 92 million USD, whose building and operation was one of Government's priorities to develop the country, improve life quality standards and attract external investment.

Developmental expenditure, or public investment, amounted to 30.4% of total Budget and its execution rate was 92% in 2014.

Goods and services spending continues to be the largest spending category in the Public Budget, with 31,9% of total spending....

... while capital and public investment amounted to 30.4% of total expenditure.

Ano Fiscal Grupo	Despesas					
	2014 Detalhes do orçamento (milhões USD)					
Categoria	Orçamento	%	Obrigações	Real	%	Execução %
Total	1500.0	100	37.1	1367.8	100	93.7%
Salário e vencimentos	177.7	11.8	0.0	162.4	11.9	91.4%
Bens e serviços	478.0	31.9	6.6	449.0	32.8	95.3%
Capital Menor	61.0	4.1	2.8	54.3	4.0	93.7%
Capital de desenvolvimento	456.4	30.4	27.5	393.9	28.8	92.3%
Transferências	310.0	20.7	0.1	291.7	21.3	94.1%
Despesas para contingências	17.0	1.1	0.0	16.8	1.2	97.6%

Fonte: Portal de transparência de Timor-Leste





Generator fuel was the largest spending item within goods and services spending.

The table below presents goods and services expenditures whose value is above 5 million USD. The 3 main categories within this spending class are “fuel for generators”, “professional services” (including consulting expenses) and “various operational items”.

Ano Fiscal Grupo	Despesas		
	2014 Detalhes do orçamento		
Item	Orçamento	Real	Execução %
Total	1,500.00	1,367.82	93.7%
Bens e serviços	478.04	449.00	95.3%
Fuel para geradores	94.09	92.44	98.6%
Serviços Profissionais	84.58	77.29	91.9%
Despesas Operacionais	75.28	49.60	66.3%
Materiais Operacionais	56.31	55.90	102.0%
treino e Seminários	51.10	42.02	82.4%
Outros serviços vários	33.98	28.34	87.0%

Fonte: Portal de transparência de Timor-Leste

Note additionally that spending on “operational items” had an execution rate over 100% in 2014, while the same had already happened in 2013.

Government established an Infrastructure Fund to manage and build the country infrastructure.

We proceed with a more detailed analysis of one of the Budget’s more important spending categories and crucial for the country’s development, which is the Infrastructure Fund (IF). This Fund is managed by a joint-ministerial team, under the direct supervision of the Prime Minister.

The Fund is invested in a set of sectorial programmes and manages the most important part of the national infrastructure programme. The table below presents details related to respective programmes, budgeted amounts and effectively spent amounts in 2014.

Despesas Grupo	Ano Fiscal 2014 Detalhes do orçamento				
	Orçamento	Obrigações	Real	Execução (Real+ Obrigações)	Execução (só real)%
<b>Total Orçamento</b>	<b>1,500.00</b>	<b>37.12</b>	<b>1,367.82</b>	<b>93.7%</b>	<b>91.2%</b>
<b>Fundo de infraestruturas - FI</b>	<b>337.50</b>	<b>8.43</b>	<b>324.21</b>	<b>98.6%</b>	<b>96.1%</b>
Irrigação	9.50	0.01	9.49	100.0%	99.9%
Piano mestre	2.21	0.00	1.85	84.1%	83.9%
Esgotos	1.76	0.06	20.6	119.9%	116.7%
Desenvolvimento urbano e rural	8.26	0.02	8.25	100.0%	99.8%
Edifício pública	9.73	0.79	8.93	99.8%	91.7%
Escolas	4.66	0.13	3.75	83.1%	80.4%
Universidades	0.50	0.03	0.13	33.8%	27.1%
Energia eléctrica	138.47	2.13	133.79	98.2%	96.6%
Equipamento informatika	0.59	0.05	0.55	100.0%	92.3%
Habituação	5.92	0.00	5.92	100.0%	100.0%
Hospital/clinica	1.97	0.21	1.76	100.0%	89.1%
Segurança e defesa	6.13	0.65	4.66	86.6%	76.0%
Sub-programa segurança	0.20	0.00	0.20	100.0%	100.0%
Sub-programa defesa	0.02	0.02	0.00	96.5%	0.0%
Monumentos	1.06	0.01	1.05	100.0%	99.5%
Aeroportos	13.54	0.00	13.54	100.0%	100.0%
Petrollo e gas	9.00	0.06	8.21	91.9%	91.2%
Aeroportos	0.22	0.00	0.22	99.8%	99.8%
Estradas	58.60	1.80	56.96	100.3%	97.2%
Pontes	11.71	0.38	11.33	100.0%	96.7%
Portos	6.20	0.01	9.17	148.0%	147.9%
Preparação de desenhos e supervisao-novos projectos	1.23	0.00	0.86	70.0%	70.0%
Programa de desenvolvimento região oecusi	24.00	0.11	23.74	99.4%	98.9%
Programa do sector turismo	2.57	1.50	1.07	100.0%	41.7%
Programa sector das finanças	19.09	0.40	16.44	88.2%	86.1%
Programa do sector juventude e desporto	0.36	0.07	0.29	100.0%	80.5%

Fonte: Portal de transparência de Timor-Leste

In terms of execution rates, the IF spent 93.7% of the budgeted amount in 2014, well above the 50.5% spent in 2013. Note also that the simple non-weighted average execution rate across all programmes was 90% in 2014.

.... and IF cash execution rate was 93.7% in 2014.

Secondly, although the budgeted amount for the IF amounted to 22.5% of total Budget (36.7% in 2013), total effective IF spending amounted to 22.2% of total actual spending, versus the 18.5% of 2013.

... or 22.2% of total actual spending.

Electrical energy was the largest item expenditure for the IF.

The Fund's programme with a higher budgeted amount, 41% of the total, was electrical energy. This programme had an execution rate of 98% in 2014 and has as objective the electrification of the country, whereas spending includes supporting the contracts for building and operating the power plants and distribution networks, signed with the respective services providers.

The second and third largest programmes – Roads (58.6 million USD and Oecusse development programme (24 millions) – amounted to 17.4% and 7.1% of the IF's budgeted total amount, while their cash execution rates amounted to 100% and 99.4% respectively.

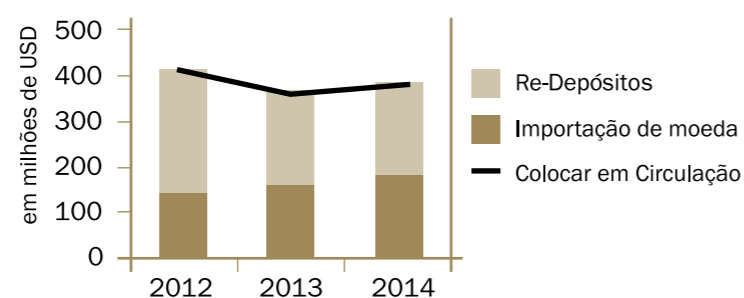
## Financial and Monetary Developments

BCTL has a fundamental role in defending public trust in currency.

One of the most important sectors in a modern economy is the financial sector, including its monetary sector. BCTL has been and continues to be actively engaged in securing public trust in the legal currency of the country, the dollar. As the country continues to use a foreign currency as its official currency, BCTL's actions cannot be judged under the traditional monetary policy perspective, but in terms of securing the operational trust in the currency. This means that BCTL intends to have and provide at all times the needed currency demanded by the public, including coins and bills, as well as maintaining the physical integrity of the currency.

The chart below presents the total imported currency in 2014 and the amounts put into circulation in the economy by BCTL.

### Currency Transactions



Fonte: BCTL

Since ours is a dollarized economy, BCTL cannot exactly compute the total amount of currency in circulation, although we can reasonably estimate the monetary aggregate M2, which is normally used throughout the world as the standard monetary aggregate. M2 corresponds to the sum of currency in circulation (coins and bills), demand deposits (which, as currency, can be mobilized to pay responsibilities) and quasi-currency, which includes other bank deposits that can be easily be mobilized to make payments.

As usd is the country's currency, we cannot compute accurately currency in circulation...

In the chart below we present the approximated M2 in Timor Leste from 2010 to 2014. Note that these values are estimated, because do not include the bills in circulation. However, since these are relatively small compared to overall M2, which includes coins, deposits and quasi-currency, estimated M2 serves reasonably to measure the currency in circulation in our economy.

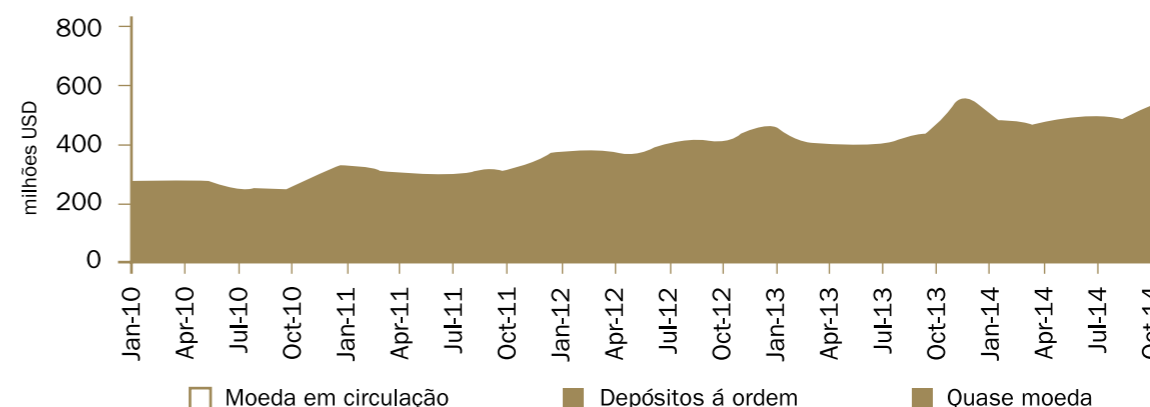
.... but is possible to have a reasonable approximation of the monetary aggregate M2.

Money supply has registered a continuous increase along the last 4 years, due, naturally, to the expansion of domestic economic activity, boosted by the increase in public spending.

