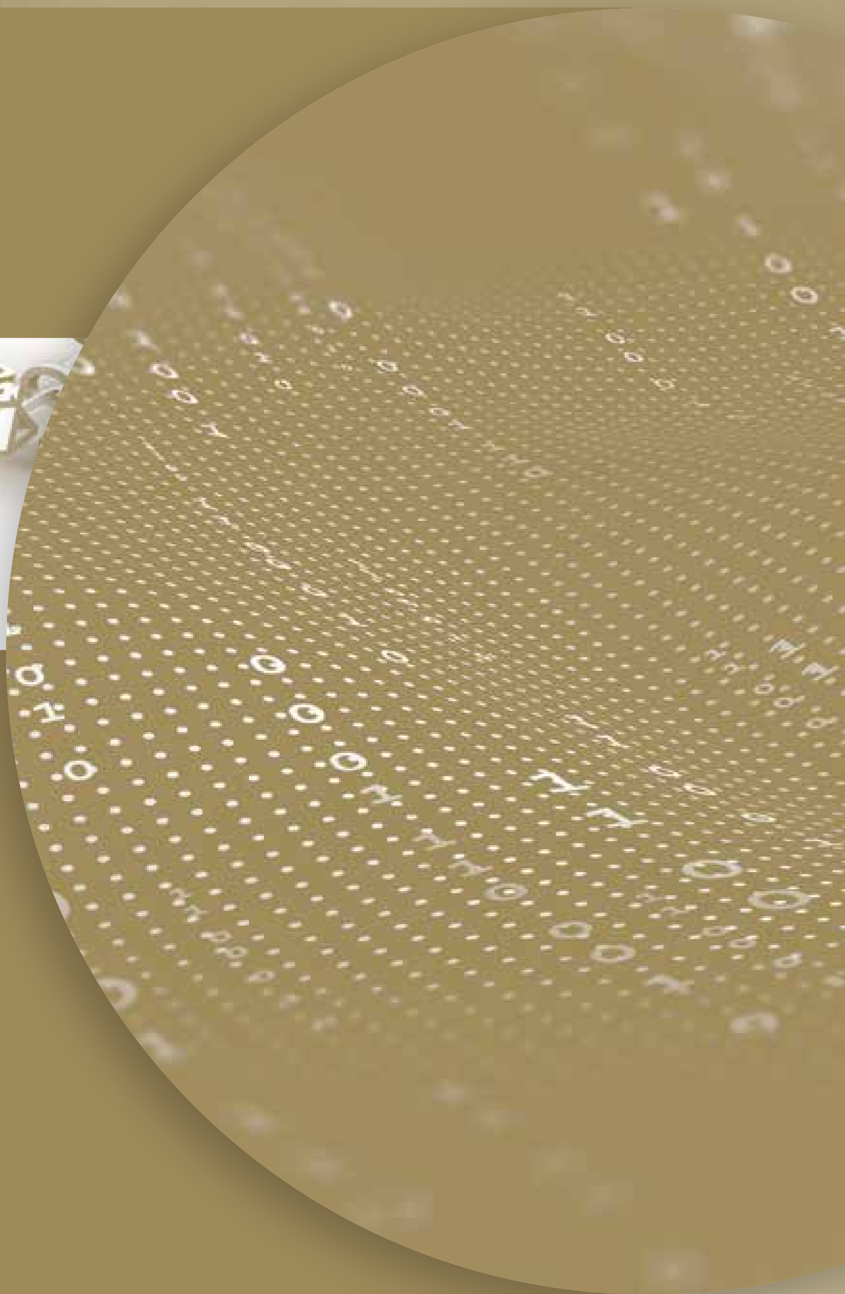
Financial **Statements**

For the year ended
31 December 2021

31 March 2022



Chapter 4

Statement of Compliance

The Financial Statements on pages 154 to 157 and the Notes from pages 158 to 192 which form an integral part of these statements have been prepared by the Management and approved by the Governing Board of Banco Central de Timor-Leste.

I declare that these Financial Statements comply with the requirements of Central Bank Law no 5/2011 and fairly present the true financial position and performance of Banco Central de Timor-Leste as at 31 December 2021.

