Chapter 04

Finan
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For the year ended
31 December 2023

30 April 2024

CHAPTER 04

Statement of Compliance

The financial statements presented on pages 2 to 5, along with the accompanying notes on pages 6 to 35, constitute the complete financial picture of Banco Central de Timor-Leste as of December 31, 2023. These financial statements have been prepared by the Management and approved by the Governing Board. I hereby declare that these financial statements comply fully with the requirements of Central Bank Law No. 5/2011 and accurately represent the true financial position and performance of Banco Central de Timor-Leste at the aforementioned date.

Dili, 30 April 2024

Helder Lopes
Governor

Statement of Financial Position

As at 31 December

US$ '000US

	Note	2023	2022
Assets			
Cash and cash equivalents	7	633.390	688.499
Financial assets at fair value through other comprehensive income	8	119.699	145.363
IMF related assets	10	71.811	71.231
Other assets	12	5.278	3.939
Property, plant and equipment	11	1.538	1.702
Total Assets		**831.716**	**910.734**
Liabilities			
Government deposits	13	341.216	511.939
Other deposits	14	328.798	220.668
Other Liabilities	15	20.870	63.123
Currency issued		31.088	27.657
Total Liabilities		**721.972**	**823.387**
Capital	16	80.000	80.000
Fair value through OCI	27	-2.907	-4.431
General reserve		11.778	2.888
Net profit		20.873	8.890
Total Equity		**109.744**	**87.347**
Total Liabilities and Equity		**831.716**	**910.734**

The above statement is to be read in conjunction with the policies and notes on pages 136 to 160

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

US$ '000

	Note	2023	2022
Operating Income			
Investment income:			
Interest income	19	**30.181**	10.713
Interest expense	19	**-11.766**	-3.971
Net interest income		**18.415**	6.742
Petroleum fund management fee	22	**14.465**	13.155
Petroleum fund administration expenses		**-6.696**	-6.791
Net fee and commision income		**7.769**	6.364
Interest on financial assets at fair value through profit or loss	20	**4.955**	2.483
Fees and commissions	21	**656**	671
Other Income		**112**	385
Total Operating Income		**31.907**	16.645
Expenses			
Personnel expenses	23,26	**5.417**	2.716
Currency distribution expenses		**1.564**	1.043
Administration expenses	24	**3.593**	3.330
Depreciation	11	**460**	666
Total Expenses		**11.034**	7.755
Profit		**20.873**	8.890
Other comprehensive income		**-2.907**	-4.431
Total profit and other comprehensive income		**17.966**	**4.459**

The above statement is to be read in conjunction with the policies and notes on pages 136 to 160

CHAPTER 04

Statement of Changes in Equity

For the year ended 31 December

US$ '000

	Capital	General reserve	Fair value through OCI	Net Profit	Total equity
Balance at 31-1-2022	**80.000**	**2.888**	**-366**	**2.126**	**84.648**
Profit for the period				8.890	8.890
Other Comprehensive income			-4.065		-4.065
Total Comprehensive income			**-4.065**	**8.890**	**4.825**
General reserve				-2.126	-2.126
Capital Increase					
Cash dividends					
Balance at 31-12-2022	**80.000**	**2.888**	**-4.431**	**8.890**	**87.347**
Balance at 1-1-2023	**80.000**	**2.888**	**-4.431**	**8.890**	**87.347**
Profit for the period				20.873	20.873
Other Comprehensive income			1.524		-1.524
Total Comprehensive income			**1.524**	**20.873**	**22.397**
General reserve		**8.890**		8.890	
Capital Increase					
Cash dividends					
Balance at 31-12-2023	**80.000**	**11.778**	**-2.907**	**20.873**	**109.744**

The above statement is to be read in conjunction with the policies and notes on pages 136 to 160

