

The background of the page is a dark, textured surface filled with financial data. It features a grid of numbers in various colors (yellow, white, and green) and several technical analysis charts. A prominent candlestick chart is visible in the lower right quadrant, showing price movements over time. A white line graph with a dotted trend line is also present, showing an upward trajectory. The overall aesthetic is that of a professional financial or corporate report.

Main mission and mandates, organization, governance and activities

Chapter 03

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The main task of the Central Bank of Timor-Leste (BCTL) is to continue to maintain and improve the quality of the services it provides to the community, while maintaining a stable monetary system, as well as promoting a robust and functional financial system.

This mission is pursued by maintaining a low and stable rate of inflation, a secure and efficient payment system, and the credible functioning of all financial institutions – through the implementation of appropriate legal and regulatory standards and banking supervision – the financial education of the population and studies on the national economy, supported by useful statistics and quality.

Taking into account the BCTL's mission, this chapter provides an overview of the institution's mandates and functions, its governance structure and key activities carried out during the 2017 financial year, as well as its 2018 action plan. The brief summary of annual activities also details the main initiatives developed throughout the year by each of the various functional areas of BCTL.



3.1

Main Mandates and Functions

The Central Bank of Timor-Leste is a legal person governed by public law, with administrative and financial autonomy and its own assets. The BCTL, its organs, employees and agents, enjoy independence and cannot receive instructions from external entities, and its Organic Law guarantees the independence of the Central Bank vis-à-vis the Government.

As is the practice in most international central banks, the BCTL's main objective is to ensure the stability of domestic prices in the area of economic policy. Other equally important objectives are the promotion of a financial system based on the principles of a market economy and, therefore, ensuring competition that

works for citizens and the general economy general. within the guidelines of these objectives and principles, the Central Bank also supports the government's overall economic policy.

In order to achieve its objectives, the functions of BCTL are, under the terms of the law:

- a) Define and implement the country's monetary policy;
- b) Define and adopt the exchange rate regime as well as the associated exchange rate policy;
- c) To conduct operations in foreign currencies;
- d) Hold and manage the official external reserves of the country;
- e) Hold and manage the State's gold reserves;
- f) Issue and manage the official currency of Timor-Leste – at this time the country uses the US currency;
- (g) collect and publish statistical information in the areas of its competence (notably monetary and balance of payments statistics);
- h) Inform the National Parliament, the Government and the general public about the policies it implements;
- i) Establish, promote and oversee secure and efficient payment systems;
- j) Regulate, license, register and supervise financial institutions operating in the country;
- k) To advise the Government on matters within its competence;
- l) Act as fiscal agent of the Government;
- m) Participate in international organizations and meetings that focus on the above points;
- n) Establish contracts, agreements and protocols with national or foreign entities, public or private; and
- o) Perform any other activities as assigned by law.

Currently, some of these functions are not yet fully performed by the Central Bank of Timor-Leste due to the adoption of the US dollar as the official currency of the country.



The ultimate authority of the BCTL is its Board of Directors, which formulates the strategies and policies for the institution and supervises their implementation, including oversight of the Bank's administration and operational activities.

3.2

BCTL Organization and Governance

The Governor is the executive body of the BCTL and is responsible for day-to-day management, assisted by two Deputy Governors and a Management Committee composed of the executive directors and heads of the Bank's various departments. At the end of 2017, the year to which this report refers, the Governing Board was composed of the Governor, two Deputy Governors and three non-executive members. In 2017 one of the Deputy Governors, Ms. Sara Lobo Brites, resigned her post to take up an appointment as Deputy Finance Minister, and Mr. Venancio Alves Maria was named as her successor in November 2017. At the same time one of the non-executive members, Dr. Aurélio Guterres, resigned his position to assume the responsibility as the Foreign Affairs Minister. The composition of the

Board of Directors and the Management Committee is presented at the end of the chapter.

The BCTL is organized into four main departments: Financial System Supervision; Banking Operations and Payment Systems; Management of the Petroleum Fund; and Department of Administration. Some Divisions and Offices report directly to the Governor, namely: the Legal Unit, Internal Audit, the Economics and Statistics Division and the Financial Information Unit. The Accounting and Budget Division is under the responsibility of the Deputy Governor responsible for overseeing the financial system.

The Central Bank is also in charge of the secretariat of the Investment Advisory Board of the Petroleum Fund.

The Board of Directors of the BCTL continues to adopt the motto abbreviated by the acronym TIMOR, representing Transparency, Integrity, Mobilization, Obligation and Responsibility, essential words in the day-to-day of the institution and its employees.

Transparência **I**ntegridade **M**obilização **O**brigaçãO **R**esponsabilidade

Somos um exemplo para a sociedade e para as instituições, os nossos procedimentos e regulamentações são aplicados interna e externamente de forma universal, consistente e rigorosa.

Exercemos a nossa actividade com honestidade e altos padrões ético-morais, respeitando a confidencialidade e legalidade em todas as decisões que envolvem os nossos interesses e recursos.

Movemo-nos para prestar o melhor serviço à comunidade de Timor-Leste, através da nossa determinação e empenho para ouvir, aprender e assessorar.

Demonstramos um sentimento de pertença e envolvimento, estabelecendo como prioridade os objectivos da instituição e exibindo disponibilidade para desempenhar tarefas para lá do que nos é pedido.

Investimos no desenvolvimento das nossas capacidades técnico-profissionais, cumprimos com as responsabilidades que nos são atribuídas e que proactivamente procuramos, através da permanente monitorização das consequências das nossas decisões e acções.

A code of ethics applicable to all its employees, including external persons related to the Bank, is also in place at the BCTL. The code of ethics includes strict rules on various aspects of the behavior of those to whom it applies. It should be noted, for example, that each Bank official is required to perform his or her duties solely in the interests of the general public and the BCTL and not his or her individual interests, which includes not receiving any instructions whatsoever, from entities other than those within the Central Bank's legal structure. Bank employees are also, of course, prohibited from receiving any pecuniary amounts or other remunerative elements from any persons who may have an interest in influencing their decisions.



As part of the BCTL's mission to promote monetary and financial stability, the development of the financial system and the promotion of a secure and efficient payment system, a number of activities were planned and implemented in 2017.

3.3

BCTL Activities in 2017

Proceeding with the implementation of the Master Plan for the Financial Sector in Timor Leste, the BCTL in 2017 continued to organize the financial literacy training program for primary schools. This training program was attended by 56 teachers from 39 primary schools in 12 municipalities, and the Special Administrative Region of Oé-Cusse Ambeno (RAEOA).

Before the National Savings Day ceremony, the BCTL organized several educational activities on November 27 in coordination with the RAEOA Authority, in particular with the Education Department. The theme of these activities and the celebration of National Savings Day was "save now for a better future". The ceremony to celebrate the third anniversary of National Savings Day, in RAEOA on November 29, 2017, was attended by the Minister of Education and

Culture, the President-in-Office of the authority of RAEOA, students and teachers from Primary Schools and representatives of commercial banks.

At the end of 2017, 10,900 “Ha’u-nia Futuru” accounts with a face value of savings of USD 2.5 million were open, representing a 63% increase in the number of accounts, and of 176% in value, compared with the end of 2016.

Within the initiatives to promote national savings, a national Road Show for the Financial Education Program was officially launched on National Savings Day. After this inauguration, the BCTL developed and led the program throughout the country, with the aim of encouraging people to improve their spending habits and increase their savings.

Taking into account the issues identified in the national risk assessments conducted in 2016, in particular the risks and vulnerabilities related to money laundering and terrorist financing in the financial sector, the BCTL, in collaboration with the World Bank Group, conducted a workshop to introduce the risk database approach to preventing money laundering and countering the financing of terrorism to Banks, ODTIs and MTOs.

The BCTL also carried out the monitoring and evaluation of the training program in the register and accounting of companies, including Micro, Small and Medium Enterprises (SMME), in order to observe and evaluate the performance of participants, so that BCTL and Chamber of Commerce and Industry (ITC-TL) could measure the program effectiveness and relevance to participants.

In 2017, the BCTL signed a cooperation agreement with RAEOA/ZEEMS on the implementation of the financial literacy program in basic education in Oecusse. To begin teaching the financial literacy program in basic education at RAEOA, the BCTL signed the memorandum of understanding with the Oecusse-Ambeno Special Administrative Region Authority on February 17, 2017 in Oecusse.

The BCTL also signed a cooperation agreement with the United Nations Development Program (UNDP) on cost sharing for 3 months on the implementation of the National Financial Inclusion Strategy Action Plan.

During the year, the R-TiMOR support unit at BCTL supported banks and the State Authorities in various initiatives to strengthen electronic integration (STP, or Straight Through Processing) between R-TiMOR and its internal systems.

In March 2017, the BCTL hired SIBS International of Portugal to supply and implement a National Card and a Payment Switch. The switch, designated “P24” (the “P” associated with the words Pagamentu, Pagamento, Payment and Pembayaran) will offer a full range of payment services.

Finally, in order to deepen the relationship with its international counterparts, the BCTL organized in 2017 the XVII Meeting of Human Resources of the Central Banks of the Portuguese Speaking Countries (CPLP).

The main activities of the BCTL, carried out during 2017, are described in more detail in the following section.

