



INSTRUCTION N. 25/2023¹

ON THE LICENSING AND SUPERVISION OF FINANCE COMPANIES

The important role which finance companies may play in the economic development of Timor-Leste is recognized, given their capacity for granting credit to expand the finance available to consumers and businesses.

It is therefore important to ensure that Finance Companies operate within transparent and well-defined organizational structures and operations, are prudently managed, and equipped with the necessary financial resources and internal risk management systems, while safeguarding the interests of the clients and stakeholders of Finance Companies, and enhancing the overall stability of the financial sector.

Supporting Finance Companies is a BCTL priority. Finance companies are non-bank credit institutions incorporated in the Territory, having as their exclusive objects the making of financial transactions and the supply of linked services.

Therefore, there is the need to establish specific regulatory framework for Finance Companies to operate and develop within the overall finance sector of Timor-Leste in a robust and prudent manner.

This Instruction was developed for the implementation of the regulatory framework for Finance Companies in Timor-Leste and has been consulted widely with key stakeholders.

The Governing Board of Banco Central de Timor-Leste, pursuant to the authority granted in Article 31 paragraph 1 of Law no. 5/2011 of 15 June, hereby resolves to approve the following Instruction:

CHAPTER I

GENERAL PROVISION

Article 1

Definition

For the purpose of this Instruction, the terms below shall have the following meaning:

¹ Please refer to Portuguese version for official use. This English version is prepared to facilitate the availability of information for the financial institutions.

- a). **“Low risk investment instruments”** means investments in short and medium term savings and debt instruments issued by registered banks in Timor-Leste and any other investment categories as approved by the BCTL.
- b). **“Administrator”** means any person who is a member of the board of directors or an officer who is authorized to legally obligate the Finance Company. This person includes the CEO, CFO, and the Compliance Officer.
- c). **“Affordability Ratio”** means the ratio between the loan repayment on the intended loan, together with all loan repayments on all existing loans to the same client by all lenders and the net income of the client after all compulsory deductions.
- d). **“Agency lending”** means the origination of loans or credit products by the Finance Company on behalf of a bank or other licensed financial institutions, where (a) the Finance Company has an agreement with such a bank or other licensed financial institution in terms of which such loans or credit are originated and managed for a fee or commission, and (b) the Finance Company does not accept or retain any credit risk in respect of such credit or loan transactions.
- e). **“Banking Act”**, means UNTAET Regulation No. 2000/8 on Bank Licensing and Supervision;
- f). **“BCTL”**, refers to the Banco Central de Timor-Leste;
- g). **“CEO”**, means the Chief executive Officer;
- h). **“CFO”**, means the Chief Finance Officer;
- i). **“credit”**, as defined in section 49 (g) of the Regulation No. 2000/8 on Bank Licensing and Supervision;
- j). **“compliance officer”** means a person:
 - (i). appointed to be responsible for ensuring that the Finance Company implemented processes, policies and procedures to ensure compliance with the law,
 - (ii). that internal measures are implemented to monitor compliance with these processes, policies and procedures, and
 - (iii). is responsible to report to the Board of Directors on areas of non-compliance;
- k). **“consumer”** means a private person who enters into a finance agreement with a Finance Company or with whom a Finance Company communicates through advertisements or marketing material with the intention of entering into a finance agreement;
- l). **“credit information register”**, means the database on the Establishment of Credit Registry Information System (CRIS) established by the BCTL pursuant to Instruction No. 3/2009;
- m). **“electronic payment and remittance service”** mean wire transferring other’s cash through one’s own corresponding account in the bank, or settlement of payments using the Internet, automatic equipment or electronic payment means;

- n). **“enterprise finance agreements”** mean finance agreements with enterprise finance companies, which are companies that are established solely or mainly for the purpose of providing finance to enterprise group members and/or their suppliers or distributors, where the parent company of the enterprise finance company have shareholding in the enterprise finance company and the group members;
- o). **“factoring”** means a credit transaction between a business and a Finance Company in which the business transfers its receivables to the Finance Company, and the Finance Company provides the business with a combination of one or more of the following services with regard to the receivables transferred: (a) one or more payments of a percentage of the amount of receivables transferred, (b) receivables management services, collection services, or buyer risk protection;
- p). **“finance agreement”** mean an agreement between a Finance Company and a client, setting out the amount of a loan, credit, factoring, financial leasing or other finance provided to the client and the repayment terms for the finance provided and all related terms and conditions;
- q). **“finance business”**, mean the business of a Finance Company, as defined in Article 2 of this Instruction;
- r). **“finance company”**, shall mean a company that received a license as a Finance Company in terms of Article 13;
- s). **“financial lease”** mean a transaction through which the lessee and lessor agrees that the lessee will have the right to use the asset selected by the lessee under conditions for payment of a periodic lease payment by the lessee and conditions for risk allocation between the parties, while the ownership of the asset remains with the lessor for the period of the lease;
- t). **“gearing ratio”**, mean the ratio between (a) the total amount of all short- and long-term liabilities and debt, excluding only trade creditors, and (b) the total shareholders funds of the Finance Company;
- u). **“guarantee”** mean an undertaking by a guarantor to take the responsibility for the payments or obligations of the client or borrower in the case of default or inability of the client or borrower to make such payments;
- v). **“medium term”** mean a period of between 3 months and 12 months;
- w). **“other deposit taking institutions”** mean institutions as defined in Public Instruction No. 06/2010;
- x). **“person”** mean either private persons or legal entities or an association of related persons;
- y). **“Personal Data”** means account or other information that is not already in the public domain, relating to a Finance Company personal client or employee, who is or can be identified, either from the personal data or from the personal data in conjunction with other information that is in, or is likely to come into, the possession of a person, organization, or process that is granted access to the confidential consumer data;
- z). **“Private investors”** means private persons who are financially competent and provide long term funding to Finance Companies on a commercial basis;

- aa). **“related companies”** means two or more companies that are under the control or influence of any one person or company;
- bb). **“retail deposits”** means deposits as defined in the Banking Act section 49 (j) from the public;
- cc). **“security deposit”** is a payment made by a client to the Finance Company, which is retained by the Finance Company as security against the full repayment of the loan or finance provided and from which any default or non-payment of any amount owed by the client may be recovered;
- dd). **“short term”** means a period of 3 months or less at date of origination of a transaction;
- ee). **“Shareholders funds”** means the total of share capital, reserve funds and accumulated reserves, excluding all provisions for losses or provisions for depreciation of any assets.

