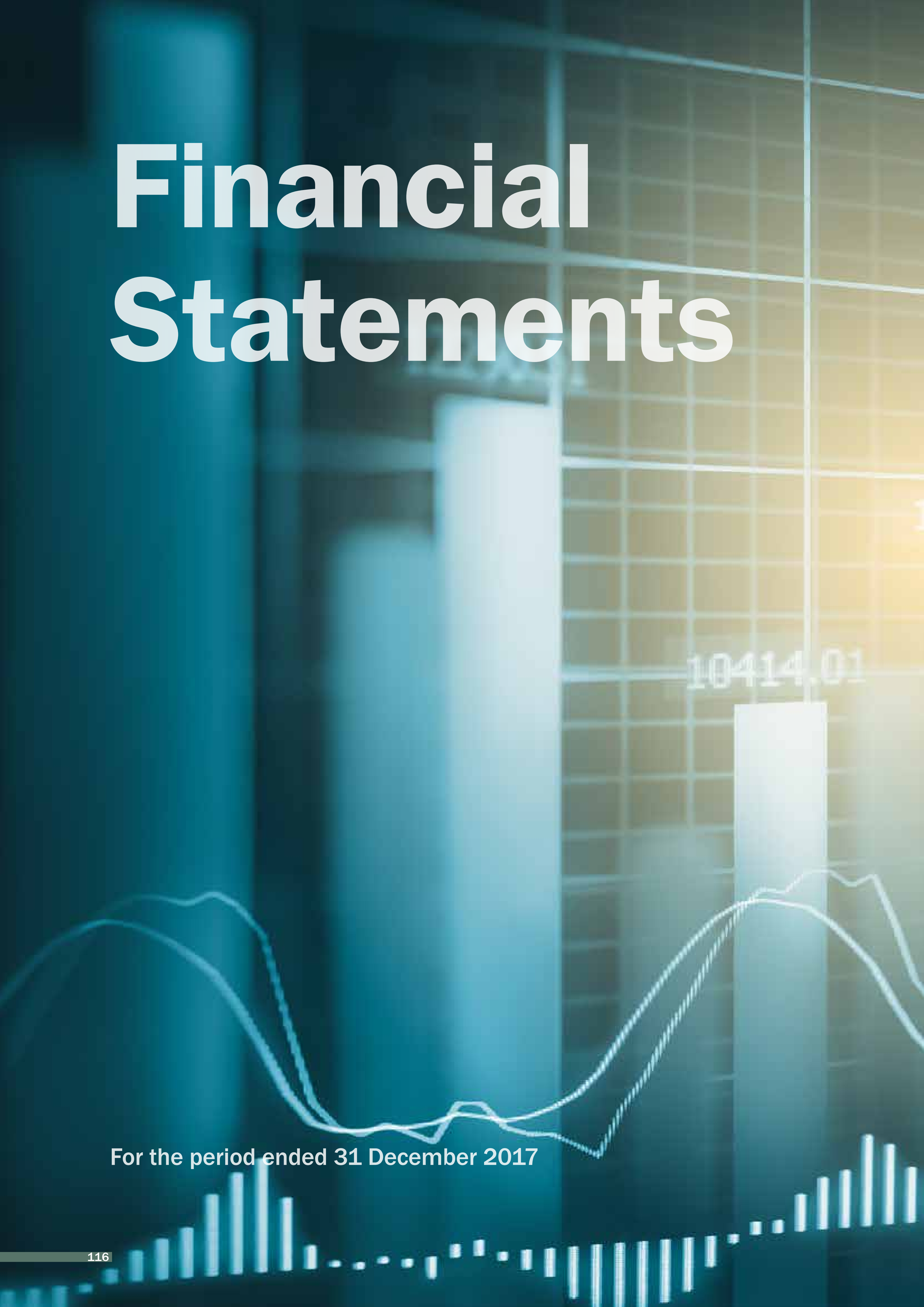
Financial Statements



For the period ended 31 December 2017

Chapter 04

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Statement of Compliance

The Financial Statements on pages 2 to 5 and the Notes from pages 6 to 31 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 2017.

