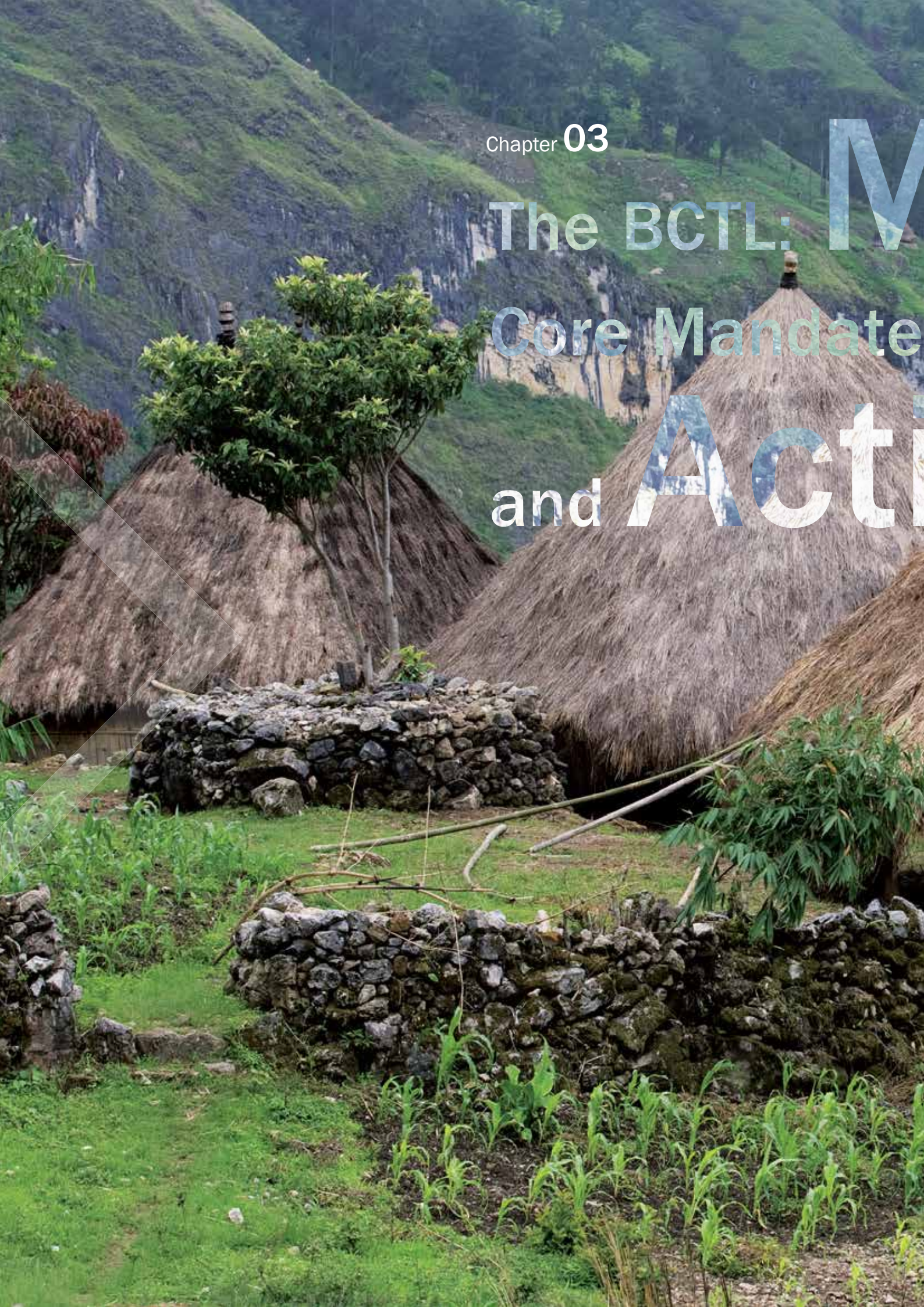


Chapter 03

The BCTL: **M** **C**ore Mandate and **A**cti





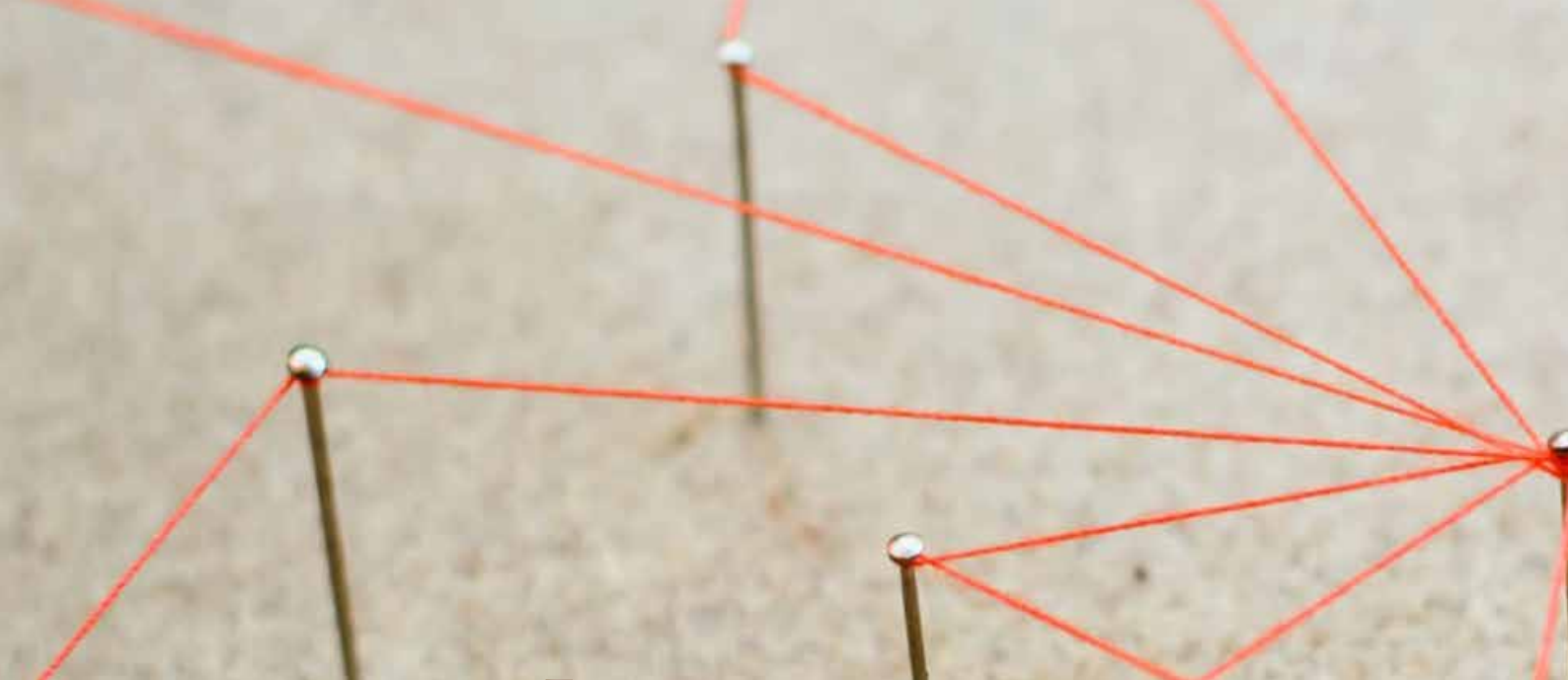
Missions and s, Organization, Governance ivities

The BCTL main mission consists of continuing to ensure 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 inflation rate, a secure and efficient payment system; 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 conducting studies on the national economy, supported by rigorous and accurate statistics.

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 2023, as well as its 2024 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.

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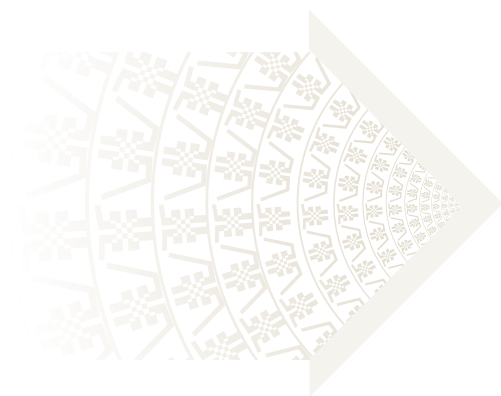


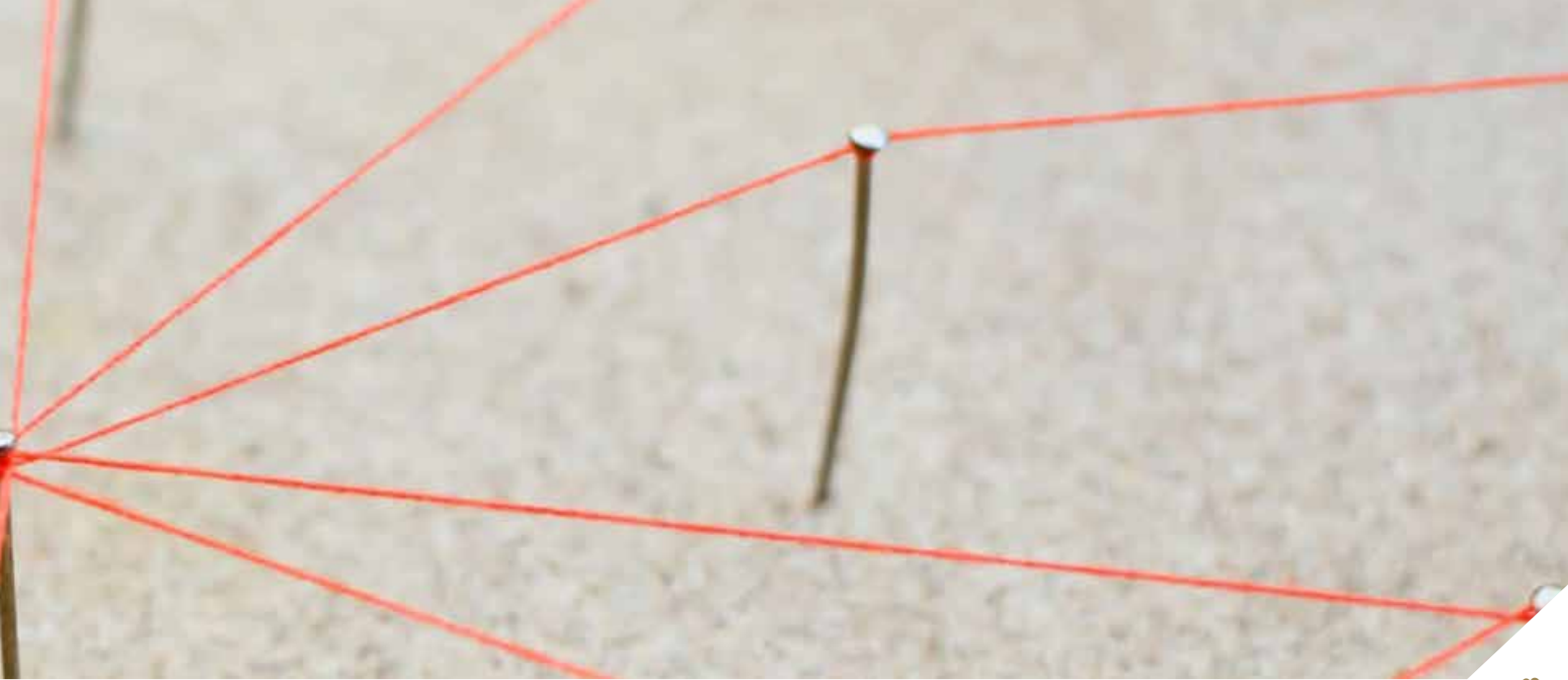
3.1

Core Mandates and Functions

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

As is common in most international central banks within the area of economic policy, BCTL's main objective is to ensure the stability of domestic prices. Other equally important objectives are the promotion and the maintenance of a financial system stability based on free market economy's principles, where there is appropriate competition. Having these objectives and principles as a guideline, the Central Bank should also support the Government economic policies.