Article 2

Objective and Scope

1. The objective of this Instruction is to provide for the licensing and supervision of Finance Company as well as defining the services which such institutions may provide.
2. This Instruction applies to every Finance Company that is licensed in terms of Article 13 of this Instruction, to finance agreements entered into in Timor-Leste and to advertisements and marketing material for finance agreements to persons in Timor-Leste.
3. The finance agreements to which this Instruction applies are classified into the following types of finance agreements:
 - a). Consumer finance
 - (i). Revolving credit facilities for individual or household consumption purposes,
 - (ii). Loan and term finance for individual or household consumption purposes,
 - (iii). Finance for education, medical or any related purposes,
 - (iv). Finance for home purchases,
 - (v). Loans or instalment finance for automobile, motorbike, agricultural equipment, mobile phone, and other asset purchases, including financial lease and hire purchase finance,
 - (vi). Digital consumer finance, and
 - (vii). Any other form of consumer finance,
 - b). Business finance
 - (i). Finance for working capital,
 - (ii). Trade finance and supply chain finance, including contract finance, purchase order finance, factoring or invoice

- discounting, bills of exchange discounting and any form of domestic trade finance or import and export finance,
 - (iii). Finance for movable assets purchases, including financial lease and hire purchase finance,
 - (iv). Finance for property and fixed asset investment,
 - (v). Micro enterprise finance agreements,
 - (vi). Enterprise finance agreements,
 - (vii). Digital commercial finance, and
 - (viii). Any other form of business finance,
 - c). Agency lending.
4. This Instruction shall not apply to the following entities or activities:
- a). Any bank or Other Deposit-Taking Institution licensed by the BCTL to operate in Timor-Leste;
 - b). Any business of pawnbroking carried on by a person;
 - c). Any co-operative society registered as a credit union established pursuant to Decree-Law No. 16/2004 of 1 October on Co-operatives;
 - d). Any person where the total portfolio of finance agreements at any time of the year does not exceed US\$ 100,000 or where the total value of finance agreements approved or disbursed during the course of any year does not exceed US\$ 100,000;
 - e). Any person who provides ad-hoc or infrequent loans or credit, not as a primary or regular part of the person's activities;
 - f). Any loan or credit provided by a person linked to the sale of an asset where the loan or credit is provided by the seller to enable the purchaser to make payment for the purchase over one or many future payments, with or without interest, except where such loans or credit is a regular part of the person's business;
 - g). Any credit agreement or loan provided within a group of related companies, except for Enterprise Finance Companies;
 - h). Any credit provided by one member of a family to another member of the same family;
 - i). Any trade credit facility, being a facility where the seller of goods or services allows the buyer to pay for such goods or services in one or more payments on future dates;
 - j). Any loan or finance provided by one party to another, where no interest or fees are payable on such loan or finance;
 - k). Any loan or finance provided by a company to its employees for social reasons;
 - l). Any incidental credit, where the credit transaction arises as result of one party not having made payment by a date stipulated in the sales contract or service agreement;
 - m). Any other agreement or activity specified by the BCTL from time to time.

5. A Finance Company shall not engage in finance activities other than those specifically authorized by its license.
6. A Finance Company shall comply at all times with the requirements of this Instruction and the conditions governing the license issued pursuant to Article 13.
7. This Instruction applies to Finance Companies with precedence over any other regulation or instruction related to financial services.

Article 3

Source of Funding

1. A Finance Company may raise funding through loans, bonds and other debt instruments that are accepted in the law of Timor-Leste, unless such form or instrument has been prohibited by the Central Bank, where such instrument was issued for periods of 3 months or longer.
2. A Finance Company may raise funding as defined in paragraph 1 above, from the following institutions and individuals, domiciled both in Timor-Leste as well as in foreign countries:
 - a). Private investors, trusts, partnerships and any other form of association between private individuals, except for retail depositors in accordance with Article 4.(b),
 - b). Banks, Other Deposit Taking Institutions, insurance companies, pension funds and any other institutions registered as financial institution;
 - c). Companies, including Joint Stock Companies, Limited Companies, investment funds, or any other registered corporate entities;
 - d). Institutions that are licensed or established as National or Multinational Development Institutions; and
 - e). Any other institution or association of individuals or institutions, unless prohibited by BCTL.
3. The maturity limitation as per paragraph 1 above does not apply:
 - a). To funding or credit facilities received from registered banks; or
 - b). To funding required to meet liquidity requirements in accordance with Article 20.

Article 4

Prohibition and Restrictions

1. No person shall engage in the business of a Finance Company without an effective license issued by the BCTL under the provisions of this Instruction.
2. No person may use the words “Finance Company” or any of its derivatives in its name, description of its business or any other written or electronic communication without a license issued by the BCTL.

3. No Finance Company organized outside Timor-Leste shall be permitted to engage in the business of a Finance Company in Timor-Leste unless the business is undertaken through a Finance Company for which a license has been issued by the BCTL.
4. A Finance Company licensed by the BCTL is prohibited:
 - a). To carry on any kind of business other than finance business and other business directly related thereto and/or specifically approved by the BCTL;
 - b). To accept retail deposits, as defined in the Banking Act, or accept of any deposit which is repayable on demand by cheque, draft or order drawn by a depositor on the Finance Company, except for security deposits as defined in this Instruction;
 - c). To provide payment services, insurance services, or other financial services or to sell any such services on behalf of such institutions, unless approval for providing such service or selling such service as an agent or broker has been received from the BCTL;
 - d). To provide loans or credit on behalf of a bank or other licensed financial institutions, unless (a) the Finance Company has received approval for the provision of providing such loans or credit facilities, and (b) the Finance Company does not accept or retain any credit risk in respect of such credit or loan transactions;
 - e). To engage, whether on its own account or on a commission basis, in the wholesale or retail trade, including the import or export of goods, except for the purpose of carrying on its finance business;
 - f). To engage in activities other than those stated in the license in accordance with Article 2.3.