Abraão de Vasconselos, *Governor*
Dili, 27 April 2018

Statement of Financial Possition as at
31 December 2017

	Note	2017 US$ "000	2016 US$ "000
Assets			
Cash and cash equivalents	7	547.150	361.429
Investments	10	35.103	34.689
Property, plant and equipments	11	2.212	1.837
Other assets	12	5.405	5.203
Total Assets		**589.870**	**403.158**
Liabilities			
Government deposits	13	287.761	212.311
Other deposits	14	193.919	111.379
Provision for transfer of surplus to Government	17	-	698
Other Liabilities	15	28.446	8.499
Currency issued		15.872	14.509
Total Liabilities		**525.998**	**347.396**
Capital	16	60.000	55.000
Reserve		762	762
Net profit		3.110	-
Total Equity		**63.872**	55.762
Total liabilities and Equity		**589.870**	**403.158**

Statement of Profit or Loss and Other Comprehensive Income For the period ended 31 December 2017

	Note	2017 US$ "000	2016 US$ "000
Operating income			
Investment income			
Interest income	19	2.556	1.454
Interest expense	19	(84)	(34)
Net investment income		**2.472**	**1.420**
Petroleum fund management fee	21	14.463	13.329
Petroleum fund administration expenses	21	(9.018)	(8.380)
Net fee and commission income		**5.445**	**4.949**
Fees and commissions	20	706	684
Other Income		115	126
Total Operating Income		**8.738**	**7.179**
Expenses			
Personnel expenses	22,25	1.925	1.818
Currency distribution expenses		846	1.007
Administration expenses	23	2.376	2.806
Depreciation	11	481	850
Total Expenses		**5.628**	**6.481**
Profit		3.110	698
Other comprehensive income		-	-
Total profit and other comprehensive income		**3.110**	**698**

Statement for Changes in Equity

For the period ended 31 December 2017

	Note	2017 US$ "000	2016 US$ "000
Capital			
Opening balance	17	55.000	50.000
Increase in capital	17	5.000	5.000
Closing balance	17	**60.000**	**55.000**
Reserve			
Opening balance		762	762
Total profit and other comprehensive income		3.110	698
Transfer of surplus to Government		-	(698)
Closing balance		**3.872**	**762**
Total Equity		**63.872**	**55.762**

Statement of Cash Flows

For the period ended 31 December 2017

	2017 US$ "000	2016 US$ "000
Cash flows from the operating activities		
Profit for the period	3.110	698
Depreciation	481	850
Net Interest income	(2.472)	(1.420)
Total	**1.119**	**128**
Changes in receivables, prepayments & stock	(202)	(554)
Changes in government deposits	75.450	(110.730)
Changes in other deposits	82.540	(28.675)
Changes in other liabilities	19.947	2.726
	178.854	**(137.105)**
Interest received	2.556	1.454
Interest paid	(84)	(34)
Net cash from operating activities	**(181.326)**	**(135.685)**
Cash flows from investing activities		
Acquisitions of investments	(413)	(10.766)
Acquisitions of property, plant & equipment	(855)	(198)
Net cash from investing activities	**(1.268)**	**(10.964)**
Cash flows from financing activities		
Currency issued	1.363	2.357
Capital subscription by government	5.000	5.000
Transfer of surplus to Government	(700)	(730)
Net cash from financing activities	**5.663**	**6.627**
Increase in cash & cash equivalents	185.721	(140.022)
Cash & cash equivalents at the beginning of year	361.429	501.451
Cash & cash equivalents at the end of year	**547.150**	**361.429**

Notes to the Financial Statements

1. 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 Xavier do Amaral, n.º 9, P.O. Box 59, Díli, Timor-Leste. The financial statements of the Bank are for the financial year ended 31 December 2017 and, in accordance with section 58 of the Organic Law no 5/2011, the accounts and records are maintained in accordance with International Financial Reporting 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 2018.

b) Basis of Measurement
The financial statements have been prepared on the historical cost basis except for certain investment securities 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 2017. 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 2017	31 DEC 2016
Australian dollars (AUD)	1.2840	1.3810
Special Drawing Rights (SDR)	0.7439	0.7438
Euro (EUR)	0.8372	0.9458

b) Interest Rate Method
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

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 net of losses related to trading assets and liabilities, and includes all realised and unrealised fair value change.