Within this monetary perspective it is also important to monitor the changes in banking deposits and their relationship with banking credit, as banks finance credit with the available deposit base.

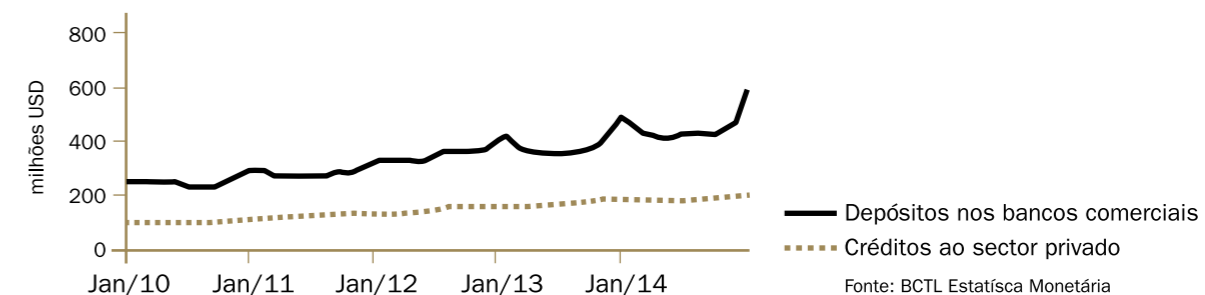
Economic activity growth has boosted M2 growth in the last few years.

### Money Supply (M2) and its Components



Fonte: BCTL Estatística Monetária

### Deposits and Lending to Private Sector

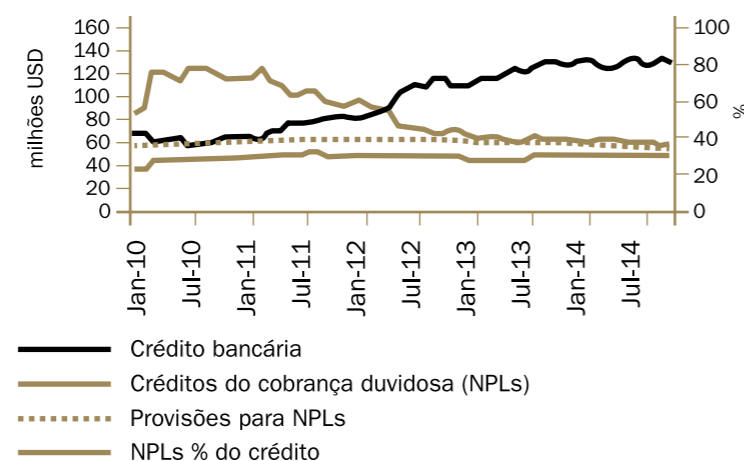


Fonte: BCTL Estatística Monetária

A subida dos recursos bancários foi muito superior à dos empréstimos concedidos..

As can be seen in the chart above, deposits exceed credit volume by a substantial amount. Thus the banking system has a substantial excess liquidity position, which is mostly invested abroad, with the parent banking institutions of each of the branches operating in Timor Leste.

NPLs and respective Provisions



Fonte: BCTL Estatística Monetária

Additionally, it is also important to monitor the quality of banking credit in the country. A useful indicator in this regard is the total amount of “non performing loans”, which corresponds to credit, which is not being repaid, either capital or interest, timely by the respective borrower.

Although elevated, NPLs ratio has been on a downward trend...

In the case of Timor Leste’s financial system, NPLs are quite high, amounting to 37% of total credit at the end of 2014. Although NPLs are elevated, this indicator has registered a continuous fall since 2010, when it amounted to 70% of total credit.

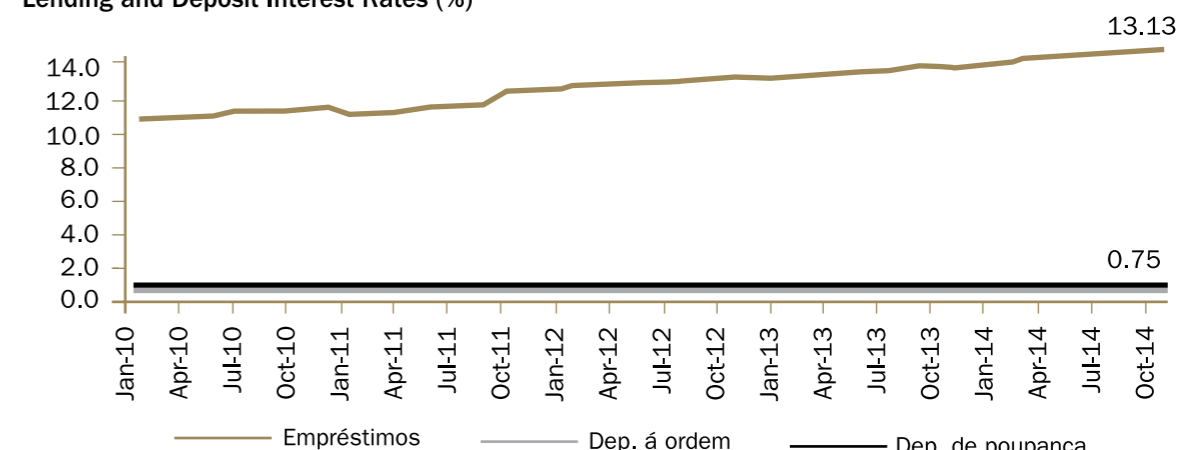
This, however, does not constitute a threat to the system, either because banking institutions in the country are non-segregated subsidiaries of larger and solid banking franchises in their respective countries, or because they adapted successfully to the growing NPLs in their portfolios, establishing massive reserves/provisions more than sufficient to cover the total NPLs in the system. Note that total provisions have always been above total NPLs.

High NPLs levels is nonetheless an indicator of the banking business risks in the country, as if NPL’s are high those risks are elevated. Naturally, high credit risk is one of the components that explain the high levels of lending interest rates in the country. In fact, Timor Leste’s lending interest rates are relatively high, when compared with those from US, the country’s whose currency we use, contradicting the expectation that when a small country adopts the currency of a larger one, its rates should converge. In Timor Leste, this expectation is not materialized, especially for lending rates, for various reasons, particularly because banking risks, or credit and lending risks have been very high in the country.

.... high credit risk is one of the factors that explains the country’s high lending rate.

The chart below compares rates for deposits and credit and the respective spread, which has been always very high.

Lending and Deposit Interest Rates (%)



Fonte: BCTL

These high nominal rates correspond to high real rates. If we take the average annual interest rate (12.87%) in 2014 and subtract the 2014’s annual average inflation rate (0.5%), the real interest rate of 2014 was 12.37%.

The chart presents the huge spread between lending and deposit rates....

Note also that historical spread between rates has only changed slightly, mostly due to changes in lending rates, as deposit rates have been stable, registering an average of 11.52% in 2014.

.... spread was 11.52% on average, in 2014.

Taxa de Juro do banco Comercial				(Em percentagem)			
Perodo	Empréstimos +6 meses Libor	Depósitos a Ordem	Depósitos de Poupança	Depósitos a Prazo			
				1 Mês	3 Meses	6 Meses	12 Meses
2014 Jan	12.59	0.56	0.75	0.86	1.09	1.29	1.36
Fev	12.56	0.56	0.75	0.87	1.10	1.31	1.37
Mar	12.58	0.56	0.75	0.87	1.09	1.30	1.37
Abr	12.80	0.55	0.75	0.86	1.09	1.29	1.36
Mai	12.85	0.55	0.75	0.86	1.09	1.29	1.36
Jun	12.87	0.52	0.75	0.86	1.09	1.29	1.36
Jul	12.92	0.54	0.75	0.86	1.09	1.29	1.36
Ago	12.95	0.53	0.75	0.85	1.08	1.27	1.34
Set	13.02	0.52	0.75	0.84	1.06	1.25	1.33
Out	13.02	0.52	0.75	0.82	1.04	1.23	1.30
Nov	13.13	0.52	0.75	0.83	1.04	1.24	1.30
Dez	13.11	0.54	0.75	0.83	1.05	1.24	1.31

Fonte: BCTL

As the banking system restricts credit to the economy, it invests the excess liquidity abroad.

As already referred before, the banks in the country, unable to invest the full amount of their deposit resources in the country, end up by investing the excess liquidity in deposits abroad to profit from the resources not used to finance credit. The chart below presents the changes in “Net Foreign Assets” (DLX) of the country, segregating BCTL and commercial banking reserves.

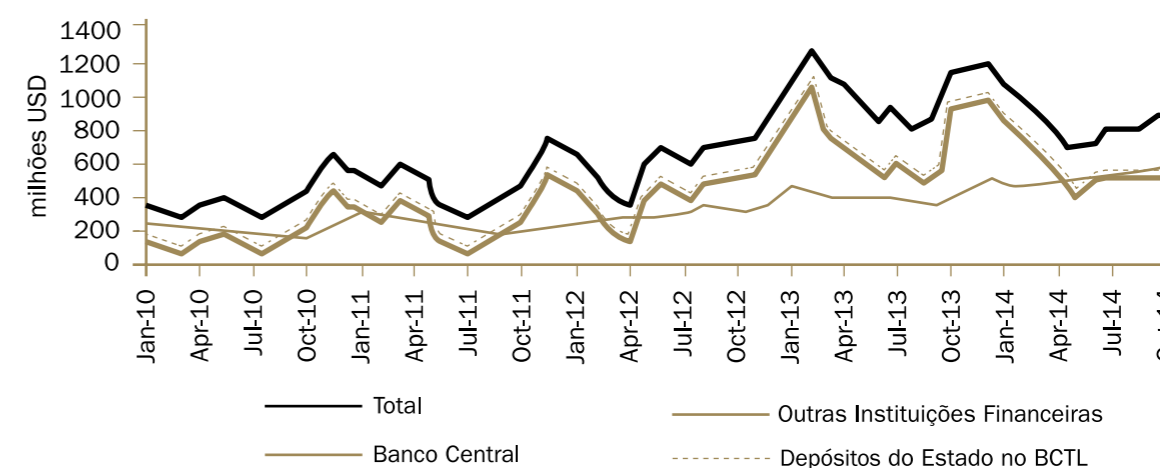
Nonetheless, DLX are more sensitive to BCTL's changes in reserves.