CHAPTER II

ORGANIZATION OF FINANCE COMPANY

Article 5

Form of Company

1. A Finance Company shall be organized as a Limited Company or a Joint Stock Company under the New Commercial Companies Law, Law No. 10/2017, with shares registered in the name of the beneficial owners.
2. The provisions of the New Commercial Companies Law, including the provisions of that Law with respect to the organizational structure of Finance Company and powers of the shareholders and officers, shall apply to Finance Company to the extent not inconsistent with the present Instruction.

Article 6

Capital Requirements

1. The minimum amount of capital required for a Finance Company license shall not be less than \$150,000.00 (one hundred and fifty thousand US dollars) or such other amount as determine by the BCTL from time to time.
2. The capital referred to in the previous paragraph shall be fully paid pursuant to paragraph 10 (a) of Article 13 of the present Instruction, into a bank account at a bank in Timor-Leste.
3. If at any time the shareholders' funds reduce or decline to a level below the level specified in paragraph 1 above, the shareholders shall with immediate effect inject sufficient capital to increase the shareholders' funds to this level.

Article 7

Governing Structure

1. Each Finance Company shall be governed by a Board of Directors which may establish committees at its discretion and as the BCTL may require.
2. In addition to the general responsibilities provided for in the legislation applicable to the company, the Board of Directors of a Finance Company shall have the following responsibilities:
 - a). To establish the strategic objectives and policies of the Finance Company;
 - b). To hire and dismiss the chief executive officer of the Finance Company;
 - c). To supervise the implementation of Board policies and decisions;
 - d). To set and enforce clear lines of responsibility and accountability throughout the Finance Company;
 - e). To establish appropriate accounting procedures and accounting controls for the Finance Company, and, as it deems appropriate, to commission audits at the expense of the Finance Company;
 - f). To supervise the external audit of the Finance Company;
 - g). To monitor compliance with the present Instruction and any other laws applicable to the Finance Company.
3. The Board of Directors of a Finance Company shall have an uneven number of not less than three (3) members.
4. Members of the Board of Directors shall be appointed by the general meeting of shareholders of the Finance Company for a period of not more than four (4) years.
5. Board members may be re-appointed for subsequent periods by the general meeting of shareholders of the Finance Company.
6. The general meeting of shareholders of a Finance Company may establish the remuneration for Board members.
7. Members of the Board of Directors cannot delegate their responsibilities to others.

Article 8

Shareholding

1. Shareholders of a Finance Company may include private individuals, registered companies and licensed financial institutions, residing or licensed in Timor-Leste or in a foreign country.
2. Owners and shareholders of a Finance Company shall not include:
 - a). Any person that has been disbarred from holding a position of trust in Timor-Leste or in the country where a foreign party is domiciled;
 - b). Any person that is an un-rehabilitated insolvent;
 - c). Any person that has been found guilty in a court of law, either in Timor-Leste or in any foreign country, of an offense that involves financial misappropriation, fraud or theft;
 - d). Any person that has a current negative listing in the Credit Registry for a significant amount.
3. Owners and shareholders of a Finance Company shall not include and a Finance company may not own shares in or operate or control any party that operates:
 - a). A debt collection agency; or
 - b). A gambling establishment.
4. A Finance Company must not give, directly or indirectly by any means any financial assistance for the purchase or subscription by any person of shares in the Finance Company, a subsidiary, its holding company or any other related company.

Article 9

Specific Requirements for Shareholders and Board of Directors

1. Finance Companies shall include provisions in their Article of Association, related to the requirements regarding meetings of shareholder and Board of Directors pursuant to the New Commercial Companies Law.
2. Directors of Finance Companies are required to disclose at every meeting of the Board of Directors, all transactions between the director and the Finance Company, including loans to the director and payments for services made to the director.

3. All the directors of a Finance Company are jointly and severally liable to indemnify a Finance Company against any loss arising from the making of any advance, loan or credit facility to a director, or any person related to the director or any legal entity that is under control of a director.
4. Every director of the Finance Company is required to disclose in respect of any decision or matter being considered by the Board of Directors, any financial or other interest in such a matter or decision or any other issue which may constitute a conflict of interest in respect of such a decision or matter.

Article 10

Qualifications of Administrators

1. All persons nominated or appointed as Administrators of a Finance Company shall be approved by the BCTL prior to assuming office. Such approval must include at least the Chief Executive Officer, the Chief Financial Officer and the Compliance Officer.
2. All persons nominated or appointed as Administrators of a Finance Company shall be of good reputation and shall meet the following criteria regarding qualifications, experience and integrity:
 - a). Held previous positions in his/her career in a capacity that is related to the responsibilities that he or she will fulfil in the Finance Company;
 - b). Has not been associated with any illegal activity especially relating to banking and finance related businesses;
 - c). Has not been convicted of any criminal offence, involved in any fraud/forgery, financial crime, etc.
 - d). Has not been involved in or found guilty of any financial or administrative irregularities at his/her previous places of employment.
3. The job description of the Compliance Officer must be submitted to and approved by the BCTL and must include at least the following duties:
 - a). The responsibility to ensure that the Finance Company implemented processes, policies and procedures to ensure compliance with this Instruction and other applicable laws, regulations or instructions;
 - b). The responsibility to ensure that appropriate policies and procedures are implemented to ensure compliance with the anti-money laundering requirements in accordance with Article 26;
 - c). The responsibility to ensure that internal control measures are implemented to monitor compliance with these processes, policies and procedures, and is responsible to report to the Board of Directors on areas of non-compliance.

