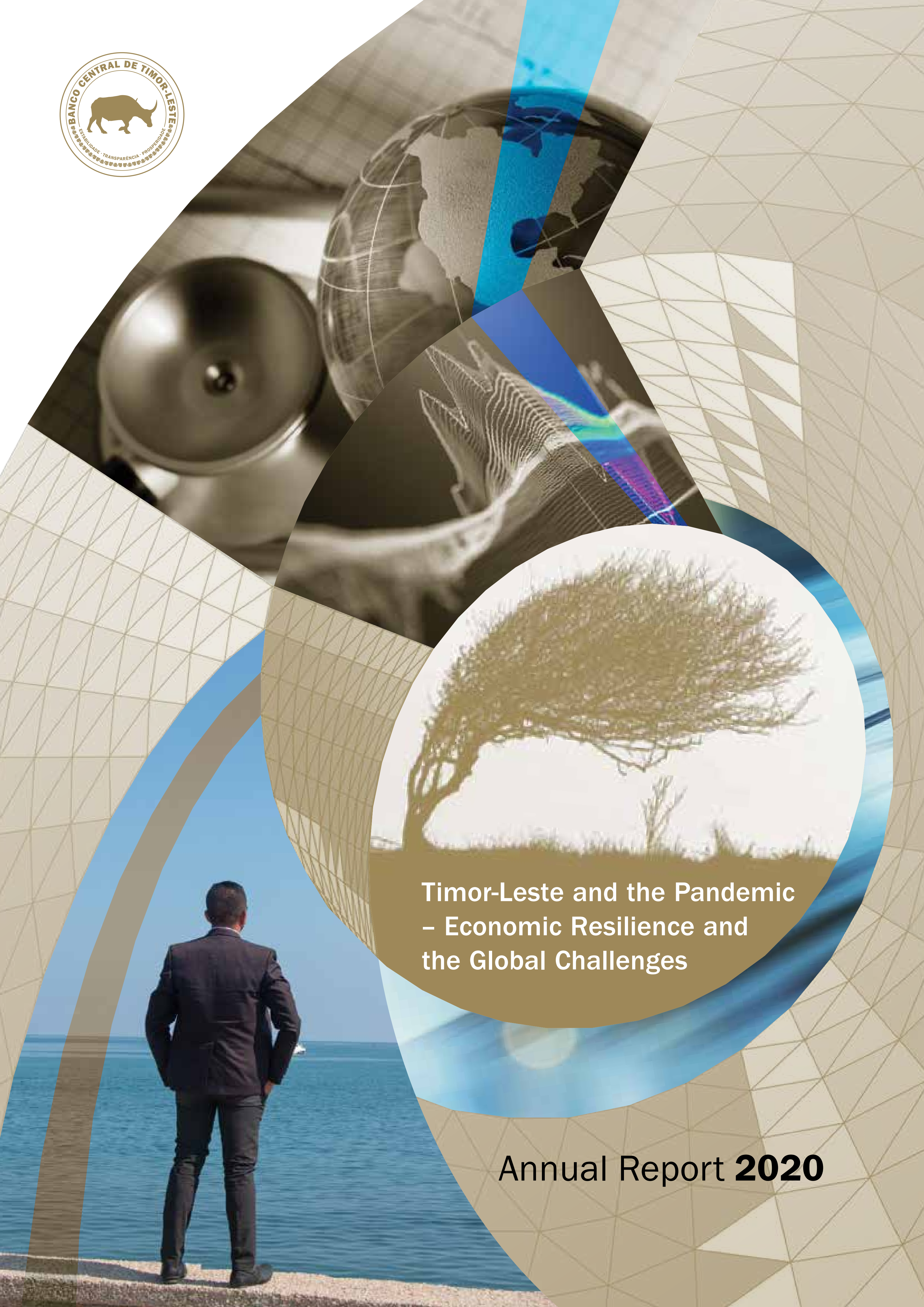
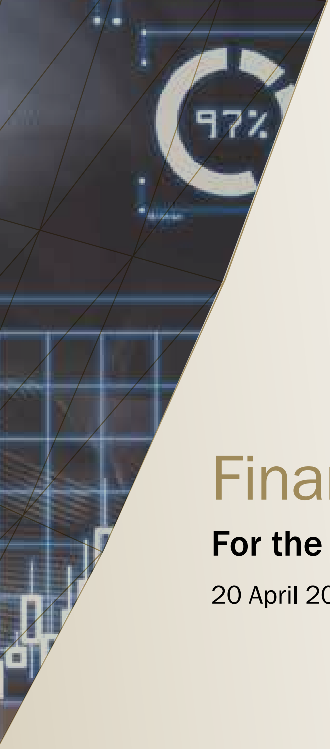
BANCO CENTRAL DE TIMOR-LESTE
ESTABILIDADE · TRANSPARÊNCIA · PROSPERIDADE