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 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 de-recognition 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, which approximates fair value.

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.

As at 31 December 2017, the Bank does not have investment securities.

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.

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:

	2017	2016
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 other liabilities.

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

ii) Long-term employee benefits

There is no pension scheme for employees of the Bank.

n) Changes in accounting policies

i) Voluntary changes in accounting policies

During the year there were no voluntary changes in accounting policies from the ones used in the preparation of the previous year's financial statements presented as comparative information.

ii) New standards and interpretations applicable in the year

T here was no significant impact on the accounting policies and disclosures from the adoption by the Bank of new standards, revisions, amendments and improvements to standards and interpretations which were applicable as from 1 January 2017.

iii) New standards and interpretations issued but not yet effective.

The bank does not anticipate significant impacts with the adoption of the standards and interpretations recently issued by the IASB, which application is mandatory solely for annual periods beginning on or after 1 January 2018.

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 meets its contractual obligations, and arises principally in connection with the Bank's investment and banking activities. 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 S&P Rating, is as follows:

US$ "000	Rating*	Dec 2017	Rating*	Dec 2016
Cash and cash equivalents				
Cash	AAA	50.858	AAA	35.840
Deposits at central banks	AAA	479.487	AAA	230.042
Resident banks	BB-	13.039	B	90.982
Non-resident banks	A-	3.766	AA-	4.565
		547.150		361.429
				-
Investments				
International Monetary Fund - "SDR"	N/A	35.103	N/A	34.689
Total Assets		**582.253**		**396.118**

Summary by credit rating	Dec 2017	Dec 2017	Dec 2016	Dec 2016
AAA	91,09%	530.345	67,12%	265.882
A-	0,65%	3.766	1,15%	4.565
B	2,24%	13.039	22,97%	90.982
Not applicable	6,03%	35.103	8,76%	34.689
Total Assets	**100,00%**	**582.253**	**100,00%**	**396.118**

*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 are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements.

US$ "000	Total 2017	6 month or less	over 6 months
Cash and cash equivalents	547.150	547.150	-
Total assets (Excluding PPE)	**547.150**	**547.150**	**-**
Government deposits	287.761	287.761	-
Other deposits	193.919	158.882	35.087
Provision for transfer of surplus to Government	-	-	-
Other liabilities	28.446	28.446	-
Currency issued	15.872	15.872	-
Total liabilities	**525.998**	**490.911**	**35.087**

US$ "000	Total 2016	6 month or less	over 6 months
Cash and cash equivalents	361.429	361.429	-
Total assets (Excluding PPE)	**361.429**	**361.429**	**-**
Government deposits	212.311	212.311	-
Other deposits	111.379	76.690	34.689
Provision for transfer of surplus to Government	698	698	-
Other liabilities	8.499	8.499	-
Currency issued	14.509	14.509	-
Total liabilities	**347.396**	**312.707**	**34.689**

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 2017**	**Non-Interest Sensitive**	**6 month or less**
Cash and cash equivalents	547.150	-	547.150
Investments	35.103	35.103	-
Other assets	5.405	5.405	-
Total assets (Excluding PPE)	**587.658**	**40.508**	**547.150**
Government deposits	287.761	-	287.761
Other deposits	193.919	35.087	158.832
Provision for transfer of surplus to Government	-	-	-
Other liabilities	28.446	28.446	-
Currency issued	15.872	15.872	-
Total liabilities	**525.998**	**79.405**	**446.593**
Interest Rate Sensitivity Gap	**61.660**	**(38.897)**	**100.557**

US$ "000	**Total 2016**	**Non-Interest Sensitive**	**6 month or less**
Cash and cash equivalents	361.429	-	361.429
Investments	34.689	34.689	-
Other assets	5.203	5.203	-
Total assets (Excluding PPE)	**401.321**	**39.892**	**361.429**
Government deposits	212.311	-	212.311
Other deposits	111.379	34.689	76.690
Provision for transfer of surplus to Government	698	698	-
Other liabilities	8.499	8.499	-
Currency issued	14.509	14.509	-
Total liabilities	**347.396**	**58.395**	**289.001**
Interest Rate Sensitivity Gap	**53.925**	**(18.503)**	**72.428**

ii) Sensitivity Analysis – Interest risk

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on its net income. At 31 December 2017, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately $515 thousand (2016 - $40 thousand).