Article 11
Restriction on the Payment of Dividends

1. A Finance Company must not pay any dividend on its shares:
 - a). Until all its capitalised expenditure (including preliminary expenses, organisation expenses, share selling commission, brokerage, amount of losses incurred, and any item of expenditure not represented by tangible assets) has been completely written off;
 - b). If the payment of such dividend will result in the shareholders' funds being reduced below the level of the minimum capital requirement, in accordance with Article 6 and Article 17 or would cause the gearing ratio to exceed the level as prescribed in Article 19.
2. Within 30 business days of the payment of any dividend, the Finance Company must report the amount of such dividend to the BCTL, including a statement confirming that the payment will not result in a breach of the minimum capital, capital adequacy and gearing ratios in accordance with Articles 6, 17, 18, 19 and 20.

Article 12
Internal Control

1. A Finance Company shall establish policies, procedures, and internal controls, in order to safeguard the property and good governance of the Finance Company. These policies, procedures and internal controls must include at least:
 - a). Separation of duties between the physical custody of finances and assets, and accounting for such finances and assets;
 - b). Separation of the function of risk management from the responsibility for operational or financial management;
 - c). A system of record keeping that is sufficient to ensure that all assets, liabilities and transactions of the Finance Company are accurately recorded;
 - d). A system of review and approval that is sufficient to ensure that all material or significant transactions, or transactions that expose the Finance Company to significant risk, are reviewed and approved at an appropriately senior level;
 - e). A system for reporting to the Board of Directors, appropriate to ensure that the Board is informed of any transactions or events that are material or significant or exposes the Finance Company to material or significant risk or liabilities;
 - f). An independent internal audit function, which must report directly to the Board of Directors, where this is justified based on the size and complexity of the business of the company; and
 - g). Systems and procedures to ensure compliance with the requirements of this Instruction, including requirements for reporting any areas of non-compliance to the Board of Directors.

2. A Finance Company must apply appropriate security measures to safeguard all assets, information and technology and to prevent unauthorised access to information stored on clients.
3. A Finance Company must implement appropriate back-up and recovery procedures in order to be able to recover information or systems that may be lost or damaged.
4. A Finance Company shall comply with the principles and practices of corporate governance and ensure the establishment of bodies as set out in article 46 of the New Commercial Companies Law. Members of the Board and staff of the Finance Company must avoid any situation which may give rise to a conflict of interest.
5. The Board of Directors of a Finance Company must approve a Credit Policy, which must include prescriptions on at least the following:
 - a). Minimum standards for credit assessment and approval of finance agreements of different types and sizes, with higher standards and approval requirements for larger or more complex finance agreements;
 - b). Minimum standards for the procedures that must be performed as part of the credit assessment of different types of finance agreements, including enquiries from the Credit Information Register, review of client documentation and bank statements; enquiries from employers or on-site verification at the place of business of the applicants for business finance;
 - c). Standards for the monthly, quarterly and annual review and reporting of the quality of the portfolio of finance agreements;
 - d). Standards for collateral requirements for different types of finance agreements;
 - e). Guidelines for the interest and fees that should apply to different types of finance agreements;
 - f). Standards for loan loss provisioning, that meet at least the minimum requirements as defined in these Instructions.
6. A Finance Company must establish a Credit Committee, which shall be responsible to:
 - a). Implement the credit policy as approved by the Board of Directors;
 - b). Submit a quarterly report to the Board of Directors on the performance of the loan portfolio, as defined in Article 24;
 - c). Approve all loans that are classified as large exposures or significant loans and perform regular reviews of the performance of such loans; and
 - d). Review and approval all loans, including the terms and conditions on such loans, to employees, directors and shareholders and to parties related to such persons.

CHAPTER III

LICENSING

Article 13

License Application and Decision

1. Persons who wish to establish a Finance Company in Timor-Leste shall apply in writing to the BCTL for a license.
2. The application submitted shall be signed by an authorized person or persons and shall be submitted in one of the official languages of Timor-Leste.
3. Applicants shall authorize, in writing, a spokesperson to act on their behalf regarding the application process.
4. The application shall be accompanied by the following information:
 - a). The proposed articles of association, bylaws, and any other corporate documents required for the legal organization;
 - b). The information regarding the qualifications and experience of the Administrators, including business or professional history for the past three years;
 - c). The proposed amount of Capital of the Finance Company;
 - d). A business plan setting out, inter alia, the organizational structure, the intended types of financial activities, projected type(s) and volume of lending and projected financial statements for the first three years;
 - e). The proposed operational and administrative systems, including, (a) the approach to implement and leverage digital technology to provide services to the client base, and (b) outsourcing of operational or administrative processes, where applicable;
 - f). The name, residence, business or professional history and financial statements for the past three years of each person, organization or company who is or who proposes to be the shareholders of the Finance Company, and the amount and percentage of shareholding; and,
 - g). The proposed external auditor who shall meet the following criteria:
 - (i). licensed or registered as an auditor in Timor-Leste; and
 - (ii). appropriate experience to perform the audit for the Finance Company.
5. Further to the information required under the paragraph 4 (d). above, the business plan shall also include:
 - a). Annual credit targets, expressed as the monetary value of the total of outstanding balances on finance agreements and as a percentage of the total assets of the Finance Company, and differentiated between credit provided to consumers and credit provided to businesses;
 - b). Policies and procedures for:
 - (i). Financial management and internal control;