# Timor-Leste and the Pandemic – Economic Resilience and the Global Challenges

Annual Report **2020**


ASSETS
Current Assets
Non-Current
EQUITY
STATEMENT
92%




# Chapter **4**

## Financial Statements

### For the period ended 31 December 2020

20 April 2021

## Statement of Compliance

The Financial Statements on pages 140 to 144 and the Notes from pages 145 to 177 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 5/2011and fairly present the true financial position and performance of Banco Central de Timor-Leste as at 31 December 2020.

Dili, 20 April 2021

**Abraão de Vasconselos**
*Governor*

## Statement of Financial Position
## As at 31 December 2020
In thousands of United States dollars

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 731.717 | 662,026 |
| Investments | 10 | 35.488 | 34.073 |
| Other assets | 12 | 3,217 | 6,296 |
| Property, plant and equipment | 11 | 2,164 | 2,038 |
| **Total Assets** | | **772,586** | **704,433** |
| | | | |
| **Liabilities** | | | |
| Government deposits | 13 | 497,486 | 449,068 |
| Other deposits | 14 | 167,446 | 147,359 |
| Other Liabilities | 15 | 11,906 | 9,480 |
| Currency issued | | 23,446 | 21,214 |
| **Total Liabilities** | | **700,283** | **627,121** |
| | | | |
| Capital | 16 | 70.000 | 70.000 |
| Reserve | | 762 | 762 |
| Net profit | | 1.541 | 6.550 |
| **Total Equity** | | 72,303 | 77,312 |
| | | | |
| **Total Liabilities and Equity** | | **772,586** | **704,433** |

The above statement is to be read in conjunction with the policies and notes on pages 144 to 177

## Statement of Profit or Loss and other Comprehensive Income
## For the period ended 31 December 2020
In thousands of United States dollars

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Operating Income** | | | |
| **Investment Income** | | | |
| Interest income | 19 | 1.387 | 8.471 |
| Interest expense | 19 | -514 | -1.244 |
| **Net investment income** | | 873 | 7.227 |
| | | | |
| Petroleum fund management fee | 21 | 14.531 | 14.081 |
| Petroleum fund administration expenses | 21 | -7.976 | -9.324 |
| **Net fee and commision income** | | 6.555 | 4.757 |
| | | | |
| Fees and commissions | 20 | 666 | 747 |
| Other Income | | 18 | 214 |
| **Total Operating Income** | | 6.555 | 4.757 |
| | | | |
| **Expenses** | | | |
| Personnel expenses | 22.5 | 2.034 | 2.362 |
| Currency distribution expenses | | 987 | 1.086 |
| Administration expenses | 23 | 2.984 | 2.269 |
| Depreciation | 11 | 566 | 678 |
| **Total Expenses** | | 6.571 | 6.395 |
| | | | |
| **Profit** | | 1.541 | 6.550 |
| Other comprehensive income | | 0 | 0 |
| **Total profit and other comprehensive income** | | 1.541 | 6.550 |

The above statement is to be read in conjunction with the policies and notes on pages 145 to 177