Statement of Cash Flows

For the year ended 31 December
US$ '000

	Nota	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**20.873**	8.890
Depreciation	11	**460**	666
Net Interest income	19	**-18.416**	-6.742
		2.917	2.814
Changes in receivables, prepayments & stock	12	**-1.337**	708
Changes in government deposits	13	**-170.723**	7.519
Changes in other deposits	14	**107.549**	-147.221
Changes in other liabilities	15	**-42.255**	40.602
Changes in fair value	27	**1.524**	-4.065
		-102.325	-99.643
Interest received	19	**30.181**	10.713
Interest paid	19	**-11.765**	-3.971
Net cash (used)/from operating activities		**-83.909**	-92.901
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investment from financial assets at fair value through other comprehensive income	8	**25.664**	104.009
Acquisitions of property, plant & equipment	11	**-296**	-62
Net cash from investing activities		**25.368**	103.947
CASH FLOWS FROM FINANCING ACTIVITIES	28	**3.432**	1.853
Currency issued			10.000
Capital subscription by government			
Transfer of surplus to Government			
Net cash from/used in financing activities		**3.432**	11.853
INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		**-55.109**	22.899
Cash & cash equivalents at the beginning of year		**688.499**	665.600
CASH & CASH EQUIVALENTS AT THE END OF YEAR		**633.390**	688.499

The above statement is to be read in conjunction with the policies and notes on pages 136 to 160

Notes to the financial statements

For the year ended 31 December 2023

1. Reporting Entity and Statutory Base

These financial statements are presented for Banco Central de Timor-Leste (BCTL), an independent and autonomous public entity established under Organic Law No. 5/2011. BCTL's head office is located at Avenida Xavier do Amaral, no 9, P.O. Box 59, Díli, Timor-Leste.

The statements cover the financial year ending December 31, 2023, and comply with International Financial Reporting Standards (IFRS), as mandated by Article 58 of Organic Law No. 5/2011.

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

The Bank fulfils the role of Timor-Leste's central bank, outlined in organic Law 5/2011 and other relevant legislation. Key functions include:

- Advising the government on broad policy matters within BCTL's areas of responsibility.
- Issuing and maintaining centavos, Timor-Leste's legal tender alongside the US dollar.
- Developing and implementing measures for domestic and foreign currency payment and settlement systems in Timor-Leste, including supervision and regulation.
- Owning, operating, or participating in payment systems.
- Acting as banker for the government and related agencies.
- Serving as fiscal agent for the government and related agencies.
- Holding and managing all public financial resources, including official foreign exchange reserves.
- Overseeing the operational management of the Petroleum Fund of Timor-Leste.
- Holding commercial banks' foreign currency deposits.
- Ensuring an adequate supply of banknotes and coins for cash transactions.
- Maintaining a secure depository for currency and securities.
- Licensing, supervising, and regulating commercial banks, currency exchange activities, insurance companies, and intermediaries.
- Conducting regular economic and monetary analyses of Timor-Leste's economy, publishing findings, and proposing relevant measures to the government.

2. Basis of Presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB).

The financial statements were authorised for issue by the Governing Board on 30 April 2024.

(b) Basis of Measurement

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

The Bank has prepared the financial statements on the basis that the Bank will continue to operate as a going concern.

(c) Adoption of International Financial Reporting Standards

These financial statements incorporate all International Financial Reporting Standards in force on 31 December 2023. During 2023, there was an amendment in place for IAS 1, related to the disclosure of material accounting polices instead of significant accounting policies.

(d) Functional and Presentation Currency

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

(e) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most material effect on the amounts recognised in the financial statements are described in note 5.

3. Material Accounting Policies

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

(a) Foreign currency transactions

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

	31-Dec-23	31-Dec-22
Australian dollars (AUD)	1,4666	1,4769
Special Drawing Rights (SDR)	0,7453	0,7514
Euro (EUR)	0,9060	0,9382

(b) The effective interest Rate Method

Interest income and expense are recognised in the profit and loss statement using the effective interest method. This method accurately reflects the financial instrument's true cost or benefit by calculating the rate that discounts the expected future cash flows to the instrument's carrying value. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

When determining the effective interest rate, the Bank considers all contractual terms of the instrument, including fees, points, discounts, premiums, and any transaction costs, but not future credit losses. Transaction costs specifically refer to direct expenses incurred when acquiring or issuing a financial asset or liability.

Interest income and expense presented in the profit and loss statement include Interest earned or paid on all financial assets and liabilities measured at amortized cost using the effective interest method.

(c) Fees

Fee income, including account service fees, cash distribution, and investment management fees, are recognised as the related services are performed.

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

(d) Operating Profit

Operating profit comprises gains net of losses related to trading assets and liabilities and includes all realised and unrealised fair value change.