- (ii). Credit risk management, including policy on credit approval, credit risk monitoring and provisions,
 - (iii). Management of funding and liquidity risk;
 - (iv). Security of physical infrastructure, systems and data;
 - (v). Consumer protection;
 - (vi). Prevention, detection and reporting of fraud and money-laundering.
6. Upon review of the information submitted, the BCTL may request additional information as it deems necessary in order to assist in the application review process.
 7. Within ninety (90) business days counted from the date of the receipt of the application and any supplementary information, the BCTL shall grant a preliminary approval or deny the application, and notify the applicant of its decision in writing.
 8. The decision to grant the preliminary approval or deny the application shall be based on an assessment against the following criteria:
 - a). The contents of the business plan and a review of the assumptions on which it is based;
 - b). The adequacy of the qualifications, experience, and integrity of the Administrators and shareholders in the context of the business plan and the criteria established in this Instruction;
 - c). The compliance of the application with the requirements established in this Instruction; and
 - d). The demonstrated capacity of the applicant to meet the conditions of the license.
 9. The decision of the BCTL to refuse a license shall be final and shall include an explanation of the grounds on which the license was refused.
 10. If preliminary approval of an application for a license is granted, the applicant shall fulfil the following conditions before the final approval by the BCTL of a license for the Finance Company to commence those activities in which it is authorized to engage:
 - a). Payment by shareholders to the Finance Company of its initial capital funds, evidenced by deposit of the capital funds in an account opened at a commercial bank licensed to operate in Timor-Leste;
 - b). Hiring and training of the staff of the Finance Company;
 - c). Lease or purchase of operations equipment and the establishment of operations systems, including risk measurement and controls and internal audit and controls;
 - d). Lease or purchase of premises; and
 - e). Registration of the Finance Company by the relevant authority responsible for registering the commercial company.

11. The BCTL shall grant a licence with or without conditions or refuse to grant a licence, within 60 business days of receiving notification from the applicant that the requirements of paragraph 10 have been met.
12. The Finance Company may not commence operations until the license has been granted.
13. If a Finance Company fails to comply within nine (9) months with the conditions specified in paragraph 10, the preliminary approval of the application for a license shall lapse, unless a further extension is approved by BCTL.
14. The BCTL shall issue final approval of the Finance Company license based only on the results of a verification and confirmation of satisfactory compliance with all conditions described in paragraph 10 of this Article.

Article 14

Scope of License and Fees

1. A license shall be granted for an indefinite period of time, subject to Article 15, and any transfer of license to any other party is subject to:
 - a). Prior written approval by the BCTL; and
 - b). Under such conditions as the BCTL may prescribe.
2. After initial licensing, Finance Companies that wish to offer or engage in additional activities as prescribed in the paragraph 3 of Article 2 above may apply, in writing, to the BCTL to engage in such additional activities.
3. The BCTL may charge the following fees, as notified by the BCTL from time to time;
 - a). A license application fee;
 - b). An initial licensing fee;
 - c). An annual licensing fee.

Article 15

Revocation of a License

1. The BCTL may revoke the license of a Finance Company in the following circumstances:
 - a). Upon a request of the Finance Company;
 - b). Following an infraction, pursuant to Article 29 of the present Instruction; or
 - c). On one or more of the following grounds:
 - (i). the license was obtained on the basis of false information submitted by or concerning the applicant, including regarding the qualifications, experience or integrity of its proposed administrators and principal shareholders;

- (ii). the Finance Company has not commenced operations within ninety (90) days after the receipt of the license, or such further period as may be determined by the BCTL, or has ceased for more than six months to engage in the business;
 - (iii). A merger, amalgamation, or sale of substantially all the assets of the Finance Company has occurred;
 - (iv). the owners of the Finance Company have decided to dissolve or to liquidate the Finance Company;
 - (v). if a bankruptcy order or an order to liquidate the business of the Finance Company or of its primary shareholders is issued by any competent judicial authority; or if a court receiver, or any other similar officer is appointed to oversee the business of the Finance Company;
 - (vi). the Finance Company has been inactive for a period of 3 years or more;
 - (vii). the BCTL determines that the Finance Company is unable to repay debts that are due, or that asset values are less than its liabilities, after taking into consideration current and future claims;
 - (viii). if the interests of the current or potential customers of the Finance Company are at risk, whether due to the manner in which the Finance Company conducts its business or intends to conduct its business, or for any other significant reason;
 - (ix). if the Finance Company repeatedly violate the provision of this Instruction, or the provisions of the Organic Law of BCTL, or any other applicable laws, regulations, decisions, instructions directives, circulars or correspondence issued by the BCTL, including regulations regarding anti-money laundering/combating the financing of terrorism requirements and the risk management rules prescribed in Chapter IV of this Instruction; or
 - (x). if the Finance Company has been declared as insolvent or is unable to operate as a going concern.
2. When the BCTL wishes to revoke the license of the Finance Company according to Article 15.1. (c) above, the BCTL must:
 - a). Give notice to the Finance Company of the intention to revoke the license, setting out the reasons for this intention; and
 - b). Provide a period of 30 business days for the Finance Company to provide reasons why the license should not be revoked.
 3. When a Finance Company requests that the BCTL revoke its license, the BCTL shall decide on the request within sixty (60) business days after the receipt of the request.
 4. The BCTL shall revoke a license issued to a foreign Finance Company if the license of such Finance Company in the foreign country where its head office is located has been revoked.

5. A decision by the BCTL to revoke or not to revoke a license,
 - a). Must be communicated in writing to the Finance Company concerned;
 - b). Must give the grounds for the decision;
 - c). May prescribe appropriate conditions and procedures that must be applied in the closure of the operations of the Finance Company.

Article 16

Merger or Other Arrangements

1. To have the legal effect, any changes in shareholding, mergers, amalgamation, take-overs or any other arrangement that change the ownership or control structure of a Finance Company shall require a prior written authorization of the BCTL.
2. The Finance Company shall submit to the BCTL an application containing all the details on the proposed changes and details on any new shareholders.
3. Authorization shall be granted, in the case of an application for amalgamation, take-over or change in shareholders, only if the proposal for the establishment of the resulting Finance Company meets the requirements of the BCTL, upon such conditions as may be prescribed by the BCTL.