## Statement of Changes in Equity
## For the period ended 31 December 2020
In thousands of United States dollars

| | Capital | Reservas | Resultado Líqudo | Total |
|---|---|---|---|---|
| As at 31 December 2019 | 70.000 | 762 | 6.550 | 77.312 |
| Profit for the period | - | - | 1.541 | 1.541 |
| Other Comprehensive income | - | - | - | - |
| **Total Comprehensive income** | **-** | **-** | **1.541** | **1.541** |
| Capital Increase | - | - | - | - |
| Cash dividends | - | - | -6.550 | -6.550 |
| **As at 31 December 2012** | **70.000** | **762** | **1.541** | **72.303** |

The above statement is to be read in conjunction with the policies and notes on pages 145 to 177

## Statements of Cash Flows
## For the period 31 December 2020
In thousands of United States dollars

| | 2020 MIL USD | 2019 MIL USD |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Profit for the period | 1.541 | 6.550 |
| Depreciation | 566 | 677 |
| Net Interest income | -873 | -7.227 |
| TOTAL | **1.234** | **0** |
| Changes in receivables, prepayments & stock | 3.078 | -1.112 |
| Changes in government deposits | 48.419 | 51.143 |
| Changes in other deposits | 20.087 | -46.057 |
| **Changes in other liabilities** | 2.424 | -32.637 |
| | **75.242** | **-28.663** |
| Interest received | 1.387 | 8.471 |
| Interest paid | -514 | -1.244 |
| **Net cash from/used in operating activities** | **76.115** | **-21.436** |
| **Cash Flows from Investing Activities** | | |
| Acquisitions of investments | -1.414 | 202 |
| Acquisitions of property, plant & equipment | -692 | -694 |
| **Net cash from/used in investing activities** | **-2.106** | **-492** |
| **Cash Flows from Financing Activities** | | |
| Currency issued | 2.232 | 2.555 |
| Capital subscription by government | - | 5.000 |
| Transfer of surplus to Government | -6.550 | -4.342 |
| **Net cash from financing activities** | **-4.318** | **3.213** |
| **Increase in Cash & Cash Equivalents** | -69.691 | -18.715 |
| Cash & cash equivalents at the beginning of year | 662.026 | 680.741 |
| **Cash & Cash Equivalents at the End of Year** | **731.717** | **662.026** |

The above statement is to be read in conjunction with the policies and notes on pages 145 to 177

# Notes to the financial statements

## 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, no9, P.O. Box 59, Díli, Timor-Leste.

The financial statements of the Bankare for the financial year ended 31 December 2020 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 5/2011and 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 20 April 2021.

b) *Basis of Measurement*
The financial statements have been prepared on the historical cost basis except for certain investment securities which are measured at fair value.

c) *Adoption of International Financial Reporting Standards*
These financial statements incorporate all International Financial Reporting Standards in force at 31 December 2020. No standards have been adopted before theeffective 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.

f) *Comparative amounts opening balances*
To ensure consistency with the current year, comparative figures have been restated where appropriate. Certain presentational changes have been made in the financial statements.

## 3. Significant Accounting Policies

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

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

| | 31 DEC 2020 | 31 DEC 2019 |
|---|---|---|
| Australian dollars (AUD) | 1.3139 | 1.4401 |
| Special Drawing Rights (SDR) | 0.6943 | 0.7232 |
| Euro (EUR) | 0.8159 | 0.9012 |

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

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

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

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

**c) Fees**

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

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

**d) Operating Profit**

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

**e) Taxation**

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

**f) Financial Assets and Liabilities**

*(i) Recognition*

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

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

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

*(ii) Classification*

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

*(iii) De-recognition*

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

*(iv) Offsetting*

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

*(v) Amortised cost measurement*

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

*(vi) Fair value measurement*

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

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

*(vii) Identification and measurement of impairment*

At each balance date the Bank 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 the 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 investment securities at both a specific asset and collective level. All individually significant investment securities are assessed for specific impairment. All individually significant investment securities found not to be specifically impaired are then collectively assessed for any impairment expected for the remaining life of exposure (lifetime ECL). Investment securities that are not individually significant are then collectively assessed for impairment by grouping together investment securities with similar risk characteristics.

