BANCO NACIONAL DE COMERCIO DE TIMOR-LESTE

(FORMERLY INSTITUIÇÃO DE MICRO-FINANÇAS DE TIMOR-LESTE)

Financial Statements

for the year ended 31 December 2011

Contents

Director's Declaration

In accordance with a resolution of the Directors of the Banco Nacional De Comercio De Timor-Leste (the "BNCTL"), in the opinion of the directors:

a) the financial statements of BNCTL are drawn up so as to present fairly the operating results and cash flows of BNCTL for the year ended 31 December 2011 and the financial position of the BNCTL as at 31 December 2011; and

b) the financial statements have been prepared in accordance with International Accounting Standards.

For and on behalf of the Board

Executive Director

AUDIT REPORT

AUDIT REPORT

BANCO NACIONAL DE COMERCIO DE TIMOR-LESTE
(FORMERLY INSTITUIÇÃO DE MICRO-FINANÇAS DE TIMOR-LESTE)

Statement of Comprehensive Income

(Expressed in United States Dollars)

YEAR ENDED 31 DECEMBER 2011	Dec 2011	Dec 2010
	$	$
REVENUE		
Interest income	**2,156,991**	1,594,763
Fee and commission income	**40,696**	22,673
Other operating income	**40,478**	5,386
Total Revenue	**2,238,165**	1,622,822
EXPENDITURE		
Interest expense	**(31,322)**	(15,692)
Fee and commission expense	**(17,191)**	(393)
Impairment losses (recovery) on loans and advances	**654**	3,826
Amortisation and depreciation	**(401,909)**	(158,198)
Personnel costs	**(857,877)**	(553,168)
Other administration expenses	**(123,313)**	(74,827)
Other operating expenses	**(639,355)**	(393,569)
Total Expenditure	**(2,070,313)**	(1,192,021)
PROFIT BEFORE INCOME TAX	**167,852**	430,801
Income tax expense	**(16,785)**	(45,331)
PROFIT FOR THE YEAR	**151,067**	385,470
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**151,067**	385,470

The accompanying notes form part of these financial statements

BANCO NACIONAL DE COMERCIO DE TIMOR-LESTE
(FORMERLY INSTITUIÇÃO DE MICRO-FINANÇAS DE TIMOR-LESTE)

Statement of Financial Position

(Expressed in United States Dollars)

AS AT 31 DECEMBER 2011	Notes	Dec 2011 $	Dec 2010 $
CURRENT ASSETS			
Cash and Cash Equivalents	3	**7,040,248**	4,915,731
Loans to Customers	4	**2,858,064**	2,286,073
Other Assets		**108,620**	41,085
TOTAL CURRENT ASSETS		**10,006,932**	7,242,889
NON-CURRENT ASSETS			
Loans to Customers	4	**8,906,745**	4,930,080
Property, Plant and Equipment	6	**860,358**	536,062
TOTAL NON-CURRENT ASSETS		**9,767,103**	5,466,142
TOTAL ASSETS		**19,774,035**	12,709,031
CURRENT LIABILITIES			
Customer Deposits	7	**9,581,145**	6,851,162
Trade and other payables	7	**981,259**	379,466
Other liabilities	7	**556,665**	334,504
TOTAL CURRENT LIABILITIES		**11,119,069**	7,565,132
TOTAL LIABILITIES		**11,119,069**	7,565,132
EQUITY			
Capital Paid up and Assigned		**7,520,160**	4,160,160
Reserves		**234,408**	142,554
Accumulated surplus		**900,398**	841,185
TOTAL EQUITY		**8,654,966**	5,143,899
TOTAL LIABILITIES AND EQUITY		**19,774,035**	12,709,031

The accompanying notes form part of these financial statements

Statement of Changes in Equity

(Expressed in United States Dollars)