CHAPTER IV

RISK MANAGEMENT RULES

Article 17

Risk Capital Requirements

1. The Finance Company shall maintain, at all times, the minimum capital requirements as set out in Article 6 of this Instruction.
2. The Finance Company shall also maintain a capital adequacy ratio between shareholder's funds to the risk adjusted assets of not less than 15%.
3. The risk adjusted assets referred to in the previous paragraph consist of the total of:
 - a). The total of cash and bank balances, investments in government securities including the Government of Timor-Leste, deposits at the BCTL and investments in Low-Risk Investment Instruments, multiplied by zero %;
 - b). Residential mortgage loans, after deductions of loan write-offs and provisions for bad debts, multiplied by 50%;
 - c). Loans and Advances, after deductions of loan write-offs, provisions for bad debts and any portion of loans guaranteed by cash deposits, multiplied by 100%;
 - d). All other assets and amounts receivable, multiplied by 100%.

Article 18

Reserve Fund

Every Finance Company must:

- a). Establish and maintain a reserve fund;
- b). Transfer to that reserve fund 10% of the net profits of each year, until the amount of the reserve fund is equal to at least 100% of the paid-up share capital; and
- c). Transfer to that reserve fund 5% of the net profits of each year, when the amount of the reserve fund is equal to 100% or more of the paid-up capital.

Article 19

Requirements on Lending and Loan Loss Provisions

1. A Finance Company shall maintain the following provisions for loan losses:
 - a). Loans overdue 1 to 30 Days: 1%;
 - b). Loans overdue 30 to 60 Days: 3%;
 - c). Loans overdue 60 to 90 Days: 25%;
 - d). Loans overdue 90 + Days: 50%;
 - e). Loans classified as loss or write-off: 100%.
2. In addition to the specific loan loss provision according to the paragraph 1 above, a Finance Company shall maintain a general provisions for loan losses of 2% of the gross loan portfolio.
3. A credit exposure is considered a large credit exposure if the value of the credit exposure to a single borrower or group of related parties is equal to or exceeds 10% of the Finance Company's total shareholders' funds, and:
 - a). No single Large Credit Exposure may exceed 25% of the total shareholders' funds of a Finance Company; and
 - b). The total amount of all Large Credit Exposures must not exceed 100% of the total shareholders' funds of a Finance Company.
4. Any loan to a foreign companies or individual requires specific prior approval by the BCTL.

Article 20

Limitations on Funding and Minimum Liquidity Ratios

All Finance Companies licensed to operate in Timor-Leste shall observe the following rules:

- a). Shall not conclude any agreement for funding or debt obligations, where this would cause the total amount of debt to exceed the Gearing Ratio of 700%.

- b). Shall maintain investments in cash and short-term investments in order to exceed the total of the following:
 - (i). 30% of short-term debt obligations, excluding debt obligations repayable within 30 days; and
 - (ii). 70% of all debt obligations repayable within 30 days.

CHAPTER V

REPORTING REQUIREMENTS AND RECORDS

Article 21

Corporate Records

Every Finance Company shall prepare and maintain at its head office written or digital corporate records containing:

- a). Its Articles of Association and all amendments thereto;
- b). A register of its shareholders, including the number of shares registered in the name of each shareholder;
- c). Minutes of meetings and resolutions of the Board of Directors;
- d). Minutes of meetings and resolutions of the shareholders;
- e). All policies and procedures required in terms of this Instruction; and
- f). Any other records required by the BCTL.

Article 22

Inspection

1. Each Finance Company and each of its subsidiaries and branches shall be subject to inspections by examiners of the BCTL or by Auditors or other agents appointed by the BCTL.
2. In their inspections of Finance Companies and their subsidiaries, the BCTL and its Auditors or agents may:
 - a). Examine the accounts, books, documents and other records of the Finance Company or subsidiary or branches; and
 - b). Require Administrators, employees and agents of the Finance Company or subsidiary or branches to provide all such information on any matter relating to its administration and operations as they shall reasonably request.
3. Each Finance Company and each of its subsidiaries and branches shall admit and cooperate fully with the examiners of the BCTL and the auditors or agents appointed by the BCTL. No one shall attempt to harass, intimidate, or exert influence on an examiner of the BCTL or the auditors or the agents appointed by it.

4. Each affiliate of a Finance Company and providers of professional or operations services to the Finance Company shall provide information to the BCTL as it may reasonably request concerning the Finance Company's operations and relations with such persons.

Article 23

Annual External Audit

1. The Finance Company shall instruct its external auditors to perform an annual audit of its Annual Financial Statements and to submit an Audit Report to the Finance Company and to its Board of Directors.
2. If the external auditors, in the course of the performance of the auditor's duties as an auditor of a finance company, is satisfied that:
 - a). There has been a serious breach or non-observance of the provisions of this Instruction or that a criminal offence involving fraud or dishonesty has been committed; or
 - b). Accumulated losses have been incurred which reduce the capital funds of the finance company by a sufficient amount to threaten the continued solvency of the Finance Company, threaten the ability of the Finance Company to meet the obligations payable to creditors or threaten the continued ability of the Finance Company to operate as a going concern, or
 - c). There has been non-compliance with the Anti-Money Laundering requirements in accordance with the Article 26,
 - d). The auditor must report matter to the BCTL.

Article 24

Reporting Requirements

1. The Finance Company shall prepare and submit to the BCTL the Audited Annual Financial Statements and Audit Report by no later than the end of April of the following year.
2. By the end of January of each year, the Finance Company shall inform the BCTL of the name of the External Auditor appointed for that year.
3. The Annual Financial Statements must include the following specific statements:
 - a). Remuneration of each director, CEO and CFO;
 - b). Loans made to any shareholder or director or senior manager, including any amounts due in respect of interest and fees on such loans;
 - c). Total debt obligations, separately reporting total debt obligations payable in the short term, medium term and long term;
 - d). The totals of all investments maturing in the short term, medium term and long term;
 - e). A break-down of the loan portfolio into primary categories and sub-categories, with sub-totals for performing loans, loans that have any