3.3.1. National Payment System

3.3.1.1. Interbank Clearing and Settlement System

During the period covered by this report - the year 2017 - the Central Bank continued to act consistently so as to always maintain a sufficient cash reserve to meet the pecuniary payment needs of both the Government and commercial banks. It was in this context that the BCTL ensured, in particular, the consistent processing of financial transactions through the Automatic Clearinghouse and the Real Time Gross Settlement (RTGS) system. Table 3.1 summarizes the transactions registered in Dili's Interbank Clearing and Settlement System (CEL). The CEL system worked steadily in 2017, with 22,100 transactions being processed, corresponding to USD 134.4 million. However, these numbers represent a reduction of 1.9% in terms of quantity and 1.8% in terms of value, compared to 2016.

Table 3.1. Transacções na CEL de Dili
(Valores em milhões de USD, Quantidade em 10³)

Mês	Cheques 2016		Cheques 2017		Variação (%)	
	Quantidade	Valor	Quantidade	Valor	Quantidade	Valor
Janeiro	1.659	12.118	1.684	12.365	1.5	2.0
Fevereiro	1.859	11.178	1.732	10.455	-6.8	-6.5
Março	1.877	12.233	1.959	12.358	4.4	1.0
Abril	1.842	11.393	1.698	10.536	-7.8	-7.5
Mai	1.763	9.733	1.986	11.790	12.6	21.1
Junho	2.132	11.897	1.896	10.844	-11.1	-8.9
Julho	1.743	10.005	1.871	12.685	7.3	26.8
Agosto	1.943	11.297	1.816	10.794	-6.5	-4.5
Setembro	1.944	12.403	1.856	10.559	-4.5	-14.9
Outubro	1.914	11.609	1.894	12.065	-1.0	3.9
Novembro	1.772	10.504	1.620	8.741	-8.6	-16.8
Dezembro	2.053	12.485	2.070	11.217	0.8	-10.2
Total	22.501	136.856	22.082	134.408	-1.9	-1.8

Source: BCTL

3.3.1.2. SWIFT and RTGS (R-Timor) Systems

Payment services provided by the BCTL are subdivided into two categories: domestic and international. Domestic payments are, in turn, of two types: large value and retail. International payments are made from Timor-Leste to other countries and vice versa, always through the SWIFT system. Domestic payments, particularly electronic retail payments, are directly executed through the Automatic Clearing House twice a day, processing payments for wages, veterans' allowances, payments to suppliers, which are, inter alia, processed and transferred to commercial banks. The payments of large amounts, over USD 200 thousand, are always made through the RTGS.

Table 3.2. Pagamentos Nacionais e Internacionais

(Valores em milhões de USD, Quantidade em 10³)

	2016		2017		Valuation (%)	
	Quantidade	Valor	Quantidade	Valor	Quantidade	Valor
Pagamentos Nacionais						
Câmara de Compensação Automática			19.04	43.78		
Saída de RTGS - FICT	7.61	973.72	0.45	553.45	-94.1	-43.2
Entrada de RTGS - SCCT	44.68	254.46	3.51	136.01	-92.1	-46.5
Sub Total	52.29	1228.18	23.00	733.24	-186.23	-89.71
Pagamentos Internacionais						
Transferência para o exterior - SWIFT	4.58	1520.72	3.39	1098.24	-26.0	-27.8
Transferência proveniente do exterior - não SWIFT	0.31	23.76	0.58	320.53	87.1	1249.0
Sub Total	4.89	1544.48	3.97	1418.77	-18.8	-8.1
Total	57.18	2772.66	26.97	2152.01	-205.0	-97.9

Source: BCTL

Table 3.2 exhibits the statistics of payments, both national and international, during the period under review. With regard to national payments, 23,000 documents were processed, corresponding to a total of USD 733.24 million, representing a reduction of 186.2% in terms of number and 89.7% in terms of value, compared to 2016. The reduction recorded for national payments was determined by the decline in the amount of payments made via RTGS (the R-TIMOR system), both out and inbound, which declined 93% in terms of quantity and 45% in value, respectively. As part of the international payments activity, four thousand documents were processed, corresponding to USD 1,419 million, representing a decrease of 19% in terms of quantity and 8% in value, compared to 2016. This decrease in activity was mainly due to the reduction in the number of transfers made abroad.

In addition, international operations corresponding to transfer and receipt transactions carried out by commercial banks in 2017 are shown in Table 3.3.

The foreign transfer operations received and carried out in 2017 via SWIFT amounted to a total of 28.18 thousand, corresponding to USD 317.3 million, representing a reduction of 0.1% in terms of quantity and 9,5% in relation to the value. In the meantime, transfers abroad rose to 72.4 thousand transactions, corresponding to USD 1,483 million, representing an increase of 6.3% in terms of quantity and a decrease of 4.2% in respect of the transferred value.

Table 3.3. Entradas e Saídas de Transferências (SWIFT)

(Valores em milhões de USD, Quantidade em 10³)

	2016		2017		Variação (%)	
	Quantidade	Valor	Quantidade	Valor	Quantidade	Valor
Transferências proveniente do exterior						
SWIFT	28.2	350.7	28.2	317.3	-0.1	-9.5
Non-SWIFT	6.2	147.7	6.5	141.1	4.5	-4.4
Sub Total	34.4	498.4	34.7	458.5	0.7	-8.0
Transferências para o exterior						
SWIFT	22.0	1103.4	23.6	1069.8	7.3	-3.1
Non-SWIFT	46.1	443.8	48.8	413.3	5.8	-6.9
Sub Total	68.2	1547.2	72.4	1483.0	6.3	-4.2
Total	102.6	2045.6	107.1	1941.5	4.4	-5.1

Source: BCTL

3.3.1.3. E-Banking

Table 3.4 shows the evolution of non-cash money and other transactions by commercial banks in Timor-Leste. As can be seen, the number of currency transactions in the country totaled in 2017, about 15.6 thousand, or 98% of total transactions, with a value of USD 2.9 million. The level of activity declined by 2.9% in terms of quantity and 42.4% in value, compared to 2016. Note that transactions using non-currency means, were 287 thousand in number, but corresponded to a transaction value of 2.4 million USD, about 45.3% of the total. These totals represent a decrease of 3.3% and 30% in terms of quantity and value, respectively, compared to 2016.

Table 3.4. Transacções em Moeda e não em Moeda

(Valores em milhões de USD, Quantidade em 10³)

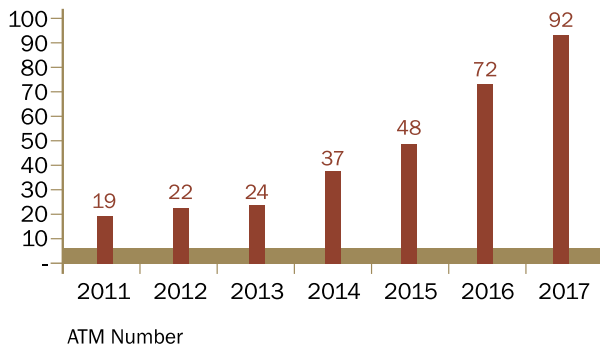
	2016		2017		Variação (%)	
	Quantidade	Valor	Quantidade	Valor	Quantidade	Valor
Transacções em Moeda	16070	5065	15604	2915	-2.9	-42.4
Transacções não em Moeda	366	2562	287	2410	-21.8	-5.9
Total	16436	7626	15891	5325	-3.3	-30.2

Source: BCTL

The BCTL intends that the settlement of operations in the economy be progressively more efficient and effective through the use of electronic payment means and digital financial services. As a result, BCTL continues to focus on substantially extending the network of non-cash based automatic payment services using the national switch for the expansion of payment services, stimulating the widespread use of credit and debit cards.

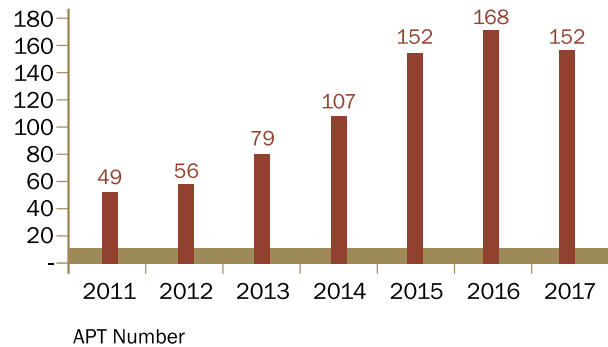
Charts 3.1 and 3.2 show the total number of payment terminals installed in the country, including ATMs totaling 92 units in 2017 and 152 Automatic Payment Terminals (APTs) units. Compared with December 2016, these figures represent a growth of 28% for the ATMs, while the number of ATPs registered a reduction of 10 terminals, probably explained by the damages to the machines used.