(e) Taxation

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

(f) Financial Assets and Liabilities

(i) Recognition

The Bank recognises loans, advances, and deposits on the date at which they are originated. All other financial assets are initially recognised on the settlement date at which payment is made and title received according to market contractual arrangements.

A financial asset or financial liability is initially measured at fair value plus (for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

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

(ii) Classification

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

(iii) De-recognition

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

(iv) Offsetting

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

(vii) Identification and measurement of impairment

At each balance date the Bank recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank considers evidence of impairment of financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment expected for the remaining life of exposure (lifetime ECL). Financial assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Impairment debt on financial assets subsequently measured at fair value through other comprehensive income are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(g) Cash and Cash Equivalents

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

Cash and cash equivalents are carried at nominal amount in the balance sheet, which approximates fair value.

(h) Financial assets

On initial recognition, a financial asset is classified at amortised cost; Fair value through other comprehensive income (FVOCI); Fair value through profit or loss (FVTPL).

Financial assets are classified under these categories on the basis of both the Bank's business model for managing the financial asset and contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The financial asset are held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A financial asset (debt instrument) shall be measured at fair value through other comprehensive income if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The BCTL holds financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. There are various objectives that may be consistent with this type of business model. For example, one objective of the business model is to manage the BCTL's everyday liquidity needs. To achieve such an objective, BCTL will both collect contractual cash flows and sell financial assets.

The BCTL reserves (debt instruments) meet both conditions (a) and (b) above, and accordingly are classified as Fair Value through Other Comprehensive Income.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income is recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The ECL calculation for debt instruments at FVOCI is explained in Note [3f].

Where BCTL holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Fair value through profit or loss

This is the default classification if the financial assets do not meet the tests for amortised cost or fair value through other comprehensive income. As the BCTL holdings of debt instruments already meet one of the defined classifications, this classification is not applicable.

(i) International Monetary Fund

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

The recognition of the transactions and balances with the IMF follows the indications given by this institution, which consider the specific characteristics of the financial relations of the member countries with the Fund.

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

The Bank recognises an asset and a liability account in relation to the IMF Securities. They are both subsequently measured at amortised cost.

(j) Reverse-Repurchase Transactions

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

(k) Other Assets and Liabilitiess

Local and foreign currency cash, deposits, accounts receivable and payable, are valued at the transaction date, inclusive of any accrued interest. Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued. They are recorded at the lower of cost or net realisable value. Cost is determined on a weighted average basis.

(l) Property, Plant and Equipment

i. **Recognition and measurement**

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

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

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

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

ii. **Subsequent Costs**

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

iii. **Depreciation**

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

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

	2023	2023
Buildings and improvements	20 years	20 years
Plant	5 years	5 years
Office equipment	8 years	8 years
Computers and electronic equipment	4 years	4 years
Vehicles	5 years	5 years

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

iv. Impairment

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

(m) Currency in circulation

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

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

(n) Employee benefits

(i) Short term employee benefits

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

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

(ii) Long-term employee benefits

There is no pension scheme for employees of the Bank.

(o) Changes in accounting policies

(i) Voluntary changes in accounting policies

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

(ii) New standards and interpretations applicable in the year

There was no significant impact on the accounting policies and disclosures from the adoption by the Bank of new standards, revisions, amendments and improvements to standards and interpretations which were applicable as from January 2023. These new standards, revisions, amendments and improvements to standards and interpretations are the following:

- IFRS 17 – Insurance Contracts
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)

(iii) New standards and interpretations applicable in the future years

New and amended standards and interpretations that are issued but not yet effective will not have a material impact on the Bank's consolidated financial statements.

The Bank does not anticipate a material impact on the financial statements when these new standards revision, amendments and improvements to standards and interpretations are applied for the first time.