Dili, 31 March 2022

Abraão de Vasconselos
Governor

Statement of Financial Position
As at 31 December 2021
In thousands of United States dollars

	Note	2021	2020
Assets			
Cash and cash equivalents	7	665,600	731,717
Financial assets at fair value through other comprehensive income	8	249,327	-
IMF related assets and liabilities	10	68,827	35,488
Other assets	12	4,647	3,217
Property, plant and equipment	11	2,306	2,164
Total Assets		**990,752**	**772,586**
Liabilities			
Government deposits	13	504,420	497,486
Other deposits	14	365,484	167,446
Other Liabilities	15	22,521	11,905
Currency issued		25,805	23,446
Total Liabilities		**918,230**	**700,283**
Capital	16	70,000	70,000
Fair value through OCI		(366)	-
General reserve		762	762
Net profit		2,126	1,541
Total Equity		**772,522**	**72,303**
Total Liabilities and Equity		**990,752**	**772,586**

The above statement is to be read in conjunction with the policies and notes on pages 158 to 192

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

In thousands of United States dollars

	Note	2021	2020
Operating Incomes			
Investment Income:			
Interest Income	19	184	1,387
Interest expense	19	-9	-514
Net interest income		**175**	**873**
Petroleum fund management fee	21	16,549	14,531
Petroleum fund administration expenses		-9,195	-7,976
Net fee and commision income		**7,354**	**6,555**
Interest on financial assets at fair value through other comprehensive income	20	144	-
Fees and commissions	22	659	666
Other Income		131	18
Total Operating Income		**8,463**	**8,112**
Expenses			
Personnel expenses	23,26	2,039	2,034
Currency distribution expenses		1,112	987
Administration expenses	24	2,573	2,984
Depreciation	11	613	566
Total Expenses		**6,337**	**6,571**
Profit		**2,126**	**1,541**
Other comprehensive income		-366	-
Total profit and other comprehensive income		**1,760**	**1,541**

The above statement is to be read in conjunction with the policies and notes on pages 158 to 192

Statement of Changes in Equity
For the year ended 31 December 2021
In thousands of United States dollars

	Capital	General reserve	Fair value through OCI	Net Profit	Total equity
Balance at 31-01-2020	**70,000**	**762**	**0**	**6,550**	**77,312**
Profit for the period	0	0	0	1,541	1,541
Other Comprehensive income	0	0	0	0	0
Total Comprehensive income	**0**	**0**	**0**	**1,541**	**1,541**
General reserve	0	0	0	0	0
Capital Increase	0	0	0	0	0
Cash dividends	0	0	0	-6,550	-6,550
Balance at 31-12-2021	**70,000**	**762**	**0**	**1,541**	**72,303**
Balance at 1-1-2021	**70,000**	**762**	**0**	**1,541**	**72,303**
Profit for the period	0	0	0	2,126	2,126
Other Comprehensive income	0	0	-366	0	-366
Total Comprehensive income	**0**	**0**	**-366**	**2,126**	**1,760**
General reserve	0	0	0	0	0
Capital Increase	0	0	0	0	0
Cash dividends	0	0	0	-1,541	-1,541
Balance at 31-12-2021	**70,000**	**762**	**-366**	**2,126**	**72,522**

The above statement is to be read in conjunction with the policies and notes on pages 158 to 192

Statement of Cash Flows

For the year ended 31 December 2021

In thousands of United States dollars

	2021	2020
Cash Flows from Operating Activities		
Profit for the period	2,126	1,541
Depreciation	613	566
Net Interest income	-175	-873
	2,564	**1,234**
Changes in receivables, prepayments & stock	-1,430	3,079
Changes in government deposits	6,933	48,419
Changes in other deposits	164,700	18,672
Changes in other liabilities	10,616	2,425
Changes in fair value	-366	0
	183,017	**73,829**
Interest received	184	1,387
Interest paid	-9	-514
Net cash from operating activities	**183,192**	**74,702**
Cash flows from investing activities		
Acquisitions of investment from financial assets at fair value through other comprehensive income	-249,372	0
Acquisitions of property, plant & equipment	-755	-693
Net cash from/used in investing activities	**-250,127**	**-693**
Cash flows from financing activities		
Currency issued	2,359	2,232
Transfer of surplus to Government	-1,541	-6,550
Net cash from/used in investing activities	**818**	**-4,318**
(Decrease)/Increase in Cash & Cash Equivalents	**-66,117**	**69,691**
Cash & cash equivalents at the beginning of year	731,717	662,026
Cash & Cash Equivalents at the end of the year	**665,600**	**731,717**