As can be seen, total NFA are highly sensitive to changes in BCTL's reserves and these are highly influence by State's deposits with the BCTL, which means that a major portion of these resources is invested abroad. When the State requests its resources, deposits with the BCTL decrease and, subsequently, BCTL's NFA.

Commercial banking's NFA are more stable and have grown gradually along the years, following closely the growth in overall banking deposits.



Net Foreign Assets



Fonte: BCTL Estatística Monetárias

### Banking Sector Developments

Timor Leste's banking system continues to be solid and stable in 2014. It continues to be overwhelmingly financed by deposits and only lends out a small portion of these resources to companies and retail clients, causing the overall system to have a major liquidity surplus.

The banking system remained stable and robust in 2014.

In the tables and charts below, we present several data regarding the banking system, which was composed of, at the end of 2014, by 1 Timorese bank – BNCTL – and 3 banking subsidiaries of 3 major international banks headquartered in Portugal (CGD/BNP), Australia (ANZ) and Indonesia (Mandiri).

Total banking assets at the end of 2014 were 805 million USD, registering a growth of 21% versus 2013.

Banking assets increased 21% in 2014.

Activos da banca Comercial			(Em milhões de USD)			
Items	Dez/13	% TA	Dez/14	% TA	Taxa de variação	Valorda variação
Moeda e aldo no BCTL	105.01	15.8%	179.41	22.3%	70.9	74.40
Depósitos noutros bancos	429.81	64.6%	487.63	60.6%	13.5	57.83
Investimento	0.00	0.0%	3.98	0.5%	100.0	3.98
Empréstimos e adiantamentos a clientes	118.46	17.8%	120.86	15.0%	2.0	2.40
Activos fixos	9.21	1.4%	9.92	1.2%	7.7	0.71
Outros activos	2.79	0.4%	3.26	0.4%	16.9	0.47
<b>Total</b>	<b>6665.28</b>	<b>100%</b>	<b>805.06</b>	<b>100%</b>	<b>21.0</b>	<b>139.79</b>

Fonte: BCTL

But total credit lowered in 2014.

During 2014, total credit decreased 0.1%. The gross credit portfolio, including NPLs, was 176.7 million USD at the end of 2014, being that 47.4 millions were classified as NPLs. Note again that this high NPL level does not constitute a threat for the banking system, because total registered provisions were well above total NPLs, at 55.8 million USD.

Empréstimos segundo a sua performance			(Em milhões de USD)			
Item	Dez/13	% do Total CBE	Dez/14	% do Total CBE	variação	
Empréstimos em cumprimento	127.32	72.0%	129.29	73.2%	1.5%	
“Crédito de cobrança duvidosa”	49.54	28.0%	47.41	26.8%	-4.3%	
Provisões para “Crédito de cobrança duvidosa”	58.40	33.0%	55.84	31.6%	-4.4%	
<b>Total liquido dos empréstimos e adiantamentos</b>	<b>118.46</b>	<b>67.0%</b>	<b>120.86</b>	<b>68.4%</b>	<b>2.0%</b>	
Carteira bruta de empréstimos (CBE)	176.86		176.70		-0.1%	
Provisões em % “Crédito de cobrança duvidosa”	117.9%		117.8%			
“Crédito de cobrança duvidosa” em % da carteira bruta de empréstimos	28.0%		26.8%			

Fonte: BCTL

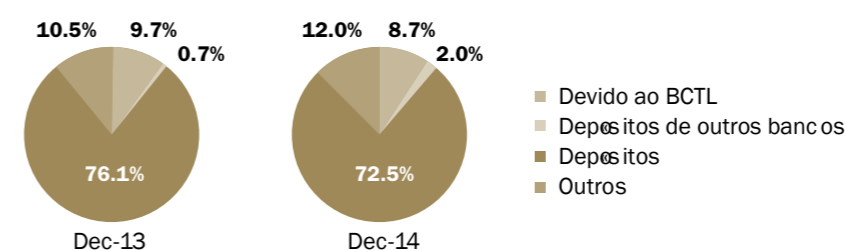
.... but total deposits increased 15,2% to 583 million USD.

Global deposits value was 583 million USD in 2014, rising 15.2% versus 2013 and representing 72.5% of total banking liabilities and capital.

Responsabilidades / Passivo			(Em milhões de USD)			
Item	Dez/13	% das responsab. e capital	Dez/14	% das responsab. e capital	variação	
Devido ao Banco Central de TL	64.30	9.7%	<b>70.08</b>	8.7%	9.0%	
Depósitos de outros bancos	4.37	0.7%	<b>15.75</b>	2.0%	260.2%	
Depósitos	506.31	76.1%	<b>583.28</b>	72.5%	15.2%	
Outros	70.15	10.5%	<b>96.87</b>	12.0%	38.1%	
Capital	20.14	3.0%	<b>39.11</b>	4.9%	94.1%	
<b>Total das responsab. e capital</b>	<b>665.27</b>	<b>100.0%</b>	<b>805.06</b>	<b>100%</b>	<b>21.0%</b>	
<b>Total das responsabilidades</b>	<b>645.13</b>	<b>97.0%</b>	<b>765.96</b>	<b>95.1%</b>	<b>18.7%</b>	

Fonte: BCTL

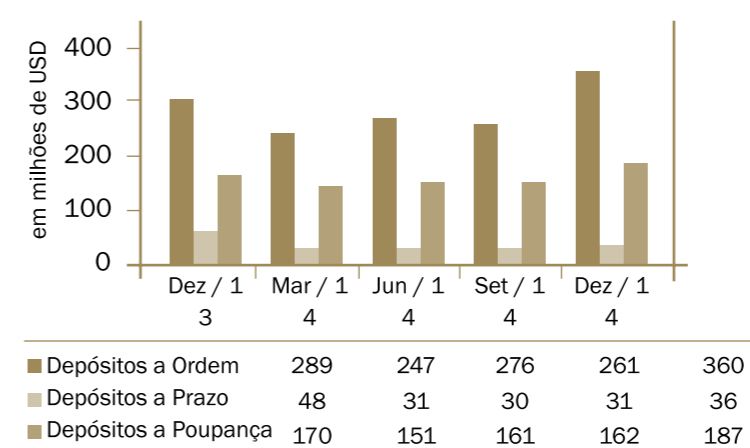
The pie charts below further decompose the liability structure of the banking system.



Demand deposits continued to represent the major part of total deposits, with 61.7% of total, increasing by 24.7% versus 2013. Saving deposits as percentage of total deposits increased again in 2014, after consecutive decreases in the 3 years before. Term deposits lost some expression of total deposits, decreasing from 9.5% to 6.2% of total.

.... 61.7% of which are demand deposits.

#### Deposits Structure



Fonte: BCTL



In fact, interest paid on deposits received was only 1.7 million USD....

.... a marginal value compared with banks primary income sources.

Banks' primary revenues were composed of interest and fees, totalling 16.5 and 17.2 million USD respectively in 2014. Total paid interest was substantially lower at 1.7 million USD.

The consolidated profit and loss statement of the banking sector in 2014 was as follows (2013 is presented for comparison purposes):

	(Em milhões de USD)	
	Dec-13	Dec-14
<b>Rendimento Bruto</b>	<b>27.87</b>	<b>26.90</b>
Rendimento liquido antes de impostos	14.81	10.20
Impostos sobre o rendimento	1.51	1.11
<b>Rendimento liquido antes de impostos</b>	<b>13.30</b>	<b>9.10</b>
<b>Rendimento em % dos activos</b>	Dec-13	Dec-14
Juros recebidos de bancos	0.33%	0.28%
Juros de investimentos 'overnight'	0.00%	0.00%
Juros e taxes derivados de empréstimos	1.91%	0.57%
Outros juros recebidos	0.21%	0.21%
outros rendimentos operacionais	2.93%	2.14%

Fonte: BCTL

Banking asset growth has reduced Return on Assets to 1.2% in 2014, from 2% in 2013.

The annual income as percentage of assets (RoA, or Return on Assets) was 1.2% in 2014, lower than 2013's 2%. This decrease was essentially due to the increase in banking assets, without an equivalent rise in income, which actually fell slightly versus 2013. RoA's decrease was then due to the reduction of interest and fees in 2014, as percentage of banking assets. Banks continue to have liquidity ratios above the minimum required by the BCTL.

## Conclusions

2012's national accounts published by DNE in 2014 estimate that non-oil GDP's growth in 2012 was 7.8%. According to 2015's Budget Books, the Government estimates that growth was 5.6% in 2013 and 7.1% in 2014. However, BCTL estimates based on its models, that growth was weaker at 0.5% in 2013, but stronger in 2014 (8%). BCTL models and activity indicator's estimates closely track the pattern in public expenditure in the last 2 years, which has fallen on a cash basis in 2013 and recovered substantially in 2014.

Average annual inflation rate was 0.5% in 2014, in what constitutes a major fall versus 2013's value. According to BCTL's empirical models, this reduction was mostly due to the fall in external inflation pressures, resulting from the depreciation of trading partners' currencies versus the dollar and the fall of international prices of commodities. External inflation, as measured by BCTL – average of 6 Asian economies inflation rates in dollar terms – was negative at -1% in 2014, the first time since 2009, a year affected by the global recessive effects of the great financial crisis. On the other hand, the domestic economy recovery in 2014 has added slight upward price pressures to our economy, but its effect was only marginal compared to external inflation.

Our country continues to have a deficit in the Balance of Payments, when we exclude the oil and natural gas revenues and Petroleum Fund's income, due to the huge deficit of the trade account. Nonetheless, when include those revenues and income, the BoP has a substantial surplus. Our economy continued to post a substantial trade account deficit in 2014, due to the high import dependency of our economy, which continued to increase in 2014. Exports have grown only 1.5% in 2014, amounting to only 10% of total international commerce, and are practically represented by coffee exports.