4. Financial Risk Management

(a) Introduction and Overview

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

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

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

(b) Risk Management Framework

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

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

- Article 19 states that the Bank may hold in its investment portfolio any or all the following foreign assets: Gold and other precious metals held by or for the account of the Bank, including credit balances on account representing such gold and other precious metals; Banknotes and coins denominated in freely convertible foreign currencies held by or for the account of the Bank; Credit balances and interbank deposits that are payable on demand or within a short term denominated in freely convertible foreign currencies and are held in the accounts of the Bank, on the books of foreign central banks, or international financial institutions; Readily-marketable debt securities denominated in freely convertible foreign currencies issued by, or backed by foreign governments, foreign central banks or international financial institutions; Claims on international financial institutions resulting from repurchase agreements, sale and buy back and securities lending agreements for the foresaid debt securities; Special drawing rights held in the account of Timor-Leste in the International Monetary Fund; The reserve position of Timor-Leste in the International Monetary Fund.
- Article 71.1 prohibits the Bank from granting credit, engaging in commerce, purchasing the shares of any corporation or company including the shares of any Financial Institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking or acquire by purchase, lease, or otherwise any real rights in or to immovable property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its administration and operations.• O Artigo 39º autoriza o Banco a gerir fundos especiais propriedade do Estado, nos termos de um contrato de gestão e a manter receitas consignadas em contas especiais, desde que os ativos e as responsabilidades desses fundos sejam separados dos outros ativos e responsabilidades do Banco.
- Article 39 authorises the Bank to manage special fund owned by the state on the basis of management contract and maintain earmarked receipts on its books special accounts provided that the assets and liabilities shall be segregated from the other assets and liabilities of the Bank.

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

(c) Credit Risk

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

Regular audits of the divisions responsible for the investment of funds are undertaken by Internal Audit.

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

	Rating*	Dec-2022 US$ "000	Rating*	Dec-2021 US$ "000
Cash and cash equivalents				
Cash	AAA	61.684	AAA	34.381
Deposits at central banks	AAA	529.423	AAA	597.156
Resident banks	Baa2	14.421	BBB-	45.952
Non-resident banks	A-	27.861	A-	11.010
		633.389		688.499
Financial assets at fair value through other comprehensive income				
Investment in securities	AAA	119.699	N/A	145.363
IMF related assets				
International Monetary Fund - "SDR"	N/A	71.811	N/A	71.231
TOTAL ASSETS		**824.899**		905.093

Summary by credit rating	Dec-2023	Dec-2023 US$ "000	Dec-2022	Dec-2022 US$ "000
AAA	86%	710.806	86%	776.900
A-	3%	27.861	1%	11.010
Baa2	2%	14.421	5%	45.952
Not applicable	9%	71.811	8%	71.231
TOTAL ASSETS	**100%**	**824.899**	100%	905.093

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

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

(d) Liquidity Risk

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

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

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

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

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

	2023 Carrying amounts US$'000	**"Contractual Cash Flow"**	
		6 months or less US$'000	**Over 6 months US$'000**
Cash and Cash equivalents	633.390	633.390	
Financial assets at fair value through other comprehensive income	119.699	74.610	75.818
IMF related assets	71.811		71.231
Total assets **(Excluding PPE and other assets)**	**824.900**	**708.000**	**147.049**
Government deposits	341.216	341.216	
Other deposits	328.220	256.943	71.277
Other liabilities	20.868	20.868	
Currency issued	31.089	31.089	
Total liabilities	**721.393**	**650.116**	**71.277**

	2023 Carrying amounts US$'000	"Contractual Cash Flow"	
		6 months or less US$'000	Over 6 months US$'000
Cash and Cash equivalents	688,499	688,499	
Financial assets at fair value	145,363	69,545	75,818
through other comprehensive income			
IMF related assets	71,231		71.231
Total assets (Excluding PPE and other assets)	**905,093**	**758,044**	**147.049**
Government deposits	511,939	511,939	
Other deposits	220,668	149,449	71.279
Other liabilities	63,123	63,123	
Currency issued	27,657	27,657	
Total liabilities	**823,387**	**752,168**	**71.219**

(e) Market Risk

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

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

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

(i) Interest Rate Risk

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

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

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

	Total Carrying Amount 2023 US$'000	"Interest Sensitivity"	
		Non-Interest Sensitive US$'000	Interest Sensitive US$'000
Cash and cash equivalents	633.390	61.684	571.706
Financial assets at fair value			
through other comprehensive income	119.699		119.699
IMF related assets	71.811	71.811	
Other assets	5.278	5.278	
Total assets (Excluding PPE and other assets)	**830.178**	**138.773**	**691.405**
Government deposits			
Other deposits	341.216		341.216
Other liabilities	328.798	71.854	256.944
Currency issued	20.870	20.870	
	31.088	31.088	
Total liabilities	**721.972**	**123.812**	**598.160**
Interest Rate Sensitivity Gap	**108.206**	**14.961**	**93.245**