The above statement is to be read in conjunction with the policies and notes on pages 158 to 192

Notes to the financial statements

For the year ended 31 December 2021

1. Reporting Entity and Statutory Base

These are the financial statements of Banco Central de Timor-Leste (“the Bank” or BCTL), a distinct autonomous public legal entity established by Organic Law number 5/2011 on the Central Bank of Timor-Leste. The head office of Banco Central de Timor-Leste is at Avenida Xavier do Amaral, no 9, P.O. Box 59, Díli, Timor-Leste.

The financial statements of the Bank are for the financial year ended 31 December 2021 and, in accordance with section 58 of the Organic Law no 5/2011, the accounts and records are maintained in accordance with International Financial Reporting Standards.

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

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

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

2. Basis of Preparation

a) Statement of compliance

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

The financial statements were authorised for issue by the Governing Board on 31 March 2022.

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.

c) Adoption of International Financial Reporting Standards

These financial statements incorporate all International Financial Reporting Standards in force at 31 December 2021. No standards have been adopted before the effective date.

d) Functional and Presentation Currency

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

e) Use of Estimates and Judgements

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

3. Significant Accounting Policiess

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 2021	31 DEC 2020
Australian dollars (AUD)	1,3787	1,3139
Special Drawing Rights (SDR)	0,7145	0,6943
Euro (EUR)	0,8810	0,8159

b) Interest Rate Method

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

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

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

- Interest on financial assets and liabilities at amortised cost on using effective interest rate basis

c) Fees

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

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

d) Operating Profit

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

e) Taxation

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

f) Financial Assets and Liabilities

i) Recognition

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

A financial asset or financial liability is initially measured at fair value plus (for an item not at 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 losses 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).

The debt instruments do not meet the criteria for amortised cost because the Bank's business mode does not require holding the assets to maturity.

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.

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.

BCTL classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the “solely payments of principal and interest” test defined in IFRS 9.

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.

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) 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 Liabilities

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

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

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

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 Cost

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:

	2021	2020
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 1 January 2021. These new standards, revisions, amendments and improvements to standards and interpretations are the following:

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)
- COVID-19 - Related Rent Concessions (Amendment to IFRS 16).

iii) New standards and interpretations applicable in the future years
The following new standards, revisions, amendments and improvements to standards and interpretations are applicable as from 1 January 2022:

- Onerous contracts – costs of fulfilling a contract (Amendments to IFRS 16)
- Annual Improvements to IFRS 2018 – 2020
- Property, Plant and Equipment: Proceeds before intended use (Amendment to IAS 16)

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.
- 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 2021 US$ "000	Rating*	Dec 2020 US$ "000
Cash and cash equivalents				
Cash	AAA	98,628	AAA	62.432
Deposits at central banks	AAA	530,400	AAA	575,399
Resident banks	Baa2	21,506	BBB-	86,303
Non-resident banks	A-	15,066	A-	7,583
		665,600		**731,717**
Financial assets at fair value through other comprehensive income				
Investment in securities	AAA	249,372	N/A	0
IMF related assets and liabilities				
International Monetary Fund - "SDR"	N/A	68,827	N/A	35,488
TOTAL ASSETS		**983,799**		**767,205**

Summary by credit rating	Dec 2021	Dec 2021 US$ "000	Dec 2020	Dec 2020 US$ "000
AAA	89.29%	878,400	83.14%	637,831
A-	1.53%	15,066	0.99%	7,582
Baa2	2.19%	21,506	11.25%	86,303
Not applicable	7.00%	68,827	4.63%	35,488
TOTAL ASSETS	**100%**	**983,799**	**100%**	**767,205**

*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.