In terms of budgetary and fiscal policy, total effective expenditure increased substantially in 2014, registering an annual record of 1368 million USD, versus the 1082 millions spent in 2013. This increase was mostly due to an increase in cash execution rates. In terms of public revenues, non-oil public revenues continued to grow in 2014 to 184 million USD, but only covered 17% of total expenditure, whose financing continues to be mostly assured by transfers originated from the Petroleum Fund.

In terms of monetary aggregates, money in circulation continued to increase in 2014, extending the gradual rising trend registered along the decade, in line with the domestic economy expansion. The country's banking system continued to have a substantial excess liquidity position, since total credit was substantially below total deposits. This excess liquidity is mostly invested abroad in deposits with the parent franchises of local banking subsidiaries.

Timor Leste banking system continued stable and solid in 2014, continuing to register solid income levels and robust levels of coverage for NPLs as well as a substantial excess liquidity position.

# 3

## 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
<b>Total</b>	<b>22204</b>	<b>154.176</b>	<b>61706</b>	<b>386.676</b>

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
<b>Total</b>	<b>324</b>	<b>8.929</b>	<b>692</b>	<b>5.105</b>

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
<b>Total</b>	<b>1297</b>	<b>852.90</b>	<b>517</b>	<b>1,767.04</b>	<b>57496</b>	<b>345.67</b>	<b>3393</b>	<b>1,129.84</b>	<b>275</b>	<b>59.27</b>

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
<b>Total</b>	<b>18,822</b>	<b>446.951</b>	<b>2,373</b>	<b>64.746</b>	<b>20,429</b>	<b>840.323</b>	<b>44,410</b>	<b>356.031</b>

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
<b>Total</b>	<b>8.841</b>	<b>3,281</b>	<b>0.273</b>	<b>1,463</b>

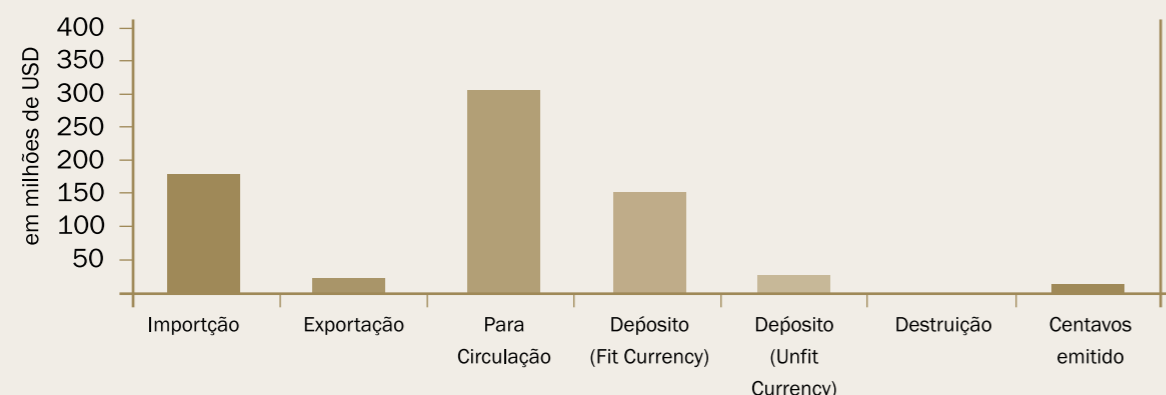
Fonte: BCTL

## 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:

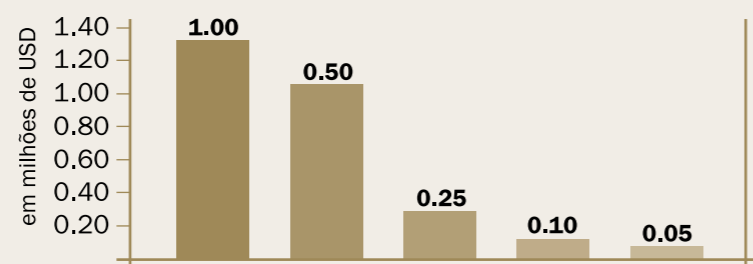
Transacções de Moeda durante 2014 (em milhões de USD)



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.

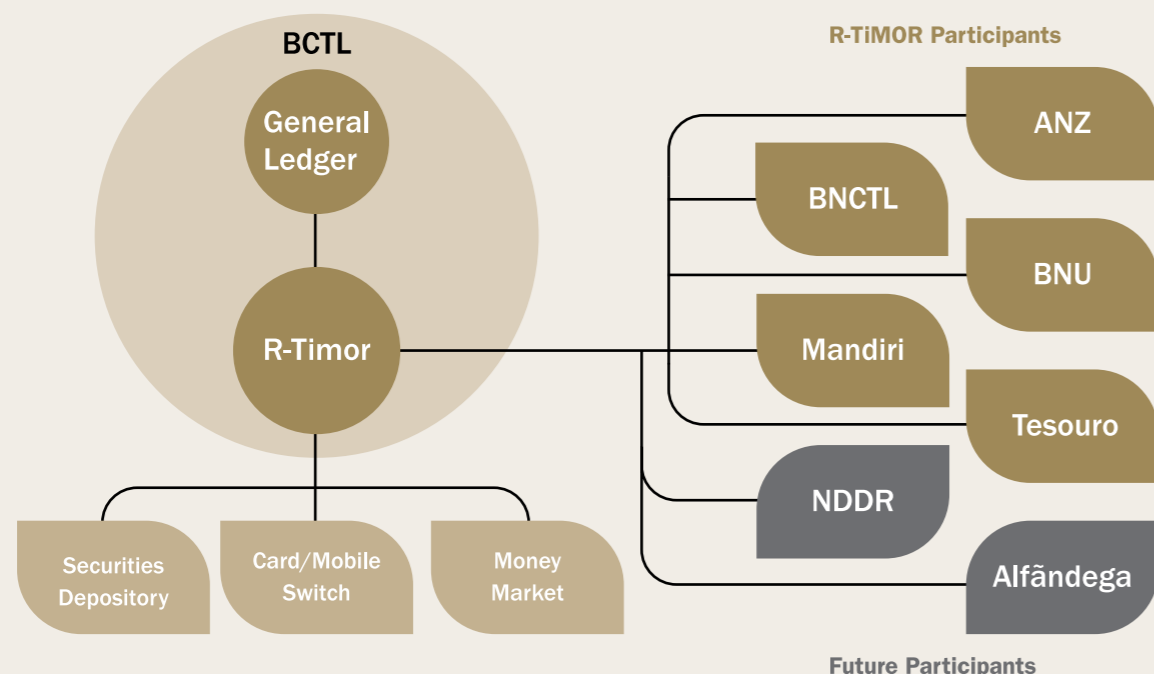
Assuming that sufficient funds are available, high value and urgent payments will be processed and settled within a few seconds using the Real Time Gross Settlement module.

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.

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

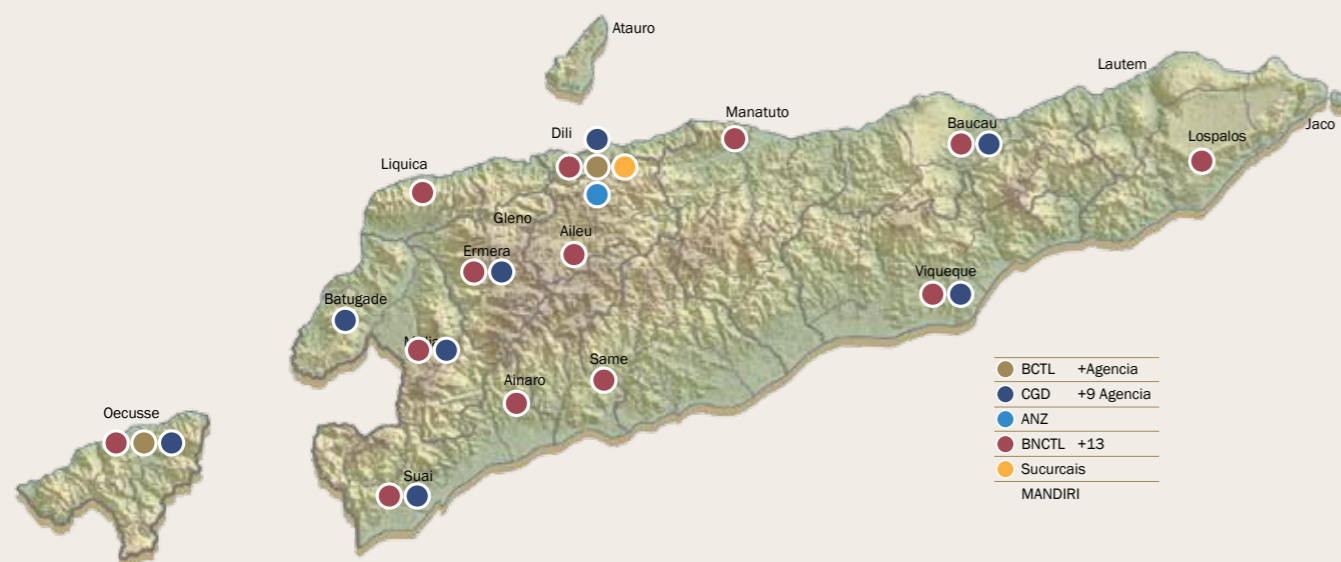


R-TiMOR is expected to have a positive impact on the financial sector and the economy of Timor-Leste. For the Government, all payments to suppliers, state employees and recipients of social benefits such as war veterans will be made electronically through R-TiMOR, thereby speeding up the payment process, 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.

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.



## 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
<b>Enablers of lending</b>	
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.	
<b>Financial inclusion</b>	
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.	
<b>Supervision</b>	
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

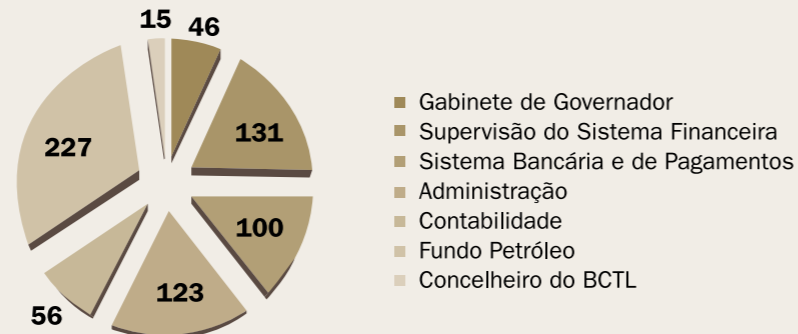
Apart from training and study abroad, in-house training in BCTL continues to contribute to improving the skills of their staff. Employees also participated in various training programs, seminars and workshops organized by other central banks and financial institutions of the CPLP, Bank Negara Malaysia, 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.