YEAR ENDED 31 DECEMBER 2011	**Dec 2011 $**	Dec 2010 $
Share Capital		
Opening balance	**4,160,160**	4,160,160
Share capital issued during the year	**3,360,000**	-
Closing balance	**7,520,160**	4,160,160
Reserves		
Opening balance	**142,554**	106,712
Transfer from accumulated surplus	**91,854**	35,842
Closing balance	**234,408**	142,554
Accumulated Surplus		
Opening balance	**841,185**	491,557
Profit for the year	**151,067**	385,470
Transfer to reserves	**(91,854)**	(35,842)
Closing balance	**900,398**	841,185
EQUITY BALANCE AT END OF FINANCIAL YEAR	**8,654,966**	5,143,899

The accompanying notes form part of these financial statements

Statement of Cash Flows

(Expressed in United States Dollars)

YEAR ENDED 31 DECEMBER 2011	**Dec 2011 $**	Dec 2010 $
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flows from Operating Activities		
Net receipts (decreased) from other debtors	**382,520**	75,555
Interest received	**2,146,969**	1,590,233
Cash (used for) / from Payments to IDPS & Army Veterans Subsidies	**251,000**	(318,400)
Payments to employees	**(857,877)**	(553,168)
Payments to suppliers	**(471,281)**	(519,545)
Interest paid	**(31,322)**	(15,692)
Income tax paid	**(42,108)**	(32,331)
Net cash flows operating activities	**1,377,901**	226,652
Cash flows from Investing Activities		
Acquisition of property, plant & equipment – net	**(726,204)**	(333,757)
Net loan extended to customers	**(4,617,164)**	(1,785,645)
Net cash flows (used in) investing activities	**(5,343,368)**	(2,119,402)
Cash flows from Financing Activities		
Cash proceeds from issue of shares	**3,360,000**	-
Net increase in savings and other deposits	**2,729,984**	3,948,877
Net cash flows from financing activities	**6,089,984**	3,948,877
Net increase/(decrease) in cash held	**2,124,517**	2,056,127
Add opening balance carried forward	**4,915,731**	2,859,604
Closing cash carried forward	**7,040,248**	4,915,731

The accompanying notes form part of these financial statements

Notes to the Financial Statements

(Expressed in United States Dollars)
31 DECEMBER 2011

1. NATURE OF OPERATIONS

Banco Nacional de Comercio de Timor Leste [the “BNCTL” (formerly Instituição de Micro-Finanças de Timor-Leste (the “IMFTL”)] operates in the Democratic Republic of Timor Leste (the “RDTL”). On 26 January 2011, the Government of RDTL has issued a Decree Law N. 03/2011 to transform IMFTL into a limited liability company under the name of BNCTL. At the same phase, BNCTL has submitted an application to Banco Central de Timor-Leste (formerly Banking and Payments Authority of East Timor) for the purpose of transforming its operations into a bank and increase the license level in accordance with Section 24 paragraph 3 of Regulation N. 2000/8.

On 8 July 2011, the Governing Board of Banco Central de Timor-Leste has decided to grant the license (GBR N. 02/2011) to BNCTL to engage in the banking activities established in Section 24 paragraph 2 and 3 of Regulation 2000/8 on Banking License and Supervision. Furthermore, the original license granted on 26 November 2002 was withdrawn.

BNCTL operates branches in Dili, Gleno, Maliana, Aileu, Oecusse, Baucau, Same ,Ainaro, Suai, Viqueque, Los Palos and Liquiza. Suai, Viqueque, Los Palos and Liquiza branches started commercial operations in 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

These Financial Statements have been prepared in accordance with the accounting policies of the Institute and relevant International Accounting Standards. The financial report has been prepared on a historical cost basis.

b. Income Statement

The Income Statement is prepared on the accrual basis, which requires income and expenditure to be brought to account in the years to which these relate.

c. Statement of Cash Flows

The Statement of Cash Flows is prepared on the basis of cash and cash equivalent concepts, using the direct method. Cash equivalents include cash on deposit, which are available for use within three months.