	2021 Carrying amounts US$ '000	"Contractual Cash Flow" 6 months or less	Over 6 months
Cash and Cash equivalents	665,600	665,600	-
Financial assets at fair value through other comprehensive income	249,372	169,982	79,390
IMF related assets and liabilities	68,827	-	68,827
Total assets (Excluding PPE)	**983,799**	**835,582**	**148,217**
Government deposits	504,420	504,420	-
Other deposits	365,484	296,657	68,827
Other liabilities	22,521	22,521	-
Currency issued	25,805	25,805	-
Total liabilities	**918,230**	**849,403**	**68,827**

	2020 Carrying amounts US$ '000	"Contractual Cash Flow" 6 months or less	Over 6 months
Cash and Cash equivalents	731,717	731,717	-
Financial assets at fair value through other comprehensive income	-	-	-
IMF related assets and liabilities	35,488	-	35,488
Total assets (Excluding PPE)	**767,205**	**731,717**	**35,488**
Government deposits	497,486	497,486	-
Other deposits	167,446	131,934	35,512
Other liabilities	11,905	11,905	-
Currency issued	23,446	23,446	-
Total liabilities	**700,283**	**664,771**	**35,512**

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 2021 US$ '000	Non-Interest Sensitive	6 month or less
Cash and cash equivalents	665,600	98,628	566,972
Financial assets at fair value through other comprehensive income	249,372	-	249,372
IMF related assets and liabilities	68,827	68,827	-
Other assets	4,647	4,647	-
Total assets (Excluding PPE)	**988,446**	**172,102**	**816,344**
Government deposits	504,420	-	504,420
Other deposits	365,484	68,827	296,657
Other liabilities	22,521	22,521	-
Currency issued	25,805	25,805	-
Total liabilities	**918,230**	**117,153**	**801,077**
Interest Rate Sensitivity Gap	**70,216**	**54,949**	**15,267**

	Total Carrying Amount 2020 US$ '000	Non-Interest Sensitive	6 month or less
Cash and cash equivalents	731,717	62,432	669,285
Financial assets at fair value through other comprehensive income	-	-	-
IMF related assets and liabilities	35,488	35,488	-
Other assets	3,217	3,217	-
Total assets (Excluding PPE)	**770,422**	**101,137**	**669,285**
Government deposits	497,468	-	497,486
Other deposits	167,446	35,512	131,934
Other liabilities	11,905	11,905	-
Currency issued	23,446	23,446	-
Total liabilities	**700,863**	**70,863**	**629,420**
Interest Rate Sensitivity Gap	**70,139**	**30,274**	**39,865**

ii) Sensitivity Analysis – Interest risk

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on its net income. At 31 December 2021, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately $153 thousand (2020 - $399 thousand).

iii) Foreign Currency Risk

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

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

As at 31 December 2021, the Bank's net exposure to major currencies was as follows:

	Total 2021 US$ "000	United States Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	665,600	661,703	97	-	3,800
Financial assets at fair value through other comprehensive income	249,372	249,372	-	-	-
IMF related assets and liabilities	68,827	-	-	68,827	-
Other assets	4,647	4,647	-	-	-
Total assets (Excluding PPE)	**988,446**	**915,722**	**97**	**68,827**	**3,800**
Government deposits	504,420	504,420	-	-	-
Other deposits	365,484	296,657	-	68,827	-
Other liabilities	22,521	22,521	-	-	-
Currency issued	25,805	25,805	-	-	-
Total liabilities	**918,230**	**849,403**	**-**	**68,827**	**-**
Net Foreign Currency Exposure	**70,216**	**66,319**	**97**	**-**	**3,800**

	Total 2020 US$ "000	United States Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	731,717	731,689	7	-	21
Financial assets at fair value through other comprehensive income	-	-	-	-	-
IMF related assets and liabilities	35,488	-	-	35,488	-
Other assets	3,217	3,217	-	-	-
Total assets (Excluding PPE)	**770,422**	**734,906**	**7**	**35,488**	**21**
Government deposits	497,486	497,486	-	-	-
Other deposits	167,446	296,657	-	35,512	-
Other liabilities	11,905	11,905	-	-	-
Currency issued	23,446	23,446	-	-	-
Total liabilities	**700,283**	**664,771**	**-**	**35,512**	**-**
Net Foreign Currency Exposure	**70,139**	**70,135**	**7**	**24**	**21**

iv) Sensitivity analysis - Currency exchange risk

In managing currency exchange risk, the Bank only hold small net positions in foreign currency and therefore it's not materially exposed to changes in foreign exchange rate.