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.

### 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

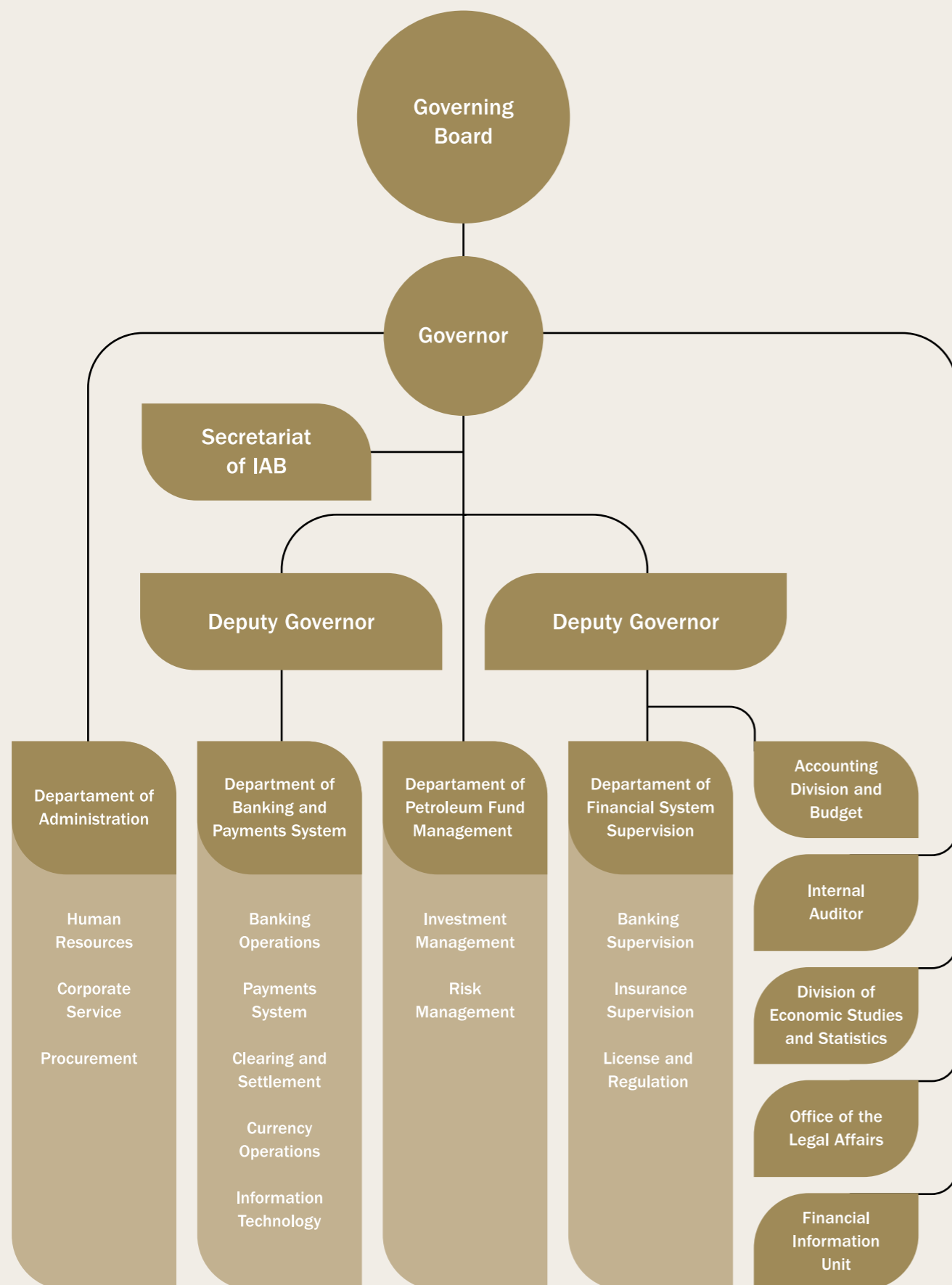
Chief Accountant  
Fernando de Carvalho

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**

# Financial Statements

For the period ended 31 December 2014  
27 April 2015

## Statement Of Compliance

The Financial Statements on pages 2 to 5 and the Notes from pages 6 to 33 which form an integral part of these statements have been prepared by the Management and approved by the Governing Board of Banco Central de Timor-Leste. I declare that these Financial Statements comply with the requirements of Central Bank Law no 5/2011 and fairly present the true financial position and performance of Banco Central de Timor-Leste as at 31 December 2014.

Dili, 27 April 2015

**Abraão de Vasconcelos**  
Governor



## Statement of Financial Position

As at 31 December

In thousands of United States dollars			
	Note	2014	2013
<b>Assets</b>			
Cash and cash equivalents	7	278.205	466.250
Marketable securities	8	93.210	281.003
Investments	10	26.601	24.529
Property, plant and equipment	11	2.152	1.053
Other assets	12	3.966	4.288
<b>Total Assets</b>		<b>404.134</b>	<b>777.122</b>
<b>Liabilities</b>			
Government deposits	13	180.870	633.776
Other deposits	14,17	163.298	103.313
Provision for transfer of surplus to Government	15	4.493	621
Other Liabilities	16	5.617	12.294
Currency Issued		9.824	6.885
<b>Total Liabilities</b>		<b>364.102</b>	<b>756.888</b>
<b>Equity</b>	<b>18</b>	<b>40.032</b>	<b>20.234</b>
<b>Total Liabilities and Equity</b>		<b>404.134</b>	<b>777.122</b>

The above statement is to be read in conjunction with the policies and notes on page 6 to 33

## Statement of Comprehensive Income

For the period ended 31 December

In thousands of United States dollars			
	Note	2014	2013
<b>Operating Income</b>			
<b>Investment income</b>			
Interest income	20	2.496	2.405
Interest expense	20	(53)	(230)
<b>Net Investment Income</b>		<b>2.443</b>	<b>2.175</b>
Petroleum fund management fee	22	14.922	8.466
Petroleum fund administration expenses	22	(8.750)	(6.423)
<b>Net fee and commission income</b>		<b>6.172</b>	<b>2.403</b>
Fees and commissions	21	565	5876
Other income		(11)	0
<b>Total Operating Income</b>		<b>9.169</b>	<b>4.794</b>
<b>Expenses</b>			
Personnel expenses	23	1.743	1.340
Currency distribution expenses		948	1.036
Administration expenses	24	1.947	1.597
Depreciation	11	244	199
<b>Total Expenses</b>		<b>4.882</b>	<b>4.173</b>
<b>Profit</b>		<b>4.287</b>	<b>621</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>4.287</b>	<b>621</b>

The above statement is to be read in conjunction with the policies and notes on pages 6 to 33

## Statement of Changes in Equity

For the period ended 31 December

In thousands of United States dollars			
	Note	2014	2013
<b>Capital</b>			
Opening balance		20.000	20.000
Increase in Capital		20.000	0
<b>Closing balance</b>		<b>40.000</b>	<b>20.000</b>
<b>General Reserve</b>			
Opening balance		237	237
Transfer to Capital Account		0	0
Transfer from retained earnings		621	411
Transfer to Government		(826)	(206)
<b>Closing balance</b>		<b>32</b>	<b>237</b>
<b>Fair Value Reserve</b>			
Opening balance		(3)	5
Net change in fair value		3	(8)
<b>Closing balance</b>		<b>0</b>	<b>(3)</b>
<b>Appropriation of Net Income</b>			
Net income for the period		4.287	621
Transfer to General Reserve		0	0
Provision for transfer of balance to Government		(4.287)	(621)
		0	0
<b>Total Equity</b>	<b>18</b>	<b>40.032</b>	<b>20.234</b>

The above statement is to be read in conjunction with the policies and notes on pages 6 to 33

## Statement of Cash Flows

For the period ended 31 December

In thousands of United States dollars		
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Profit for the period	4.287	621
Depreciation	244	199
Net Interest income	(2.443)	(2.175)
<b>Total</b>	<b>2.088</b>	<b>(1.355)</b>
Changes in receivable, prepayments & stock	321	(190)
Changes in government deposits	(452.906)	(185.165)
Changes in other deposits	59.986	(16.255)
Changes in other liabilities	(6.676)	3.552
	(399.274)	(198.057)
Interest received	2.496	2.405
Interest paid	(53)	(230)
<b>Net cash from operating activities</b>	<b>2.444</b>	<b>2.175</b>
<b>Cash Flows from Investing Activities</b>		
Acquisitions of investments	(2.073)	(85)
Proceeds from investing in US government securities	187.795	20.977
Acquisitions of property, plant & equipment	(1.343)	(473)
<b>Net cash from investing activities</b>	<b>184.378</b>	<b>20.419</b>
<b>Cash Flows from Financing Activities</b>		
Currency issued	2.940	2.112
Capital subscription by Government	20.000	0
Transfer of surplus to Government	(621)	164
<b>Net cash from financing activities</b>	<b>22.319</b>	<b>2.275</b>
<b>Increase In Cash &amp; Cash Equivalents</b>	<b>(188.045)</b>	<b>(174.542)</b>
Cash & cash equivalents at the beginning of year	466.250	640.792
<b>Cash &amp; Cash Equivalents at the end of year</b>	<b>278.205</b>	<b>466.250</b>

The above statement is to be read in conjunction with the policies and notes on pages 6 to 33

# Notes to the Financial Statements

## 1. Reporting Entity and Statutory Base

These are the financial statements of Banco Central de Timor-Leste ("the Bank" or BCTL), a distinct autonomous public legal entity established by Organic Law number 5/2011 on the Central Bank of Timor-Leste. The head office of Banco Central de Timor-Leste is at Avenida Bispo Medeiros, Dili, Timor-Leste.