Impairment losses on securities 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) 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.

*i) Reverse-Repurchase Transactions*

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

*j) Other Assets and Liabilities*

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

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

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

**k) Property, Plant and Equipment**

*i) Recognition and measurement*

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

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

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

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

*ii) Subsequent Costs*

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

*iii) Depreciation*

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

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

| | 2020 | 2019 |
|---|---|---|
| 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*

determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

**l) Currency in circulation**

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

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

**m) Employee benefits**

*i. Short term employee benefits*

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

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

*ii. Long-term employee benefits*

There is no pension scheme for employees of the Bank.

## n) Changes in accounting policies

*i. Voluntary changes in accounting policies*

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

*ii. New standards and interpretations applicable in the year*

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 2020 These new standards, revisions, amendments and improvements to standards and interpretations are the following:

- Definition of Material (Amendment – Disclosure initiative) – IAS 1 and IAS 8
- Definition of a Business(Amendments to IFRS 3)
- Conceptual framework for financial Reporting (Revised)
- 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*

There following new standards, revisions, amendments and improvements to standards and interpretations are applicable as from 1 January 2021:

- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

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 theBank'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 booksspecial 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&PRating, is as follows:

## Statement of Financial Position
## For the period ended 31 December
In thousands of United States dollars

| | Rating* | Dec 2020 | Rating* | Dec 2019 |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| Cash | AAA | 62.432 | AAA | 36.663 |
| Deposits at central banks | AAA | 575.399 | AAA | 606.578 |
| Resident banks | BBB- | 86.303 | BB- | 15.678 |
| Non-resident banks | A- | 7.582 | A- | 3.107 |
| | | **731.717** | | **662.026** |
| **Investments** | | | | |
| International Monetary Fund - "SDR' | N/A | 35.488 | N/A | 34.276 |
| **TOTAL ASSETS** | | **767.205** | | **696.100** |

| **Summary by credit rating** | Dec 2020 | Dec 2020 | Dec 2019 | Dec 2019 |
|---|---|---|---|---|
| AAA | 83.14% | 637.831 | 92.41% | 643.241 |
| A- | 0.99% | 7.582 | 0.45% | 3.107 |
| Baa2 | 11.25% | 86.303 | 2.25% | 15.678 |
| Not applicable | 4.63% | 35.488 | 4.89% | 34.073 |
| **TOTAL ASSETS** | **100%** | **767.205** | **100%** | **696.100** |

*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.

| | 2020 Carrying amounts US$ "000 | 6 months or less | "Contractual Cash Flow" Over 6 months |
|---|---|---|---|
| Cash and Cash equivalents | 731.717 | 731.717 | 0 |
| **Total assets (Excluding PPE)** | **731.717** | **731.717** | **0** |
| | | | |
| **Government deposits** | 497.486 | 497.486 | 0 |
| **Other deposits** | 167.446 | 131.934 | 35.512 |
| **Other liabilities** | 11,905 | 11,905 | 0 |
| **Currency issued** | 23.446 | 23.446 | 0 |
| **Total liabilities** | **700.283** | **664.771** | **35.512** |

| | 2019 Carrying amounts US$ "000 | 6 months or less | "Contractual Cash Flow" Over 6 months |
|---|---|---|---|
| Cash and Cash equivalents | 662.026 | 662.026 | 0 |
| **Total assets (Excluding PPE)** | **662.026** | **662.026** | **0** |
| | | | |
| **Government deposits** | 449.068 | 449.068 | 0 |
| **Other deposits** | 147.359 | 113.263 | 34.096 |
| **Other liabilities** | 9.480 | 9.480 | 0 |
| **Currency issued** | 21.214 | 21.214 | 0 |
| **Total liabilities** | **627.121** | **593.025** | **34.096** |