f) Operational Risk

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

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

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

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

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

g) Capital Management

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

- The capital of the Bank must at least be $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 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 Reportings

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

7. Cash and Cash Equivalents

Cash and Cash Equivalents	**2021 US$ "000**	**2020 US$ "000**
Cash	98,628	62,432
Deposits at central banks	530,400	575,399
Resident banks	21,506	86,303
Non-resident banks	15,066	7,583
Total	**665,600**	**731,717**

8. Financial Assets at fair value through other comprehensive income

Designated as fair value through other comprehensive income	2021 US$ "000	2020 US$ "000
US Government Treasury Bills	100,000	-
US Government Treasury Notes	79,390	-
Investment in Fixbis	69,982	-
Total	**249,372**	-

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	**2021 US$ "000**	**2020 US$ "000**	**2021 US$ "000**	**2020 US$ "000**	**2021 US$ "000**	**2020 US$ "000**
Cash and cash equivalents	-	-	665,600	731,717	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	249,372	-
IMF related assets and liabilities	-	-	68,827	35,488	-	-
Other assets	-	-	4,647	3,217	-	-
Total assets (Excluding PPE)	-	-	**739,074**	**770,422**	**249,372**	-
Financial liabilities						
Government deposits	-	-	504,420	497,486	-	-
Other deposits	-	-	365,484	167,446	-	-
Other liabilities	-	-	22,521	11,905	-	-
Currency issued	-	-	25,805	23,446	-	-
Total liabilities	-	-	**918,230**	**700,283**	-	-

10. IMF related assets and liabilities

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:

	2021		2020	
	in SDR '000	in US$ '000	in SDR '000	in US$ '000
IMF Holdings of Currency	21.250	29,742	21,250	30,606
IMF SDR Holdings	27,926	39,085	3,389	4,882
Total	**49,176**	**68,827**	**24,639**	**34,488**

b. The World Bank Group

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

International Bank for Reconstruction and Development
The Bank records the outstanding balance with IBRD on a net liability basis.

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

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

11. Property, Plant and Equipment

	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 2020	1,317	415	1,068	4,000	593	67	7,460
Acquisitions	-	11	281	32	152	-	476
Adjustment	68	-	-	68	-	-	-
Work in Progress	-	-	-	-	-	216	216
Balance at 31 December 2020	1,385	426	1,349	3,964	745	283	8,152
Acquisitions	-	1	107	341	113	-	562
Adjustment	-	-	-	-	-	-	-
Work in Progress	-	-	-	-	-	193	193
Balance at 31 December 2021	**1,385**	**427**	**1,456**	**4,305**	**858**	**476**	**8,907**
Accumulated depreciation							
Balance at 1 January 2020	822	397	817	2,818	568	-	5,422
Depreciation for the year	65	9	121	355	16	-	566
Adjustment	-	-	-	-	-	-	-
Balance at 31 December 2020	887	406	938	3,173	584	-	5,988
Depreciation for the year	63	8	87	421	54	-	633
Adjustment	19	-	-	1	-	-	20
Balance at 31 December 2021	**931**	**414**	**1,025**	**3,593**	**638**	**-**	**6,601**
Nett carrying amounts							
As at 31 December 2021	**454**	**13**	**431**	**712**	**220**	**476**	**2,306**
As at 31 December 2020	498	20	411	791	161	283	2,164

Pending the establishment of a land and property registration system in Timor-Leste, and the commencement of a property market in which the valuation of commercial and other property can be established by reference to observable transactions, the Governing Board of the Bank has been unable to establish a fair value for the head office land and buildings occupied by the Bank. Work in progress includes costs incurred in relation to the refurbishment of Board meeting room and acquisition of sachet machine. There were subsequently capitalised and transferred to property, plant, and equipment in 2022.

There were no impairment losses at balance date.