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 2017, the Bank's net exposure to major currencies was as follows:

US$ "000	Total 2017	US Dollars	Australian Dollars	SDR	Euro
				-	
Cash and cash equivalents	547.150	547.048	60	35.103	42
Investments	35.103	-	-	-	-
Other assets	5.405	5.405	-	**35.103**	-
Total assets (Excluding PPE)	**587.658**	**552.453**	**60**		**42**
				-	
Government deposits	287.761	287.761	-	35.087	-
Other deposits	193.919	158.832	-		-
Provision for transfer of surplus to				-	
Government	-	-	-	-	-
Other liabilities	28.446	28.446	-	-	-
Currency issued	15.998	15.872	-	**35.087**	-
Total liabilities	**525.998**	**490.911**	**-**		**-**
				16	
Net Foreign Currency Exposure	**61.660**	**61.542**	**244**		**42**

US$ "000	Total 2016	US Dollars	Australian Dollars	SDR	Euro
				-	
Cash and cash equivalents	361.429	361.122	244	34.689	63
Investments	34.689	-	-	-	-
Other assets	5.203	5.203	-	**34.689**	-
Total assets (Excluding PPE)	**401.321**	**366.325**	**244**		**63**
				-	
Government deposits	212.311	212.311	-	34.689	-
Other deposits	111.379	76.690	-		-
Provision for transfer of surplus to				-	
Government	698	698	-	-	-
Other liabilities	8.499	8.499	-	-	-
Currency issued	14.509	14.509	-	**34.689**	-
Total liabilities	**347.396**	**312.707**	**-**		**-**
				-	
Net Foreign Currency Exposure	**53.925**	**53.618**	**244**		**63**

iv) **Sensitivity analysis - Currency exchange risk**
In managing currency exchange risk, the Bank only hold small net positions in foreign currency and therefore it's not materially exposed to changes in foreign exchange rate.

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 be $55,000,000, fully subscribed and paid-up. Following the subscription of an additional $5,000,000 in 2017, the capital may not be reduced below $60,000,000.
- 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

US$ "000	2017	2016
Cash and cash equivalents		
Cash	50.858	35.840
Deposits at central banks	479.487	230.042
Resident banks	13.039	90.982
Non-resident banks	3.766	4.565
Total	**547.150**	**361.429**

8. Marketable Securities

No investment in Marketable securities for 2017.

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).

US$ "000	2017 Carrying Amounts	2017 Fair Value	2016 Carrying Amounts	2016 Fair Value
	547.150	547.150	361.429	361.429
Cash and cash equivalents	35.103	35.103	34.689	34.689
Investments	5.405	5.405	5.203	5.203
Other assets	**587.658**	**587.658**	**401.321**	**401.321**
Total assets (Excluding PPE)				
Government deposits	287.761	287.761	212.311	212.311
Other deposits	193.919	193.919	111.379	111.379
Provision for transfer of surplus to Government	-	-	698	698
Other liabilities	28.446	28.446	8.499	8.499
Currency issued	15.872	15.872	14.509	14.509
Total liabilities	**525.998**	**525.998**	**347.396**	**347.396**

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 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.

The Bank recognises an asset and a liability account in relation to the IMF Securities. The underlying balances of the IMF are denominated as follows:

	2017		2016	
	In SDR'000	In USD'000	In SDR'000	In USD'000
IMF Holdings of Currency	21.250	30.263	21.250	30.118
IMF SDR Holdings	3.399	4.840	3.400	4.571
Total	**24.649**	**35.103**	**24.650**	**34.689**

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 $314,858, 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 $54,100, of which $54,100 has been paid on the form of a Promissory Note held at the Bank.