Chart 3.1
Automatic Teller Machines



Source: BCTL

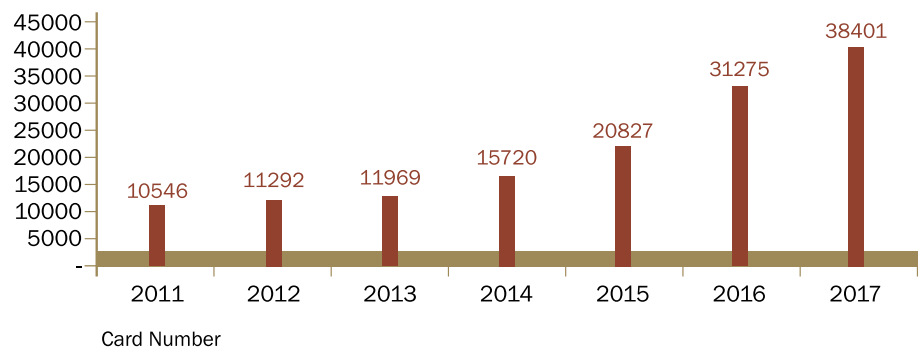
Chart 3.2
Automatic Payment Terminals



Source: BCTL

The evolution of bank cards issued in Timor-Leste can be seen in chart 3.3. The number of cards in circulation in the country amounted to 38.4 thousand in December 2017, which corresponds to an increase of 23% over December 2016. Regarding the composition of the total number of cards in circulation in the country, 61% were debit cards (23,400) and 39% credit cards (15,000). In fact, in 2017, debit cards registered a slowdown in terms of growth, growing only 11%, compared to the 83% increase observed in 2016. On the other hand, the number of credit cards grew 48% compared to the growth of 10% in 2016.

Chart 3.3
Banking Cards



Source: BCTL



Box 1. National Strategy for Financial Inclusion

In September 2016 the BCTL carried out an historic initiative and published the Financial Inclusion report, based on data from the country's main financial service providers, including commercial banks, insurance companies, microfinance, credit cooperatives, money transfer operators, and exchange agencies.

The report listed and described the current level of inclusion in the country, and highlighted the urgent need to improve the level of understanding and financial inclusion in the country, as well as its challenges. Following the publication of the financial inclusion report, BCTL continued to have the implementation of the strategy for financial inclusion as its main priority. In 2017 the BCTL specifically defined the national financial inclusion strategy, establishing action plans for the next five years, from 2017 to 2022.

The report describes its “vision” in terms of financial inclusion, together with the identification of the main obstacles. The BCTL also decided to adopt four main strategies, or pillars, that will materialize this “vision” for financial inclusion. The implementation of the specific action plans, identified for each of these strategies, will be prioritized and sequenced over the expected timeframe.

The report is available on the BCTL website at: Publications> Main publications> National Strategy for Financial Inclusion:

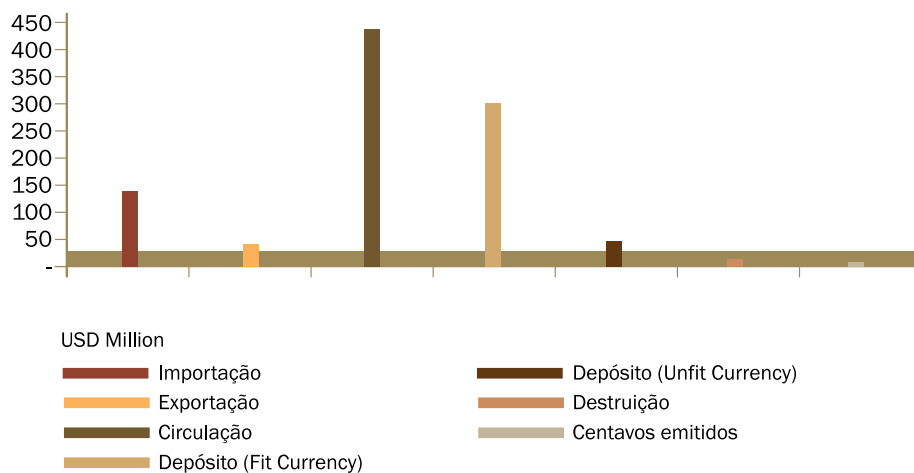
https://www.bancocentral.tl/uploads/documentos/documento_1504856113_7162.pdf

3.3.1.4. Currency Imports and Exports

One of the central functions of the Central Bank is to ensure that the national economy has the necessary means of payment for its economic growth and the current economic activity of its agents. In this regard, the Central Bank plays the role of protecting public trust in the currency of the country by supplying banknotes that must, at all times, meet the public's demand and guarantee the physical integrity of banknotes.

Since the country uses banknotes of another country and its own national coins, which are not manufactured in the national territory, supplies of immediate means of payment (coins and banknotes) to the national economy require their importation and, in the case of banknotes, when they reach a low degree of fitness, their re-export to the country of origin, the United States.

Chart 3.4
Currency Transactions



Source: BCTL

During 2017 BCTL imported US \$ 137.7 million in US dollar notes, representing a decrease of 9.1% compared to 2016, and total of US \$ 423.6 million was released for circulation, including coins. In fact, the amount put into circulation is larger than imported due to the inflows of deposits and the holding of reserves. It should also be noted that USD 20 notes continue to be the most used in transactions in the country, accounting for: 53.7% of total imports, 62.5% of circulation in the economy and 65% of the total deposited by the banks with the central bank (Table 3.5). As for coins, it should be noted that in September 2017 the BCTL issued and started to circulate the new coin of 200 centavos, the total amount of which, issued until December 2017, was 261 thousand centavos. The

denominations of 100 and 50 centavos remain the most sought after in Timor Leste coin transactions, amounting to 1.752 million centavos and 1.243 million, representing 43.9% and 31.1% of total centavos in circulation respectively. However, these figures corresponded to a slight increase of 3.1% for the coin of 100 centavos, and a growth of 27.4% (165.4% in 2016), in terms of denomination of 50 centavos compared to 2016.



Table 3.5. Movimento da Moeda

(Valores em milhões de USD)

Denominação	Importação		Re-circulação		Depósito		Peso 2017			Variação (%)		
	2016	2017	2016	2017	2016	2017	Importação	Re-circulação	Depósito	Importação	Re-circulação	Depósito
100	12.800	6.400	11.600	6.400	1.700	0.800	4,8	2,8	1,5	-50,0	-44,8	-52,9
50	19.200	23.200	23.650	17.450	3.750	1.750	17,2	5,8	4,2	20,8	-26,2	-53,3
20	76.800	72.320	256.580	272.841	171.261	206.061	53,7	62,5	65,0	-5,8	6,3	20,3
10	33.280	27.840	103.150	107.220	68.750	82.050	20,7	25,1	25,6	-16,3	3,9	19,3
5	6.160	4.960	15.515	15.660	10.598	8.481	3,7	3,8	3,7	-19,5	0,9	-20,0
Total	148.240	134.720	410.496	419.572	256.059	299.143	100	100	100	-9,1	2,2	16,8

Source: BCTL

Box 2. Upgrading Timor Leste Payment System

1. R-TiMOR

The launch of the R-TiMOR system in April 2015 allowed for the implementation of the four key pillars of the National Payments System, namely:

- A Real Time Gross Settlement (RTGS) system that gives banks the ability to make high-value and urgent payments between banks in real time;
- An interbank financial network that provides participants with a secure electronic network to undertake transfers and other financial activities, based on a fiber optic network, with the backup of a redundant microwave network;
- An Automated Clearing House (ACH) that gives participants the ability to make low value and non-urgent payments individually or in batches; and
- A Settlement Accounting Module for BCTL clients, namely commercial banks and various public entities.

During the year, the R-TiMOR support unit at BCTL continued to support banks and the State in various initiatives to strengthen electronic integration (STP or Straight Through Processing) between R-TiMOR and its internal systems, namely:

- Bank Rakyat Indonesia obtained a bank license in March 2017 and finalized its full integration of STP with R-TiMOR shortly thereafter.
- Mandiri Bank implemented its STP for submission of payments to R-TiMOR.
- In September, the National Bank of Commerce of Timor-Leste (BNCTL) implemented a new global technology infrastructure to support the banking business, which required the development and testing of a new STP application, within the framework of the implementation of that technology platform;
- The Ministry of Finance made substantial progress during the year in terms of the integration of STPs of its GRP system with R-TiMOR, which was formally launched by the Prime Minister at a ceremony held in February 2018.

2. National Card and Payment Switch

In March 2017, the BCTL hired SIBS International of Portugal to supply and implement a National Card and Payment Switch. The switch, designated “P24” (the “P” associated with the words Pagamentu, Pagamento, Payment and Pembayaran) will offer a full range of payment services, specifically:

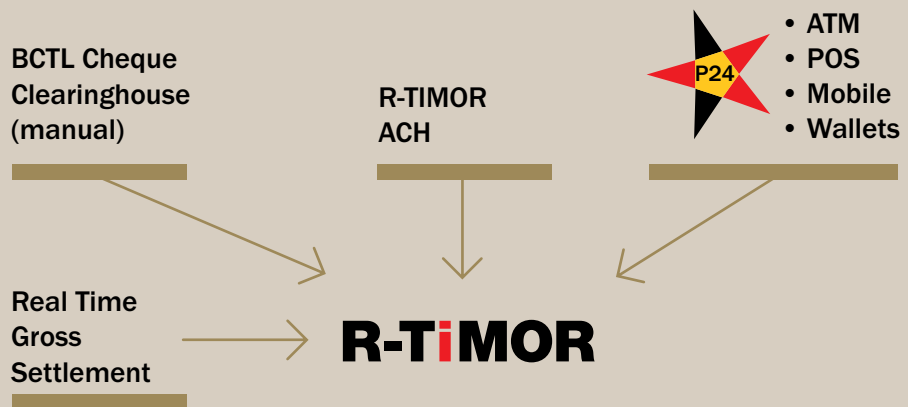
- Allow credit and debit card holders issued in East Timor to use the ATMs of any bank to carry out cash withdrawals, balance inquiries, funds transfers, account payments and other functions in the P24 system. There are currently around 100,000 debit and credit cards issued to customers of banks in Timor-Leste.
- It will enable cardholders of any bank to purchase goods and services from any merchant using point of sale (POS) terminals.
- Provide mobile banking services, including consultation of balances, purchase of non-banking services (telecommunications and electricity) and transfers, to bank customers with a mobile phone and internet, estimated at around 400,000 people.
- Provide mobile wallet services that will allow everyone with a mobile phone and internet, with or without a bank account, to make payments to other users of the wallet product.