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 2020 US$ "000 | Non-Interest Sensitive | 6 month or less |
|---|---|---|---|
| Cash and cash equivalents | 731.717 | 62.432 | 669.285 |
| Investments | 35.488 | **35.488** | **0** |
| Other assets | **3.217** | **3.217** | **0** |
| **Total assets (Excluding PPE)** | **770.422** | 101.137 | 669.285 |
| | | | |
| Government deposits | 497.486 | 0 | 497.486 |
| Other deposits | 167.446 | 35.512 | 131.934 |
| Other liabilities | 11.905 | 11.905 | 0 |
| Currency issued | 23.446 | 23.446 | 0 |
| **Total liabilities** | **700.283** | **70.863** | **629.420** |
| | | | |
| **Interest Rate Sensitivity Gap** | **70.139** | **30.274** | **39.865** |

| | Total Carrying Amount 2019 US$ "000 | Non-Interest Sensitive | 6 month or less |
|---|---|---|---|
| Cash and cash equivalents | 662.026 | 36.663 | 625.363 |
| Investments | 34.073 | **34.073** | **0** |
| Other assets | **6.296** | **6.296** | **0** |
| **Total assets (Excluding PPE)** | **702.395** | 77.032 | 625.363 |
| | | | |
| Government deposits | 449.068 | 0 | 449.068 |
| Other deposits | 147.359 | 34.096 | 113.263 |
| Other liabilities | 9.480 | 9.480 | 0 |
| Currency issued | 21.214 | 21.214 | 0 |
| **Total liabilities** | **627.121** | **64.790** | **562.331** |
| | | | |
| **Interest Rate Sensitivity Gap** | **75.274** | **12.242** | **63.032** |

*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 2020, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately $399 thousand (2019 - $630 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 2020, the Bank's net exposure to major currencies was as follows:

| | Total 2020 US$"000 | United States Dollars | Australian Dollars | SDR | Euro |
|---|---|---|---|---|---|
| Cash and cash equivalents | 731.717 | 731.689 | 7 | 0 | 21 |
| Investments | 35.488 | 0 | 0 | 35.488 | 0 |
| Other assets | 3.217 | 3.217 | 0 | 0 | 0 |
| **Total assets (Excluding PPE)** | **770.422** | **734.906** | **7** | **35.488** | **21** |
| | | | | | |
| Government deposits | 497.486 | 497.486 | 0 | 0 | 0 |
| Other deposits | 167.446 | 131.934 | 0 | 35.512 | 0 |
| Other liabilities | 11.905 | 11.905 | 0 | 0 | 0 |
| Currency issued | 23.446 | 23.446 | 0 | 0 | 0 |
| **Total liabilities** | **700.283** | **664.771** | **0** | **35.512** | **0** |
| | | | | | |
| **Net Foreign Currency Exposure** | **70.139** | **70.135** | **7** | **-24** | **21** |

| | Total 2019 US$"000 | United States Dollars | Australian Dollars | SDR | Euro |
|---|---|---|---|---|---|
| Cash and cash equivalents | 662.026 | 661.702 | 14 | 0 | 310 |
| Investments | 34.073 | 0 | 0 | 34.073 | 0 |
| Other assets | 6.296 | 6.296 | 0 | 0 | 0 |
| **Total assets (Excluding PPE)** | **702.395** | **667.998** | **14** | 34.073 | **310** |
| | | | | | |
| Government deposits | 449.068 | 449.068 | 0 | 0 | 0 |
| Other deposits | 147.359 | 113.263 | 0 | 34.096 | 0 |
| Other liabilities | 9.480 | 9.480 | 0 | 0 | 0 |
| Currency issued | 21.214 | 21.214 | 0 | 0 | 0 |
| **Total liabilities** | **627.121** | **593.025** | **0** | 34.096 | **0** |
| | | | | | |
| **Net Foreign Currency Exposure** | **75.274** | **74.973** | **14** | **-23** | **310** |

*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 $70,000,000, 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 fundson its books, the assets and liabilities of which shall be segregated from the other assets and liabilities of the Bank, the management of the Bank, having taken advice concerning the provisions of the Petroleum Fund Law and IFRS, has determined that the liabilities and assets of the Petroleum Fund managed and registered in the name of the Bank should for reporting purposes not be presented on the face of the Bank's balance sheet.

