

# **SYARIEF BASIR & REKAN**

Registered Public Accountants

## **BANCO NACIONAL DE COMERCIO DE TIMOR-LESTE**

### **FINANCIAL STATEMENTS**

For The Year Ended 31 December 2012

With Comparative Figures For The Year Ended 31 December 2011

AND

INDEPENDENT AUDITOR'S REPORT

**BOARD OF DIRECTORS' STATEMENT  
REGARDING  
THE RESPONSIBILITY FOR THE FINANCIAL STATEMENT AS OF  
31 DECEMBER 2012, 211 AND 31 DECEMBER 2010/ 1 JANUARY 2011  
AND FOR THE YEAR ENDED  
31 DECEMBER 2012 AND 2011  
BANCO NACIONAL DE COMMÉRCIO DE TIMOR-LESTE**

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Dili, 09 September 2013

We, the undersigned:

1. Name : Jose Maria de Jesus Luis Guterres  
Office address : Ave. Martires da Patria Mandarin, Dili Timor Leste  
  
Domicile address  
as stated in ID : Comoro, Sub-Dist. Dom Aleixo, Dili-Timor Leste  
Phone number : +670 3339186  
Function : President Director
2. Name : Brigido de Sousa  
Office address : Ave. Martires da Patria Mandarin, Dili Timor Leste  
  
Domicile address  
as stated in ID : Comoro, Sub-Dist. Dom Aleixo, Dili-Timor Leste  
Phone number : +670 3339186  
Function : Director

declare that:

- a. We are responsible for the preparation and presentation of Banco Nacional De Comercio De Timor-Leste's financial statements;
- b. Banco Nacional De Comércio De Timor-Leste's financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) and Bank Central of Timor Leste's regulation;
  - a. All information in the Banco Nacional De Comércio De Timor-Leste's financial statements has been disclosed in a complete and truthful manner;
  - b. Banco Nacional De Comercio De Timor-Leste's financial statements do not contain any incorrect information or material fact, nor do they omit information or material fact;
- c. We are responsible for Banco Nacional De Comércio De Timor-Leste's internal control system.

We certify the accuracy of this statement.

For and on behalf of the Board of Directors,

  
Jose Maria de Jesus Luis Guterres  
President Director

  
Brigido de Sousa  
Director



## **INDEPENDENT AUDITOR'S REPORT**

Report No. : RBI/113.063i

### **To the Board of Directors of Banco Nacional De Commercio De Timor Leste**

We have audited the accompanying financial statements of Banco Nacional De Commercio De Timor Leste [the "BNCTL" (formerly Instituicao de Micro-Financias de Timor-Leste)], which comprises the statement of financial position as of 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory information. The financial statements as of 31 December 2011, were audited by other independent auditor dated 28 May 2012 with unqualified opinion.

#### *The Board of Director's responsibility for the Financial Statements*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Syarief Basir & Rekan

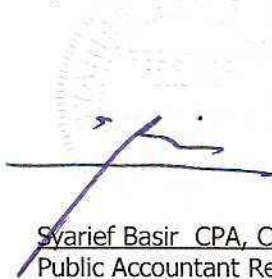
Registered Public Accountants  
Business License No. KEP-086/KM.6/2003

### *Auditor's Opinion*

In our opinion, the financial statements present fairly, in all mater respects, the financial position of Banco Nacional De Comercio De Timor-Leste as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

As disclosed in Note 4 to the financial statements, the BNCTL has adopted IAS No. 19 (revised 2009) " Employee Benefits" which is effective since 1 January 2010. In accordance with IAS 19, the comparative financial statements as of 31 December 2011 and 31 December 2010/ 1 January 2011 has been restated.

Syarief Basir & Rekan



Syarief Basir CPA, CA, MBA  
Public Accountant Registration No. AP.0600

9 September 2013

**BANCO NACIONAL DE COMMERIO DE TIMOR-LESTE**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2012, 211 AND 31 DECEMBER 2010/ 1 JANUARY 2011**  
**(Expressed in United States Dollar)**

				31 December 2010/ 1 January 2011*)
	Note	2012	2011*)	
<b>ASSETS</b>				
Cash	2a, 2c, 2d, 2f, 3, 5	8,455,390	3,198,690	1,289,841
Current accounts with Bank Central of Timor Leste	2a, 2c, 2d, 2f, 3, 6	10,079,348	3,130,009	3,606,493
Current accounts with other banks	2a, 2c, 2d, 2f, 3, 7	5,703	711,549	19,397
Loans receivable, net of allowance for impairment of losses of USD56,317 in 2012 and USD57,692 in 2011 and USD58,824 in 31 December 2010/ 1 January 2011	2c, 2g, 3, 8	17,001,173	11,684,054	7,065,758
Other receivables	9	141,727	80,754	150,395
Property and equipment, net of accumulated depreciation of USD1,313,692 in 2012 and USD949,745 in 2011 and USD562,696 in 1 January 2011	2h, 10 2k,	874,383	860,358	536,062
Deferred tax assets	13d	57,888	44,193	25,095
Other assets	2i, 11	60,054	108,620	41,084
<b>TOTAL ASSETS</b>		<b>36,675,666</b>	<b>19,818,227</b>	<b>12,734,125</b>