The project has been the most complex project undertaken by the Central Bank to date because it not only involves the implementation of the core P24 system, but also because each participating bank created a dedicated project team to complete the interfaces with its main banking systems to allow carry out a wide variety of transactions, including issuing and managing cards, checking balances, managing cash and processing transactions.

The P24 system will make use of the R-TiMOR interbank network and will be linked to the R-TiMOR, allowing the P24 to automatically settle the net transaction value of each bank on a daily basis.

The Central Bank believes that the P24 system will bring substantial benefits to our economy, particularly in terms of promoting financial inclusion, particularly as it will reduce reliance on physical cash in our citizens' day-to-day transactions, and those who are far from banks, may have electronic means of payment, in addition to money, that will be accepted in local markets and stores.

When the P24 system is launched in the second quarter of 2018, the main elements of the East Timor National Payments System will be in place. The following image shows the various systems developed to date and the way they fit into R-TiMOR.



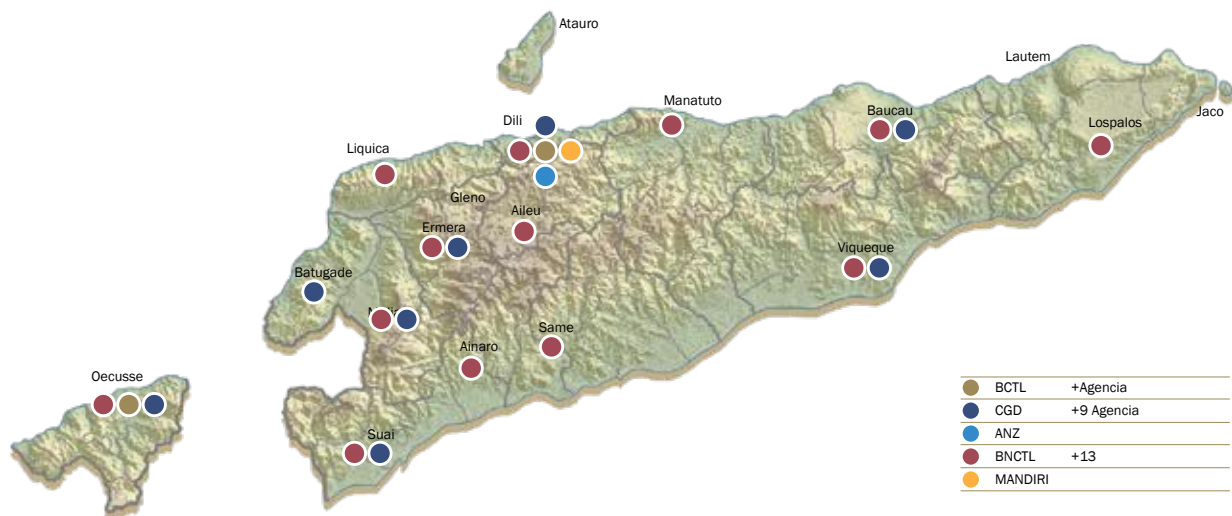
Future developments of the P24 system may include the ability to: make tax and other payments directly to the government, for example by facilitating the sale of electricity coupons (by EDTL); allow bank customers to apply for credit electronically by expanding the range of payment options for accounts and a full range of other electronic payment services.

3.3.2. Financial System and Banking Services

3.3.2.1. Financial System Licensing and Regulation

Timor-Leste's financial system is composed of commercial banks, insurance companies, other deposit takers, money exchange operators, money transfer operators (MTOs) and also several credit unions. The functioning of the financial system has evolved in a sound and secure manner throughout the year and continues to contribute significantly to the country's economic stability.

Banking Services in Timor-Leste



Articles 5 and 29 of Law No. 5/2011 of June 15 and the Organic Law of the Central Bank of Timor-Leste grant BCTL the exclusive power to regulate, license and supervise all financial institutions. The Licensing and Regulatory Division is responsible for assessing new licenses for banks, exchange offices, insurance companies or insurance intermediaries, other deposit takers and money transfer operators (MTOs).

In 2017, the Division submitted to the Board of Directors for approval the following: a bank license approval to the PT. Bank Rakyat Indonesia (Persero) Tbk. for the establishment of a branch office in East Timor, and a preliminary approval of the application for the license of transfer operators of money to Loja 21 de Junho Unipessoal, Lda. At the same time, it recommended that the Board of Directors refuse to grant a license to three prospective money transfer operators and one bank to be established in Timor-Leste.

The Division continues to work together with the Banking Supervision Division and the Insurance Division to monitor the activities of the fund transfer service providers in accordance with the laws and regulations in force and other companies/persons suspected of undertaking transfer services without being duly licensed by the BCTL. During the year the BCTL, in the context of this supervision, applied a monetary fine to an individual who was identified as an unlicensed money transfer operator.

Box 3. Financial Education Program - National Strategy Implementation

3.1. Financial Literacy Program in Primary Schools

As described in the 2016 annual report, BCTL officials initiated the financial literacy program in primary schools in the country, which, after the agreement with the Ministry of Education, was included as an extracurricular program.

In order to improve its teaching skills in the Financial Education program, the BCTL organized refresher sessions for the current teacher groups and new training sessions for a new group of teachers, who were responsible for implementing the financial education program in their schools, starting in mid-2017.

Teachers are thus better able to carry out their mission and disseminate training material so that knowledge can reach all primary schools in their municipal areas. The BCTL will continue to coordinate with the Ministry of Education to monitor the performance of teachers during the program.

In order to maintain the quality of the financial literacy program in primary schools and to address the problems faced by teachers, BCTL's financial literacy program team will continue to monitor primary schools where financial literacy programs are now ongoing. The issues raised during the monitoring process will be used to improve the quality of this program.

The financial literacy team traveled and visited all the schools that run the financial literacy program, and it was recognized that there are still many steps to be taken to have a good quality program that can achieve the stated objectives.

Currently there are 56 teachers from 39 primary schools who teach the financial literacy program in the country, and the program already covers 12 municipalities and the Oé-Cusse Special Administrative Region.





3.2. National Savings Day

The celebration of the third anniversary of National Savings Day was held at the Numbei Parish Hall in the Special Administrative Region of Oé-Cusse Ambeno (RAEOA).

Participants at the National Savings Day ceremony included the Minister of Education and Culture, the President of the Special Administrative Region Authority Oé-Cusse Ambeno (RAEOA), representatives of commercial banks and teachers and students of RAEOA primary schools.

Before the National Savings Day ceremony, the BCTL organized educational activities on November 27 in coordination with the RAEOA Authority, in particular with its Education Department. The theme for the activities leading up to the event and the celebration of national savings day was: “save now for a better future”. The aim was to increase the knowledge and awareness of students, particularly those in primary schools, about the benefits of saving for the future.

Pre-event activities included drawing, speaking, and poetry competitions. Eight primary schools joined a drawing, speech and poetry competition, resulting in four winners, while a competition in the form of a questionnaire resulted in four winning groups.

Certificates were also delivered to teachers who contributed most and continue to demonstrate great dedication in teaching the financial literacy program in their respective schools since the program’s inception. BCTL certificates of recognition were delivered to: Mrs. Onarata Martins, EBF Professor Dona Ana Lemos, Ermera Municipality; Ms. Aurelia da Costa, EBF One Form teacher from the municipality of Ainaro; and Mr. Rudolfo Do Carmo Soares, a professor at EBC Perola de Atauro in the municipality of Dili.

The purpose of awarding these certificates is to demonstrate the recognition of the contribution of these teachers in the implementation of the financial literacy program in primary schools, which should strengthen their motivation and the other teachers currently teaching the program.

During this ceremony, Governor Abraão de Vasconcelos stated that the financial education program and the road show are programs to educate

people, particularly children, to be responsible for their own financial future and the BCTL will request that the program may be included in the curriculum of the Ministry of Education RDTL. The Governor added that 53 teachers from 39 schools are now teaching the financial literacy program, which has already covered a total of 8,640 students. The Governor also noted that a total of 10,945 child savings accounts (called “Ha’u Nia Futuru” or “My Future”) had already been opened in the five commercial banks operating in East Timor from the end of 2015 until 31 October 2017, accumulating total savings of 2.5 million USD.