12. Other Assets

Other assets comprise the following:

	2021 US$ "000	2020 US$ "000
Other Assets		
Accounts receivable	3,699	2,296
Advance, security & prepayment	314	79
Inventories	634	842
Total	**4,647**	**3,217**

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

13. Government deposits

Government deposits	2021 US$ "000	2020 US$ "000
Consolidated fund	251,712	305,215
Infrastructure fund	33,030	7,086
Human Development Capital fund	1,724	552
Autonomous agency accounts	96,260	49,340
Municípalities accounts	16,692	1,422
Social security fund	105,002	133,871
Total	**504,420**	**497,486**

14. Other deposits

Other deposits	2021 US$ "000	2020 US$ "000
Domestic financial institutions	296,657	131,934
International financial institutions (Note 10a)	68,827	35,512
Total	**365,484**	**167,446**

15. Other Liabilities

Other Liabilities	2021 US$ "000	2020 US$ "000
Accounts payable	3,862	2,437
Withholding tax payable	59	104
Provision for Long service account	552	375
Letters of Credit	10,733	269
Operating accounts	7,315	8,720
Total	**22,521**	**11,905**

16. Capital and Reserves

The capital of the Bank is maintained at $70,000,000 (2019 - $70,000,000).
The following reserves are established by article 10.1 of the organic law:

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

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

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

Furthermore article 10.1 (a) of the organic law no. 5/2011 stated that an amount equivalent to 50 percent of distributable earnings shall be credited to the general reserve account until the capital and general reserves equal 10 percent of the total financial assets of the Bank, a transfer to the Government will be made as follows:

	2021 US$ "000	2020 US$ "000
Transfer to Government		
Balance of General Reserve Account	0	0
Net profit for the year ended 31 December 2021	2,126	1,541
Transfer to General Reserve Account	0	0
Total	**2,126**	**1,541**

Since 2020, the Bank has not transferred 50% of the distributable earning to reserve account on the basis of the Government's commitment to increase the Bank's capital to $100 million. The Bank will transfer the profit for the year 2021 (2020 – transferred to Government in early May 2020) to Government, when the Governing Board approved the distribution of earnings.

18. Contingent Liabilities

There were no contingent liabilities as at 31 December 2021.

19. Net Interest Income

	2021 US$ "000	2020 US$ "000
Interest income from Financial Assets		
Interest on deposits at foreign central banks	173	1,313
Interest on deposits at domestic banks	11	74
Total interest income	184	1,387
Interest paid on Financial Liabilities		
Interest paid on Government accounts	9	512
Interest paid to commercial banks	-	2
Total interest expenses	**9**	**514**
Net Interest Income	**175**	**873**

20. Interest on financial assets at fair value through other comprehensive income

	2021 US$ "000	2020 US$ "000
Interest on financial assets at fair value through other comprehensive income		
Interest on financial assets at fair value through other comprehensive income	144	-
Total interest	**144**	**-**

There is no impairment on the financial assets at fair value through other comprehensive income during the year (2020 – nil).

21. Fee and Commission Income

	2021 US$ "000	2020 US$ "000
Fees and commissions		
Currency withdrawal fees	7	8
Licensing and supervision fees	152	158
Government account management fees	500	500
Total fees and commissions	**659**	**666**

22. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Bank is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund on 31 December 2021 (unaudited) was $19,651 million (2020 – $18,991 million).

Ministry of Finance agreed to cover internal management fee of BCTL up to 4 basis points on an annual basis. The management fee received from the Petroleum Fund account for the period ended 31 December 2021 amounted to $16,549 thousand (2020 – $14,531 thousand or 8 basis points) or represented 8 basis points of the average balance of the funds. The fees cover expenses for 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:

	2021 US$ "000	2020 US$ "000
Total Petroleum fund management fee income	**16,549**	**14,531**
External managers & custody mgmt services	-9,103	-7,814
Investment Advisory management expenses	-92	-162
Others	0	-582
Net fee and commission income	**7,354**	**5,973**

The BCTL internal fees receipts from the management of the fund was $6.4 million (2020 - $5.9 million) which allocated to expenses as shown below.