## 6. Segment Reporting

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

## 7. Cash and Cash Equivalents

| Cash and Cash Equivalents | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| Cash | 62.432 | 36.663 |
| Deposits at central banks | 575.399 | 606.578 |
| Resident banks | 86.303 | 15.678 |
| Non-resident banks | 7.583 | 3.107 |
| **Total** | **731.717** | **662.026** |

## 8. Marketable Securities

There were none in 2020 and 2019.

## 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).

| Financial assets | Fair Value through Profit or Loss | | Amortised Cost | | Fair value through Other Comprehensive Income | |
|---|---|---|---|---|---|---|
| | **2020** US$'000 | **2019** US$'000 | **2020** US$'000 | **2019** US$'000 | **2020** US$'000 | **2019** US$'000 |
| Cash and cash equivalents | 0 | 0 | 731.717 | 662.026 | 0 | 0 |
| Investments | 0 | 0 | 35.488 | 34.073 | 0 | 0 |
| Other assets | 0 | 0 | 3.217 | 6.296 | 0 | 0 |
| **Total assets (Excluding PPE)** | **0** | **0** | **770.422** | **702.395** | **0** | **0** |
| **Financial liabilities** | | | | | | |
| Government deposits | 0 | 0 | 497.486 | 449.068 | 0 | 0 |
| Other deposits | 0 | 0 | 167.446 | 147.359 | 0 | 0 |
| Other liabilities | 0 | 0 | 11.905 | 9.480 | 0 | 0 |
| Currency issued | 0 | 0 | 23.446 | 21.214 | 0 | 0 |
| **Total liabilities** | **0** | **0** | **700.283** | **627.121** | **0** | **0** |

## 10. Investments

a) **International Monetary Fund**

The Democratic Republic of Timor-Leste became a member of the International Monetary Fund (IMF) on 23 July 2002. The Bankwas 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 Bankholds 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 Bankin 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | in SDR '000 | in USD '000 | in SDR '000 | in USD '000 |
| IMF Holdings of Currency | 21.250 | 30.606 | 21.250 | 29.385 |
| IMF SDR Holdings | 3.389 | 4.882 | 3.391 | 4.688 |
| **Total** | **24.639** | **35.488** | **24.641** | **34.073** |

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 Bankwas designated as the official depository. In accordance with general practice, the Bankrecords 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 theBank.

## 11. Property, Plant and Equipment

| Cost | Buildings US$ '000 | Plant US$ '000 | Office equipment US$ '000 | Computer equipment US$ '000 | Vehicles US$ '000 | Work in progress US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 1,301 | 415 | 1,053 | 3.375 | 593 | 29 | 6.766 |
| Acquisitions | 16 | 0 | 15 | 624 | 0 | 0 | 655 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 38 | 38 |
| **Balance at 31 December 2019** | **1,317** | **415** | **1,068** | **4,000** | **593** | **67** | **7.460** |
| Acquisitions | 0 | 11 | 281 | 33 | 152 | 0 | 477 |
| Adjustment | 68 | 0 | 0 | -68 | 0 | 0 | |
| Work in Progress | 0 | 0 | 0 | 0 | 0 | 216 | 216 |
| **Balance at 31 December 2020** | **1,385** | **426** | **1349** | **3,964** | **745** | **283** | **8.152** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1 January 2019 | 756 | 375 | 727 | 2.365 | 522 | 0 | 4.745 |
| Depreciation for the year | 66 | 22 | 90 | 453 | 46 | | 677 |
| Adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance at 31 December 2019 | **822** | **397** | **817** | **2.818** | **568** | **0** | **5.422** |
| Depreciation for the year | 65 | 9 | 121 | 355 | 16 | 0 | 566 |
| Adjustment | 0 | 0 | 0 | -17 | 0 | 0 | -17 |
| **Balance at 31 December 2020** | **887** | **406** | **938** | **3.173** | **584** | **0** | **5.988** |
| | | | | | | | |
| **Net carrying amounts** | | | | | | | |
| As at 31 December 2020 | **498** | **20** | **411** | **791** | **161** | **283** | **2,164** |
| As at 31 December 2019 | **495** | **18** | **251** | **1,182** | **25** | **67** | **2,038** |