At that ceremony, the Minister of Education recognized that this program is very important and that the financial literacy program should be taught from basic education to encourage young people to save for their future. The Minister supported the positive initiatives of the BCTL and the implementation of the financial literacy program in schools.

RAEOA, through the Interim-President, expressed support for this program and its intention to expand the financial literacy program in the Region so that all RAEOA primary schools can teach it.

3.3. Financial Education Itinerant Program

The National Road Show for the Financial Education Program was officially launched during the National Savings Day ceremony.

The itinerant program is part of the financial education program to encourage people to improve their spending habits and increase their safety and financial stability by saving more.

In the days following the official launch of the financial education program road show, representatives from the BCTL, commercial banks and local authorities continued their educational campaign at three administrative posts, namely Pante Makasar, Oesilo and Nitibe. The aim of the initiative was to disseminate information about the importance of saving for a better future, again through the “Ha’u Nia Futuru” children’s saving product. A total of 151 new accounts were opened during the two days of activity. The itinerant activities will continue in twelve municipalities in 2018.





Box 4. Implementation of National Financial Sector Development Master Plan

4.1 Accounting and Corporate Registry Training

As mentioned in BCTL's annual report for 2016, the BCTL completed the training program of four groups, with 20 participants in each group.

In 2017, the BCTL in cooperation with the CCI-TL and the training entity carried out a monitoring and evaluation program for all the participants who completed the training. The objective of this monitoring and evaluation program was to observe and evaluate the performance of each participant so that BCTL and CCI-TL can evaluate the effectiveness of the program.

The team visited and noted the progress made by the participants. This activity should continue to be implemented for the next groups of trainees.

It was also observed that the majority of the participants had started preparing and carrying out their reports, such as the balance sheet, the income statement and the statement of cash flows in their daily activities. In addition, they have become accustomed to filling these documents and supporting information of the financial transactions. Most participants also expressed their willingness to continue to participate in future training sessions.

Despite the positive results, it was also observed that the BCTL and CCITL need to improve the quality of the selection process, namely in terms of participants' level of knowledge, understanding, technical capacity and business awareness. In addition, training should include more female entrepreneurs to achieve a better gender balance.





4.2. National Strategy for Financial Inclusion

In 2017, the BCTL launched the National Strategy for Financial Inclusion 2017-2022. The strategy will serve as a guide to define the path towards a stronger, more innovative and inclusive financial sector for Timor-Leste. The National Financial Inclusion Strategy is a call to action to harness and align the efforts of all stakeholders in order to achieve inclusive and sustainable financial sector development.

Financial inclusion is the provision of essential financial services at affordable costs to all segments

of society. This will allow more Timorese to increase their savings, manage financial risk and empower more people to improve their children's education, save for retirement, and support their health care in the long run.

The main stakeholders in this objective have actively contributed to the development of the strategy and their commitment will be essential for its implementation.

Financial Inclusion Broad Strategies



The Guide also includes specific action plans that focus on women. The aim is to create an enabling environment that will accelerate the financial inclusion of women.

The strategy sets out action plans for the coming years, across the following elements: access to financial services, development of financial products, product price adjustment, capacity building, institutional arrangements, financial literacy and consumer protection. It also includes the results of an in-depth analysis of the current situation in terms of financial inclusion, defines financial sector development objectives and establishes benchmarks based on best international practice.

4.3. Workshop on Risk-Based Approach to Prevent Money Laundering and Terrorism Financing

Taking into account the issues identified in the national risk assessments conducted in 2016, in particular the risks and vulnerabilities in controls of money laundering and terrorist financing in the financial sector, the BCTL, in collaboration with the World Bank Group, held a “workshop to introduce the Risk-Based Approach to Money Laundering and Combating Terrorist Financing risks for Banks, ODTIs and MTOs.

This workshop was held from 3 to 5 May 2017 and was financially supported by the Government of Canada.

The two-day workshop was attended by all commercial banks, ODTIs and MTOs that are licensed and currently operate in Timor-Leste. This workshop was attended by three speakers from the World Bank with a high level of knowledge in AML/CFT. At the end of the workshop, all participants received the respective certificate.

The objective of the workshop was to increase the capacity for identifying and assessing the ML/TF risks in Timor Leste in order to implement adequate corrective and risk mitigation measures, thereby helping to define and implement the Monitoring and Control Policies of the BCTL in this context.

The Workshop Program addressed the following sub-themes:

1. Introduction to the National Risk Assessment in this context;
2. Details of RBA Approach in terms of supervision, namely: Supervisory Tools and Alerts, KY Transactions, Funds Origins and Destinations, Transactions justifications, Customer behavior, KY Intermediaries, KY Agents, Threats to Terrorism Financing; and the Suspicious Transaction Report).
3. Implementation of the RBA Approach and specific supervisory measures, namely: Need for Management Involvement, definition of the role and functions of the Compliance Officer, AML/CFT Control Policies and Procedures, and development of internal control procedures for institutions.





4.4. Central Bank Prize For Financial Inclusion Promotors

The Central Bank Prize was created in 2017 to highlight the Bank's appreciation for people who stand out in contributing to the development of the Financial Sector of Timor-Leste and for the promotion of Financial Inclusion in our Country.

During the BCTL 6th anniversary celebrations, the BCTL management team recognized the outstanding contribution of BNCTL Board Director Dr. Brigido de Sousa and BNU/CGD National Director Dr. Fernando Torrão Alves. The two Directors were distinguished by the fact that they have been leading financial inclusion projects in their organizations and have demonstrated a high degree of professional and personal commitment to the development of East Timor's financial sector.



Box 5. Signature of Memorandum of Understanding (MoU) with RAEOA

5.1. MoU with RAEOA/ZEEMS for the Implementation of the Financial Literacy Program for Primary Schools

The beginning of the financial literacy program in RAEOA primary schools was preceded by the signing of the Memorandum of Understanding with the Oecusse-Ambeno Special Administrative Region Authority on February 17, 2017 in Oecusse. This MoU is valid for a period of 2 years with the possibility of being extended, ensuring that the financial literacy program will be taught as an extracurricular program. The MoU itself was signed by Governor Abraão de Vasconcelos and the President of RAEOA, Dr. Mari Bim Amude Alkatiri.



The objective of the Memorandum is to establish the framework for the joint implementation between the BCTL and RAEOA Authority of the financial literacy program for teachers in primary schools and joint evaluation, as well as the process of monitoring the implementation of the project in primary schools in RAEOA.



The scope of the Memorandum includes: collaboration in monitoring the implementation of the financial literacy program in primary schools in RAEOA; participation and collaboration with the project management team whenever necessary, collaboration in the evaluation of the project to be carried out by the BCTL team concerned with this program, offer support and mutual assistance in the financial literacy program, in particular if it is extended to teaching.

It also includes the possibility for BCTL to assist RAEOA in the preparation of project materials; the duty of the RAEOA Authority to encourage teachers to participate in the financial education program and, in the context of the implementation of the project in schools, to provide whatever resources are needed.

Finally, the scope of the Memorandum also describes that both BCTL and RAEOA should receive and evaluate the monthly reports submitted by teachers and cooperate to find funding solutions for project costs and, where appropriate, provide financial support to participating teachers.

In its initial period, only 2 teachers from 2 primary schools taught the financial literacy program in their schools. By the end of 2017, there were already 6 teachers in 4 RAEOA primary schools teaching the financial literacy program, namely: EBF 1 May Palaban, EBF 28 de Agosto, EBF Mahata and EBC Santo Antônio. The RAEOA Authority also expressed its support for expanding this program to cover all RAEOA primary schools.

5.2. MoU Signature with UNDP

During the year, the Central Bank of Timor-Leste and the United Nations Development Program (UNDP) signed a 3-month cost-sharing agreement on the implementation of the National Financial Inclusion Strategy's action plan.

The implementation covered the need for coordination of all relevant stakeholders to establish the National Coordination Committee (NCC) and a Technical Committee (TC) in Timor Leste (hereinafter referred to as the National Strategy for Financial Inclusion), as described in the National Strategy for Financial Inclusion.





The signing ceremony was ratified by the Governor of BCTL, Dr. Abraão de Vasconcelos and Mr. Claudio Providas, Director of UNDP and Resident Representative of UNDP.

This was the first cost sharing agreement signed by the BCTL, focused on the imperative need to promote financial inclusion in our country, which is considered one of the basic pillars supporting the country's macroeconomic and financial stability.

Box 6. Meetings and Ceremonies

6.1. XVI Meeting of Human Resources of the Central Banks of Portuguese-Speaking Countries

The XVI Meeting of Human Resources of the Central Banks of Portuguese-Speaking Countries was held in Dili on September 12 and 13, 2017. It was attended by delegations from the Central Banks of Angola, Cape Verde, Mozambique, Portugal and Timor-Leste.

The main points discussed and shared at this meeting were the following:

1. Recent developments in the structure and activities of the Human Resources Departments;
2. Talent Management in Central Banks as a strategy for capturing, retaining and developing competencies and careers of the staff and raising performance and organizational excellence;
3. Role of training in the development of the skills of the employees, in the cohesion of the teams and in the Identity and culture of the Central Banks;
4. Improvement of the Management Profile and Leadership in Central Banks.

This is the second time that the BCTL has held a meeting of Portuguese Speaking Central Banks, the first being the 9th Statistical Meeting held in 2016.