11. Property, Plant and Equipment

Cost	Buildings US$ '000	Plant US$ '000	Office Equipment US$ '000	Computer Equipment US$ '000	Vehicles US$ '000	Work in Progress US$ '000	Total US$ '000
Balance at 1 January 2016	970	386	864	2.434	557	-	5.211
Acquisitions	-	6	42	124	-	-	172
Transfers	-	-	-	-	-	26	26
Balance at 31 Dec. 2016	970	392	906	2.558	557	26	5.409
Acquisitions	-	3	62	1	-	-	66
Work in Progress	-	-	-	-	-	789	789
Balance at 31 Dec. 2017	**970**	**395**	**968**	**2.558**	**557**	**815**	**6.263**
Accumulated depreciation							
Balance at 1 January 2016	602	314	481	950	376	-	2.723
Depreciation for the year	49	20	80	654	47	-	850
Balance at 31 Dec. 2016	650	334	561	1.604	423	-	3.572
Depreciation for the year	49	20	82	563	47	-	760
Adjustment	-	-	-	(280)	-	-	280
Balance at 31 Dec. 2017	**699**	**354**	**643**	**1.887**	**470**	**-**	**4.052**
Net carrying amounts							
Balance at 31 Dec. 2017	**271**	**42**	**325**	**671**	**87**	**815**	**2.211**
Balance at 31 Dec. 2016	**320**	**58**	**345**	**954**	**134**	**26**	**1.837**

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. Work in progress includes costs incurred in relation to the implementation of projects on SINTRAF System, National Switch payment system and office building in Oecusse during 2017. There were subsequently capitalised and transferred to Computer equipment and buildings.

There were no impairment losses at balance date.

12. Other Assets

Other assets comprise the following:

US$ “000	2017	2016
Other Assets		
Accounts receivable	3.569	4.445
Advance, security & prepayment	68	43
Inventories	1.769	716
Total	**5.203**	**5.204**

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

13. Government deposits

US$ “000	2017	2016
Government deposits		
Consolidated fund	216.681	185.338
Infrastructure fund	24.090	7.031
Human Development Capital fund	2.084	2.536
Autonomous agency accounts	32.636	17.406
Municípalities accounts	12.270	-
Total	**287.761**	**212.311**

14. Other deposits

US$ “000	2017	2016
Other deposits		
Domestic financial institutions	158.832	76.720
International financial institutions	35.087	34.659
Total	**193.919**	**111.379**

15. Other Liabilities

O Artigo 9.º da Lei Orgânica do Banco Central, determina que o lucro líquido do Banco, depois das deduções estatutárias para a Conta de Reserva Geral e a Conta de Reserva Adicional, seja transferido para o Governo de Timor-Leste.

Uma quantia equivalente a 50 por cento dos lucros deverá ser debitada à conta de reserva geral até que o capital autorizado e as reservas gerais equivalem a 10 por cento do total de ativos financeiros do Banco, a transferência para o Governo será feita como segue:

US$ "000	2017	2016
Other Liabilities		
Accounts payable	6.409	7.695
Withholding tax payable	20	47
Provision for Long service account	89	79
Letters of Credit	1.794	-
Operating accounts	20.135	678
Total	**28.447**	**8.499**

16. Capital and Reserves

The capital of the Bank is set at $60,000,000 (2016 - $55,000,000).
The following reserves are established by article 10.1 of the organic law:

- An amount equivalent to at least 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 sub-paragraphs (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.

17. 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.

Furthermore article 10.1 (a) of the organic law no. 5/2011 stated that 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:

US$ "000	2017	2016
Transfer to Government		
Balance of General Reserve Account	-	-
Net profit for the year ended 31 December 2017	3.110	698
Transfer to General Reserve Account	(3.110)	-
Total transfer to Government	**-**	**698**

For the year ended 31 December 2017, the transfer of surplus shall be the effect, when the Governing Board approved the distribution of earnings to Government of Timor-Leste within four months after the end of financial year.

18. Contingent Liabilities

There were no contingent liabilities as at 31 December 2017.

19. Net Interest Income

US$ "000	2017	2016
Interest income from Financial Assets		
Interest on deposits at foreign central banks	2.205	644
Interest on deposits at domestic banks	351	810
Total interest income	**2.556**	**1.454**
Interest paid on Financial Liabilities		
Interest paid on Government accounts	84	34
Total interest expenses	**84**	**34**

20. Fee and Commission Income

US$ "000	2017	2016
Fees and commissions		
Currency withdrawal fees	19	20
Licensing and supervision fees	187	164
Government account management fees	500	500
Total fees and commissions	**706**	**684**

21. 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 2017 (unaudited) was $16,799 million (2016 – 15,844 million).