In order to achieve its objectives, the functions of the 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)** Carry out operations in foreign currency;
- d)** Hold and manage the country's official external reserves;
- e)** Hold and manage the State's gold reserves;
- f)** Issue and manage the official currency of Timor-Leste;
- g)** Collect and distribute statistical information regarding the areas within its competence, namely monetary, financial 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 supervise the national payment system, in order to guarantee the efficient and safe execution of payments;
- j)** Regulate, license and supervise financial institutions operating in the country;
- k)** Advise the Government on matters within its competence;

- l)** Act as fiscal agent of the Government;
- m)** Participate in international organizations and meetings that concern the above-mentioned points;
- n)** Be part of contracts and establish agreements and protocols with national or foreign, public or private entities; and
- o)** Perform any other activities as defined by law.

Currently, some of these functions are not yet performed by the BCTL due to the adoption of the US dollar (USD) as the official currency of the country.



3.2

BCTL Organization and Governance

BCTL's highest authority is its Board of Directors, which formulates the institution's strategies and policies and oversees their implementation, including the supervision of the Bank's executive management and operational activities.

The Governor is the highest executive body of BCTL, or its Chief Executive Officer and is assisted by two Vice-Governors and a Management Committee composed of the Directors and heads of various departments of the Bank. At the end of 2023, the year of this report, the Board of Directors was composed by the Governor, two Vice-Governors and four non-executive members. The composition of the Board of Directors and the Management Committee are presented at the end of the chapter.

The BCTL is internally organized into five main departments: Financial System Supervision; Banking and Payment Systems; Petroleum Fund

Management; Administration; and Economic and Statistics Department (which previously the Division of Economics and Statistics). Some Divisions and Units report directly to the Governor, namely the: Legal Unit, Internal Audit, Institutional Cooperation Affairs Unit, Human Resources Division and the Financial Information Unit. The Accounting and Budget Division is dependent on the Deputy Governor responsible for supervising of the financial system. The Central Bank is also in charge of the Secretariat of the Advisory Board for the investment of the Petroleum Fund.

BCTL's Board of Directors continues to adopt the motto abbreviated by the acronym **TIMOR**, representing **T**ransparency, **I**ntegrity, **M**obilization, **O**bligation and **R**esponsibility, essential slogans in the day-to-day operations of the institution and of its employees.



Institutional Values

T ransparency

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

I ntegrity

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

M obilization

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

O wnership

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

R esponsibility

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

BCTL has long adopted a code of ethics applicable to all employees, also covering appropriate guidelines in dealings with external entities to the Bank. The code of ethics includes strict rules on various aspects of the behavior of those to whom it applies. Note, for example, the obligation of every Bank employee is to perform its duties solely on the basis of serving the BCTL and general public interest, and not their individual interests, which includes not receiving instructions, whatever they may be, from entities other than the legally appointed structures of the Central Bank.

Bank employees are also, of course, forbidden to receive any remuneration from any persons or institutions who may be interested in influencing their decisions.



3.3

BCTL Activities in 2023

The BCTL implemented several activities in accordance with the plan defined in 2023, mainly those related to its mission to promote monetary and financial stability, develop the financial system and promote a safe and effective payments system.

In 2023, BCTL continued its mission to modernize the national payments system. In this regard, BCTL monitored the functioning of the implementation of R-TIMOR to serve the needs of the Government, mainly the Ministry of Finance. These services offer the Ministry of Finance access to historical statements of its accounts and sub-accounts, allowing treasury management and projection of cash flows in real time. BCTL continues to make efforts to ensure necessary improvements to the R-TIMOR service system while maintaining coordination with the supplier and service participants.

The BCTL continued to ensure the full operation of real-time gross settlement systems (RTGs) in order to carry out financial transactions with the purpose of meeting the needs of the public, namely the state

and commercial banks. For this reason, BCTL also guarantees sufficient cash reserves.

BCTL maintained its commitment to improving the digital payments system and customer service. In partnership with financial institutions and service providers P24, successfully interconnected the tax payment system, the e-wallet system and the BNU POS. This measure increases the efficiency of paying taxes through electronic wallets and POS. Furthermore, BCTL has completed the certification process to become a Mastercard Acquirer in collaboration with BNU.

Still in 2023, BCTL and the Ministry of Education (ME) continued the work of implementing the financial literacy program in public basic education schools. The program was carried out in 144 public primary schools, with the commitment and full support of the Ministry of Education, in particular the General Directorate of Education and Teaching.

The BCTL Board of Directors took several decisions throughout 2023. These, among others, are the



approval of instructions on the implementation of International Financial Reporting Standards (IFRS) to commercial banks and other institutions receiving deposits (OIRD) in areas such as chart of accounts, liquidity management and ratios, solvency, reports and accounts and dissemination. The instructions were published in the *Jornal da República* and will become effective from July 30, 2024. They aim to reinforce public confidence in the financial system and promote the competitiveness of the sector.

The celebration of the 9th anniversary of National Savings Day, on November 29, 2023, took place in Timor-Plaza, municipality of Dili. The program consisted of celebrating the 3rd anniversary of the “Campo Digital” program. The event was attended by the Prime Minister, members of the BCTL Board of Directors, representatives of financial institutions, and directors of primary and secondary schools. As part of this celebration, BCTL presented an exhibition on the financial services and digital payment systems available in the country, such as ATM-P24, POS-P24, electronic wallet, internet banking and mobile banking. The exhibition was attended by financial institutions, mainly commercial banks, fintech companies, insurance companies and traders who adopt digital payments systems in their daily transactions.

In order to maintain relationship ties and increase information sharing, BCTL continued to deepen cooperation with its counterparts and other national and international institutions through

the Institutional Cooperation Affairs Unit (UACI). Cooperation activities in 2023 have mainly focused on the areas of training, seminars, meetings and technical assistance. Most cooperation initiatives throughout 2023 were carried out in person.

These and other BCTL activities carried out in 2023 are described in a greater detail in the following section.

3.3.1. National Payment System

3.3.1.1. Interbank Clearing and Settlement System

During 2023, BCTL continued to act to ensure adequate cash reserves to meet the needs of monetary payments, both from the state and from commercial banks. To carry out the respective financial transactions, BCTL ensured the full functioning of the Real-Time Gross Settlement systems (RTGS).

The social distancing measures introduced in 2020 and 2021 to mitigate the impacts of the Covid-19 pandemic, the BCTL introduced a circular that defines the activities of the Automatic Clearing House (CCA) system to begin to be processed directly by commercial banks. This measure continued in 2022 and 2023, meaning that commercial banks only carry out credit notes, with no clearing check by BCTL. For this reason, it was not possible to record movements and values in the

central bank's Interbank Clearing and Settlement System (CEL) since the implementation of this circular.

3.3.1.2. The SWIFT and R-TIMOR (RTGS)

The BCTL provides national and international payment services to the public. International payments made from the country to abroad and vice versa are always using the SWIFT system and also using non-SWIFT resources. National payments are, in turn, of two types: high value and retail. National payments, mainly with regard to retail payments, are directly executed by the CCA, processing payments relating to salaries, veterans' benefits, payments to suppliers, which, among others, are processed and transferred to

Table 3.1 presents statistics on national and international payments in 2023. With regard to national payments, 1.388 million transactions were processed, corresponding to a total of 8,266 million USD, representing a 2.9% growth in the number of transactions and 7% in value compared to 2022. Outgoing payments through RTGS continues to be the main driver of growth in operations, with an annual increase of 12%. At the same time, there is a significant number of operations in CCA, with a share of 92% in total operations in RTGS, even though, in value, the share is 8%. This is due to the fact that CCA only processes operations of low value.

Table 3.1.

Domestic and International Payments

(Value in millions of USD, Quantity in 10³)

	2022		2023		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
National Payments						
Automatic Clearing						
House	1,238.80	598.80	1,275.85	644.61	3.0	7.6
RTGS-FICT	18.21	5,561.73	29.25	6,256.72	60.7	12.5
RTGS-SCCT	92.16	1,565.51	83.44	1,365.19	-9.5	-12.8
Sub Total	1,349.17	7,726.04	1,388.54	8,266.52	2.9	7.0
International Payments						
Outgoing Transfers -SWIFT	1.4	1,638.6	2.8	1,585.7	101.2	-3.2
Incoming Transfers-SWIFT	0.2	196.3	0.2	381.8	29.1	94.5
Sub Total	1.58	1,834.88	3.05	1,967.51	93.3	7.2
Total	1,350.75	9,560.92	1,391.59	10,234.03	3.0	7.0

Source: BCTL

commercial banks. Meanwhile, payments of large amounts, above 200 thousand USD, are always made through RTGS. The RTGS system accepts all transaction amounts, on the contrary, the CCA system does not accept payments exceeding 200 thousand USD.

On the other hand, 3 thousand international operations were processed, corresponding to a value of 1,967 million USD, which represented an annual increase of 93% and 7%, respectively. The increase in the volume of international payments was mainly due to the increase in transfers made abroad, which represented 81% of international payments made in 2023. That year, transfers abroad increased by 101% in number and contracted by 3% in transaction value compared to 2022.

Table 3.2 also presents data relating to international transactions, corresponding to transfer and receipt transactions carried out by commercial banks in 2023, therefore only transactions carried out via SWIFT are included.

Table 3.2.

SWIFT Transfers Incoming and Outgoing

(Value in millions of USD, Quantity in 10³)

	2022		2023		Variação (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfer Incoming						
SWIFT	29.2	176.4	44.7	506.4	53.4	187.1
Non-SWIFT	33.3	158.6	36.9	217.8	10.9	37.3
Sub-Total	62.4	335.0	81.6	724.2	144.9	116.2
Transfer Outgoing						
SWIFT	9.2	221.2	23.3	1,384.9	152.9	526.0
Non-SWIFT	107.1	1,237.2	75.6	1,008.4	-29.5	-18.5
Sub-Total	116.3	1,458.4	98.9	2,393.3	-15.0	64.1
Total	178.8	1,793.5	180.5	3,177.6	20.6	73.8

Source: BCTL

The number of external transfers received in 2023 via SWIFT amounted to a total of 45 thousand and corresponded to a value of 506 million USD, meaning they increased by 53% in number and 187% in value. On the other hand, transfers made outside the SWIFT network reached a volume of 37 thousand, which corresponded to a value of 218 million USD, which represented an increase of 11% and 37%, respectively. Meanwhile, transfers to abroad totaled 99 thousand transactions, with a value of 2,393 million USD, which resulted in a 15% drop in terms of quantity and a 64% increase in value transferred. Transfers outside the SWIFT network were those that contributed the most to the decrease in activity, having reduced by 29% in volume and 18% in value.

3.3.1.3. The P24 System

The P24 system makes use of the R-TiMOR interbank network, allowing the net value of each bank's transactions to be automatically settled on a daily basis, 24 hours a day and 7 days a week. The main objective of implementing the P24 electronic system is to reduce the use of physical money (cash) in citizens' daily transactions. P24 allowed



3.3.1.4. The Electronic Wallet System Service (E-Wallet)

The Mosan and T-Pay system are electronic money wallet (E-Wallet) services that allow users to transfer funds, withdraw and deposit money into their wallets, top up mobile phone balances, make electricity prepayments and consult the balance sheets and history of transactions carried out.

For prudential reasons, limits were imposed on the Mosan and T-Pay systems. In the case of the Mosan

Table 3.3.

P24 System

(Value in millions of USD, Quantity in 10³)

	Financial Transactions				Non-Financial Transaction
	Cash Withdrawal		Transfer		Balance Inquiry
	Quantity	Value	Quantity	Value	
2022	2,640.5	329.4	14.1	7.7	1.1
2023	3,008.8	377.4	13.1	6.1	1.4

Source: BCTL

people without bank accounts, and those who are far from banks, to access electronic means of bank transfers and payments that are accepted in local markets and stores.

Table 3.3 summarizes the evolution of transactions carried out in the P24 system in the country during 2023.