Insurance Sector

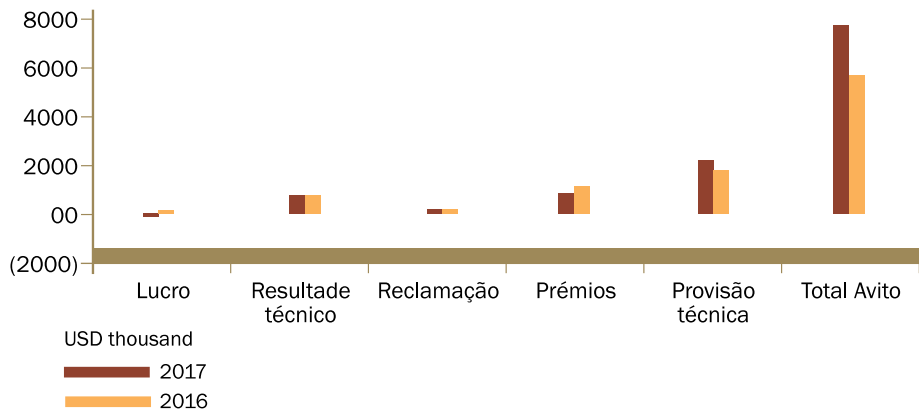
Insurance Companies

In 2017, the insurance industry continued to rely on the existence of three insurance companies in East Timor: NITL-National Insurance of Timor-Leste, SinarMas (SMI) and Federal Insurance Timor (FIT) SA. With time, BCTL has gradually registered a progressive improvement of the range of services offered by the insurance companies in the country, the provision of general insurance for the various sectors of activity, with affordable rates and an adequate level of competition.

The total assets of the sector amounted to USD 7.5 million in December 2017, having increased by 32% compared to 2016. During the year 2017, total liabilities increased by 12%, amounting to USD 4.3 million at the end of the year. The sector's shareholders' equity value increased by 73% to USD 3.2 million.

Chart 3.5 illustrates the business performance of insurance companies in East Timor during the period.

Chart 3.5. Insurance Sector Performance

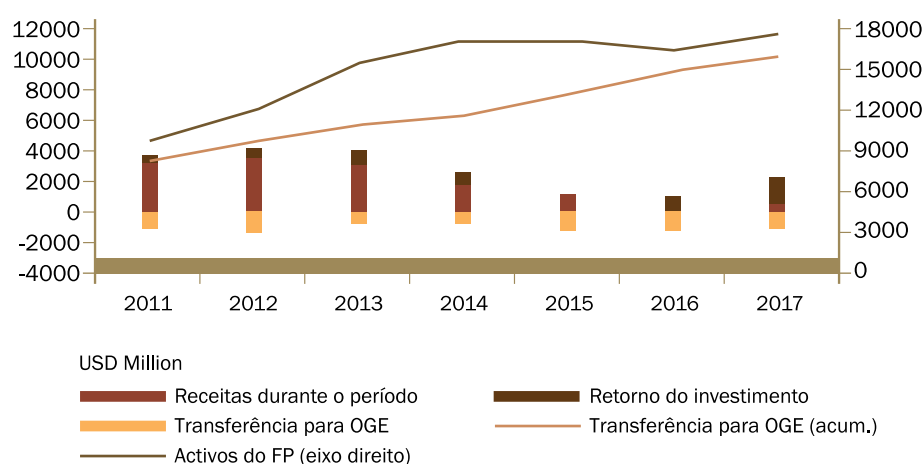


Source: BCTL

3.3.3. Petroleum Fund Management

In accordance with the framework defined in the Petroleum Fund Law, the Central Bank continues to be responsible for the operational management of the Fund. At the end of 2017, the capital of the Fund amounted to USD 16,799 million, an increase of around 6% over the previous year. Annual oil revenues - taxes and royalties - amounted to US \$ 422 million (US \$ 979 million and US \$ 224 million in 2015 and 2016, respectively). Additionally, projections for the financing of the General State Budget for 2017 were USD 1,079 million (1,244.8 million in 2016), recording a reduction of 13.3%. The management costs of the Fund, both external and internal, amounted to USD 13,421 million in 2017, a decrease of 8.2% over 2016.

Chart 3.6
Petroleum Fund Assets and Flows



With regards to performance during the year, the Fund accumulated a gross income of USD 409 million, corresponding to 2.5% of the average value invested in the Fund in 2017 (EUR 16,564 million). The breakdown of these figures allows us to observe that the income from the receipt of interest and dividends totaled 0.5% of the average value of the Fund in 2017, while capital appreciation during the year amounted to 1.48% equivalent to a rise of 0.80% compared to 2016.

By adding up these two components, the Fund achieved a gross profitability of 2%, not counting the exchange effects. However, the slight depreciation of the US dollar in 2017 vis-à-vis the currencies in which part of the Fund's investments is denominated has resulted in an exchange rate gain of USD 78.1 million in 2017, or 0.2% of the value of the Fund, after a loss of 302 and 28.9 million dollars in 2015 and 2016 respectively. It should also be noted that the absolute income

level of the Fund in 2017 was USD 1.7 billion, the highest absolute value in the history of PF. This annual return was due to: exchange gains of USD 312.4 million and USD 983 million mainly due to the gains resulting from changes in the market prices of the Fund's securities.

In terms of relevant activities and developments in this area, it should be noted that the Fund continues to maintain the proposed strategic allocation by investing 40% of the Fund's total in equity markets.

The BCTL continued to work closely with the Ministry of Finance as well as with the Investment Advisory Board (IAB) to continually reassess and monitor the adequacy of the Fund's strategic allocation, within the framework defined by the framework of the Petroleum Fund. It should be noted that the BCTL actively participated in the discussions held at the IAB level regarding the expansion of the investment universe, increasing the degree of diversification and adopting new management policies to achieve the expected return of the Fund from 3% over a period of years.

By the end of the year, there were 4 managers of fixed-income securities investments remain, of which 3 are external managers - AllianceBernstein, Wellington Management, and the Bank for International Settlements (BIS) - and the internal manager, the BCTL itself. The managers of the equity investments are three international companies - Schroders Investment Management, State Street Global Advisors and BlackRock Investment Management - and the BCTL itself, which was approved to manage 1% of the PF assets invested in Australian equities.

The BCTL continued to invest in human resources training policies and to increase the technical and financial resources available to support and improve the direct management of the Fund in order to internalize a growing share of this management. The implementation of the technology platform, "Bloomberg Asset Investment Management" (Bloomberg AIM), in 2015, substantially strengthened BCTL's internal capabilities in asset management, particularly with the implementation of internal equity management in 2016. In the BCTL continued to bear the costs of continuing academic training of its staff and its participation in training modules and international seminars, organized by BCTL institutional partners.

3.3.4. Institutional Improvements

During 2017 the BCTL continued to prioritize a comprehensive review of the Timor-Leste Banking Act (UNTAET Regulation No. 2000/8 on Banking Licensing and Supervision). This regulation was established and implemented at the beginning of the United Nations Administration in East Timor, and it is now time to review and update the diploma in order to create a modern basis for the development of the banking system over the coming decades.

The Master Plan for the Financial Sector also provides for BCTL to become actively involved in enhancing the protection of bank customers and improving customer relations in retail banking. The existing standards - Public Instruction no. 06/2010 and section 2.5 of Regulation no. 2000/8 - already define some basic requirements in this regard.

The BCTL Board of Directors awarded Ernst & Young Audit & Associates-SROC, S.A a contract to conduct the annual independent external audit of the BCTL.

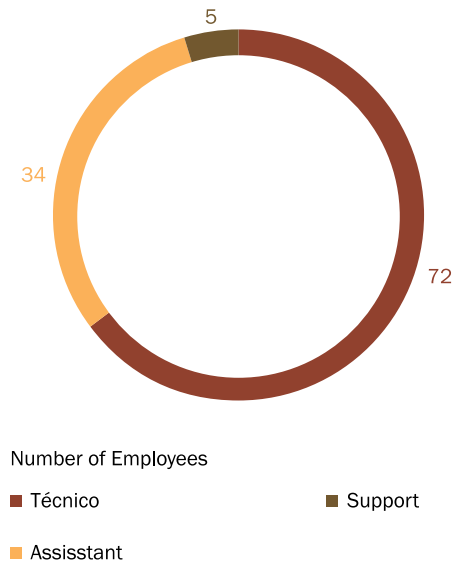
The BCTL was also able to complete the construction of its branch building in RAEOA. The construction was awarded to an East Timorese company based in Oe-Cusse. The BCTL expects that, with the existence of its building, its capacity to meet and respond to the needs and citizens of this region will be improved and, at the same time, to expand the number and type of activities carried out in the enclave.

3.3.5. Staff and Training Programs

At the end of the reporting period, the BCTL had 88 employees. The planned recruitment plan for 2017 was carried out in February. Unfortunately the BCTL has not been able to fully achieve its goal in obtaining qualified staff to fill the staffing needs for key areas of the Bank. A candidate was also recruited to fill a position with the IT Department. The BCTL maintains its recruitment plan for the year 2018 and is expected to hire 20 additional employees for the professional careers of technicians and assistants.