Ministry of Finance agreed to covered internal management fee of BCTL up to 4 basis points on annual basis. The management fee accrued on the Petroleum Fund account was represented 8 basis points or $14,463 thousand (2016 – $13,329 or 10.0 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 accrued from the fund with the total cost of $8,727 thousand or 60% of the entire cost. Management fees are deducted for internally operational management of internal mandate was $5,465 thousand or 38% of the cost. Presented below is the petroleum fund management fee income per nature:

US$ "000	2017	2016
Total Petroleum fund management income fee	14.463	13.329
External managers & custody mgmt services expenses	(8.744)	(8.217)
Investment Advisory management expenses	(274)	(163)
Net fee and commission income	**5.445**	**4.949**

The breakdown of BCTL internal management fee expenses are as shown below.

US$ "000	2017	2016
Salary, capaity building and Other personnel related costs	1.065	1.125
IT services, systems and data	2.285	1.101
Research, consulting and legal fees	1.181	1.048
Allocated common costs BCTL	871	1.606
Other costs	44	69
Total BCTL operational expenses	**5.445**	**4.949**

22. Personnel Expenses

US$ "000	2017	2016
Personnel Expenses		
Salaries and related payments	1.458	1.333
Staff welfare payments	79	90
Capacity building and staff development	251	201
Representation at conferences and meetings	137	194
Total Personnel Expenses	**1.925**	**1.818**

23. Administration Expenses

US$ "000	2017	2016
Administration Expenses		
Asset maintenance	15	27
Communications	93	76
Information systems	1.001	1.061
General expenses	203	126
Office Expenses	91	254
Professional fees	803	1.103
Other Assets management expenses	170	159
Total Administration Expenses	**2.376**	**2.806**

24. 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 2017* were as follows:

US$ "000	2017	2016
Petroleum Fund Assets		
Cash and Cash Equivalents	318.007	108.617
Other receivables	31.422	28.001
Financial assets at fair value through profit or loss	16.462.178	15.715.874
Less: Pending Purchase of Securities & Account payables	(12.294)	(8.165)
	16.799.313	**15.844.327**
Capital	**16.799.313**	**15.844.327**

Notes: *) the PF balance sheet is unaudited

25. Related Party transactions

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, endowed with administrative and financial autonomy and of its own capital. 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 is determined by the Government through Government Decree No. 3/2015 of 21 January, which is disclosed below.

US$ "000	2017	2016
Executive Board members Compensation		
Board members compensation (Included in personnel expenses)	258	258
Total	**258**	**258**

Non-Executive Governing Board
There were four members of the Governing Board who were not one of the key management personnel, whose compensation is disclosed below.

US$ "000	2017	2016
Non-Executive Board members Compensation		
Sitting allowance (Included in personnel expenses)	76	62
Total	**76**	**62**

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

US$ "000	2017	2016
Key Management Personnel Compensation		
Short-term employee benefits (Included in personnel expenses)	92	87
Total	**92**	**87**

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.

26. Authorisation of the financial statements

These financial statements were authorised for issue by the Governing Board of the Bank on 27 April 2018.

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AUDIT REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Banco Central de Timor-Leste (the Bank), which comprise the balance sheet as at December 31, 2017 (which show a total of 589.870 thousands USD and a shareholders' equity total of 63.872 thousands USD), and the statement of profit or loss of comprehensive Income, the statement of changes in equity, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco Central de Timor-Leste as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the law and we comply with the ethical requirements of the ethic code of the Institute of Statutory Auditors.

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

Responsibilities of management and those charged with governance for the financial statements

The Bank's Governing Board is responsible for

- the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards;
- the preparation of the Management Report in accordance with the laws and regulations;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- adoption of appropriate accounting policies and principles for the circumstances;
- assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número - Sede: Av. da República, 90 - 6.º - 1600-206 Lisboa
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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Lisbon 27th April, 2018

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

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Notas

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