	Total Carrying Amount 2022 US$'000	"Interest Sensitivity"	
		Non-Interest Sensitive US$'000	Interest Sensitive US$'000
Cash and cash equivalents	688.499	34.381	654.118
Financial assets at fair value through other comprehensive income	145.363		145.363
IMF related assets	71.231	71.231	
Other assets	3.939	3.939	
Total assets (Excluding PPE and other assets)	**909.032**	**109.551**	**799.481**
Government deposits	511.939		511.939
Other deposits	220.668	71.219	149.449
Other liabilities	63.123	63.123	
Currency issued	27.657	27.657	
Total liabilities	**823.387**	**161.999**	**661.388**
Interest Rate Sensitivity Gap	**85.645**	**-52.448**	**138.093**

(ii) Sensitivity Analysis – Interest risk
In managing interest rate risk, the Bank aims to reduce the impact of short-term fluctuations on its net income. On 31 December 2023, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately $932 thousand (2022 - $1,383 thousand).

(iii) Foreign Currency Risk
Foreign currency risk is the risk of loss arising from changes in exchange rates.

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

As of 31 December 2023, the Bank's net exposure to major currencies was as follows:

	2023 US$'000	US Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	633.390	630.687	211		2.492
Financial assets at fair value through other comprehensive income	119.699	119.699			
IMF related assets	71.811			71.811	
Other assets	5.278	5.278			
Total assets (Excluding PPE and other assets)	**830.178**	**755.664**	**211**	**71.811**	**2.492**
Government deposits	341.216	341.216			
Other deposits	328.798	256.944		71.854	
Other liabilities	20.870	20.870			
Currency issued	31.088	31.088			
Total liabilities	**721.972**	**650.118**		**71.854**	
Net Foreign Currency Exposure	**108.206**	**105.546**	**211**	**-43**	**2.492**

	2022 US$'000	US Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	688.499	685.292	27		3.180
Financial assets at fair value through other comprehensive income	145.363	145.363			
IMF related assets	71.231			71.231	
Other assets	3.939	3.939			
Total assets (Excluding PPE and other assets)	**909.032**	**834.594**	**27**	**71.231**	**3.180**
Government deposits	511.939	511.939			
Other deposits	220.668	149.449		71.219	
Other liabilities	63.123	63.123			
Currency issued	27.657	27.657			
Total liabilities	**823.387**	**752.168**		**71.219**	
Net Foreign Currency Exposure	**85.645**	**82.426**	27	**12**	3.180

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

(f) Operational Risk

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

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

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

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

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

(g) Capital Management

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

- The capital of the Bank must at least be \$20,000,000, fully subscribed and paid-up.
- The capital of the Bank may be increased on the recommendation of the Governing Board and approved by the Government.
- A general reserve account may be established to hold the paid-up capital up to the difference between ten percent of the total financial assets of the Bank.
- The capital of the Bank may not be transferable or subject to encumbrance of any kind.

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

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

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

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

- Although article 39 of the Organic Law no. 5/2011 states that the Bank is authorised to manage and maintain special funds on its books, the assets and liabilities of which shall be segregated from the other assets and liabilities of the Bank, the management of the Bank, having taken advice concerning the provisions of the Petroleum Fund Law and IFRS, has determined that the liabilities and assets of the Petroleum Fund managed and 25 registered in the name of the Bank should for reporting purposes not be presented on the face of the Bank's balance sheet.
- Management has recognised the classification of the debt instruments at Fair value through other comprehensive income (FVOCI). The bank holds financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

6. Segment Reporting

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

7. Cash and Cash Equivalents

	2023 US$'000	2022 US$'000
Cash and Cash Equivalents		
Cash	61.684	34.381
Deposits at central banks	529.423	597.156
Resident banks	14.421	45.952
Non-resident banks	27.861	11.010
Total	**633.389**	**688.499**

8. Financial Assets at fair value through other comprehensive income

	2023 US$'000	2022 US$'000
Designated as fair value through other comprehensive income		
US Government Treasury Bills		
US Government Treasury Notes	45.089	75.818
FIXBIS - Fixed-Rate Investments at the BIS	74.610	69.545
Total	**119.699**	**145.363**