The number of BCTL employees, including the employees to be recruited in 2018, distributed by professional categories, is shown in figure 3.7:

Chart 3.7
Professional Categories

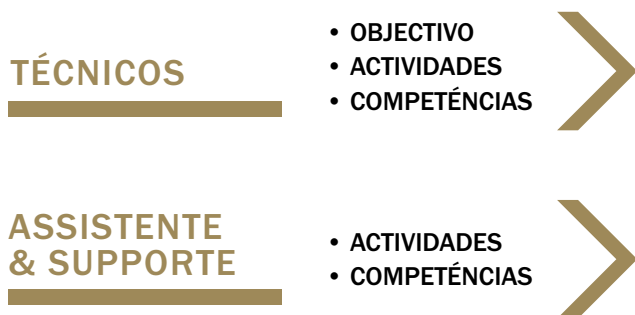


Source: BCTL

With respect to the Performance Evaluation system of BCTL employees throughout 2017, most employees were able to achieve the objectives set at the level of the institution and its departments and divisions.

The Performance Evaluation system is carried out by the various managers with the purpose of evaluating the work of their employees and analyzing their contributions to BCTL activity.

The dimensions used in the evaluation of the employees' performance remained unchanged from the previous year, as indicated in the following diagram, namely: Objectives, Activities and Skills for the employees of the Professional career of Technician and Activities and Skills for the employees of the careers.



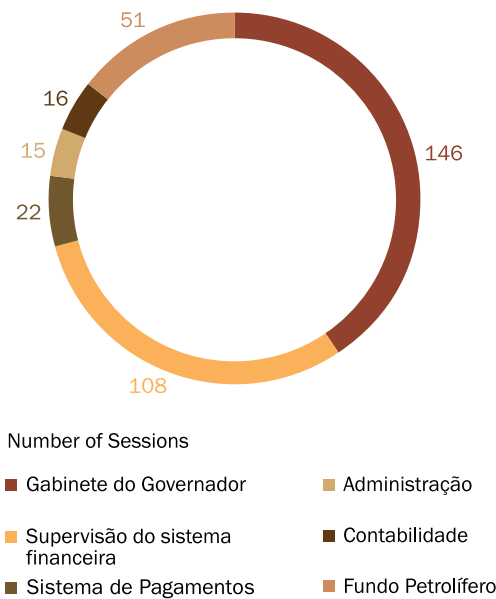
With regard to the development of the skills and knowledge of its employees, the BCTL continues to allocate an adequate amount annually for the fulfillment of its training program, which is spent on technical skills training given to its employees, both in Timor Leste and abroad.

In addition to training and study abroad, internal training in the BCTL continued to contribute to an improvement in the qualifications of employees. In 2017, BCTL's in-house training focused on enhancing the Leadership capabilities of the BCTL leadership.

BCTL employees also continued to participate in various training programs, conferences and seminars organized by other central banks and financial institutions. The BCTL expects its staff to continue to enjoy this kind of programs and training events.

Charts 3.8 and 3.9 detail information on the number of employees and days of participation in training, seminars and conferences throughout 2017.

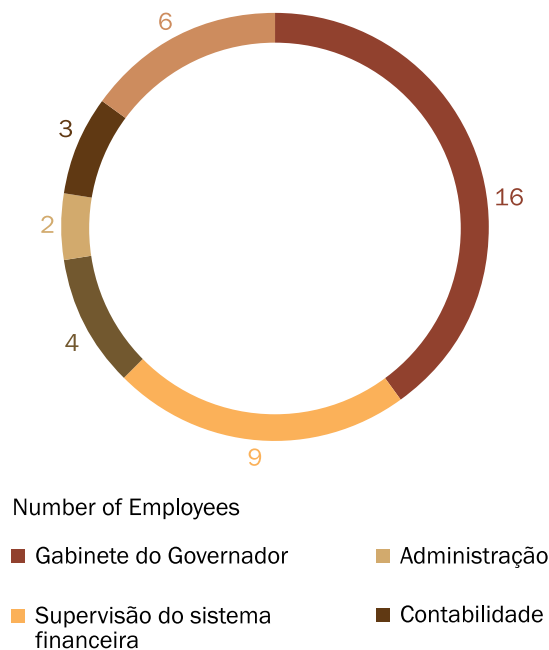
Chart 3.8
Trainings and Workshops Sessions



Source: BCTL

Chart 3.9

Employees Participating in Training Sessions



3.3.6. International Relationships

The BCTL continues to hold discussions and establish agreements (Memoranda of Understanding) with entities with which it has partnerships or institutional relationships, such as JP Morgan, BlackRock, the Bank for International Settlements (BIS), Clifford Chance, KPMG, Credit Scheme Guarantee Berhad Malaysia, OJK Indonesia, Portugal's Insurance and Pension Supervision Authority (ASF), the Reserve Bank of Australia, the Australia Prudential Regulation Authority (APRA), Pusat Pelaporan dan Analisis Transaksi Keuangan (PPTK) Yayasan Pendidikan Internal Audit in Jakarta and KPMG in Lisbon in order to strengthen the cooperation links with these entities and to provide training and internship programs as well as the provision of technical assistance to the BCTL.

The BCTL has continued to attach great importance to the deepening of its external relations, both as a form of asserting its role as the Central Bank of a newly independent country and as a means of ensuring support for the training of its staff through participation in training programs and placements, as well as the provision of technical assistance.

It is with this logic that continued good relations with institutions like Bank of Portugal, Bank Negara Malaysia, Reserve Bank of Australia, IMF Institute Singapore, Bank for International Settlements, OJK in Indonesia and Authority for Supervision of Insurance and Pension Funds in Portugal.

In addition, the BCTL continues to deepen its relations with commercial entities with whom it works, such as JP Morgan, Clifford Chance, KPMG, Deloitte, Malaysia Credit Guarantee Scheme, APRA PPTK, Yayasan Pendidikan Audit Jakarta and KPMG in Portugal, amongst other organizations.

Box 7. BCTL Action Plan for 2018

BCTL plans to develop a wide range of initiatives in 2018, including the continued implementation of the Financial Development Master Plan and the National Payment System Plan. This chapter describes the various programs and initiatives planned by the BCTL for 2018.

Reformulate the Bank Accounting Framework in accordance with international standards (IAS/IFRS)

The Central Bank considers that the current accounting framework used by commercial banks and other deposit institutions is not in accordance with the International Financial Reporting Standards (IAS/IFRS), so the BCTL will replace the current framework with requirements with accordance with IAS/IFRS. BCTL plans to hire a consultant for this purpose in 2018.

Introduction of the Credit Guarantee System in SME Financing

The BCTL will introduce the first credit guarantee system in Timor-Leste to design the framework of the credit guarantee regime, specifically targeted at small and medium-sized enterprises (SMEs). The pilot project was started in 2015 and will be funded by the Government. In an initial phase, an amount of US \$10 million will be proposed for two schemes: the general guarantee for SMEs and guarantees for livestock. The government allocated an amount of US\$4 million for the project in OGE 2017. The Government approved the Credit Guarantee Scheme Law for Small and Medium Enterprises Act in July 2017. By fostering credit growth, the Central Bank will continue to implement the Small and Medium Enterprises (SMEs) training program in the area of basic accounting in 2018, covering about 100 entrepreneurs and organizing monitoring and evaluation for entrepreneurs who have already participated in the training. The BCTL also plans to extend this training program to include intermediate level technical content. The program will be implemented in cooperation with the Business Development Support Institute (IADE) and the Timor-Leste Chamber of Commerce and Industry (CCITL).

Implementation of the National Strategy for Financial Education

Within the framework of the national financial development strategy and plan, the BCTL considers that the program to promote financial inclusion is a key element in achieving effective and sustainable development. The BCTL believes that education, or raising the level of financial literacy, will be one of the determining factors in extending the national provision of financial services to populations without access to banks in rural areas. In 2018, the Central Bank plans to continue the initiatives already implemented in 2016 and 2017 and, at the same time, to develop new activities in 2018, such as: training community and religious leaders to empower them as program enablers; organize an international conference with the aim of sharing the discussion of the best practice model in

this field; implement a pilot project called a “Smart Money” club at an university; and to conclude a qualitative and quantitative survey of the level of financial knowledge of the population at the national level.

The Central Bank will work in cooperation with the Ministry of Education in order to employ groups of teachers in basic education who already have the experience to administer and manage the teacher training program (ToT) through INFORDEPE, with the expansion of the financial education program to all municipal basic schools.

The BCTL will continue to carry out the roadshow in all municipalities, promoting a number of leisure and sports activities to increase public awareness of the benefits of the program “save now for a better future”.

Introduce an on-line Reporting System for FI and Install the off-site supervision system

The BCTL intends to introduce an online reporting system for supervised financial institutions. An offsite surveillance system will also be implemented after completion of the system review process to facilitate the efficiency and comprehensiveness of the oversight process. The platform will substantially streamline the supervision process, allowing the automatic compilation of statistics and bank data. After a contract is concluded with the software supplier company for the off-site system, training will be carried out for all users of the tool and then the effective launch of the system, scheduled for the second quarter of 2018.