- repayment that are overdue from 30 to 60 days, from 60 to 90 days, or more than 90 days past the due date;
- f). A break-down of the write-offs and bad debt provisions for each of the categories of loans as above.
4. The Finance Company shall prepare and submit to the BCTL quarterly reports as defined on the following:
- a). Balances on bank and investments, broken down by maturity and supported by Bank statements and statements on all investment accounts;
 - b). List of all funding or borrowing received by the Finance Company, including the maturities;
 - c). The value and number of new finance transactions provided;
 - d). For each category of finance agreements, (a) the number of finance agreements outstanding and total outstanding balance at the end of the period, (b) the number and value of disbursements for the period, (c) the write-offs, and (d) bad debt provisions at the end of the period;
 - e). A list of all loans that are made to staff members, directors, shareholders or their family, including the status, interest and fees and repayment conditions of such loans;
 - f). An indication of the progress in the implementation of the business plan, including the implementation of the lending target in accordance with the Article 13.5(a);
 - g). A report on the minimum capital requirements according to Article 17, the Reserve Fund in accordance with the Article 18 and the Funding and Gearing pursuant to Article 20;
 - h). A list of the names and addresses of all branches through which the Finance Company operates;
 - i). A list of the names and addresses of all agents or brokers through which the credit products of the Finance Company is provided to clients; and
 - j). Such other reports and statistics as specified by the BCTL from time to time.
5. The quarterly reports referred to in the previous paragraph shall be submitted to the BCTL:
- a). By no later than 30 days after the end of every quarter, and
 - b). Shall submitted through BCTL's Banking Supervision Application (BSA system).

Article 25

Customer Protection and Disclosure Requirements

1. Finance agreements shall be in writing, whether in paper or digital form, in one of the official languages of Timor-Leste. Finance agreements, statements and notices to clients shall include sufficient information for the client to understand the terms and conditions of the finance offered, any changes in such terms and

conditions and any penalties that will be applied for a breach of such terms and conditions.

2. Finance Company shall display important terms and conditions of their finance products in a conspicuous location in each branch office available for viewing and on its web site. Information shall be presented in the language commonly used by its clients and shall not charge any fee for providing such information.
3. Each Finance Company shall observe the following requirements in respect of finance agreements with all its clients:
 - a). Prior to entering into a finance agreement with any client, a Finance Company must provide the client with a summary of the key terms and conditions of the finance agreement, as well as the interest, fees, charges and penalties that will apply to the finance agreement;
 - b). The interest rate as per (a) above must be calculated and disclosed as an effective interest rate calculated on the reducing balance of the finance agreement;
 - c). All advertisements for any form of credit must disclose the interest and fees that will be applicable to the type of credit being advertised, as well as any compulsory charges, including charges for compulsory credit life insurance;
 - d). Finance agreements, marketing material, advertising and any other form of communication must not include any statements that are false, misleading or deceptive.
4. Where finance agreements are originated through digital or electronic means, the Finance Company must provide a copy of the finance agreement and all terms and conditions to the client within 7 days after the conclusion of the agreement, whether in paper form or in a PDF document transmitted by email or other electronic means.
5. Where the client is a private person, the Finance Company must in addition:
 - a). Perform an affordability assessment for each finance applications and confirm that the affordability ratio does not exceed the maximal level that may be prescribed by the BCTL from time to time;
 - b). The affordability assessment shall include (i) an enquiry from and review of information on the Credit Information Register in respect of the consumer, (ii) a review of salary slips or any other proof of income, (iii) an indication of any estimated informal sector income, and (iv) a review of loan repayments per bank statements, or estimates in respect of any of the above, where appropriate;
 - c). Collect only personal data that is necessary for purposes directly related to entering into and managing the finance agreement between the Finance Company and the consumer, delete such personal data from its records when the purpose for which the it has been collected no longer exist, share such data only with parties as authorised by the consumer or required by law or regulation, and implement appropriate policies, procedures and security measures to safeguard personal data and to ensure that it does not

- come into possession of any party that does not have the authority to have access to such data;
- d). Obtain the consent of the consumer prior to:
- (i). Making any enquiries on such a consumer, whether from the Credit Information Register or any other party;
 - (ii). Providing confidential data in respect of a consumer to the Credit Information Register or any other party, except where the provision of such data is required by law or regulation;
 - (iii). Processing or storing any information in respect of a consumer in the records or on a database controlled by the Finance Company.
6. Each Finance Company must appoint a Complaints Officer whom clients can contact in respect of any complaint in respect of finance received from the Finance Company or any finance agreement entered into with the Finance Company. The contact details of the Complaints Officer must be stated in every finance agreement.
7. If the Finance Company does not resolve a complaint from a client within 30 business days of receiving such a complaint, the client may contact the BCTL, or any other party nominated by the BCTL, in respect of the complaint, and:
- a). The Finance Company must provide all information requested by the BCTL in order to complete the investigation of the complaint;
 - b). The Finance Company must implement such steps as instructed by the BCTL in order to resolve the complaint.

CHAPTER VI

ANTI MONEY LAUNDERING

Article 26

Prevention of Criminal Use of Finance Company for Money Laundering Purpose

1. The Finance Company shall make all reasonable efforts to determine and document the true identity of its clients and its investors or funding providers and shall develop and implement effective procedures and methods for the purpose.
2. No Finance Company shall conceal, convert, or transfer cash or other property, knowing that such property is derived from criminal activity, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such activity to evade the legal consequences of his action.
3. All Finance Companies shall adhere to the requirements established in Instruction No. 5/2017 of 25 August on Customer Identification, Record-Keeping, and Transaction Report.
4. Notwithstanding the requirement established in the previous paragraph, the provisions established in the articles 6, 14 to 17 of the Instruction No. 5/2017

of 25 August on Customer Identification, Record-Keeping, and Transaction Report, where applicable, do not apply to Finance Company.

5. The Finance Company shall require that the terms of reference of the External Auditor shall include a requirement for a review of the compliance with the requirements of this Article and that any areas on non-compliance must be reported by the External Auditor to the BCTL in the manner required by Article 24.2.