Pending the establishment of a land and property registration system in Timor-Leste, and the commencement of a property market in which the valuation of commercial and other property can be established by reference to observable transactions, the Governing Board of the Bank has been unable to establish a fair value for the head office land and buildings occupied by the Bank.

Work in progress includes costs incurred in relation to the implementation of payment system projects namely P24 and regional integration, and Acquisition of HR Attendance and fingerprint project. There were subsequently capitalised and transferred to Computer equipment in 2021.

There were no impairment losses at balance date.

## 12. Other Assets

Other assets comprise the following:

| | 2020 US$ “000 | 2019 US$ “000 |
|---|---|---|
| **Other Assets** | | |
| Accounts receivable | 2.296 | 4.981 |
| Advance, security & prepayment | 79 | 101 |
| Inventories | 842 | 1.214 |
| **Total** | **3.217** | **6.296** |

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

## 13. Government deposits

| **Government deposits** | 2020 US$ “000 | 2019 US$ “000 |
|---|---|---|
| Consolidated fund | 305.215 | 349.824 |
| Infrastructure fund | 7.086 | 26.855 |
| Human Development Capital fund | 552 | 761 |
| Autonomous agency accounts | 49.340 | 14.387 |
| Municípalities accounts | 1.422 | 887 |
| Social security fund | 133.871 | 56.354 |
| **Total** | **497.486** | **449.068** |

## 14. Other Deposits

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Other deposits** | | |
| Domestic financial institutions | 131.934 | 113.263 |
| International financial institutions | 35.512 | 34.096 |
| **Total** | **167.446** | **147.359** |

## 15. Other Liabilities

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Other Liabilities** | | |
| Accounts payable | 2.437 | 3.267 |
| Withholding tax payable | 104 | 38 |
| Provision for Long service account | 375 | 209 |
| Letters of Credit | 269 | 201 |
| Operating accounts | 8.720 | 5.765 |
| **Total** | **11.905** | **9.480** |

## 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

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:

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Transfer to Government** | | |
| Net profit for the year ended 31 December 2020 | 1.541 | 6.550 |
| Transfer to General Reserve Account | 0 | 0 |
| **Total transfer to Government** | 1.541 | 6.550 |

The Bank will transfer the profit for the year 2020 (2019 – 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 2020.

## 19. Net Interest Income

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Interest income from Financial Assets** | | |
| Interest on deposits at foreign central banks | 1.313 | 8,321 |
| Interest on deposits at domestic banks | 74 | 150 |
| **Total interest income** | 1.387 | 8.471 |
| | | |
| **Interest paid on Financial Liabilities** | | |
| Interest paid on Government accounts | 512 | 1.238 |
| Interest paid to commercial banks | 2 | 6 |
| **Total de juros pagos** | **514** | **1.244** |

## 20. Fee and Commission Income

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Fees and commissions** | | |
| Currency withdrawal fees | 8 | 15 |
| Licensing and supervision fees | 158 | 232 |
| Government account management fees | 500 | 500 |
| **Total fees and commissions** | **666** | **747** |

## 21. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Bank is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund on31 December 2020 (unaudited) was $18,991 million (2019– $17,692 million).

Ministry of Finance agreed to coverinternal 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 2020 amounted to $14,531 thousand (2019– $14,081 thousand or 7 basis points) or represented 8 basis points of the average balance of the funds. The fees coverexpenses 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:

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Total Petrolium Fund Management Income** | 14.531 | 14.081 |
| External managers & custody mgmt services | -7.814 | -9.063 |
| Investment Advisory management expenses | -162 | -261 |
| Others | -582 | 317 |
| **Net Fee and Commission Income** | **5.973** | **5.074** |

The breakdown of BCTL internal fees receipts which allocated to expenses as shown below.