Implementation of the National Strategy for Financial Inclusion

BCTL will establish a less administratively demanding legal basis for banking and insurance agents, in order to allow the expansion of communications networks in areas that cannot be accessed, thus promoting financial inclusion. It also intended to develop and implement initiatives that: lead to lower costs of providing financial services; encourage banks to offer financial products in areas not yet covered; to carry out a feasibility study on the introduction of basic savings accounts with appropriate costs for the development of micro-savings products; to adopt an appropriate legal framework and to establish the credit guarantee scheme in order to facilitate the access of small and medium-sized enterprises to financing; and establish the national council of SMEs.

Modernization of the National Payment System

The implementation of the ATS system, R-TiMOR, was a great success for our financial system. The next phase of the project will be to update and review internal procedures in order to align and ensure the functioning of the system according to the rules already defined. The Central Bank will also introduce an adequate policy and clear and uniform administrative measures in order to facilitate the forecast of intra-daily liquidity and the optimization of bank liquidity used in the R-TiMOR system.

With the implementation of the “National Switch” for cards and mobile phones, BCTL-SIPA will prepare and introduce system management and operational rules, including the definition of fees and charges applicable to its users, in order to cover operational costs and investment in the infrastructure of said system.

Introduce the Lender of Last Resort Policy

The BCTL, in accordance with the mandate in the Organic Law of the Central Bank, will develop a comprehensive legal framework that regulates and defines transparent and uniform rules regarding its role as lender of last resort, including the policies and agreements to be negotiated and contracted with Government and commercial banks.

The Study on the Adoption of a National Currency

The BCTL continues to include in its strategic plan a project to develop an in-depth study on the possibility of introducing a national currency in East Timor, with the support of an external expert in this matter. The specialist should work closely with the BCTL Economics Division in the development of the study.

Economic Studies

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

Maintenance of the Bloomberg AIM Transaction

The BCTL implemented in 2015 the technological trading platform - the “Bloomberg Asset Investment Management (Bloomberg AIM)” - which is intended to record, analyze and facilitate the overall management of BCTL’s financial assets. BCTL will maintain Bloomberg AIM as a trading platform to support the Bank’s investment activities.

Review of Strategic Investment Policies

The Investment Advisory Board has decided to maintain the current investment policy and strategy of the Petroleum Fund. However, the Board will continue to review these guidelines annually, taking into account the developments on the financial markets. The BCTL will continue to allocate sufficient resources to support the annual review of this investment policy and strategy.

Implementation of the Multifactorial Strategy Mandate for the Stock Portfolio

The PF Investment Advisory Board recommended the hiring of three external managers to implement a multi-factor strategy in the context of the management of investments in equity markets. The implementation will be gradual, starting first with only 1 manager. The implementation will be subject to the confirmation by the managers of certain operational matters, mainly related to the control of the sectorial and country risk, in the scope of the management of this type of investment. In anticipation of a favorable response from managers, the implementation of the multi-factor strategy should effectively start in 2018.

Establish the Central Bank Pension Fund

The study on the establishment of the Pension Fund was completed by the Review Committee in 2016, which assessed the merits and disadvantages of the relevant options. In accordance with its opinion, the BCTL will establish and implement a Pension Fund for its employees in 2018.

Continuing the Fellowship Program

BCTL will continue to facilitate the scholarship program to its employees by 2018, including at the PhD level.

Implementation of the New BCTL Organization Chart

BCTL will introduce a new structure of the organization in 2018, which will take into account recent institutional developments and increased BCTL responsibilities.

Banco Central de Timor-Leste (BCTL) Key Management Bodies

Board of Directors

Governor

Abraão de Vasconcelos

Deputy Governor

Nur Aini Djafar Alkatiri

Deputy Governor

Venâncio Alves Maria

Non-Executive Members

Maria Madalena Brites Boavida

Aicha B.U. Bassarewan

Francisco da Costa Guterres

Note: In 2017, the Prime Minister approved the appointment of new Deputy Governor, Venâncio Alves Maria, to succeed Ms. Sara Lobo Brites. At the same time, another member (non-executive) of the Board of Directors, Mr. Aurélio Guterres, resigned to become Minister of Foreign Affairs.

Executive Management Committee

The BCTL Management Committee includes senior management responsible for the main organizational areas of the Bank. They are:

Governor, Abraão de Vasconcelos

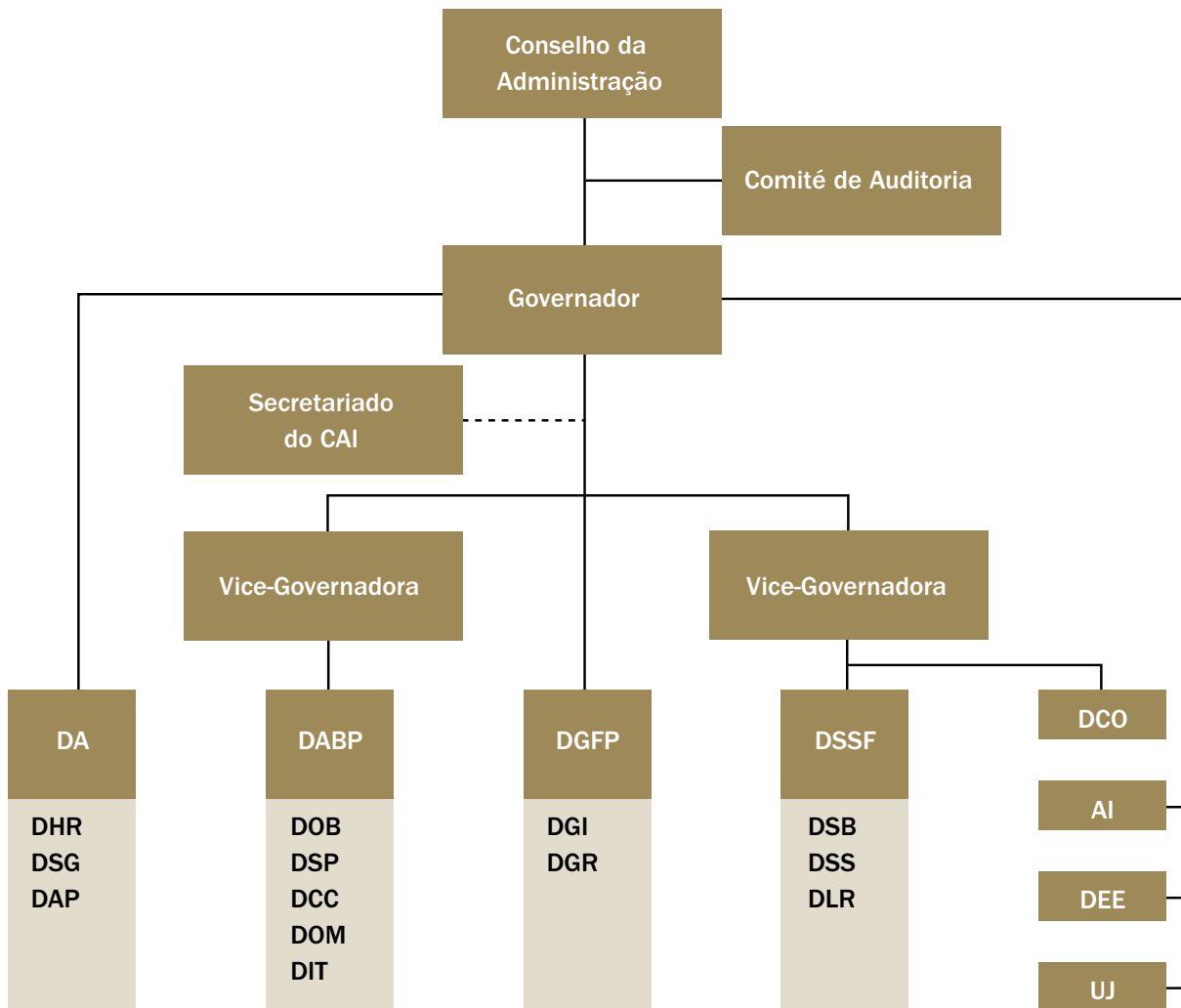
Deputy Governor, Nur Aini Djafar Alkatiri

Deputy Governor, Venâncio Alves Maria

Head of Accounting Department, Fernando de Carvalho

Head of Administration Department, Raquel Gonçalves

BCTL Internal Organization, 31st December 2017



Legenda:

CAI	Comité de Assessoria para o Investimento	DGFP	Departamento da Gestão do Fundo Petrolífero
DA	Departamento de Administração	DGI	Divisão de Gestão de Investimento
DRH	Divisão de Recursos Humanos	DGR	Divisão de Gestão de Risco
DSG	Divisão de Serviços Gerais	DSSF	Departamento de Supervisão do Sistema Financeiro
DAP	Divisão de Aprovisionamento	DSB	Divisão de Supervisão Bancária
DSBP	Departamento do Sistema Bancário e Sistemas de Pagamento	DSS	Divisão de Supervisão de Seguros
DOB	Divisão de Operações Bancárias	DLR	Divisão de Licenciamento e Regulamentação
DSP	Divisão de Sistemas Pagamento	DCO	Divisão de Contabilidade e Orçamento
DCC	Divisão de Câmara de Compensação	AI	Auditoria Interna
DOM	Divisão de Operação de Moeda	DEE	Divisão de Economia e Estatística
DIT	Divisão de Sistemas de Informação	UJ	Unidade Jurídica