The financial statements of the Bank are for the financial year ended 31 December 2014 and, in accordance with section 58 of the Organic Law no 5/2011, the accounts and records are maintained in accordance with International Accounting Standards.

The primary objective of the Bank is to achieve and maintain domestic price stability. The other objectives of the Bank are to foster the liquidity and solvency of a stable market-based banking and financial system, to execute the foreign exchange policy of Timor-Leste, and to promote a safe, sound, and efficient payment system.

The Bank's role is to function as the central bank of Timor-Leste. The role of the Bank is defined in the organic Law 5/2011 and other laws, and includes the following functions:

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

- to license, supervise and regulate insurance companies and intermediaries; and
- to conduct regular economic and monetary analysis of the Timor-Leste economy, make public the results, and submit proposals and measures to the government on the basis of such analysis.

## 2. Basis of Preparation

### a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB). The financial statements were authorised for issue by the Governing Board on 27 April 2015.

### b) Basis of Measurement

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

### c) Adoption of International Financial Reporting Standards

These financial statements incorporate all International Financial Reporting Standards in force at 31 December 2014. No standards have been adopted before the effective date.

### d) Functional and Presentation Currency

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

### e) Use of Estimates and Judgements

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

### f) Comparative amounts opening balances

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

### 3. Significant Accounting Policies

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

#### a) Foreign Currency Transactions

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

	31 Dec 2014	31 Dec 2013
Australian dollars (AUD)	1.2284	1.1292
Special Drawing Rights (SDR)	0.6901	0.6493
Euro (EUR)	0.8224	0.7275

#### b) Interest

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

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

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

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

#### c) Fees

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

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

#### d) Operating Profit

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

#### e) Taxation

The Bank is exempt from taxes on its income under the provisions of Article 72, Organic Law no. 5/2011.

#### f) Financial Assets and Liabilities

##### i) Recognition

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

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

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

##### ii) Classification

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

iii) De-recognition

Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

iv) Offsetting

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

v) Amortised cost measurement

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

vi) Fair value measurement

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

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

vii) Identification and measurement of impairment

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

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

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

**g) Cash and Cash Equivalents**

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

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

**h) Investment Securities**

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

i) Held-to-Maturity

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

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

ii) Fair value through profit or loss

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

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

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

iii) Available-for-sale

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

Available-for-sale investments are carried at fair value.

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

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

**i) Reverse-Repurchase Transactions**

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

**j) Other Assets and Liabilities**

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

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

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

**k) Property, Plant and Equipment**

i) Recognition and measurement

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

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

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

The land and head office occupied by the Bank is recognised at the cost of acquisition in 2000 at nil value. The Bank still carries these assets at zero value pending the establishment of a fair value at a future time when the land and property market in Timor-Leste operates on a sound legal basis and objective valuations can be derived from observable property market transactions.

ii) Subsequent Costs

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

iii) Depreciation

Depreciation is recognised in profit and loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

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

	2014	2013
Buildings and improvements	20 years	20 years
Plant	5 years	5 years
Office equipment	8 years	8 years
Computers and electronic equipment	4 years	4 years
Vehicles	5 years	5 years

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



iv) Impairment

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

**l) Currency in Circulation**

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

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

**m) Employee benefits**

i) Short term employee benefits

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

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

ii) Long-term employee benefits

Employees of the Bank are entitled to a long service cash benefit payable on completion of a defined numbers of years, starting at the fifteenth year of service. An amount of 5% of base salary is set aside monthly by the Bank for this purpose and recognised in the profit and loss statement as a personnel expense, with the associated liability being recognised on the balance sheet and recorded under other liabilities. In the event that an employee leaves prior to qualifying for the benefit, the cumulative amount previously set aside for that employee is credited to personnel expense on the relevant date at which the Bank's obligation to the employee ceases.

There is no pension scheme for employees of the Bank.

## 4. Financial Risk Management

**a) Introduction and Overview**

The Banco Central de Timor-Leste has exposure to the following risks from its use of financial instruments:

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

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

**b) Risk Management Framework**

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

The Governing Board is guided by the Bank's establishing law (Organic Law 5/2011), which sets broad risk management guidelines, including the following:

- Article 19 states that the Bank may hold in its investment portfolio any or all the following foreign assets: Gold and other precious metals held by or for the account of the Bank, including credit balances on account representing such gold and other precious metals; Banknotes and coins denominated in freely convertible foreign currencies held by or for the account of the Bank; Credit balances and interbank deposits that are payable on demand or within a short term denominated in freely convertible foreign currencies and are held in the accounts of the Bank, on the books of foreign central banks, or international financial institutions; Readily-marketable debt securities denominated in freely convertible foreign currencies issued by, or backed by foreign governments, foreign central banks or international financial institutions; Claims on international financial institutions resulting from repurchase agreements, sale and buy back and securities lending agreements for the foresaid debt securities; Special drawing rights held in the account of Timor-Leste in the International Monetary Fund; The reserve position of Timor-Leste in the International Monetary Fund.
- Article 71.1 prohibits the Bank from granting credit, engaging in commerce, purchasing the shares of any corporation or company including the shares of any Financial Institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking or acquire by purchase, lease, or otherwise any real rights in or to immovable property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its administration and operations.

- Article 39 authorises the Bank to manage special fund owned by the state on the basis of management contract and maintain earmarked receipts on its books special accounts provided that the assets and liabilities shall be segregated from the other assets and liabilities of the Bank.

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

#### c) Credit Risk

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

All investments above \$1 million require the authorisation of the Governor. Regular audits of the divisions responsible for the investment of funds are undertaken by Internal Audit.

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

US\$ *000	Rating*	Dec 2014	Rating*	Dec 2013
<b>Cash and Cash Equivalents</b>				
Cash	AAA	60.157	AAA	27.546
Deposits at central banks	AAA	96.209	AAA	315.760
Resident banks	B	71.309	B	72.429
Non-resident banks	AA-	50.530	AA-	50.515
		<b>278.205</b>		<b>466.250</b>
<b>Marketable securities</b>				
US Government Treasury Bills	AAA	0	AAA	49.990
US Government Treasury Notes	AAA	93.210	AAA	231.013
<b>Investments</b>				
International Monetary Fund	N/A	26.601	N/A	24.529
Fixed and other assets	N/A	6.118	N/A	5.340
<b>Total Assets</b>		<b>404.134</b>		<b>777.122</b>
<b>Summary by credit rating</b>				
		<b>Dec 2013</b>	<b>Dec 2014</b>	<b>Dec 2012</b>
AAA		61.76%	249.576	80.34%
AA-		12.50%	50.530	6.50%
B		17.64%	71.309	9.32%
Not applicable		8.10%	32.720	3.84%
<b>Total Assets</b>		<b>100.00%</b>	<b>404.134</b>	<b>100.00%</b>
			<b>777.122</b>	

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

There were no impairment losses at balance date. The carrying amount of these assets approximates their fair value.

#### d) Liquidity Risk

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

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

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

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

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

US\$ *000	Total 2014	No fixed maturity	6 months or less	Over 6 months
Cash and cash equivalents	278.205		278.205	
Marketable securities	93.210			93.210
Investments	26.602			26.601
Other assets	3.966		3.966	
<b>Total assets (Excluding PPE)</b>	<b>401.982</b>	<b>-</b>	<b>282.171</b>	<b>119.811</b>
Government deposits	180.870		180.870	
Other deposits	163.298		136.697	26.601
Provision for transfer of surplus to Government	4.493		4.493	
Other liabilities	5.617		5.617	
Currency issued	9.824	9.824		
<b>Total liabilities</b>	<b>364.102</b>	<b>9.824</b>	<b>327.677</b>	<b>26.601</b>
<b>Net maturity gap</b>	<b>37.880</b>	<b>(9.824)</b>	<b>(45.507)</b>	<b>93.210</b>

US\$ '000	Total 2013	No fixed maturity	6 months or less	Over 6 months
Cash and cash equivalents	466.250		466.250	
Marketable securities	281.003		49.990	231.013
Investments	24.529			24.529
Other assets	4.288		4.288	
<b>Total assets (Excluding PPE)</b>	<b>776.070</b>	<b>-</b>	<b>520.528</b>	<b>255.542</b>
Government deposits	633.776		633.776	
Other deposits	103.313		78.784	24.529
Provision for transfer of surplus to Government	621		621	
Other liabilities	12.294		12.294	
Currency issued	6.884	6.884		
<b>Total liabilities</b>	<b>756.888</b>	<b>6.884</b>	<b>725.475</b>	<b>24.529</b>
<b>Net maturity gap</b>	<b>19.182</b>	<b>(6.884)</b>	<b>(204.947)</b>	<b>231.013</b>

#### e) Market Risk

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

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

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

#### i) Interest Rate Risk

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

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

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

US\$ '000	Total 2014	Non-Interest Sensitive	6 months or less	Over 6 months
Cash and cash equivalents	278.205		278.205	
Marketable securities	93.210			93.210
Investments	26.601	26.601		
Other assets	3.966	3.966		
<b>Total assets (Excluding PPE)</b>	<b>401.982</b>	<b>30.567</b>	<b>278.205</b>	<b>93.210</b>
Government deposits	180.870		180.870	
Other deposits	163.298	26.601	136.696	
Provision for transfer of surplus to Government	4.493	4.493		
Other liabilities	5.617	5.617		
Currency issued	9.824	9.824		
<b>Total liabilities</b>	<b>364.102</b>	<b>46.536</b>	<b>317.566</b>	
<b>Interest Rate Sensitivity Gap</b>	<b>38.880</b>	<b>(15.968)</b>	<b>(39.362)</b>	<b>93.210</b>