CHAPTER VII

FINAL PROVISIONS

Article 27

Final Provisions

1. The BCTL shall maintain and publish a list of all licensed Finance Companies on its website, including the address and contact details of its head office and each branch office.
2. Finance Companies are required to display, at all times, the license or copies of the license, its name and a statement of the fact that it is licensed to carry on business as a Finance Company at a conspicuous location in each branch office or any other premises at which it carries on the business of a Finance Company.

Article 28

Standard of Good Administration

1. A Finance Company shall comply with the principles and practices of corporate governance and ensure the establishment of bodies as set out in article 46 of the New Commercial Companies Law.
2. A director or Administrator of a Finance Company who:
 - a). is a party to a material contract or a proposed material contract with the Finance Company, or
 - b). is an Administrator of, or has a material interest in or a material relation to any person who is a party to a material contract or a proposed material contract with the Finance Company,
 - c). shall disclose in writing to the Finance Company the nature and extent of the material interest or relation and shall refrain from voting on any matter related thereto that becomes the subject of action by the Board of Directors or management of the Finance Company.
3. The disclosure required in the previous paragraph shall be made by the director or Administrator at the time the contract or proposed contract comes or ought reasonably to come to the attention of the Director or Administrator.

4. Directors, Administrators and employees of Finance Company shall have an overriding fiduciary duty to the Finance Company that they serve and to its customers to place the interests of the Finance Company and the interests of the customers of the Finance Company before their own personal interest.
5. Finance agreements with directors, shareholders or the family of these parties, or any other related party, shall be at the same terms and conditions which would apply to similar agreements normally provided to clients.
6. All agreements between the Finance Company and any investor or debt holder must be in writing and must disclose the interest and all fees and payment conditions that apply to the agreement.
7. Every Finance Company shall participate in the Credit Register Information System, including performing enquiries on all applications for finance and submission of information on the status of all finance agreements that are outstanding at the end of each month.

Article 29

Infractions, Penalties, and Remedial Measures

1. The remedial measures and penalties provided for infractions described in this Article shall be determined by the BCTL on a case-by-case basis.
2. The BCTL may take actions or impose penalties described in paragraph 3 below with respect to a Finance Company if it determines that the Finance Company or any of its shareholders, Administrators, managers, trustees, auditors, employees, or agents are found to have committed any of the following contraventions:
 - a). the violation of a provision of the present Instruction or of any instruction issued by the BCTL applicable to Finance Company;
 - b). the violation of any condition, restriction, or provision of an authorization issued to a Finance Company by the BCTL.
 - c). wilfully makes or causes to be made a false entry in any book of record or in any report, slip, document or statement of the business, affairs, transactions, conditions, assets, or accounts of that Finance Company;
 - d). wilfully omits to make an entry in any book of record or in any report, slip, document or statement of the business, affairs, transactions, conditions, assets, or accounts of that Finance Company, or wilfully causes any such entry to be omitted;
 - e). wilfully alters, conceals or destroys an entry in any book of record or in any report, slip, document or statement of the business, affairs, transactions, conditions, assets or accounts of that Finance Company, or wilfully causes any such entry to be altered, abstracted, concealed or destroyed,
 - f). has failed to discharge any of the duties of his or her office, or
 - g). any other contravention of the requirements of this Instruction.

3. Following a determination prescribed in paragraph 2 above, the BCTL may take one or more of the following actions or impose the following penalties:
 - a). issue written warnings;
 - b). conclude a written enforcement agreement with the Board of Directors providing for a program of remedial action;
 - c). issue written orders to cease and desist from such infractions and to undertake remedial action;
 - d). impose fines on the Finance Company or on its Administrators or Principal Shareholders in an amount from US\$ 500.00 – US\$ 500,000.00 (five hundred – five hundred thousand US dollars). The fines may be imposed on a one-time basis or on a per-day basis for each day the infraction continues; provided, however, that the fines shall be of similar amount for entities with comparable total assets for the same type of infraction;
 - e). suspend temporarily or dismiss Administrators from positions in a Finance Company and terminate their receipt of remuneration from the Finance Company;
 - f). prohibit a shareholder from direct or indirect exercise of voting rights attached to shares of the Finance Company;
 - g). require a shareholder to dispose to all or any part of his direct or indirect ownership interest in the Finance Company; or,
 - h). revoke the license of the Finance Company and appoint an interim administrator for the Finance Company whose powers shall be determined by the BCTL.
4. The actions taken or penalties imposed according to paragraph 3 must be reasonable and proportional to the severity and consequences or potential consequences of the contraventions according to paragraph 2.
5. When the BCTL wishes to take the actions or impose the penalties in terms of paragraph 3 above, the BCTL must:
 - a). Give notice to the Finance Company of the intention to take such action or impose such penalties, setting out the reasons for this intention;
 - b). Provide a period of 30 days for the Finance Company to provide reasons why the action or penalties should not be imposed.
6. A decision by the BCTL to take the action or impose the penalties in terms of paragraph 3 above,
 - a). Must be communicated in writing to the Finance Company concerned;
 - b). Must include the grounds for the decision; and
 - c). Where appropriate, may prescribe appropriate conditions and procedures that must be applied.
7. The BCTL may issue warning letters or instructions to any party who conduct the business of a Finance Company or issue advertisements or notices or statements that create the impression of conducting the business of a Finance Company, without having been licensed as a Finance Company.

Article 30
Transitional Provision

1. Any person by the time this Instruction enter into force and offering the services listed in Article 2 above shall, within 90 business days, submit an application for a license to the BCTL pursuant to this Instruction.
2. Until the time of the final approval or refusal to approve the license in terms of Article 13.11, such a person may continue to provide finance services, subject to such conditions as the BCTL may prescribe.

Article 31
Entry Into Force and Publication

1. This Instruction shall enter into force from the date of its publication.
2. In accordance with Article 66 paragraph 1 of the Organic Law of the BCTL, this Instruction shall be published in the Official Gazette.

Approved, 4 July 2023
The Governor,

Abraão de Vasconcelos