\*) Restated, refer to Note 4

**BANCO NACIONAL DE COMMERIO DE TIMOR-LESTE**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2012, 211 AND 31 DECEMBER 2010/ 1 JANUARY 2011**  
**(Expressed in United States Dollar)**

	Note	2012	2011*)	1 January 2011*)
<b>LIABILITIES AND EQUITY</b>				
Deposits from customer	2c, 2j, 3, 12	23,027,415	9,581,145	6,851,162
Taxes payable	2k, 13	85,571	8,656	-
Employee benefits obligation	2l, 2q, 15	578,879	441,926	250,941
Other liabilities	2c, 14	1,416,804	1,529,268	713,970
<b>TOTAL LIABILITIES</b>		<b>25,108,669</b>	<b>11,560,995</b>	<b>7,816,073</b>
<b>EQUITY</b>				
Share capital	16	10,020,160	7,520,160	4,160,160
Reserve	17	340,567	234,408	142,554
Retained earnings		1,206,270	502,664	615,338
<b>TOTAL EQUITY</b>		<b>11,566,997</b>	<b>8,257,232</b>	<b>4,918,052</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>36,675,666</b>	<b>19,818,227</b>	<b>12,734,125</b>

\*) Restated, refer to Note 4

**BANCO NACIONAL DE COMMERIO DE TIMOR-LESTE**  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2012  
WITH COMPARATIVE FIGURE FOR THE YEAR OF 2011  
(Expressed in United States Dollar)

	Note	2012	2011*)
OPERATING INCOME			
Interest income	2m, 18	2,837,468	1,657,449
Interest expense	2m, 18	60,305	31,322
Net interest income		<u>2,777,163</u>	<u>1,626,127</u>
Fees and commission income	2n	745,432	540,238
Fees and commission expense	2n	879	17,191
Net fees and commission income		<u>744,553</u>	<u>523,047</u>
Other income		<u>63,741</u>	<u>40,478</u>
TOTAL OPERATING INCOME		<u>3,585,457</u>	<u>2,189,652</u>
OPERATING EXPENSE			
Net impairment loss on financial assets		104,784	(655)
Personnel expenses	19	1,218,806	945,753
General and administrative expenses	20	1,128,260	838,374
Other expenses	21	313,223	326,204
TOTAL OPERATING EXPENSE		<u>2,765,073</u>	<u>2,109,676</u>
PROFIT BEFORE INCOME TAX		820,384	79,976
Tax income (expense)			
Current	2k, 13c	(91,873)	(16,785)
Deferred	2k, 13d	13,695	19,098
Tax income (expense) - net		<u>(78,178)</u>	<u>2,313</u>
PROFIT FOR THE YEAR		<u>742,206</u>	<u>82,289</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		<u>(38,600)</u>	<u>(103,109)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>703,606</u>	<u>(20,820)</u>

\*) Restated, refer to Note 4

The accompanying notes to the financial statements form an integral part to these financial statements

**BANCO NACIONAL DE COMMERIO DE TIMOR-LESTE**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**WITH COMPARATIVE FIGURE FOR THE YEAR OF 2011**  
**(Expressed in United States Dollar)**

	Share capital	Reserve	Retained earnings	Total
Ending balance as of 31 December 2010 before restated	4,160,160	142,554	841,185	5,143,899
Adjustment:				
Employee benefits	-	-	(250,941)	(250,941)
Deferred tax	-	-	25,094	25,094
Ending balance as of 31 December 2010 after restated	4,160,160	142,554	615,338	4,918,052
Share capital issue during the year	3,360,000	-	-	3,360,000
Transfer from accumulated surplus	-	91,854	(91,854)	-
Profit for the year	-	-	151,067	151,067
Ending balance as of 31 December 2011 before restated	7,520,160	234,408	674,551	8,429,119
Adjustment:				
Employee benefits	-	-	(87,876)	(87,876)
Other comprehensive loss			(103,109)	(103,109)
Deferred tax	-	-	19,098	19,098
Ending balance as of 31 December 2011 after restated	7,520,160	234,408	502,664	8,257,232
Share capital issue during the year	2,500,000	-	-	2,500,000
Transfer from accumulated surplus	-	106,159	-	106,159
Profit for the year	-	-	703,606	703,606
Ending balance as of 31 December 2012	10,020,160	340,567	1,206,270	11,566,997

\*) Restated, refer to Note 4

The accompanying notes to the financial statements form an integral part to these financial statements