d. Income Recognition

Interest income, fees & charges and other income have been recognized on accrual basis of accounting where it has been ascertained that the economic benefits will flow to the entity and that it can be reliably measured.

e. Loans to Customers

Loans represent the provision of money or equivalent receivables under contracts with borrowers, where borrowers are required to repay their debts with interest after a specific period.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

f. Allowance for Loan Losses

Allowance for loan losses is maintained at a level considered adequate to provide for potential losses on loan receivables. The level of allowance is based on the higher of management's evaluation of potential losses after consideration of prevailing and anticipated economic conditions, collection and credit experience with specific accounts and an evaluation of potential losses based on existing guidelines of the BPA (as per Instruction CPO/B-2001/4) and the management's judgement as to identifiable losses on specific accounts based on past collection experience, collateral position and account documentation. The BPA requires banks to observe certain criteria and guidelines based largely on the classification of loans in establishing the allowance for loan losses. Loans are written off against the allowance for loan losses when management believes that the collectability of the principal is remote.

The BPA requires banks and other financial institutions to set up on a regular basis, valuation reserves or allowances for probable losses against loans and other risk assets in accordance with the following classifications:

Classification	***Allowance***
Standard	2%
Under Supervision	5%
Substandard	25%
Doubtful	50%
Loss	100%

Allowances for loan losses raised relating to loans classified as substandard, doubtful and loss are charged to the income statement. Allowances for loan losses raised relating to loans classified as standard and under supervision are accounted for as reserves (appropriations of retained earnings).

g. Translation of Foreign Currencies

The Institute maintains its books and records in United States Dollars.

Transactions during the year in currencies other than United States Dollars are recorded at the rates of exchange at the date of the transactions. At balance date, monetary assets and liabilities denominated in currencies, other than United States Dollars, are translated into United States Dollars at the rates of exchange on that date.

All exchange gains and losses and currency translation adjustments are reflected in the statement of income and expenditure in the year incurred.

h. Employee Entitlements

There was no pension scheme for the Institute employees during the financial year.

i. Operating Lease

BNCTL enters into operating leases for office accommodation. Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

j. Property, Plant, and Equipment

Property, plant and equipment are valued at either valuation estimate or cost and depreciation is calculated using the straight line method. Depreciation rates are based on the estimated useful lives of the assets as follows:

Property, Plant and Equipment	**2011**	2010
Leasehold improvement	**2 – 5 years**	2 – 5 years
Furniture and fixtures	**2 years**	2 years
Plant & equipment	**3 years**	3 years
Vehicles	**3 years**	3 years

Any gain or loss arising from the sale or disposal of fixed assets is credited to, or charged against, income in the year of sale.

k. Intangible Assets

Intangible assets are valued at cost and amortisation is calculated using the straight line method. Amortisation rates are based on the estimated useful lives of the assets as follows:

Intangible Assets	**2011**	2010
Software	**2 – 3 years**	2 – 3 years
Bank License	**2 years**	2 years

l. Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

m. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date

Notes to the Financial Statements

(Expressed in United States Dollars)
31 DECEMBER 2011

	Dec 2011 $	Dec 2010 $
NOTE 3: CASH AND CASH EQUIVALENTS		
Cash on hand	**3,198,690**	1,289,841
Cash held at the Central Bank	**3,130,009**	3,606,493
Cash held at other banks	**711,549**	19,397
	7,040,248	4,915,731
NOTE 4: LOANS TO CUSTOMERS		
(a) Loans by type:		
Market Daily Loans	**3,739**	9,420
Business Loans	**2,410,394**	1,611,885
Microfinance Group Loans	**135,197**	108,790
Payroll Loans	**8,549,472**	4,947,892
Employee Loans	**160,922**	128,916
Seasonal Crop Loans	**482,022**	317,679
Total loans by type	**11,741,746**	7,124,582
Interest Receivable and Advances	**80,755**	150,395
Total	**11,822,501**	7,274,977
Allowance for Loan Losses (Note 5)	**(57,692)**	(58,824)
Total Loans to Customers	**11,764,809**	7,216,153
(b) Loans by geographical location:		
Dili	**3,826,477**	2,461,477
Gleno	**922,866**	708,053
Maliana	**945,393**	803,491
Aileu	**872,515**	647,304
Oe-cusse	**797,335**	559,262
Baucau	**983,334**	798,694
Same	**807,284**	621,995
Ainaro	**640,775**	524,306
Suai	**830,441**	0
Viqueque	**583,515**	0
Los Palos	**315,025**	0
Liquiza	**216,786**	0
Total loans by geographical location	**11,741,746**	7,124,582
NOTE 5: ALLOWANCE FOR LOAN LOSSES		
At 1 January	**58,824**	64,392
Amounts written off	**(477)**	(1,742)
Charge to profit and loss account	**(655)**	(3,826)
At 31 December	**57,692**	58,824

Notes to the Financial Statements

(Expressed in United States Dollars)
31 DECEMBER 2011

NOTE 5: ALLOWANCE/PROVISION FOR LOAN LOSSES (Cont'd)

At 31 December, the ageing analysis of loans to customers is as follows:

	Dec 2011 $	Dec 2010 $
Standard	**11,646,287**	7,010,297
Under supervision	**29,644**	50,276
Substandard – past due not impaired	**5,925**	3,202
– considered impaired	**1,975**	1,067
Doubtful – past due not impaired	**2,199**	1,983
– considered impaired	**2,199**	1,983
Losses – considered impaired	**53,517**	55,774
	11,741,746	7,124,582

a. Loans to customer past due but not considered impaired in 2011 is $53,517 ($55,774 in 2010). The Institute has a direct contact with the borrower and is satisfied that payment will be received in full. Other balances within the loans to customer do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

b. Due to the short-term nature of these receivables, their carrying value is assumed to approximate their market value. The maximum exposure to credit risk is the fair market value of the receivables.

NOTE 6: PROPERTY, PLANT & EQUIPMENT

Leasehold Improvements at cost	**467,201**	225,058
Less: Accumulated amortisation	**(156,816)**	(101,903)
	310,385	123,155
Furniture and Fixtures at cost	**266,894**	147,193
Less: Accumulated depreciation	**(189,419)**	(106,508)
	77,475	40,685
Plant and Equipment at cost	**722,096**	397,334
Less: Accumulated depreciation	**(429,522)**	(249,482)
	292,574	147,852
Motor Vehicles at cost	**353,912**	275,492
Less: Accumulated depreciation	**(173,988)**	(104,803)
	179,924	170,689
Work in Progress	**0**	53,681
Total Property, Plant and Equipment – Written Down Value	**860,358**	536,062

Notes to the Financial Statements

(Expressed in United States Dollars)
31 DECEMBER 2011

	Dec 2011 $	Dec 2010 $
NOTE 7: CUSTOMER DEPOSITS AND OTHER CURRENT LIABILITIES		
Passbook Savings		
Dili	**3,612,050**	2,294,048
Gleno	**589,788**	385,075
Maliana	**773,571**	552,462
Aileu	**663,939**	266,230
Oe-cusse	**425,289**	213,440
Baucau	**689,290**	320,806
Same	**792,798**	350,619
Ainaro	**348,844**	196,952
Suai	**353,692**	0
Viqueque	**280,204**	0
Los Palos	**300,081**	0
Liquiza	**42,802**	0
Total	**8,872,348**	4,579,632
Demand Deposit	**708,797**	2,271,530
Total Customer Accounts	**9,581,145**	6,851,162
Trade and other Payables		
Trade creditors & other payables	**5,132**	254,090
Accruals	**976,127**	125,376
Total	**981,259**	379,466
Other Liabilities		
Unearned income	**556,665**	334,504
Total	**556,665**	334,504

NOTE 8: CAPITAL COMMITMENTS

At 31 December 2011, the Bank had no significant capital commitments.