The numbers show significant growth in financial transactions in the P24. In 2023, 3 million cash withdrawal operations were carried out through the P24 system, corresponding to a value of 377 million USD, which resulted in an increase of 14% in quantity and 15% in value. In relation to the level of transfers carried out in P24, 13 thousand operations were registered, totaling \$6 million, which corresponds to a decrease of 7% and 20%, respectively, compared to 2022.

system, a maximum account balance of 500 USD and a maximum deposit of 300 USD per day were stipulated. For the T-Pay system, the maximum transaction is 300 USD per day and the maximum balance per account is 300 USD. Mosan and T-Pay Agents, which function as 'transaction points', allow their customers to:

- Transfer and receive funds;
- Deposit and withdraw money;
- Make purchases (QR-Code), including charging mobile phone and electricity; and register the user/account and update customer information.

Mosan and T-Pay thus allow access to basic financial services to citizens of village and sub-villages who live far from the main urban centers and to citizens who do not yet have the possibility of accessing formal financial services in Timor-Leste.



Table 3.4 presents statistics related to transactions carried out by this service in 2023. The levels of use of the Mosan and T-Pay systems registered a moderate increase. In 2023, there were 5,958 thousand transactions, corresponding to 88 million USD, which represents an annual increase of 20% in volume and 43% in value.

Table 3.4.

E-wallet Service Transaction

(Value in millions of USD, Quantity in 10³)

	2022		2023		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfer	427.7	45.6	385.4	48.6	(9.9)	6.7
Cash-in	410.8	6.2	967.7	17.8	135.5	189.2
Cash-out	38.1	5.0	388.0	14.8	918.7	196.7
Top-up	3,124.1	3.1	2,544.0	3.0	(18.6)	(1.3)
Buy data	602.8	0.6	1,274.6	2.4	111.5	270.2
Utility Payment	336.1	1.2	398.9	1.6	18.7	34.2
Total	4,939.6	61.6	5,958.5	88.2	20.6	43.2

Source: BCTL

3.3.1.5. Banking System

The statistics in Table 3.5 summarize the evolution of transactions in 'cash' (coins or notes) and other means carried out by commercial banks in Timor-Leste. The number of 'currency' transactions carried out in 2023 totaled 5.6 million, corresponding to 0.11% of the total number of transactions carried out, with a nominal value of 5,378 million USD. These numbers translate into a reduction of 6.8%

in number and an increase of 24.2% in value, compared to 2022. Transactions in means other than "currency", on the contrary, represented 99.9% of the total number of transactions in the country, or 4,959 million transactions, and corresponded to an aggregate value of 5,066 million USD. These values represent a decrease of 0.3% in number and an increase of 0.6% in value compared to 2022.

Table 3.5.

Cash and non-Cash Transaction

(In millions of USD)

	2022		2023		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Cash Transaction	6.02	4,330	5.61	5,378	-6.8	24.2
Non-Cash Transaction	4,973	5,034	4,959	5,066	-0.3	0.6
Total	4,979	9,364	4,964	10,444	-0.3	11.5

Source: BCTL

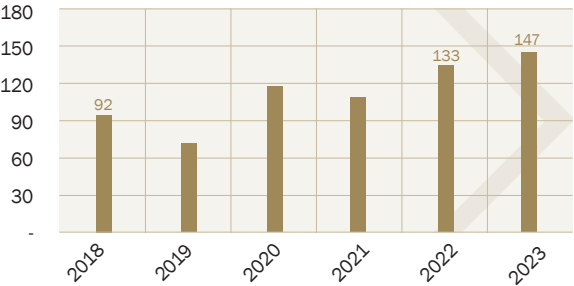
BCTL wants the settlement of economic transactions to become progressively more efficient and effective, through greater use of electronic payment methods and digital financial services. Therefore, BCTL continues to promote the substantial expansion of the network and range of automatic payment services that do not use banknotes/coins but use the national interconnection system to expand payment services. This strategy will encourage the

the increase observed in access to the banking system and, on the other hand, the increase in the use of digital payment systems in the country.

The continued growth in the number and degree of use of bank cards reflects the effective interest of users in these means of payment and the modernization and increasing digitalization of our financial system.

Chart 3.1

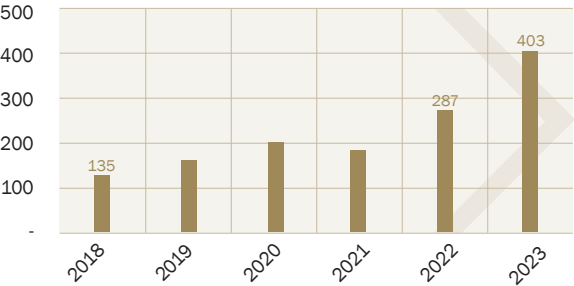
Automated Teller Machine (ATM)
Number of ATM



Source: BCTL

Chart 3.2

Point of Sale (PoS)
Number of POS



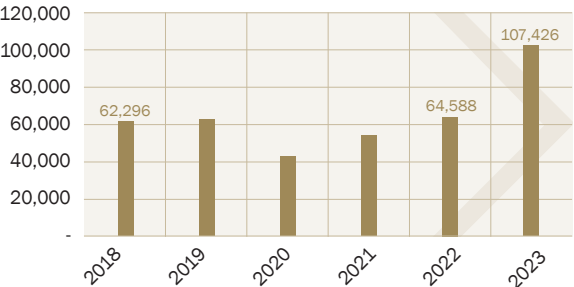
Source: BCTL

widespread use of debit and credit cards and mobile phones as platforms for making payments.

Graphs 3.1 and 3.2 describe the evolution of the number of payment terminals installed in the country. In 2023, automatic teller machines (ATM) totaled 147 units, while automatic payment terminals (PoS) reached 403 units. These values represent an annual increase of 11% for automated teller machines (ATM) and 40% for PoS.

Chart 3.3

Number of Credit and Debit Card
Number of cards



Source: BCTL

The evolution of bank cards issued in Timor-Leste can be seen in graph 3.3. The number of cards in circulation in the country totaled, in December 2023, around 107.4 thousand, which corresponds to an increase of 66% compared to the previous year. Regarding the composition of the total number of debit and credit cards, there is an annual increase in debit and credit cards of 67% and 17%, respectively. This evolution may explain

3.3.1.6. Currency Imports and Exports

One of the fundamental functions of the BCTL is to manage the country's official currency. In this sense, the BCTL must ensure that the national economy has the means of payment necessary for its economic growth and the current economic activity of its agents. Therefore, BCTL's action is crucial to guarantee public confidence in the country's currency, whether through satisfying, at all times, the public's demand for banknotes and coins, or by guaranteeing the physical integrity of banknotes.

Since the country uses notes from another country and its own metallic coins, which are not manufactured in the national territory, supplying the national economy with physical means of payment

(re)deposited (“fit currency”) by banks at the central bank. Due to their frequent use, these two denominations register a very low degree of conservation, meaning that the amounts (re)

Table 3.6.

Coin Transaction and Movement

(in millions of USD)

Denomination	Import		Re-circulation		Deposit		Weight 2023			Change (%)		
	2022	2023	2022	2023	2022	2023	Import	Re-circulation	Deposit	Import	Re-circulation	Deposit
100	0.000	3.200	3.800	5.500	2.800	1.700	1.7	1.3	0.6		45	-39
50	3.200	1.600	1.950	1.700	1.850	1.150	0.9	0.4	0.4	-50	-13	-38
20	74.240	120.640	187.400	257.900	66.531	153.080	64.3	59.4	56.8	63	38	130
10	33.920	60.160	113.090	166.800	53.808	112.135	32.1	38.4	41.6	77	47	108
5	1.200	2.000	2.235	1.985	1.333	1.495	1.1	0.5	0.6	67	-11	12
Total	112.560	187.600	308.476	433.886	126.323	269.561	100	100	100	67	41	113

Source: BCTL

(coins and notes) requires the importation of cash and, in the case of notes, when they reach a very low degree of conservation, its re-export to the country of origin, the United States of America.

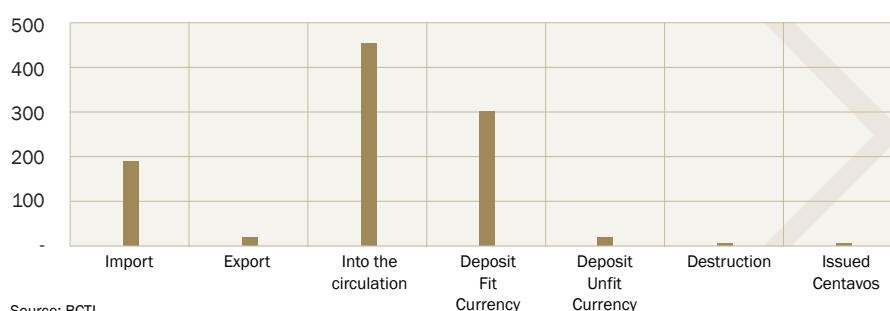
During 2023, BCTL imported 187.6 million USD banknotes, representing an annual increase of 67%, having put into circulation a total of 441 million USD, including coins (cents), which corresponds to an increase annual rate of 40%. The amount put into circulation was greater than that imported by a difference of more than 246 million USD. This excess was due to the inflow of deposits and the existing reserves.

deposited of “unfit currency” and their repatriation to the country of origin had a significant weight, as in previous years - 47 % and 26% of (re)deposits, and 36% and 42% of repatriations, respectively, in 2023 (Table 3.6).

Cent coins worth a total of 7.4 million cents were put into circulation during 2023, with new coins worth 3.5 million cents being issued in 2023. The 200-cent coin recorded a total amount in circulation of 1.4 million cents, representing 19% of the total in circulation and an increase of 158% in 2023, after a drop of 46% in 2022. On the contrary, the 100-cent coin registered a decline of 15% after having recorded an increase

Chart 3.4

TL: Currency Transaction in 2023
In millions of USD



Source: BCTL

The 20-dollar bills continue to be the most used in transactions in the country, followed by the 10-dollar denomination. The 20- and 10-dollar notes represented, respectively, 64% and 32% of total imports, 59% and 38% of circulation in the economy, and 57% and 42% of the total

of 43% in 2022, thus reaching a value of 3.4 million cents in 2023. The 50-cent denomination registered a value in circulation of 1.92 million cents, representing 26% of the total coins in circulation and a decrease of 1.3% compared to 2022.

Box 1. Modernization of Timor-Leste’s Payment System

1. The R-TIMOR System

In 2015, BCTL launched the R-TiMOR system, an integrated network service that allows participants to make electronic payments in Timor-Leste between individuals, companies, public institutions and other entities. The R-TiMOR system is managed by the Central Bank, which guarantees the operationalization of services to its members and participants. BCTL continues to improve the quality of services provided by R-TiMOR in order to maintain an efficient and effective national payments system through ‘Straight Through Processing (STP)’. In fact, the STP has already been implemented and is currently used in all commercial banks and the Ministry of Finance.

The number of participants in the R-TiMOR system is divided between direct and indirect participants. Until the end of 2023, the number of direct participants remained at 7 participants, while the number of indirect participants increased significantly, registering an annual increase of 29% for a total of 136 participants. Indirect participants consist of Autonomous Agencies, Municipalities and Special Funds. The system allows indirect participants to process their payments directly using the Government Resource Planning (GRP) system installed at their workplaces.