	2021 US$ "000	2020 US$ "000
Salary, capacity building and Other personnel related costs	1,287	1,195
IT services, systems and data	2,060	1,911
Research, consulting and legal fees	1,609	1,493
Allocated common costs BCTL	1,159	1,075
Other costs	322	299
Total BCTL operational expenses	**6,437**	**5,973**

23. Personnel Expenses

	2021 US$ “000	2020 US$ “000
Personnel Expenses		
Salaries and related payments	1,988	1,863
Staff welfare payments	48	185
Capacity building and staff development	3	11
Representation at conferences and meetings	-	2
Total personnel expenses	**2,039**	**2,034**

24. Administration Expenses

	2021 US$ “000	2020 US$ “000
Administration Expenses		
Asset maintenance	29	89
Communications	72	125
Information systems	1,426	1,664
General expenses	43	45
Office Expenses	244	226
Professional fees	593	619
Other Assets management expenses	166	216
Total Administration Expenses	**2,573**	**2,984**

25. Petroleum Fund of Timor-Leste

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

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

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

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

The assets and liabilities of the Petroleum at 31 December 2021* were as follows:

	2021 US$ “000	2020 US$ “000
Petroleum Fund Assets		
Cash and Cash Equivalents	1,379,487	1,361,477
Other receivables	4,730	17,247
Financial assets at fair value through profit or loss	18,280,950	16,943,356
Financial assets at Amortised Cost	0	701,350
Less: Pending Purchase of Securities	-14,490	-32,849
& Account payables	**19,650,677**	**18,990,581**
Capital	19,650,677	18,990,681
Capital	**19,650,677**	**18,990,581**

Notes: **) 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

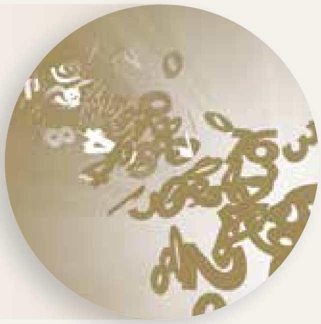
There were three members of the Governing Board who were the executive management personnel. The compensation is determined by the Government through Government Decree No. 3/2015 of 21 January, which is disclosed below.

	2021 US$ "000	2020 US$ "000
Executive Board members Compensation		
(Included in personnel expenses)		
Short-term employee benefits	242	260
Long-term benefits	17	17
Total	**259**	**277**

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.

	2021 US$ "000	2020 US$ "000
Non-Executive Board members Compensation		
Sitting allowance		
(Included in personnel expenses)	77	68
Total	**77**	**68**



Key Management Personnel

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

	2021 US$ "000	2020 US$ "000
Key Management Personnel Compensation		
(Included in personnel expenses)		
Short-term employee benefits	71	72
Long-term benefits	5	6
Total	**76**	**78**

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, 23 and 26.

27. 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 31 March 2022.

28. Subsequent Events

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by the governments to contain the virus have affected economic activity. The Bank have taken a few measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home).

At this stage, the impact on the business and results has not been significant. The bank will continue to follow the government policies and advice and, in parallel, the bank will do to continue operations in the best and safety way possible without jeopardising the health of the people.

At this moment, there were no subsequent events have occurred after the reporting date and the date of the issuance of the financial statements.

BDO

Tel: +61 8 8981 7066
Fax: +61 8 8981 7493
www.bdo.com.au

72 Cavenagh St
Darwin NT 0800
GPO Box 4640 Darwin NT 0801
AUSTRALIA

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of Banco Central de Timor-Leste (the Bank)

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 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of the Bank:

(i) Give a true and fair view of the Bank's financial position as at 31 December 2021 and of its financial performance and its cash flows for the year ended on that date; and

(ii) Complies with the 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 ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Timor Leste. 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 the Bank's Governing Board for the Financial Statements

The Bank's Governing Board is responsible for the preparation of the financial statements that gives a true and fair view in accordance with the IFRSs and for such internal control as the Governing Board determines is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Board 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 the Governing Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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 the 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 judgement and maintain professional skepticism throughout the planning and performance of the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We are required to communicate with the Management 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.

BDO

BDO Australia Ltd

Clive Garland
Audit Partner

Darwin, 13 April 2022