NOTE 9: FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Bank principal financial instruments comprise loans receivables, customer deposits, accounts payable and cash and cash equivalents. The Bank manages its exposure to key financial risk, including interest risk, in accordance with the Institute financial risk management.

Notes to the Financial Statements

(Expressed in United States Dollars)
31 DECEMBER 2011

The Board reviews and agrees policies for managing the risk as summarised below:

Interest rate risk

The Institute's exposure to interest rate risks and the effective interest rates of the financial assets and financial liabilities both recognised and unrecognised at the balance date is detailed below.

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earning in the current reporting period and future years. Interest Sensitivity of assets and liabilities as at the balance date are as follows:

As at 31 December 2011:

Financial Instruments	**Non-Interest**	**Floating**	**Fixed Interest Rate Maturing in**			**Weighted average effective interest rate**
	Bearing	**Interest**	**1 year or less**	**Over 1 to 5 years**	**TOTAL**	
Amount in '000s	**31 Dec 2011**	**31 Dec 2011**	**31 Dec 2011**	**31 Dec 2011**	**31 Dec 2011**	
Financial assets						
Cash	3,198	3,842			7,040	0.01%
Loan to Customers			2,835	8,907	11,742	17.98%
Financial liabilities						
Customer accounts			(9,581)		(9,581)	0.50%
Other current liabilities	(1,538)				(1,538)	Nil
Interest Sensitivity Gap	**1,660**	**3,842**	**(6,746)**	**8,907**	**7,663**	

As at 31 December 2010:

Financial Instruments	**Non-Interest**	**Floating**	**Fixed Interest Rate Maturing in**			**Weighted average effective interest rate**
	Bearing	**Interest**	**1 year or less**	**Over 1 to 5 years**	**TOTAL**	
Amount in '000s	**31 Dec 2010**	**31 Dec 2010**	**31 Dec 2010**	**31 Dec 2010**	**31 Dec 2010**	
Financial assets						
Cash	1,290	3,626	-	-	4,916	0.01%
Loan to Customers	-	-	2,286	4,930	7,216	17.97%
Financial liabilities						
Customer accounts	-	-	(6,851)	-	(6,851)	0.50%
Other current liabilities	(714)	-	-	-	(714)	nil
Interest Sensitivity Gap	**576**	**3,626**	**(4,565)**	**4,930**	**4,567**	

(Expressed in United States Dollars)

Credit Risk

The Institute incurs risks with regards to loans and advances made to customers and other monies or investments held with financials institutions. The Institute's exposure to credit risk arises from potential default of the customer, with a maximum exposure equal to carrying value of the loans. Exposure at the balance sheet date is addressed in each applicable note. The Institute extend loans only to recognised and credit worthy customers.

NOTE 10: RELATED PARTIES

The directors of the Institute during the period and up to the date of the audit report are as follows:

Ricardo Cardoso Nheu
Joao Bosco A. Guterres
Brigido de Sousa
Jose Guterres

Compensation of Key Management Personnel of the Institute:

	Dec 2011 $	Dec 2010 $
Short term employee benefits	**133,727**	114,734
	133,727	114,734

NOTE 11: STATEMENT OF CASH FLOWS RECONCILIATION

Reconciliation of the operating surplus to the net cash flow from operations:

	Dec 2011 $	Dec 2010 $
Net Profit / (Loss)	**151,067**	385,470
Depreciation	**401,909**	158,198
Movements in assets and liabilities:		
Increase in Loans to customers & other receivables	**290,670**	46,792
Increase in Inventories	**(3,079)**	(5,231)
Prepayments	**(64,457)**	(93,449)
Increase in Customer deposits & Other creditors & accruals	**878,114**	(4,228)
Decrease in IDP Subsidy liabilities	**(251,000)**	(273,900)
Increase in Tax provision	**(25,323)**	13,000
Net cash from operating activities	**1,377,901**	226,652