In 2023, the Central Bank continued efforts to ensure the necessary improvements to R-TiMOR, maintaining coordination with the service provider and participants. The additional objective of this effort is to facilitate direct payments in large

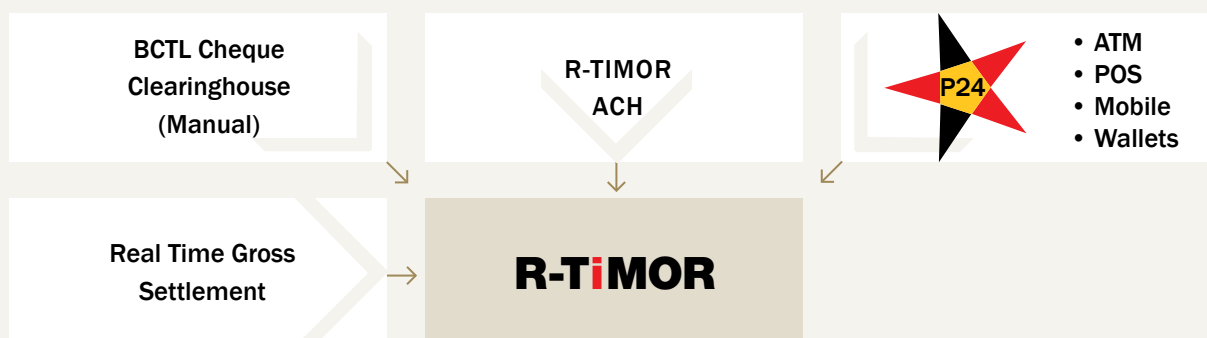
amounts and make all payments to the State (taxes, tenders, etc.) from any bank participating in the R-TiMOR.

2. The National Card and the Payment Switch Projects

In partnership with SIBS International, from Portugal, hired in 2017, BCTL developed the National Card Project and Payment System Interconnection, called “P24” (the “P” derived from the words ‘Pagamentu, Pagamento, Payment and Pembayaran’). The P24 system offers a wide range of financial services available 24 hours a day, 7 days a week.

Since the end of 2022, all banks operating in Timor-Leste - Caixa Geral de Depósito (CGD), Banco Mandiri, Bank Rakyat Indonesia (BRI), and BNCTL - have adhered to this P24 system. With the integration of these banks’ ATM network into the P24 system, customers of each bank can carry out transactions at other banks’ ATMs with the P24 logo.

In October 2020, BCTL, in collaboration with P24 participating banks and the Tax Authority of the Ministry of Finance, completed the Tax Payment functionality through P24 ATMs. This step is one of the essential elements of the National Payment System, allowing P24 cardholders to pay taxes electronically through any ATM that displays the P24 logo, without the need to go to their banks. In September 2023, the Central Bank, together with



the provider P24, made an additional resource available for paying taxes through POS devices. This solution offers an additional option for efficient tax payment, without the need to use a bank ATM, as soon as the Tax Authority of the Ministry of Finance makes POS devices available at its tax payment counters. The P24 system is linked to the Central Bank's R-TiMOR settlement system, ensuring that taxes received are subsequently credited directly through processing to the Government Consolidated Account via the R-TiMOR system.

These new tax payment features were jointly launched by BCTL and the Ministry of Finance, in an official ceremony on March 5, 2021. Providing access to these services has been one of the Central Bank's key strategies to modernize, strengthen and develop the financial sector to support economic growth and one of the Government's priorities to promote "e-government" in order to simplify and facilitate the provision of public services and the government inclusion of citizens.

In 2020 BCTL, in collaboration with P24 participants, completed the interconnection of the "Mobile Switch" with the P24 system. This step allowed electronic wallets, the e-wallet composed of Mosan (from Telemor Fintech Lda) and T-Pay (from Telin Solution Lda), to transfer funds from bank accounts to electronic wallet accounts and vice versa (B2W2B)

In 2022, BCTL and Banco Nacional de Comércio de Timor-Leste (BNCTL) finalized the process of integrating Union Pay International, Master Card validation and BNCTL POS into the P24 system. This integration allows travelers or Union Pay cardholders to carry out transactions at BNCTL ATM machines in Timor-Leste with the P24 logo. Following the completion of the Union Pay Acquisition, BNCTL also began, in collaboration with BCTL and its service provider, Union Payment Issuance (contactless and 3D Secure). The

development of BNCTL Union Payment Issuance achieved significant progress in 2023 and is expected to be completed in the first half of 2024. Completion of this project will allow BNCTL to issue contactless and 3D Secure Union Pay International cards to interested BNCTL customers. This will make it easier for cardholders to carry out transactions at home and abroad. Additionally, 3D Secure, once completed, will make it easier for cardholders to efficiently conduct financial transactions online. Finally, the Central Bank also authorized BNCTL in 2023 to initiate and open a project with Mastercard for the Acquisition and Issuance of Mastercard.

BNU Timor's Visa contactless and 3D Secure had been integrated into the P24 in previous years. In 2023, BNU Timor, in collaboration with BCTL and relevant parties, completed the integration of Mastercard Acquiring into P24. International Mastercard holders visiting Timor-Leste can now carry out transactions at BNU ATMs and POS devices.

Development of the ASYCUDA interface with P24 has progressed well during 2023 and is expected to be completed in the first half of 2024. This will facilitate real-time digital customs clearance payments efficiently via POS devices once completed.

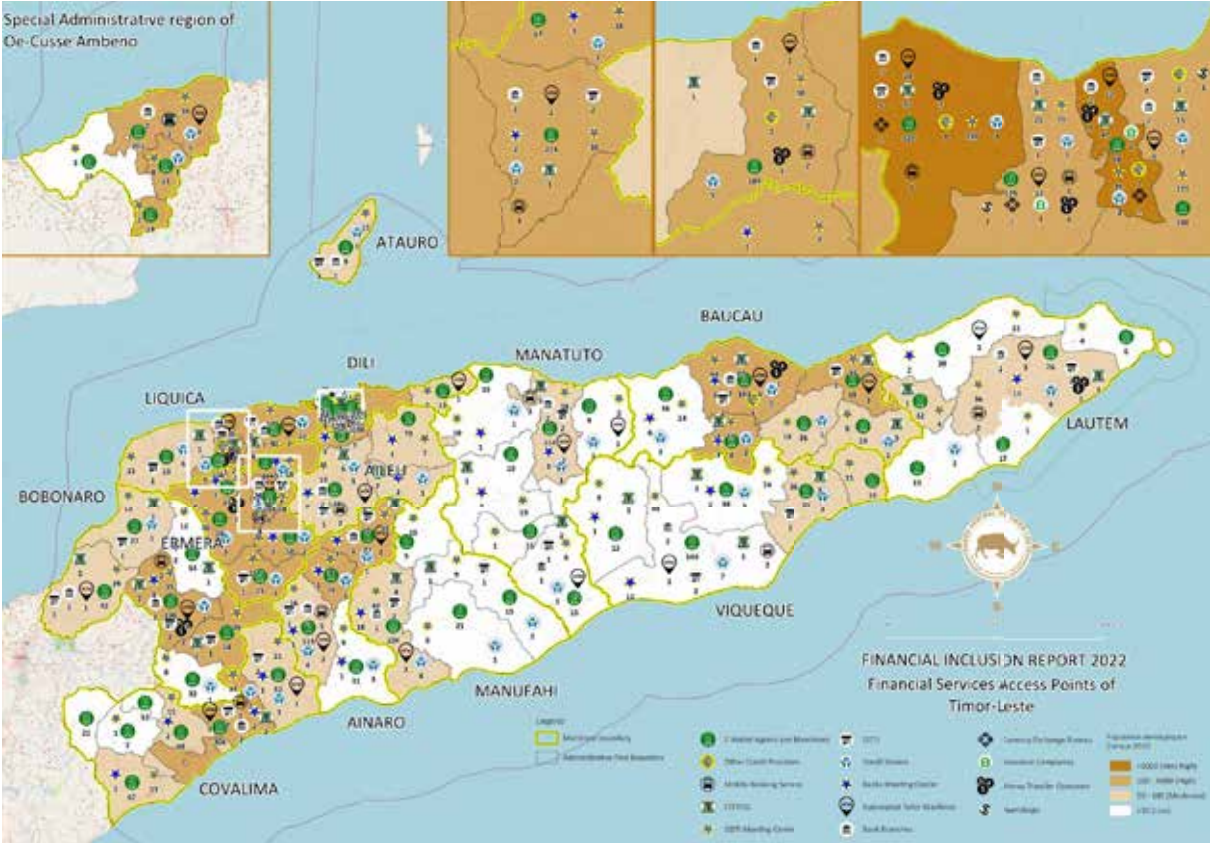
The integration of bank ATMs and POS devices, international payment schemes (such as Visa, Union Pay and Mastercard) and interconnection of electronic wallets into the P24 system allowed the system to be fully integrated, interconnected and interoperable. Thus, Timor-Leste has become a country that adopts the region's modern payment systems, facilitating efficient and systematic transactions necessary for the country's economic development and growth.

3.3.2. Financial and Banking Systems

In 2023, the BCTL issued a new Instruction on the Licensing and Supervision of Financial Institutions that will allow the operation of a new form of non-bank financial services in Timor-Leste. The main objective of this measure is to promote access to credit for the private sector, especially for Micro, Small and Medium Enterprises (MSME) in the country.

3.3.2.1. Licensing and Supervision

Timor-Leste’s financial system is made up of commercial banks, insurance companies, other deposit-taking institutions, exchange offices and money transfer operators (MTO), fintech companies



and several credit cooperatives. The functioning of the financial system evolved in a solid and secure manner throughout the year, continuing to contribute significantly to the country’s economic and financial stability.

The BCTL also issued new prudential regulations on the implementation of International Financial Reporting Standards for banks and other deposit-taking institutions (OIRD) licensed to operate in the country. The BCTL, through the Supervision Division, continues to supervise financial institutions to ensure full compliance with applicable laws and regulations.

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 BCTL Licensing Division and Supervision Division are responsible for granting licenses and supervising banks’ activities, money changers, insurance companies or insurance intermediaries, other deposit-taking institutions and money transfer operators (MTOs), which operate in the country.

During 2023, there were no new applications from financial institutions licensed to operate in the country. Although meetings were held with potential candidates wishing to open a bank or money transfer operators, BCTL did not receive any formal applications.

Box 2. Financial Education Program in Timor-Leste

2.1. Financial Literacy Program in Primary Schools

During 2023, the Central Bank of Timor-Leste (BCTL) and the Ministry of Education (ME) continued to work on implementing the financial literacy program in public basic education schools. This program was implemented in 144 public primary schools due to the commitment and full support of the Ministry of Education, in particular the General Directorate of Education and Teaching (DGEE) through the distribution of the circular letter ordering teachers to teach the program in their respective schools.

BCTL continues to coordinate and communicate closely with the Ministry of Education as the main player in the financial literacy program in primary schools. There were several technical meetings that were organized during the year. The objective of these meetings was to discuss the issues and find the best solutions, so that the implementation of the program was aligned with the determined objectives.

To ensure and guarantee the continuation of the financial literacy teaching program, BCTL and the Ministry of Education organized a technical meeting with the director of education and the superintendent of the municipalities. During this meeting, representatives from the Ministry of Education informed and emphasized that the financial literacy program continues in designated schools. Furthermore, BCTL also emphasized that it will continue to support this program and consider it as a national program, therefore the success of the implementation is subject to good and close coordination and collaboration with the Ministry of Education, especially at the municipality level. On this occasion, representatives from the Ministry of Education also distributed a circular letter to the directors of municipal educations that instructed schools to teach the financial literacy program as an extracurricular subject.

After the circular letters were distributed, BCTL carried out monitoring activities in two types of approaches. First, BCTL conducted pre-monitoring activities through telephone interviews with respective school principals. The purpose of this interview was to confirm whether the designated schools had received the circular letter and implemented it. Second, BCTL monitored teaching progress and distributed financial literacy books to schools that planned to expand the program to primary schools within its supervision zone.

Data collected by BCTL from each school delivering the financial literacy program indicated that the number of students who attended the financial literacy program from grades 1 to 6 in 2023 totaled 5,921.

As a result, the total number of students who attended the program from 2016 to 2023 was 42,198, made up of 20,841 females (49.4%) and 21,357 males (50.6%), as shown in the following table:

Number of Students			
Year	Male	Female	Total
2016	2.577	2.749	5.326
2017	6.635	6.412	13.047
2018	5.652	5.668	11.32
2019	2.764	2.359	5.123
2020	767	694	1.461
2023	2.962	2.959	5.921
Total	21.357	20.841	42.198

Source: School reports, 2016-2023

2.2. Launch of the Fourth Edition of the 2022 Financial Inclusion Report

Every two years, since 2016, the Central Bank collects and analyzes information to measure and monitor the evolution of financial inclusion in Timor-Leste. In 2023, BCTL produced and published the fourth edition of the Financial Inclusion Report.