9. Financial Assets and Liabilities

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

	Fair Value through Profit or Loss		Amortised Cost		Fair value through Other Comprehensive Income	
Financial assets	2023 US$ "000	2022 US$ "000	2023 US$ "000	2022 US$ "000	2023 US$ "000	2022 US$ "000
Cash and cash equivalents			633.390	688.499		
Financial assets at fair value through other comprehensive income					119.699	145.363
IMF related assets			71.811	71.231		
Other assets			5.278	3.939		
Total assets (Excluding PPE and other assets)			**710.479**	**763.669**	**119.699**	**145.363**
Financial liabilities						
Government deposits			341.216	511.939		
Other deposits			328.798	220.668		
Other liabilities			20.870	63.123		
Currency issued			31.088	27.657		
Total liabilities			**721.972**	**823.387**		

10. IMF related assets

a. International Monetary Fund

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

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

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

International Bank for Reconstruction and Development

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

International Development Association

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

Multilateral Investment Guarantee Agency

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

	2023		2022	
	In SDR "000	In SDR "000	In SDR "000	In SDR "000
IMF Holdings of Currency	21.250	28.510	21.250	28.280
IMF SDR Holdings	32.264	43,288	32.274	42.951
Total	**53.514**	**71,798**	**53.524**	**71.231**

b. The World Bank Group

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

11. Property, Plant and Equipment

	Buildings US$ '000	Plant US$ '000	Office equipment US$ '000	Computer equipment US$ '000	Vehicles US$ '000	Work in progress US$ '000	Total US$ '000
Cost							
Balance at 1 January 2021	1.385	427	1.456	4.305	858	476	8.907
Acquisitions	306	2	4	190	0	0	502
Adjustment	-1	0	0	0	0	0	-1
WIP	0	0	0	0	0	-439	-439
Balance at 31 December 2021	1.690	429	1.460	4.495	858	37	8.969
Acquisitions	8	91	2	146	88	0	335
Adjustment	0	0	0	0	0	0	0
Work in Progress	0	0	0	0	0	-37	-37
Balance at 31 December 2022	1.698	520	1462	4.641	946	0	9.267
Accumulated depreciation							
Balance at 1 January 2021	931	414	1.025	3.593	638	0	6.601
Depreciation for the year	64	7	87	524	110	0	792
Adjustment	-10	-1	-7	-59	-49	0	-126
Balance at 31 December 2021	985	420	1.105	4.058	699	0	7.267
Depreciation for the year	56	17	77	252	58	0	460
Adjustment	0	0	0	0	0	0	0
Balance at 31 December 2022	1.041	437	1.182	4.310	757	0	7.727
Net carrying amounts							
As at 31 December 2022	657	83	280	331	189	0	1.540
As at 31 December 2021	705	9	355	437	159	37	1.702

Due to the ongoing development of a land and property registration system and the nascent commercial property market in Timor-Leste, the Bank's Governing Board has not yet been able to establish a fair value for the land and buildings occupied by its head office. Consequently, the current value of this property remains unavailable.

However, work in progress category includes costs associated with acquiring coin dispenser machine. These costs were subsequently capitalised and transferred to property, plant, and equipment in 2023.

There were no impairment losses at balance date.

12. Other Assets

Other assets comprise the following:

	2023 US$'000	2022 US$'000
Other Assets		
Accounts receivable	2.745	3.215
Advance, security & prepayment	374	373
Inventories	127	351
Total	**3.246**	**3.939**

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

13. Government deposits

	2023 US$'000	2022 US$'000
Government deposits		
Consolidated fund	140.905	245.976
Infrastructure fund	60.881	56.800
Human Development Capital fund	5.453	4
Autonomous agency accounts	120.394	72.441
Municípalities accounts	13.583	8.921
Social security fund		127.797
Total	**601.275**	**511.939**

14. Other deposits

	2023 US$'000	2022 US$'000
Other Deposits		
Domestic financial institutions	256.944	149.449
International financial institutions (Note 10a)	71.277	71.219
Total	**328.221**	**220.668**