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| Salary, capacity building and Other personnel related costs | 1.195 | 1.015 |
| IT services, systems and data | 1.911 | 1.624 |
| Research, consulting and legal fees | 1.493 | 1.268 |
| Allocated common costs BCTL | 1.075 | 913 |
| Other costs | 299 | 254 |
| **Total BCTL Operational Expenses** | **5.973** | **5.074** |

## 22. Personnel Expenses

| | 2020 US$ “000 | 2019 US$ “000 |
|---|---|---|
| **Personal Expenses** | | |
| Salaries and related payments | 1.836 | 1.669 |
| Staff welfare payments | 185 | 182 |
| Capacity building and staff development | 11 | 269 |
| Representation at conferences and meetings | 2 | 242 |
| **Total personnel expenses** | **2.034** | **2.362** |

## 23. Administration Expenses

| | 2020 US$ “000 | 2019 US$ “000 |
|---|---|---|
| **Administration Expenses** | | |
| Asset maintenance | 89 | 58 |
| Communications | 125 | 90 |
| Information systems | 1.664 | 1.164 |
| General expenses | 45 | 44 |
| Office Expenses | 226 | 156 |
| Professional fees | 619 | 561 |
| Other Assets management expenses | 216 | 196 |
| **Total Administration Expenses** | **2.984** | **2.269** |

## 24. Petroleum Fund of Timor-Leste

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

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

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

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

The assets and liabilities of the Petroleum at 31 December 2020* were as follows:

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Petroleum Fund Assets** | | |
| Cash and Cash Equivalents | 1.361.477 | 940.853 |
| Other receivables | 17.247 | 32.565 |
| Financial assets at fair value through profit or loss | 16.943.356 | 16.064.676 |
| Financial assets at Amortised Cost | 701.350 | 671.313 |
| Less: Pending Purchase of Securities | -32.849 | -17.591 |
| & Account payables | **18.990.581** | **17.691.816** |
| **Capital** | **18.990.581** | **17.691.816** |

Notes: *) the PF balance sheet is unaudited

## 25. Related Party transactions

### *Ultimate Controlling Party*

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

### *Governing Board*

O Conselho de Administração do Banco inclui três membros executivos, cujas 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.

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Executive Board Members Compensation (included in personnel expenses)** | | |
| Short-term employee benefits | 260 | 269 |
| Long-term benefits | 17 | 17 |
| **Total** | **277** | **286** |

### *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.

| | 2020 US$ "000 | 2019 US$ "000 |
|---|---|---|
| **Non-Executive Board Members Compensation** | | |
| Sitting allowance (Included in personnel expenses) | 68 | 85 |

### *Key Management Personnel*

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

| | 2020 US$ “000 | 2019 US$ “000 |
|---|---|---|
| **Key Management Personnel Compensation** | | |
| (Included in personnel expenses) | | |
| Short-term employee benefits | 72 | 71 |
| Long-term benefits | 6 | 5 |
| **Total** | **78** | **76** |

### *Government-Related Entities*

The Bank provides banking services on an arm’s-length basis to the Ministry of Finance and other public entities which are exempt from the disclosure requirements of paragraph 18 of IAS 24 – “Related Party Disclosures”in relation to related party transactions and outstanding balances, including commitments. The nature and amount of each individually significant transaction with Government related entities are disclosed in Notes 13,15,22 and 25.

## 26. Authorisation 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 20 April 2021.

## 27. Subsequent Events

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The impact of the COVID-19 outbreak continues to evolve as of the date of this report., but there were no subsequent events have occurred after the reporting date but prior to the issuance of the financial statements that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

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**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 2020, 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 2020 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.

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**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 Australia Ltd**

Clive Garland
Audit Partner

Darwin, 21 April 2021