The main theme of the report was preparing for the ongoing digital transformation. The report highlighted the transformative impact of the digital revolution on the financial services sector, from the preparation and personalization of digital currency transactions to online banking channels and the ascension of Fintech financial service providers. It also highlighted that the Central Bank itself must reimagine processes, systems and ways of working to keep up with this rapid ongoing transformation. Another highlight was the potential of artificial intelligence and other cutting-edge technologies to improve productivity, customer experiences and innovation in general. The report points out that although Timor-Leste has taken steps towards digitalization with e-wallet services, additional efforts are still needed to promote digital financial services more broadly. Digital financial literacy is essential in this process, helping people feel comfortable using digital financial products. This report shows the continued improvement of key financial inclusion indicators, despite the persistent barrier of a lack of digital financial literacy. Low levels of financial literacy led to little use of financial services, even when available, as many people may not understand their benefits or how to use them effectively. The report also highlights the following additional points:

- Access points to Financial Services continue to expand, with all types of financial services having increased the number of access points since 2020, except Money Changer (MC). Electronic wallet services and Other Deposit-Taking Institutions (ODTI) have made the most significant progress.
- Access points to financial services cover all the villages in the municipalities of Díli, Ataúro and Liquiça. On the other hand, Ermera and Manufahi have the largest number of villages without any access points to financial services. There are 29 villages without access points to financial services.
- Timorese adults use more financial services compared to 2020. At the end of 2022, around 64% of the adult population were bank customers, 6% were ODTI customers and 22% were e-wallet customers. From a gender perspective, women use more financial services than men, except e-wallet services.

- The two ODTIs were very competitive in the credit market, serving 45% of private customers with credit from regulated financial institutions. The remainder of the credit market was served by the five banks operating in the country. 72% of ODTI customers have an active loan, while only 8% of bank customers had a bank loan.

2.3. The VII Meeting on Banking Supervision of the Central Banks of Portuguese-Speaking Countries (BCPLP)

Between the 24th and 26th of July 2023, the VII Meeting on Banking Supervision of the Central Banks of Portuguese-Speaking Countries was held in Timor-Leste, which aimed to exchange experience between BCPLP supervisors. Representatives of the central banks of Angola, Brazil, Cape Verde, Macau, Mozambique, Portugal and Timor-Leste were present at the meeting.

At the opening of the meeting, the Vice-Governor of BCTL, Rafael Borges, highlighted in his speech, after an initial greeting, the importance of banking supervision for the financial system. That said, he highlighted the need for continuous sharing of experiences through debates included in the annual supervisors' meetings. He also noted that BCTL owns and operates two critical payment systems, namely the automated transfer system that combines the functionalities of the Real-Time Gross Settlement (RTGS) and Automated Clearing House (ACH) systems and the retail payments network, known as P24, where all banks and fintech are connected.

He continued to highlight that, at the end of 2021, the (former) Governor of BCTL, Abraão de Vasconcelos, took the decision to fully adopt IFRS9 for banks and ODTIs, as well as the Basel III structure, with the process transition is scheduled to begin in June 2024.

In the opening session, participants shared the main transformations that occurred in the banking supervision function of each central bank. The issue of the rapid evolution of digital technology and money laundering received special attention, without neglecting other aspects of current

supervision that require due care by banking supervisors.

2.4. Training Program for Micro, Small and Medium Enterprises

BCTL is committed to empowering micro, small and medium-sized enterprises (MSMEs) through cooperation and collaboration with IADE (Business Development Support Institute) and CCI-TL (Timor-Leste Chamber of Commerce and Industry), providing training in bookkeeping and accounting.

During 2023, 13 entrepreneurs (10 women and 3 men) participated in this program in Maliana, Municipality of Bobonaro. In terms of economic sectors, 5 entrepreneurs operate in the retail sector, 4 in the livestock sector and 4 in the services sector. The training was well organized as each institution performed its functions in accordance with the agreement contained in the memorandum of understanding. The central bank provided support in terms of teaching materials and food costs during the five days of training. In turn, CCI-TL nominated the participants to participate in the training and IADE provided training on basic bookkeeping and accounting.

On this occasion, BCTL took the opportunity to present a specific financial literacy theme that was personalized for entrepreneurs. This theme guided understanding of the importance of budget planning, savings and protecting business owners' assets through the facilities available in financial institutions. BCTL also coordinated with banks and ODTIs to contribute to this training program by providing information about its credit products. Additionally, BCTL shared information on the range of digital financial transactions currently available in Timor-Leste's financial markets.

Since the establishment of the partnership, the program has trained 285 participants in bookkeeping and basic accounting. The training was carried out in several locations such as Dili, Same, Oecusse, Baucau, Viqueque, Maubisse and Maliana. It was also noted that the participants were mostly women, totaling 158, and 127 were men.

2.5. Financial Literacy Program for Young People

In October and November 2023, BCTL organized digital financial literacy programs aimed at young people in secondary schools and universities. The objectives were to share information about digital financial literacy, so they were encouraged to use the digital payment platform for daily transactions. Furthermore, young people were encouraged to share this information with their friends or family, with a view to expanding the number of adults who use the online digital platform in daily transactions. BCTL took the opportunity to disseminate information about the various digital transaction tools available and the advantages of using digital transactions in everyday life. Participants also had the opportunity to learn about the importance of financial planning, saving and protecting their finances. Furthermore, they obtained information on the detection of counterfeit physical money.

This program was organized at the Dili Institute of Technology (DIT) and at a professional technical secondary school for business and economics in the capital. The program reached 155 students made up of 62 men and 93 women.

3.6. Digital Financial Literacy for Companies

With regards to the ninth National Savings Day and the third Digital Village Day in October 2023, BCTL organized a digital financial literacy program for companies. The program had the collaboration of interested parties such as CCI-TL, IADE and FCCHM (Hanai Malu Credit Cooperative Federation). This one-day digital financial literacy event was held at Hotel Novo Turismo in Dili.

Dili was chosen to hold the event since it is in the capital where many small, medium and large companies grow. Digital payment methods are an effective payment option if they are supported by fast internet telecommunications, which will greatly facilitate online transactions for all users of online payment products. In this socialization, the central bank directly involved banks and e-wallet providers to explain its online payment products to event participants.

The purpose of this disclosure is to provide information about available digital payment platforms, so that they can manage their businesses, use and familiarize themselves with online digital payment systems, such as P24 debit cards and electronic wallets, in their daily activities. This program covers 177 participants, with 88 being men and 89 being women.

2.7. National Savings Day and Campo Digital Program

The celebration of the ninth anniversary of National Savings Day and the third anniversary of Digital Village Day took place in Dili, on November 29th, in the Timor-Plaza car park. Before arriving at the main event, BCTL held a digital financial literacy pre-activity aimed at students and businesspeople in Dili. This event was an effort to increase public awareness about the importance of knowing the variety of banking products and online digital financial transaction facilities available in the community.

On this occasion, there was also an exhibition by banks, fintech services and insurance companies about their banking products and services to the public. The speakers openly explained to the public present the advantages of their products and services, including the available online payment platforms. This exhibition was inaugurated by the Governor of BCTL, Mr. Hélder Lopes and accompanied by the CEOs of banks, ODTIs, insurance companies and fintech companies.

The Governor took the opportunity to inform that the total amount that children saved in the “Ha’u-nia Futuru” accounts reached 13 million dollars in October 2023. He also requested the Government to increase investment in telecommunications networks to support the online digital payments system program.

This celebration was also attended by His Excellency the Prime Minister of Timor-Leste, Mr. José Alexandre Xanana Gusmão and several government officials. In his speech, the Prime Minister welcomed the initiatives that were underway so far and reiterated the Government’s commitment to supporting BCTL programs, particularly digital financial literacy programs. At the end of the event, BCTL presented certificates of appreciation to relevant stakeholders who contributed to the successful implementation of the financial literacy program. Certificates were delivered to the current and former President of CCI-TL, to the director of IADE, to IADE instructors, to principals of primary schools who teach the subject of financial literacy in some primary schools in Dili, and to the coordinator of Basic Education Schools Taur Matan Ruak Branch, Basic Education Paiol Branch and Basic Education Mota Ulun Branch, Basic Education Aituri-laran Branch. There was also gratitude to the POS P24 digital transaction agents from some municipalities located in the Administrative Post of Baguia, Uatu-Lari and Cailaco. These agents made EFTPOS machines available in their stores/kiosks so that people could withdraw money.

2.8. “Há’u-Nia Futuru” Accounts

CHILDREN’S SAVINGS ACCOUNTS “HA’U-NIA FUTURU”

The Há’u-Nia Futuru savings program was developed for children up to the age of 17, with the main objective of promoting formal financial inclusion for children and families. Every month, banks provide BCTL with reports on the progress of Ha’u Nia Futuru savings, in order to monitor their developments. The benefits of these savings consist of the fact that children only need one



PROGRAMA NASIONAL BA EDUKASAUN FINANSEIRA

“Poupa Agora Diak Ba Futuru”



dollar (USD 1) to open an account, there are no administration fees and they benefit from a remuneration rate of 1.5% per year. To open this account, only the birth certificate and the parents' identification card are required.

According to the report, the number of customers reached 26,594 at the end of 2023, 13,251 men and 13,343 women. The funds accumulated in these accounts reached USD 13.1 million, with \$6.5 million belonging to men's accounts and USD 6.6 million belonging to women's accounts.

It was also found that the majority of the amount saved in this instrument was deposited in the accounts of children aged between 11 and 14 years old. However, it was also found that the majority of holders of these accounts were between 6 and 10 years old.

Observations on the annual evolution of deposited amounts indicate an increase of 14% (from USD 11,279,600 to USD 13,115,400). As in the previous year, the majority of savers from this product are concentrated in the municipalities of Dili, 68%. Next are the municipalities of Baucau (6%), Lautem, Covalima, Liquiçá, Aileu and Manufahi (3%), the municipalities of Bobonaro, Manatuto, Ermera, Viqueque and Oecusse (2%) and, finally, Ainaro (1%).

3.3.2.2. Insurance Company

There are three insurance institutions in Timor-Leste: SinarMas General Insurance (SMI), SinarMas Life Insurance (SMIL) and Federal Insurance Timor (FIT). In 2022, BCTL granted a definitive license to the insurance company SinarMas to manage the life insurance business in the country. For this reason, information for this life insurance business is only available for 2023. The sector registered positive developments in the set of services offered in the country and the provision of general insurance to the various sectors of activity. This information is detailed about two existing insurance products in the country: general insurance and life insurance.

3.3.2.2.1 General Insurance.

General insurance recorded total assets of 21.8 million USD in December 2023, a growth of 6% compared to 2022. This growth can be attributed to an increase in subscription premiums and observed investments. The majority of assets held

by the insurance sector are cash and investments, which represent 29% and 59% of total assets, respectively.

In the same year, total liabilities decreased by 2.8%, totaling USD 13.8 million at the end of the year. The decline was affected by accumulated outstanding credits of 65% and accumulated deferred income of 33% due to the credit risk mitigation policy. The composition of liabilities was dominated by unearned premiums and pending claims of 76% and 14%, respectively.

Total net worth increased again, registering annual growth of 25% in 2023 (USD 6.4 million to USD 8.1 million). As in 2022, this increase largely came from retained profits and profits accumulated during the year (3.9 million dollars in 2023 and 1.9 million dollars in 2022).