15. Other Liabilities

	2023 US$'000	2022 US$'000
Other Liablities		
Accounts payable	4.426	4.834
Withholding tax payable	25	19
Provision for Long service account	1.510	126
Letters of Credit	6.982	7.462
Operating accounts	7.925	50.682
Total	**20.868**	**63.123**

16. Capital and Reserves

Based on the Governing Board decision, the capital of the Bank remains unchanged at $80,000,000 in 2023 (2022 - $80,000,000).
The following reserves are established by article 10.1 of the organic law:

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

17. Provision for Transfer of Surplus to Government of Timor-Leste

The Banco Central de Timor-Leste's Organic Law No. 5/2011 governs the distribution of its net profit. After deducting statutory allocations to reserve accounts, the remaining profit is transferred to the Government of Timor-Leste.

However, Article 10.1(a) of the same law specifies that 50% of the profit must be credited to the General Reserve Account until a combined total of capital and reserves reaches 10% of the Bank's total financial assets. once this threshold is met, profit distribution follows the schedule outlined in table below:

	2023 US$'000	2022 US$'000
Transfer to Government		
Net profit for the year ended 31 December 2023	20.873	8.890
Transfer to General Reserve Account	-20.873	-8.890
Total transfer to Government	**0**	**0**

Considering the Government's commitment to increasing the Bank's capital 20,873 to $100 million, the Governing Board made an exceptional decision for the year-end profit. Instead of following the usual distribution, the Governing Board opted to transfer the entire profit of $ million (compared to $8,890 million in 2022) to the General Reserve Account. This decision aims to accelerate the growth of the Bank's capital reserves, thereby strengthening its financial position.

18. Contingent Liabilities

There were no contingent liabilities as of 31 December 2023.

19. Net Interest Income

	2023 US$'000	2022 US$'000
Interest income from Financial Assets		
Interest on deposits at foreign central banks	28.887	10.486
Interest on deposits at domestic banks	1.294	227
Total interest income	30.181	10.713
Interest paid on Financial Liabilities		
Interest paid on Government accounts	11.589	3.950
Interest paid to commercial banks	177	21
Total interest expenses	**11.766**	**3.971**
Net Interest Income	**18.415**	**6.742**

20. Interest on financial assets at fair value through profit or loss

	2023 US$'000	2022 US$'000
Interest on financial assets at fair value through profit or loss		
Interest on financial assets at fair value through profit or loss	4.955	2.483
Total interest	**4.955**	**2.483**

There is no impairment on the financial assets at fair value through other comprehensive income during the year (2022 – nil).

21. Fee and Commission Income

	2023 US$'000	2022 US$'000
Fees and commissions		
Currency withdrawal fees	27	11
Licensing and supervision fees	133	160
Government account management fees	500	500
Total fees and commissions	**660**	**671**

22. Petroleum Fund Management Fee

As stipulated in the Petroleum Fund Law No 9/2005, Banco Central de Timor-Leste (BCTL) is authorized to charge a management fee for the operational oversight of the Petroleum Fund. This fee aims to reasonably represent the costs incurred in managing the fund.

At the end of 2023, the Petroleum Fund balance stood at $18,252 million, reflecting an increase compared to 2022's $17,414 million (unaudited). The Ministry of Finance agreed to cover BCTL's internal management fee up to a maximum of 4 basis points annually. However, the actual management fee received from the Petroleum Fund for the year ended December 31, 2023, amounted to $14,465 thousand, representing 8 basis points of the average fund balance. This translates to an increase from the $13,155 thousand (or 8 basis points) received in 2022.

The fees cover expenses associate with custody services and external managers, Investment Advisory Board, and the fees for BCTL internal management. Presented below is the petroleum fund management fee income by nature:

	2023 US$'000	2022 US$'000
Total Petroleum fund management fee income	**14.465**	**13.155**
External managers & custody mgmt services	-6.039	-6.857
Investment Advisory management expenses	-510	-142
Others	-147	208
Net fee and commission income	**7.769**	**6.364**

In 2023, the BCTL's internal fee receipts from managing the fund totalled $7.1 million, an increase from $6.3 million in 2022. These fees were allocated to various expenses, including personnel, operational costs, technology, and other administrative needs which is as shown below.