US\$ '000	Total 2013	Non-Interest Sensitive	6 months or less	Over 6 months
Cash and cash equivalents	466.250		466.250	
Marketable securities	281.003		49.990	231.013
Investments	24.529	24.529		
Other assets	4.288	4.288		
<b>Total assets (Excluding PPE)</b>	<b>776.070</b>	<b>28.817</b>	<b>516.240</b>	<b>231.013</b>
Government deposits	633.776		633.776	
Other deposits	103.313	24.529	78.784	
Provision for transfer of surplus to Government	621	621		
Other liabilities	12.294	12.294		
Currency issued	6.884	6.885		
<b>Total liabilities</b>	<b>756.888</b>	<b>44.328</b>	<b>712.560</b>	
<b>Interest Rate Sensitivity Gap</b>	<b>19.182</b>	<b>(15.512)</b>	<b>(196.319)</b>	<b>231.013</b>

#### ii) Sensitivity Analysis

In managing interest rate and currency risk the Bank aims to reduce the impact of short-term fluctuations on its net income. At 31 December 2014, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately \$169 thousands (2013 - \$793 thousands).

iii) Foreign Currency Risk

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

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

As at 31 December 2014, the Bank's net exposure to major currencies was as follows:

US\$ '000	Total 2014	US Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	278.205	277.898	277		30
Marketable securities	93.210	93.210			
Investments	26.601	-		26.601	
Other assets	3.966	3.965	0		
<b>Total Assets (Excluding PPE)</b>	<b>401.982</b>	<b>375.073</b>	<b>277</b>	<b>26.601</b>	<b>30</b>
Government deposits	180.870	180.870			
Other deposits	163.298	136.696		26.601	
Provision for transfer of surplus to Government	4.493	4.493			
Other liabilities	5.617	5.617			
Currency issued	9.824	9.824			
<b>Total liabilities</b>	<b>364.102</b>	<b>337.501</b>	<b>0</b>	<b>26.601</b>	<b>0</b>
<b>Net Foreign Currency Exposure</b>	<b>37.880</b>	<b>37.573</b>	<b>277</b>	<b>0</b>	<b>30</b>

US\$ '000	Total 2013	US Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	466.250	465.877	334		39
Marketable securities	281.003	281.003			
Investments	24.529	-		24.529	
Other assets	4.288	4.287	0		
<b>Total Assets (Excluding PPE)</b>	<b>776.070</b>	<b>751.167</b>	<b>334</b>	<b>24.529</b>	<b>39</b>
Government deposits	633.776	633.776			
Other deposits	103.313	78.784		24.529	
Provision for transfer of surplus to Government	621	621			
Other liabilities	12.294	12.294			
Currency issued	6.884	6.884			
<b>Total liabilities</b>	<b>756.888</b>	<b>732.359</b>	<b>-</b>	<b>24.529</b>	<b>-</b>
<b>Net Foreign Currency Exposure</b>	<b>19.182</b>	<b>18.808</b>	<b>334</b>	<b>-</b>	<b>39</b>

f) Operational Risk

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

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

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

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

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

#### g) Capital Management

The management of the capital of the Bank is subject to organic Law No 5/2011 on the Banco Central de Timor-Leste. In particular, the following requirements are stipulated in the law:

- The capital of the Bank must at least \$20,000,000, fully subscribed and paid-up. Following the subscription of an additional \$20,000,000 in 2014, the capital may not be reduced below \$40,000,000.
- A general reserve account may be established to hold the paid-up capital up to the difference between ten percent of the total financial assets of the Bank.
- The capital of the Bank may not be transferable or subject to encumbrance of any kind.

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

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

## 5. Critical Accounting Judgements in applying the Bank's Accounting Policies

Critical accounting judgements made in applying the Bank's accounting policies include:

- Although article 39 of the Organic Law no. 5/2011 states that the Bank is authorised to manage and maintain special funds on its books, the assets and liabilities of which shall be segregated from the other assets and liabilities of the Bank, the management of the Bank, having taken advice concerning the provisions of the Petroleum Fund Law and IFRS, has determined that the liabilities and assets of the Petroleum Fund managed and registered in the name of the Bank should for reporting purposes not be presented on the face of the Bank's balance sheet.

## 6. Segment Reporting

The Bank's primary function is to act as the central bank of a single geographical area – Timor-Leste. The shares of the Bank are not tradable. Accordingly the Bank is not required to present segment information.

## 7. Cash and Cash Equivalents

Cash and cash equivalents	2014 US\$ '000	2013 US\$ '000
Cash	60.157	27.546
Deposits at central banks	96.209	315.760
Resident banks	71.309	72.429
Non-resident banks	50.530	50.515
<b>Total</b>	<b>278.205</b>	<b>466.250</b>

## 8. Marketable Securities

Marketable Securities	2014 US\$ '000	2013 US\$ '000
US Government Treasury Bills	–	49.990
US Government Treasury Notes	93.210	231.013
<b>Total</b>	<b>93.210</b>	<b>281.003</b>

## 9. Financial Assets and Liabilities

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

2014 US\$ '000	Available- for-Sale	Cash and cash equivalents	Amortised Cost	Other	Total Carrying Amount	Fair Value
Cash and cash equivalents		278.205			278.205	278.205
Marketable securities	93.210				93.210	93.210
Investments			26.601		26.602	26.602
Other assets				3.966	3.966	3.966
<b>Total Assets (Excluding PPE)</b>	<b>93.210</b>	<b>278.205</b>	<b>26.601</b>	<b>3.966</b>	<b>401.982</b>	<b>401.982</b>
Government deposits			180.870		180.870	180.870
Other deposits			163.298		163.298	163.298
Provision for transfer of surplus to Government				4.493	4.493	4.493
Other liabilities			5.617		5.617	5.617
Currency issued			9.824		9.824	9.824
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>359.609</b>	<b>4.493</b>	<b>364.102</b>	<b>364.102</b>

2013 US\$ '000	Available- for-Sale	Cash and cash equivalents	Amortised Cost	Other	Total Carrying Amount	Fair Value
Cash and cash equivalents		466.250			278.205	466.250
Marketable securities	281.003				93.210	281.003
Investments			24.529		26.602	24.529
Other assets				4.288	3.966	4.288
<b>Total Assets (Excluding PPE)</b>	<b>281.003</b>	<b>466.250</b>	<b>24.529</b>	<b>4.288</b>	<b>401.982</b>	<b>776.070</b>
Government deposits			633.776		633.776	633.776
Other deposits			103.313		103.313	103.313
Provision for transfer of surplus to Government				621	621	621
Other liabilities			12.294		12.294	12.294
Currency issued			6.884		6.884	6.884
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>756.267</b>	<b>621</b>	<b>756.888</b>	<b>756.888</b>

## 10. International Financial Institutions

### a) International Monetary Fund

The Democratic Republic of Timor-Leste became a member of the International Monetary Fund (IMF) on 23 July 2002. The Bank was designated as the official depository under Article XIII of the IMF Articles of Association. In accordance with article 19 (f) of Organic Law no. 5/2011 the Bank holds the Timor-Leste reserve position subscription in the IMF. The underlying balances of the IMF are denominated as follows:

Subscription in IMF (Asset)	USD	10,800,000
IMF Cash Accounts (Liability)	USD	27,000
IMF Securities Account (Liability)	USD	10,773,000

The IMF Securities Account reflects the value of a Promissory Note payable by the Ministry of Finance as the fiscal agent of the IMF in Timor-Leste held by the Bank in favour of the IMF.

International Monetary Fund	2014 US\$ '000	2013 US\$ '000
IMF No 1 Account	41	32
IMF No 2 Account	1	2
IMF Securities Account	14.659	12.595
<b>Total</b>	<b>14.702</b>	<b>12.628</b>

### b) The World Bank Group

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

#### *International Bank for Reconstruction and Development*

The Bank records the outstanding balance with IBRD on a net liability basis.

#### *International Development Association*

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

#### *Multilateral Investment Guarantee Agency*

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

## 11. Property, Plant and Equipment

US\$ '000

2014	Buildings	Plant	Office Equipment	Computer Equipment	Vehicles	Total
<b>Cost</b>						
Opening balance	889	297	374	600	320	2.480
Acquisitions	0	1	443	29	0	473
Balance at 31 Dec 2013	889	298	817	630	320	2.954
Opening Balance	889	298	817	630	320	2.954
Acquisitions	33	9	14	217	237	510
Balance at 31 Dec 2014	923	307	831	846	557	3.463
<b>Depreciation</b>						
Opening balance	510	263	314	545	270	1.901
Depreciation for the period	45	29	83	53	33	244
<b>Balance at 31 Dec 2014</b>	<b>555</b>	<b>292</b>	<b>397</b>	<b>598</b>	<b>303</b>	<b>2.145</b>
<b>Carrying Amounts</b>						
Opening balance	379	35	503	85	51	10.53
<b>Balance at 31 Dec 2014</b>	<b>368</b>	<b>15</b>	<b>434</b>	<b>248</b>	<b>254</b>	<b>1.319</b>
<b>Work in Progress</b>						
R-Timor Payments System Project						557
FMIS Accounting System Project						277
Total WIP cost						834
<b>Balance at 31 Dec 2014</b>						<b>2.152</b>

US\$ '000

2013	Buildings	Plant	Office Equipment	Computer Equipment	Vehicles	Total
<b>Cost</b>						
Opening balance	889	297	374	600	320	2.480
Acquisitions	0	1	443	29	0	473
<b>Balance at 31 Dec 2013</b>	<b>889</b>	<b>298</b>	<b>817</b>	<b>630</b>	<b>320</b>	<b>2.954</b>
<b>Depreciation</b>						
Opening balance	465	234	248	512	242	1.702
Depreciation for the period	44	28	66	33	27	199
<b>Balance at 31 Dec 2013</b>	<b>510</b>	<b>263</b>	<b>314</b>	<b>545</b>	<b>270</b>	<b>1.901</b>
<b>Carrying Amounts</b>						
Opening balance	424	63	125	89	78	779
<b>Balance at 31 Dec 2013</b>	<b>379</b>	<b>35</b>	<b>503</b>	<b>84</b>	<b>51</b>	<b>1.052</b>
<b>Work in Progress</b>						
<b>Balance at 31 Dec 2013</b>						<b>1.052</b>

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

There were no impairment losses at balance date.