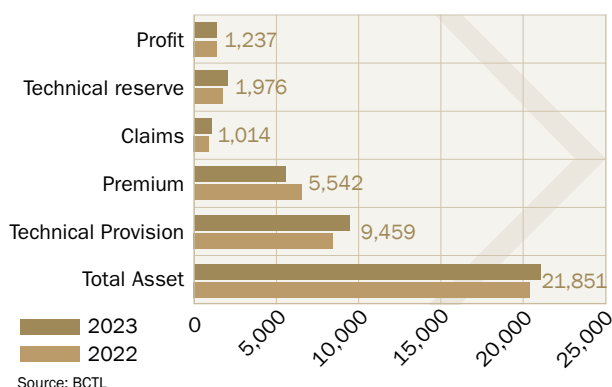
Premiums decreased by 16% to 5.5 million USD compared to 6.6 million USD recorded in 2022, reflecting the impact of the decrease in the maturity of the insurance contract. Regarding the distribution of the premium profile, 76% are personal accident coverage, 10% motor vehicle coverage, 9% fire coverage, 4% civil liability coverage and 1% engineering coverage.

Profitability remains positive in the sector, but profits contracted by 6%, reaching USD 1.2 million in 2023, compared to USD 1.3 million in 2022. This reduction is explained by the increase in claims and associated expenses. Claims expenses exceeded USD 1 million in 2023 (USD 959 thousand in 2022), largely arising from motor vehicle policies, personal accidents and property accidents.

Graph 3.5 illustrates the evolution of the main measures for evaluating general insurance's annual performance.

Chart 3.5

General Insurance Performance
In millions of USD



3.3.2.2 Life Insurance

BCTL granted a license to a life insurance company on January 27, 2022. For this reason, annual financial performance data only became fully available in 2023. However, the result for the year shows that total assets increased 188%, from USD 1.4 million in December last year to USD 4 million in December 2023. This increase was mainly due to premiums and returned investments. The majority of total assets were concentrated in cash (55%) and bank deposits (44%), highlighting the high liquidity to meet obligations.

Total liabilities increased significantly by 497% to USD 1.8 million in December 2023 (USD 308 thousand in December 2022). This increase reflects the increase in premiums earned from credit insurance. The majority of total liabilities were concentrated at 96% in insurance contract liabilities (technical provisions).

Total owners' capital, which continued to increase by 101%, reaching USD\$2.2 million in 2023, compared to USD1.1 million in December 2022. The increase is largely explained by retained earnings and accumulated profits.

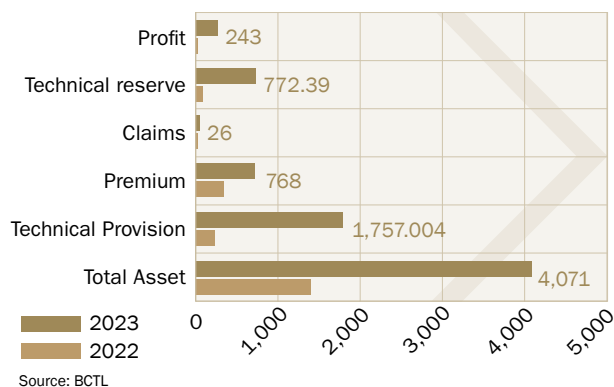
A highlight also goes to the performance of attributed revenue, mainly due to the 126% increase in premiums, to USD 768 thousand in December 2023, compared to USD 389 thousand in December 2022. The growth was mainly driven by subscription associated with the personal accident policy to mitigate credit risk. The total number of policy registrations reached 288 as of December 2023, largely due to the credit insurance policy, recording only one claim where the SMLI settled payments in accordance.

Profits recorded experienced a significant increase of 961% to USD 243 thousand in December 2023, compared to USD 23 thousand in December 2022, due to low claims registration.

Graph 3.6 illustrates the evolution of the main measures for evaluating the annual performance of Life Insurance.

Chart 3.6

Life Insurance Performance
In Millions of USD



Box 3. Second Mutual Evaluation of the APG in Timor-Leste.

The objective of Asia/Pacific Group (APG) mutual assessments on anti-money laundering and countering the financing of terrorism (AML/CFT) in a country is to assess the effectiveness of its AML/CFT framework and measures. The main objectives of mutual evaluations include: assessing compliance, identifying strengths and weaknesses of the AML/CFT system, assessing the effectiveness of measures in place and providing recommendations to improve the AML/CFT framework. This assessment takes place every ten years.

On 25-27 October 2022, the APG Secretariat carried out its first pre-mutual assessment assistance (Pre-MER) visit to Dili to support Timor-Leste's preparations for its second Mutual Assessment in 2023-2024. The visit included a two-day workshop for government officials and the private sector and NGOs, aimed at informing their role in the Mutual Assessment process.

Between the 15th and 17th of August 2023, the APG carried out the second pre-Mutual Assessment visit to Timor-Leste as part of its Mutual Assessment process. This marked the second Mutual Assessment of Timor-Leste, following the initial assessment in 2011/2012.

During the visit, the evaluation team, assisted by the Secretariat, interacted with authorities in Dili, including representatives from the Central Bank of Timor-Leste, within the scope of the National Commission to Combat Money Laundering (CNCBC). Discussions focused on Timor-Leste's technical compliance, the note defining the scope of the Mutual Assessment and the planning of the direct visit scheduled to Dili, from 18 to 28 September 2023.

During the visit in September, the team carried out the mutual evaluation process, focused on evaluating the regime to combat money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction in Timor-Leste. It assessed not only technical compliance with FATF international standards as well as the effectiveness of Timor-Leste's implementation of AML/CFT measures in accordance with the 2013 FATF assessment methodology. During the site visit, the assessment team held meetings with government authorities, including the Central Bank of Timor-Leste, representatives of the private sector and civil society groups. Furthermore, the team highlighted, in meetings held with the Prime Minister and the Minister of Justice, Timor-Leste's dedication to the evaluation process. After the visit, the evaluation team will prepare the Mutual Evaluation Report, which will be reviewed and considered at the 2024 APG Annual Meeting.

3.3.3. Petroleum Fund Management

In accordance with the framework defined by the Petroleum Fund Law - Law no. 9/2005, later amended in 2011 - the Central Bank is the institution responsible for the operational management of the Fund. According to this legislation, the Ministry of Finance is responsible for defining the general and investment strategy of the Petroleum Fund and the Central Bank is responsible for the operational implementation and concrete management of the investments and mandates that result from this strategy.

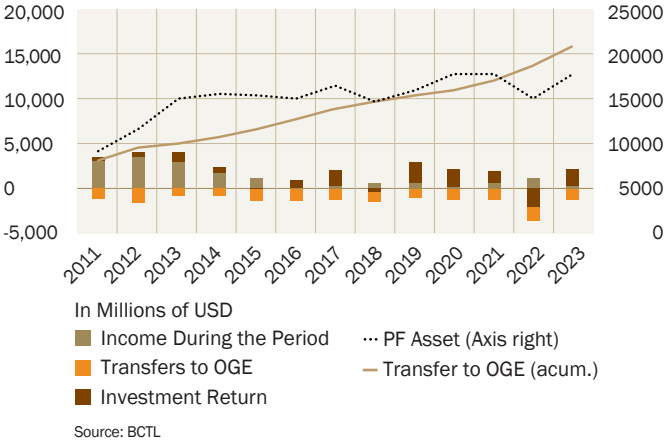
At the end of 2023, the value of the Fund's capital was valued at USD 18,252 million, a slight increase of 4.8% compared to the previous year. Annual oil

revenues - taxes and royalties - amounted to USD 427 million, which represents a significant drop of 61% compared to 2022. On the other hand, withdrawals intended to finance the execution of the 2023 General State Budget were valued at USD 1,090 million. The Fund's management expenses, both external and internal, amounted to USD 18.9 million in 2023.

Regarding annual financial performance, the Fund accumulated gross investment income of USD 1,643 million, which corresponds to approximately 9% of the value of the Fund at the end of 2023 (USD 18,252 million). The breakdown of this income allows us to observe that the income arising from the receipt of interest and dividends totaled 2.5% of the Fund's value (1.7% in 2022). The recorded

capital gains amounted to 6.3%, resulting in an increase compared to the substantial capital gains of 2022, valued at -13.3% of the value of the Fund.

Chart 3.7
Petroleum Fund Management



The Petroleum Fund continued to invest in the segmentation of the liquidity portfolio and the growth portfolio in 2023. The liquidity portfolio is invested in highly liquid securities with maturities of less than 3 years in order to cover planned withdrawals to finance State Budgets designed in the following 3. The growth portfolio is mainly invested in fixed income securities (65%) and shares of multinational companies (35%).

In 2023, the performance of the liquidity portfolio was 4.25% annually, while the

The positive performance of the portfolio investment in the financial market during the year was mainly due to the impact of rising interest rates in the main advanced economies and the positive sentiment of investors about the global economic situation. The main world economies maintained high interest rate levels in order to bring inflation rates to more contained levels. At the same time, central banks' determination to keep inflation under control positively impacted investor sentiment. The increase in the reference interest rates led to a rise in interest rates on global sovereign bonds, particularly US Treasury bonds, which account for a significant part of the Petroleum Fund's investment portfolio. Equity markets recorded substantial gains

in 2023, benefiting from the current development of the economic recovery, supported by the success of macroeconomic stabilization policies and the substantial reduction in the negative investor sentiment, mainly relating to the services and industry sectors.

At the end of 2023, the growth portfolio concentrated 82.97% of the Petroleum Fund's investment, while the remaining 17.03% was invested in the liquidity portfolio. The liquidity portfolio was entirely made up of US Treasury bonds - 14.45% with maturities of 3 months and 2.58% with maturities of 1 - 3 years. In relation to the growth portfolio, 51.31% was invested in a fixed portfolio, with 27.35% made up of US Treasury bonds between 3 - 5 years, 7.92% in US Treasury bonds between 5 - 10 years, and 8.12% in other sovereign bonds from developed countries other than the USA. The remaining 31.66% of the portfolio investment was allocated to the equity portfolio.

3.3.4. Institutional Strengthening

BCTL continues to develop and strengthen the Timorese financial system and modernize banking supervision. Below we highlight the most relevant actions developed in 2023, relating to the institutional strengthening of the Bank:

- In order to ensure the integrity of the banking system in Timor-Leste, the BCTL Board of Directors made the first amendment to Instruction No. 5/2017 regarding Customer Identification, Document Preservation and Operation Communication, in line with the recent developments in international standards that combat money laundering and terrorist financing.
- The BCTL Board of Directors approved Instruction No. 22/2023 on Liquidity Risk Management. This instruction defines a consistent and robust standard for risk and liquidity management, contributing to the security of the national banking system and financial stability in Timor-Leste. Furthermore, this instruction also establishes the methodology for determining the liquidity coverage ratio and the net stable funding ratio, important monitoring tools to be adopted by banks.

- The BCTL Board of Directors approved Instruction No. 23/2023 on the Chart of Accounts. The establishment of this instruction is intended to ensure a sound and consistent standard of accounting for banks and ODTIs that allows for effective supervision of the banking system and the preparation of reliable monetary statistics for Timor-Leste.
- The BCTL Board of Directors approved Instruction No. 24/2023 on Reporting and Publication, which establishes all reports that banks and ODTIs must deliver to BCTL and publish within the prescribed deadlines, consolidating banks' criteria to enable supervision of the banking system and the preparation of reliable monetary statistics in Timor-Leste.
- The BCTL Board of Directors approved Instruction No. 25/2023 on the Licensing and Supervision of Financial Companies. The establishment of this instruction aims to ensure that Financial Companies operate within transparent and well-defined organizational structures and operations. In this sense, it provides that institutions are managed prudently, are equipped with the necessary financial resources and have internal risk management systems. Therefore, it is intended that the interests of customers and stakeholders of Financial Companies are safeguarded, developing in a solid and prudent manner, thus contributing to the general stability of the financial sector.
- The Board of Directors of BCTL granted preliminary authorization for payment service activity to Ti-Oan Fintech to manage the branch of digital payment activity, specifically the electronic wallet in the country.
- The Board of Directors updated the structure of the Economic Studies and Statistics Division, taking into account BCTL's need to achieve its goals. Thus, the division now becomes one of the departments of the Bank.