	2023 US$'000	2022 US$'000
Salary, capacity building and Other personnel related costs	1.554	1.273
IT services, systems and data	2.486	2.036
Research, consulting and legal fees	1.942	1.591
Allocated common costs BCTL	1.398	1.146
Other costs	388	318
Total BCTL operational expenses	**7.769**	**6.364**

23. Personnel Expenses

	2023 US$'000	2022 US$'000
Personnel Expenses		
Salaries and related payments	2.414	2.082
Staff welfare payments	2.175	137
Capacity building and staff development	163	73
Representation at conferences and meetings	665	424
Total personnel expenses	**5.417**	**2.716**

24. Administration Expenses

	2023 US$'000	2022 US$'000
Administration Expenses		
Asset maintenance	27	62
Communications	111	86
Information systems	2.275	1.788
General expenses	148	19
Office Expenses	362	210
Professional fees	607	976
Other Assets management expenses	210	189
Total Administration Expenses	**3.740**	**3.330**

25. Petroleum Fund of Timor-Leste

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

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

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

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

The assets and liabilities of the Petroleum on 31 December 2023* were as follows:

	2023 US$'000	2022 US$'000
Petroleum Fund Assets		
Cash and Cash Equivalents	2.065.968	2.029.562
Other receivables	43.011	45.170
Financial assets at fair value through profit or loss	16.220.796	15.367.527
Less: Pending Purchase of Securities & Account payables	-41.370	-28.662
	18.288.405	**17.413.597**
Capital	18.288.405	17.413.597
Capital	**18.288.405**	**17.413.597**

(*) the PF balance sheet is unaudited

26. Related Party transactions

Ultimate Controlling Party

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

Governing Board

There were three members of the Governing Board who were the executive management personnel. The compensation is determined by the Government through Government Decree No.3/2015 of 21 January, which is disclosed below.

	2023 US$'000	2022 US$'000
Executive Board members Compensation (Included in personnel expenses)		
Short-term employee benefits	242	242
Long-term benefits	17	17
Total	**259**	**259**

Non-Executive Governing Board

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

	2023 US$'000	2022 US$'000
Non-Executive Board members Compensation		
Sitting allowance (Included in personnel expenses)	82	93
Total	**82**	**93**

Key Management Personnel

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

	2023 US$'000	2022 US$'000
Key Management Personnel Compensation (Included in personnel expenses)		
Short-term employee benefits	78	78
Long-term benefits	5	5
Total	**83**	**83**

Government-Related Entities

The Bank provides banking services on an arm's-length basis to the Ministry of Finance and other public entities which are exempt from the disclosure requirements of paragraph 18 of IAS 24 –"Related Party Disclosures" in relation to related party transactions and outstanding balances, including commitments. The nature and amount of each individually significant transaction with Government related entities are disclosed in Notes 13, 15, 16, 17, 23 and 26.

27. Fair value revaluations

	2023 US$'000	2022 US$'000
Fair value revaluation		
Opening balance	-4.431	
Fair value changes	1.524	-4.431
Total Fair value	**-2.907**	**-4.431**

28. Currency issued.

	2023 US$'000	2022 US$'000
Currency Issued		
Opening balance	27.657	25.809
Coins issuance	3.432	1.852
Total	**31.089**	**27.657**

29. Reintegration fund.

	2023 US$'000	2022 US$'000
Reintegration fund (include other liabilities)		
Opening balance	126	126
Reintegration fund	1.384	
Total	**1.510**	**126**

30. Authorisation and approval of the financial statements

As stated in the basis of preparation - Statement of compliance, these financial statements were authorised for issue by the Governing Board of the Bank on 30 April 2024.

31. Subsequent Events

As of the date of the financial statements' issuance, no material events have occurred that would require adjustments or disclosures beyond those already presented in the financial statements.

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Independent Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco Central de Timor-Leste (the Bank), which comprise the statement of financial position as at 31 December 2023 (showing a total asset value of 831.716 thousand USD and a total equity of 109.744 thousand USD, including a net profit of 20.873 thousand USD), and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs)

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in East Timor, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of management and the governing board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The governing board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

Sociedade Anónima - Capital Social 1.340.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 20161480 na Comissão do Mercado de Valores Mobiliários
Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the governing board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Our responsibility also includes the verification that the information contained in the Management Report is consistent with the financial statements.

Lisbon, May 9th, 2024

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

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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