## 12. Other Assets

Other assets comprise the following:

Other Assets	2014 US\$ '000	2013 US\$ '000
Accounts receivable	3.301	3.689
Interest receivable	170	343
Advance payments	4	2
Security deposits	4	4
Prepayments	153	15
Inventories	334	235
<b>Total</b>	<b>3.966</b>	<b>4.288</b>

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

## 13. Government deposits

Government deposits	2014 US\$ '000	2013 US\$ '000
Consolidated fund	158.548	352.965
Infrastructure fund	19.908	277.586
Human Development Capital fund	2.414	3.225
<b>Total</b>	<b>180.870</b>	<b>633.776</b>

## 14. Other deposits

Other Deposits	2014 US\$ '000	2013 US\$ '000
Domestic financial institutions	136.696	78.784
International financial institutions	26.702	12.628
<b>Total</b>	<b>163.398</b>	<b>91.412</b>

## 15. Provision for Transfer of Surplus to Government of Timor-Leste

Article 9 of the organic law no. 5/2011 on the Banco Central de Timor-Leste requires that the net profit of the Bank, after statutory deductions to the General Reserve Account and the Supplementary Reserve Account shall be transferred to the Government of Timor-Leste.

An amount equivalent to 50 percent of distributable earnings shall be credited to the general reserve account until the capital and general reserves equal 10 percent of the total financial assets of the Bank, a transfer to the Government will be made as follows:

Transfer to Government	2014 US\$ '000	2013 US\$ '000
Balance of General Reserve Account	205	–
Net profit for the year ended 31 December 2014	4.287	411
Transfer to General Reserve Account	–	-205
<b>Total Transfer to Government</b>	<b>4.493</b>	<b>206</b>

## 16. Other Liabilities

Other liabilities	2014 US\$ '000	2013 US\$ '000
Accounts payable	3.470	3.906
Withholding tax payable	157	63
Provision for Long service account	226	189
Letters of Credit	1.249	8.125
Operating accounts	516	11
<b>Total</b>	<b>5.618</b>	<b>12.294</b>

## 17. Special Drawing Rights

This item represents the BCTL's liability in relation with Timor-Leste's share of the Special Drawing Rights allocations at the International Monetary Fund of SDRs 7,727,908. The liability amounted to USD 11,800,532 as of December 31, 2014 using the closing exchange rate of USD against SDRs.

Long-Term Liability	2014 US\$ '000	2013 US\$ '000
IMF SDR allocation	11.801	11.901
<b>Total</b>	<b>11.801</b>	<b>11.901</b>

## 18. Capital and Reserves

The capital of the Bank is set at \$40,000,000 (2013 - \$20,000,000).

The following reserves are established by article 10.1 of the organic law:

- An amount equivalent to 50 percent of distributable earnings shall be credited to the general reserve account until the capital and general reserves equal 10 percent of the total financial assets of the Bank.
- A part of the remaining distributable earnings may, on the proposal of the Governing Board, approved by the Government, be credited to special reserve accounts that may be established by the Bank pursuant to paragraph 4 of Article 8 until such reserve accounts reach a sum that the Governing Board deems appropriate.
- After deduction of the amounts referred to in the previous subparagraphs (a) and (b), the remaining distributable earnings shall be used to redeem any securities issued by the Bank, the remainder being transferred to the Treasury as revenue for the general budget of the State.

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

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



## 19. Contingent Liabilities

There were no contingent liabilities as at 31 December 2014.

## 20. Net Interest Income

	2014 US\$ '000	2013 US\$ '000
<b>Interest income from Financial Assets</b>		
Interest on deposits at foreign central banks	63	128
Interest from available-for-sale investments	450	914
Interest on deposits at domestic banks	1.983	1.363
<b>Total interest income</b>	<b>2.496</b>	<b>2.405</b>
<b>Interest paid on Financial Liabilities</b>		
Interest paid on Government accounts	51	228
Interest paid to commercial banks	2	2
<b>Total interest expenses</b>	<b>53</b>	<b>230</b>

## 21. Fee and Commission Income

Fees and commissions	2014 US\$ '000	2013 US\$ '000
Currency withdrawal fees	12	20
Licensing and supervision fees	54	55
Government account management fees	500	500
<b>Total fees and commissions</b>	<b>565</b>	<b>576</b>

## 22. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Bank is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund at 31 December 2014 (unaudited) was \$16, 539 million.

Ministry of Finance agreed to covered internal management fee of BCTL 4 basis points on annual basis. The management fee deducted from Petroleum Fund account was represented 10.0 basis points or \$16,451 thousand (2013 – 7.0 basis points) of the average balance of the funds under management during the year. Management fees for custody services, external managers and Investment Advisory Board expenses are directly deducted from the fund with the total cost of \$12.305 thousand or 75% of the entire cost. Management fee for internally operational of the fund was \$3.116 thousand or 19% of the cost. Thereby, management fee of \$14, 922 thousand was charge directly to profit and loss account and \$499 thousand was offsetting expenditure accrual. The detail of management fees expenses as shown below.

	2014 US\$ '000	2013 US\$ '000
Salary, capacity building and other personnel related costs	857	438
IT services, system and data	402	2.601
Research, consulting and legal fees	928	113
Other costs	5	3
Allocated common costs BCTL	924	628
Fees to Custody and accounting services	3.476	477
Fees to external managers	8.562	2.781
Investment Advisory Costs	267	158
Offsetting accrual	(499)	(132)
<b>Total management fees</b>	<b>14.922</b>	<b>8.466</b>

## 23. Personnel Expenses

Personnel Expenses	2014 US\$ '000	2013 US\$ '000
Salaries and related payments	881	849
Staff welfare payments	69	70
Capacity building and staff development	170	170
Representation at conferences and meetings	389	252
<b>Total Personnel Expenses</b>	<b>1.509</b>	<b>1.341</b>

## 24. Administration Expenses

Administration Expenses	2014 US\$ '000	2013 US\$ '000
Asset maintenance	42	30
Communications	69	29
Information systems	388	90
General expenses	160	0
Office expenses	188	120
Professional fees	956	913
Other assets management expenses	145	159
<b>Total Administration Expenses</b>	<b>1.947</b>	<b>1.341</b>

## 25. Petroleum Fund of Timor-Leste

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

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

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

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

The assets and liabilities of the Petroleum at 31 December 2014\* were as follows:

Petroleum Fund Assets	2014 US\$ '000	2013 US\$ '000
Cash and cash equivalents	66.842	70.190
Other receivables	55.197	47.851
Financial assets at fair value through profit or loss	16.432.458	14.869.088
Less: Pending purchase of securities & account payables	(15.309)	(35.030)
	<b>16.539.189</b>	<b>14.952.099</b>
<b>Capital</b>	<b>16.539.189</b>	<b>14.952.099</b>

## 26. Related Party transactions

Notes: The PF balance sheet is unaudited

### Ultimate Controlling Party

The capital of the Bank is held by the Democratic Republic of Timor-Leste, and carries no voting or other rights of control. The Bank is established as a distinct autonomous public legal entity, accountable to the Government, with control over the financial and operating policies vesting between the Governing Board and the Governor. Article 3.2 of Central Bank law no. 5/2011 gives the Bank complete legal, operational, administrative, and financial autonomy from any other person or entity, including the government and any of its agencies, and subsidiary organs or entities.

### Governing Board

There were three members of the Governing Board who were the executive management personnel. The compensation are determined by the Government having consulted the Governing Board based on article 47.1 of Central Bank law no. 5/2011, which is disclosed below.

Executive Board Members Compensation	2014 US\$ '000	2013 US\$ '000
Board members compensation	228	256
<b>Total</b>	<b>228</b>	<b>256</b>

### Non-Executive Governing Board

There was one members of the Governing Board who was not one of the key management personnel, whose compensation is disclosed below.

Non-Executive Board Members Compensation	2014 US\$ '000	2013 US\$ '000
Sitting allowance	7	–
<b>Total</b>	<b>7</b>	<b>–</b>

### Key Management Personnel

The management of the Bank is undertaken by a Management Committee comprising the three senior staff.

Key Management Personnel Compensation	2014 US\$ '000	2013 US\$ '000
Short-term employee benefits	60	60
Long-term employee benefits	3	3
<b>Total</b>	<b>63</b>	<b>63</b>

### Government-Related Entities

The Bank provides banking services on an arm's-length basis to the Ministry of Finance and other public entities which are exempt from the disclosure requirements of paragraph 18 of IAS 24 – "Related Party Disclosures" in relation to related party transactions and outstanding balances, including commitments. The nature and amount of each individually significant transaction with Government related entities are disclosed in Notes 13,15,22 and 25.

## 27. Authorisation of the financial statements

These financial statements were authorised for issue by the Governing Board of the Bank on 27 April 2015.

### Independent Audit Report



#### INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BOARD OF BANCO CENTRAL DE TIMOR – LESTE

##### Report on the financial report

We have audited the accompanying financial report of Banco Central de Timor – Leste (the "Bank"), which comprises the statements of financial position as at 31 December 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, Notes 1 to 27 comprising a summary of significant accounting policies and other explanatory information.

##### Governors' responsibility for the financial report

The Governors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with the International Financial Reporting Standards and the Central Bank Law No. 5 / 2011 and for such internal control as the Governors determine necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

##### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the International Financial Reporting Standards and the Central Bank Law No. 5 / 2011, a true and fair view which is consistent with our understanding of the Bank's financial position, and of its performance.

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

##### Independence

In conducting our audit, we have complied with the independence requirements of the Accounting Professional and Ethical Standards Board.

##### Auditor's opinion

In our opinion the financial report of Banco Central de Timor – Leste (the "Bank") is in accordance with the requirements of the Central Bank Law No. 5/2011, including:

- giving a true and fair view of the Bank's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
- complying with International Financial Reporting Standards to the extent described in Note 2 and the Central Bank Law No. 5/2011.

KPMG

Clive Garland

Partner

Darwin

27 April 2015

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Liability limited by a scheme approved under Professional Standards Legislation.





Banco Central de Timor-Leste  
Avenida Bispo Medeiros  
P.O.BOX 59 - Dili, Timor-Leste  
+670 331 371 2  
info@bancocentral.tl  
www.bancocentral.tl