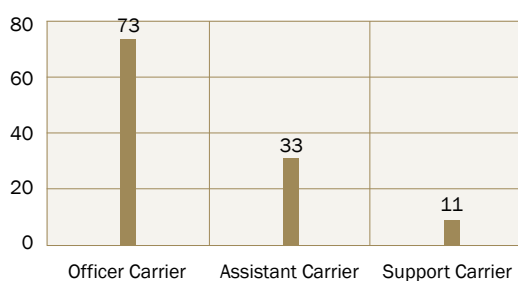
3.3.5. Employees and Training Programs

At the end of the 2023 period, BCTL had 106 employees, which represented a marginal increase compared to 105 in 2022.

By 2024, BCTL plans to recruit around 15 employees to fill official career positions in the departments of the Financial Intelligence Unit (UIF), Petroleum Fund, Economic Studies and Statistics, IT Technologies Division, Payment System and Governor's Office.

Chart 3.8

Professional Categories



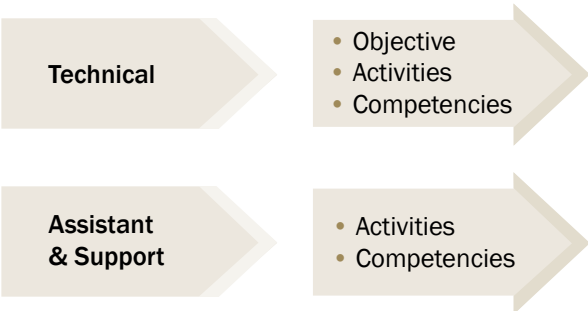
Fonte: BCTL

In addition to current BCTL employees, 11 employees were hired to fill the support or assistance service. Graph 3.8 shows the distribution of employees across the various professional categories.

At the end of the year, BCTL evaluates the performance of its employees. The system used to carry out this evaluation is called Performance Improvement System (PIS). The result of the evaluation throughout 2023 shows that the majority of employees managed to achieve the objectives established at the level of the institution and their respective departments and divisions.

The Performance Assessment system is implemented by the various Departments' managers, with the aim of valuing the work of employees and analyzing their contributions to achieving the BCTL objectives, which were annually planned for each department and division.

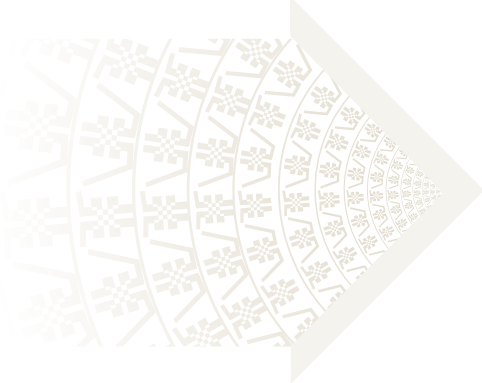
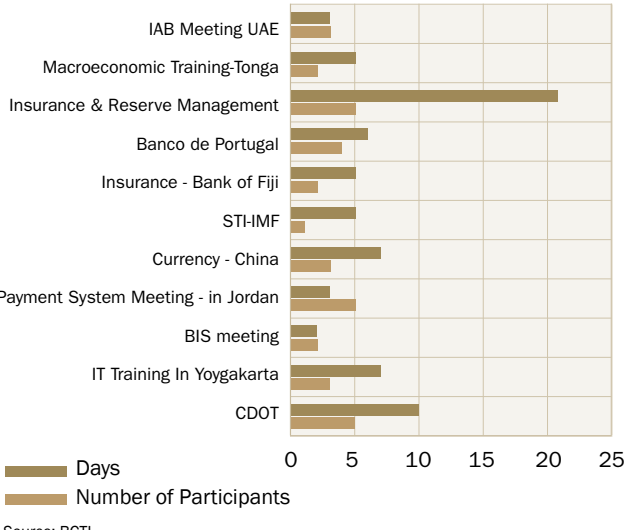
The dimensions used to evaluate employees' performance remained unchanged throughout the year, as indicated in the following diagram, namely: Objectives, Activities and Skills for employees in the technical professional career; and Activities and skills for employees in the Assistant and Support professional careers.



Regarding the development of skills and knowledge of its employees, BCTL continues, annually, to allocate an adequate amount to fulfill its training program, which involves training in technical skills in Timor-Leste and abroad. In addition to this training, BCTL continued to finance scholarships for its employees to attend master's and doctoral courses abroad.

Graph 3.9 shows the number of BCTL employees who participated in training, Seminars, Conferences and Meetings in 2023.

Chart 3.9
Presentational Courses, Workshops and Conference in 2023



3.3.6. External Relations

The Institutional Cooperation Affairs Unit (UACI) carries out its functions related to BCTL's cooperation with other institutions, both internationally and nationally. The objective of institutional cooperation is, in addition to strengthening relationship ties, to increase information sharing in the areas in which central banks operate. This activity includes cooperation with its counterpart entities, financial institutions and organizations that present convergence and relevance to the activity and functions of BCTL, both internationally and nationally.

In addition to cooperation with the Central Banks of the Community of Portuguese Speaking Countries (CPLP), BCTL also carried out cooperation actions with other international financial institutions, namely: the Bank of Indonesia (BI), Bank Negara Malaysia, the Federal Reserve Banks of the United States of America and Australia, SEACEN, STI-IMF Singapore, APRA, International Monetary Fund, the central banks of the Pacific Islands and the Macau Monetary Authority. The context of cooperation with these entities is similar to that carried out with CPLP central banks.

In the respective areas of cooperation activities carried out in 2023, the majority of activities were carried out in person, both in training actions, seminars, meetings, working visits and sharing of information in fundamental areas. Participation in these activities showed a significant increase and was carried out satisfactorily.

Regarding cooperation at national level, during 2023 BCTL maintained initiatives with relevant entities to reinforce cooperation and promote greater public access to the financial sector. BCTL also maintained cooperation with the National University of Timor-Leste, through the promotion of internships for finalists at the Faculty of Law. Regarding cooperation with Australia's Griffith-

Queensland University, established in 2020, BCTL continued joint research work at the level of economic investment. The result of this cooperation resulted in three joint working documents, published on the University and BCTL websites, related to government spending, remittances, and investments.

In addition to the cooperation activities mentioned above, the BCTL also maintained the role of host at high-level meetings of CPLP central banks. These meetings aim to reinforce cooperation ties between participating institutions and promote reflection in relevant areas in order to establish action strategies on matters of common interest. Throughout 2023, the BCTL hosted the VII Meeting of Supervisory Directors of Central Banks of CPLP Countries for three days and the meeting was positive.

BCTL continued the strategy of maintaining and strengthening cooperation ties with CPLP central banks and financial institutions that had already been established previously. Furthermore, it promoted new forms and actions of cooperation with other central banks and financial institutions, both internationally and nationally.

Box 4. BCTL Plan Implementation in 2023 and Action Plan for 2024

4.1. Implementation of action plan of BCTL for 2023

BCTL managed to carry out notable programs and initiatives in 2023, highlighting:

- a. The BCTL has finalized instructions on the implementation of the International Financial Reporting Standards (IFRS) that apply to commercial banks and other ODTIs. The measure, which covers instruction on how the charts of accounts, management, liquidity ratio, solvency, reports and disclosure accounts, aims to contribute to a more adequate and binding financial system. The Instructions were published in the Journal da República and will take effect on July 30, 2024. The application of prudential rules will contribute to strengthening the stability and competitiveness of the financial system, and public confidence in the sector. The BCTL also finalized the instruction on risk-weighted assets, risk capital management, operation and capital requirements for market risk. Within the scope of AML/CFT, BCTL carried out, through Gabal and DSP, training for fintech companies and hosted APG's second mutual evaluation.
- b. To improve the digital payment system and customer service, BCTL finalized in 2023, in collaboration with financial institutions and P24 service providers, the interconnection of the fee payment system, the electronic wallet system and the BNU POS. This action will allow customers to carry out a more efficient fee payment process through the electronic wallet and POS. Additionally, the Central Bank finalized, in collaboration with BNU, the certification of Mastercard acquiring. On the other hand, the Union Pay issuing development process between BNCTL and Union Pay has reached 45%. Finally, BCTL, in collaboration with the Customs Authority, has reached the final stage to support the integration of the ASYCUDA system into P24, which will increase the efficiency of import duty payments through POS and ATM machines with the P24 logo.
- c. The Central Bank released the fourth edition of the 2020 financial inclusion report. The result of the report demonstrated that the number of access points to financial services continued to increase. The report highlights that all Municipalities and Administrative Posts already have access to financial services, only 29 villages left without financial services. The report also showed that 64% of the adult population already has access to existing financial services.
- d. The Central Bank successfully carried out the information dissemination program on digital payment to the Directors (CEO) of financial institutions, Directors of relevant ministries, business people and credit union members. The aim of this program is to encourage participants to promote existing digital financial services such as ATM, P24, POS-P24, e-wallet services, internet banking and mobile banking.
- e. In order to continue efforts to promote the financial education program, BCTL continued to implement key financial education and digital village programs in 2023 in Basic Education and in certain communities. At the same time, on November 29, 2023, as usual, BCTL celebrated the ninth anniversary of national savings and the third anniversary of the digital village in Timor-Plaza, Díli. As part of this celebration, the Central Bank held an exhibition to the public on existing financial services and digital payments available in the country, such as ATM-P24, POS-P24, Electronic Wallet, internet banking and mobile banking. The exhibition was attended by financial institutions mainly commercial banks, fintech companies, insurance companies and traders who adopt digital payment systems available in their daily transactions. Within the scope of this program, BCTL also promoted the Accounting Training Program aimed at Micro, Small and Medium Enterprises (MSMEs) in the municipality of Bobonaro.
- f. In order to reinforce the management and investment capacity of the Petroleum Fund, BCTL defended the need for a study on investment policy and strategy, through its representative at the Investment Consulting Council (CCI/IAB). At the same time, BCTL maintained the reinforcement of operational investment management through the independent assessment of private debt, the Bloomberg AIM operation, the implementation of treasury management and the implementation of the independent review of the oil fund.

- g. In order to strengthen and develop its institutional capacity, BCTL implemented an integrated system for human resources management in 2023, introducing the well-being program for its employees and the Cadena International provider system. Furthermore, to develop the technical capacity of employees, BCTL maintained its focus on capacity development programs, namely through financing scholarships and other training in relevant areas, including events and courses offered by international partners.
- h. The Central Bank also carried out initiatives that are not included in the 2023 plan, as described in the following points:
 - i. The Central Bank updated the strategic plan for financial education 2016-2020.
 - ii. The central bank, in cooperation with International Finance Cooperation (IFC), concluded instruction no. 25/2023, July 4, on the licensing and supervision of financial companies. Furthermore, it contributed to its dissemination to the public. The instruction aims to promote access to credit by the private sector, mainly for MSMEs in Timor-Leste. Furthermore, BCTL continued to cooperate with IFC in order to prepare the draft of the security guarantee law, planning to submit for approval to the National Parliament in 2024. This law aims to encourage the granting of credit to companies and the private sector in order to develop the economy, develop the job market and improve the well-being of the people.
- i. The BCTL will introduce the General Regime for Banking and Financial Activities. The drafting of this regime aims to replace or revoke the UNTAET 2000/8 regulation on banking licensing and supervision. By updating standards in line with the modern standard, it will improve gaps in relation to the licensing and supervision activities of financial institutions, namely through: defining the role of supervision in the behavioral and prudential supervision process; the inclusion of instructions on the Financial Institution's deposit guarantee fund with the BCTL; and the inclusion of instructions on the process of handling inactive or dormant accounts.
 - ii. The BCTL will introduce the Secured Transaction Law, a law designed to regulate commercial transactions within the scope of movable property security law. The law will also play an important role in promoting a healthy and stable financial system, through the structured provision, with legal clarity and in a predictable manner, of security, which can benefit creditors and debtors in the banking process.
 - iii. The BCTL will introduce the Insolvency Law. This law aims to manage supply problems, while ensuring fair treatment of creditors when debtors lack the capacity to repay their debts.
 - iv. Finally, the BCTL intends to introduce the Accounting Standards Law, a regulation that will become a reference for the preparation of financial reports for business entities. This law aims to ensure comparability between financial reports from different business entities and from different analysis periods.

4.2.4.2 The Strategic Priorities for 2024 Legislative Reform and Development of Legal Frameworks

To ensure and strengthen the quality of financial service in Timor-Leste in 2024, the BCTL will introduce four main laws that will act as legal bases for the implementation of monetary and financial policies, the bank's main functions enshrined in the BCTL Organic Law.

Furthermore, in order to ensure the quality of service in financial institutions, the BCTL will finalize, in 2024, the sanctioning action initiated against the financial institution that violates applicable laws and regulations. Furthermore, based on its disciplinary power, BCTL will finalize the administrative procedure to apply disciplinary sanctions to its employees. This administrative procedure aims to ensure transparency and the right of the interested party to exercise their right

to participate in the administrative process. The drafting of ongoing processes is the responsibility of the legal support office.

On the other hand, to reinforce the legal framework of the financial system, the bank will finalize, in 2024, the instructions applicable to:

- Charts of accounts of insurance companies, financial reports and solvency margins of life insurance companies;
- Money transfer operators (MTO);
- Consumer protection, namely on opening, processing, and closing deposit and credit accounts;
- The national payments system, namely the legal framework on monitoring the payment system that will introduce instructions on establishing the R-Timor and P24 system.

Promote Digital Banking Service and Improve Public Service

In 2024, BCTL will begin production of the second master plan for the development of Timor-Leste's financial sector 2026-2036, which will be based on the first master plan. To modernize and promote the digital payments system and improve service to the public, BCTL commits to 2024:

- i. To complete the integrations of main facilities in the P24 system, such as the payment of fees through an electronic wallet on the POS machine and other digital payment methods.
- ii. Completing the acquisition of Module Recycling for ATMs, so customers can make bank deposits through ATMs, and also purchasing the Module Dual Dispenser at ATMs.
- iii. Acquiring the BAM feature, which allows banks to carry out transaction monitoring and other activities in relation to commercial aspects.
- iv. Continuing the implementation of the single mobile banking & Soft POS application.
- v. Reactivating the integration process between the P24 system and the Indonesian retail payment system.
- vi. Collaborating with acquirer banks to finalize the Mastercard and UPI certification process.
- vii. Collaborating with the Tax Authority to continue the process of integrating SIGTAS V-3 into the P24 system, which allows tax payments to the government more efficiently.

- viii. Introducing the use of payment systems via unique QR code.

In 2024, BCTL will continue to carry out a public campaign on the uses of electronic payment systems existing in the country through the national digital village program.

When it comes to improving banking services, BCTL is committed to investing in a more efficient service to customers, mainly the ministry of finance, government agencies and the general public. In terms of public service, the bank will install a currency exchange machine (cents and paper money) at some service counters to improve the efficiency of currency exchanges.

As part of improving the service of the counterfeiting unit, BCTL will continue cooperation with the Scientific Police and Criminal Investigation (PCIC) and other relevant authorities through exchanges of information on counterfeiting to minimize or prevent the circulation of counterfeit coins in the economy of Timor-Leste. At the same time, BCTL will maintain its focus on the awareness campaign about Timor-Leste's official currency. The program will extend to administrative posts and will integrate with the national digital village program.

Promote Financial Inclusion

To boost the financial education program in 2024, BCTL will continue with the implementation of the action plan defined in the National Financial Literacy Strategy (ENLF), namely the development of the financial competence matrix (for Women, Children and MSMEs). In particular, it will continue to develop the specific module aimed at women and an awareness campaign about the benefits of the financial literacy program for this target group.

In 2024, BCTL will continue to work with MdeJD and INFORDEPE to hold regular meetings and coordination in order to explore the possibility of including financial literacy in the national curriculum, specifically in the mathematical subject of the 2nd cycle of Basic Education; address the progress and challenges of implementing the program in the 1st and 2nd cycle of Basic

Education; and discuss the monitoring of the implementation of the program in schools in 13 Municipalities and RAEOA.

In 2024, BCTL will continue efforts to extend the accounting training program for MSMEs. It will also introduce training on the credit guarantee system and digital payment system into the program. BCTL regularly celebrates national savings day and digital village day with schools that participate in the financial literacy activity and with digital village program targets in certain administrative posts. The priority activities at the celebration consist of the educational competition activity with primary school students and the distribution of the brochures promoting the money transfer service to the Há'u-Nia Futuru account through E-wallet or ATM.

BCTL continues to implement the accounting and financial literacy training program in MSMEs and credit cooperatives.

The Central Bank will continue to work with the Bank of Portugal to develop the online training platform, aimed at Basic Education, adult groups, MSMEs and cooperatives. The objective of this investment is to expand the training program to the public and in particular to help trainers in the process of learning financial literacy, while also helping MSMEs to organize and improve their budget balances.

As part of the financial inclusion program, BCTL intends to reinforce the implementation of the Credit Guarantee System (SGC) in 2024. For this purpose, it will begin by amending BCTL circular no.^o 79/2019 of July 29 on the implementation of the credit guarantee system for MSMEs. It also plans to work in collaboration with commercial banks to organize a seminar on the implementation of the CMS in order to identify problems and solutions in implementing the program.

Strengthening Research and Statistics Capacity

- a. The BCTL intends to continue the study of the national currency. The study will begin at the initiative of BCTL, but will have the support of IMF experts in its review. The work had already started in 2020 with the support of Banco de Portugal, but BCTL intends to continue the study in 2024 in order to identify more thoroughly the advantages and disadvantages of creating a national currency, in order to obtain more adequate information to support a possible strategic and operational decision on a monetary framework or alternative regime for Timor-Leste.
- b. The BCTL will finalize the study on Central Bank Digital Currency (CBDC). CBDC is a non-physical currency (non-cash) or “digital” currency created by central banks. This currency would have the same functions as conventional currency, fulfilling the role of unit of account, store of value and means of payment. There are some benefits to the creation of CBDC, such as: strengthening monetary and financial stability, increasing financial inclusion and improving the payment system. Therefore, BCTL concludes that it would be beneficial to create and adopt CBDC in Timor-Leste.
- c. To improve projection results, BCTL will continue to update its GDP projection model in 2024, using models already developed in cooperation with the Ministry of Finance through technical assistance from the IMF known as Macroeconomic Diagnostic. This projection method will be assisted by existing models and indicators, namely the economic activity indicator, the main component, mixed data sampling (midas) and ARIMA. It is expected that the adoption of this methodology will bring advantages to inflation projections. These projections allow BCTL to better monitor recent and future economic developments in real time.

- d. In 2024, BCTL will develop and engage in several economic studies and research, including updating the survey of commercial banks and surveys on price fixing mechanisms in Timor-Leste. These planned initiatives aim to strengthen the understanding of Timor-Leste's macroeconomy through reliable statistics required for the high-quality models, tools and analyzes required to conduct monetary policy and solid support for BCTL's other functions. Those other functions to be explored in 2024:
 - i. Timor-Leste's four macroeconomic sectors - real, fiscal, external and monetary sectors;
 - ii. the structural form of the domestic economy, based on national accounts or GDP;
 - iii. studies on factors determining inflation in Timor-Leste; and
 - iv. the study on the development of Timor-Leste's financial system.
- d. To improve the compilation and ensure the timely publication of balance of payments statistics and monetary statistics, at the end of 2023, the BCTL initiated the project to establish an automatic balance of payments statistics system, which is expected to be completed by the end of 2024. It also intends to extend the project to monetary statistics. It is expected that these initiatives will contribute to better data compilation and quality and to minimize errors. The system will automate the compilation, processing, analysis and reporting of statistical data.
- f. In 2024, BCTL will receive technical assistance from Bank of Portugal in order to continue exploring how to establish central balance sheet statistics, i.e. the economic and financial data of non-financial companies in Timor-Leste. This information is relevant as sources for economic analysis, financial stability investigation, supervision in the financial system, risk assessment and management.

Strengthening Management and Investment Capacity

- a. The Central Bank already has sufficient capacity for asset management and investment. However, it is necessary to continue strengthening this capacity, namely through a strategic study on relevant operational aspects and ensuring the management of the petroleum fund and other relevant funds delegated to the central bank for its operational management.
- b. In 2024, BCTL will support and collaborate with other partners, an investment advisory committee and the ministry of finance, to carry out a strategic study on the management of petroleum fund and other relevant funds, where partners request the contribution of the Central Bank.
- c. In 2024, BCTL will continue to promote a study on investment options for Central Bank reserves.
- d. Subject to agreement with INSS, BCTL will reactivate in 2024 the discussion with INSS on the establishment of investment management of the Social Security Reserve Fund.

Development and Institutional Strengthening

To reinforce the administrative activity and management of BCTL, the Central Bank plans to carry out technical and physical capacity development activities in 2024, namely:

- a. In the process of improving the physical infrastructure, in 2024, BCTL will finalize the design of the Central Bank Building and begin its construction process.
- b. In order to improve the operational system, the Central bank plans to acquire the new accounting system or "Core Banking System (CBS)" to replace the current T1 system, with a view to providing services with greater quality and efficiency. The system will ensure key activities, such as: banking operation, treasury operation, registration of government

securities, currency operations, payment system operation, R-Timor system, accounting operation, settlement confirmation operation, provisioning, petroleum fund, special fund, human resources management and security and control system.

- c. In order to improve the technology system and improve the development of financial activity in Timor-Leste, BCTL's Information Technology and Cyber Security Office Division will continue to modernize the supporting technology infrastructure and service provision. It will also design the control model to secure the prosthesis and available data such as the institution's important assets, including the national payment system and other information systems. In the part of development of the information technology system, the central bank will continue to update the systems to meet current changes in existing software and hardware.
- d. In order to improve its technical capacity, the Central Bank plans to establish the BCTL Institute to provide structured training for its employees. In the future, it will be extended to technical employees of financial institutions and MSMEs. During the establishment process, it will have support from IFC. In addition, the central bank will continue to offer the master's scholarship program (S2) to its employees and provide technical training relevant to the bank's needs.
- e. As part of enhancing its institutional cooperation and strengthening capacity, the BCTL intends, in 2024, to strengthen cooperation with counterparts in Asia Pacific and CPLP. Furthermore, to improve capacity and technical knowledge, the central bank will make the most of training programs (seminars, workshops and conferences) offered by entities such as the CPLP Central Bank, IMF, STHMF Singapore, BNM, Reserve Bank of Australia, Macau Monetary

Authority and the central banks of the South Pacific. In addition, it will continue to strengthen cooperation with Griffith University-Australia in carrying out research programs in the area of economic studies. At the same time, within the scope of Timor-Leste's accession process as an ASEAN member, BCTL will actively participate as an observer in the ASEAN financial commission. In this regard, the BCTL has already introduced the required Task-Force in the area of the community's financial sector, and affirms its commitment to participate in programs established by the community, as well as in WTO-relevant events.

- f. Finally, the BCTL will organize the VII Treasury Meeting of the CPLP central banks in 2024. The meeting is scheduled to take place in September 2024.



Main Governing Bodies of the Central Bank of Timor-Leste (BCTL)

Board of Directors

The Governor
Hélder Lopes

Deputy-Governors
Rafael Borges
Sara Lobo Brites

Non-Executive Members
Aicha B.U. Bassarewan
Benjamim de Araújo e Corte-Real
João Mariano Saldanha
Laurentina Barreto Soares

Management Committee

The BCTL Management Committee includes all those responsible for the Bank's main organizational areas, as indicated:

The Governor
Hélder Lopes

Deputy-Governor
Rafael Borges

Deputy-Governor
Sara Lobo Brites

Institutional Cooperation Affairs Unit Director
Raquel G. da Costa

Chief Financial Officer
Fernando da Silva Carvalho

Administration Department Director
Maria Ângela de Sousa Soares