**BANCO NACIONAL DE COMMERIO DE TIMOR-LESTE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**WITH COMPARATIVE FIGURE FOR THE YEAR OF 2011**  
**(Expressed in United States Dollar)**

	2012	2011*)
Cash flows from operating activities		
Interest received	2,837,468	2,146,969
Fees and commission income received		
Net received (decreased) from other debtors	(129,056)	382,520
Interest paid	(60,305)	(31,322)
Cash (used for) from payments to IDPS and army veteran subsidies	550,693	251,000
Fees and commission income paid		
Payment to employee	(1,120,453)	(857,877)
Payment to supplier	(480,091)	(471,281)
Income taxes paid	(17,979)	(42,108)
(Increase)/decrease in operating assets:		
Loans to customer	(5,315,744)	(4,617,164)
(Increase)/decrease in operating liabilities:		
Deposits from customers	13,446,269	2,729,984
Net cash flows provided (used) in operating activities	<u>9,710,802</u>	<u>(509,279)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(710,608)	(726,204)
Net cash flows provided (used) in investing activities	<u>(710,608)</u>	<u>(726,204)</u>
Cash flows from financing activities		
Proceed from issue of share capital	2,500,000	3,360,000
Net cash flows provided (used) in financing activities	<u>2,500,000</u>	<u>3,360,000</u>
Net increase in cash and cash equivalents	11,500,194	2,124,517
<b>Cash and cash equivalents, at the beginning of the year</b>	<u>7,040,248</u>	<u>4,915,731</u>
<b>Cash and cash equivalents, at the end of the year</b>	<u><u>18,540,442</u></u>	<u><u>7,040,248</u></u>
Cash and cash equivalents – at the end of the year comprises of:		
Cash	8,455,391	3,198,690
Current accounts with Bank Central of Timor-Leste	10,079,348	3,130,009
Current accounts with other banks	5,703	711,549
	<u><u>18,540,442</u></u>	<u><u>7,040,248</u></u>

\*) Restated, refer to Note 4

The accompanying notes to the financial statements form is an integral part to these financial statements

**BANCO NACIONAL DE COMMERCIO DE TIMOR-LESTE**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
WITH COMPARATIVE FIGURE FOR THE YEAR OF 2011  
(Expressed in United States Dollar)

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1. GENERAL

a. Establishment and general information

Banco Nacional de Comercio de Timor Leste ("the Bank"), formerly Instituicao de Micro-Financas 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 Banco Nacional de Comercio de Timor Leste. At the same phase, the Bank 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 the Bank 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.

The Bank head office is located on Ave Martires da Patria Mandarin, Dili Timor-Leste.

As of 31 December 2012 and 2011, the Bank operates 12 branches such as in Dili, Gleno, Maliana, Aileu, Oecusse, Baucau, Same, Ainaro, Suai, Viqueque, Los Palos and Liquiza. 4 branches such as Suai, Viqueque, Los Palos and Liquiza started commercial operations in 2011.

The number of the Bank's employees as of 31 December 2012 and 2011 were 210 and 171 persons respectively (unaudited).

b. Board of Directors

The composition of the Bank's Board of Directors as of 31 December 2012 and 2011 were as follows:

	2012	2011
President Director	: Jose Maria de Jesus Luis Guterres	Ricardo Cordoso Nheu
Director	: Brigidio de Sousa	Brigidio de Sousa
Director	: Joao Mariano Saldanha	Joao Mariano Saldanha
Director	: Anthony Shelton Noel Patrick Lisk	Jose Maria de Jesus Luis Guterres
Director	: Fernando Afonso da Silva	Anthony Shelton Noel Patrick Lisk

c. Risk Management Committee

The composition of the Bank's Risk Management Committee as of 31 December 2012 and 2011 were as follows:

Chairman	: Brigidio de Sousa
Member	: Joao Mariano Saldanha
Member	: Anthony Shelton Noel Patrick Lisk

**BANCO NACIONAL DE COMMERIO DE TIMOR-LESTE**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
WITH COMPARATIVE FIGURE FOR THE YEAR OF 2011  
(Expressed in United States Dollar)

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1. GENERAL - CONTINUED

d. Audit Committee

The composition of the Bank's Audit Committee as of 31 December 2012 and 2011 were as follows:

Chairman	:	Antonio Vitor
Member	:	Jose Godinho
Member	:	Leila M. G. dos Reis Martins Soares

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied in the preparation of the financial statements, for the years ended 31 December 2012 and 2011, were as follows:

a. Basis for preparation of financial statements

The Bank's financial statements have been prepared in accordance with International Accounting Standards and Bank Central of Timor Leste's regulation No CPO/B-2000/8 dated 26 December 2000, "Bank Reporting and Publication of Balance Sheet". Accounting policies for loan receivables applied with Bank Central of Timor Leste regulation which differs from International Accounting Standards.

The Bank's financial statements have been prepared on the accrual basis using historical cost basis and presented in United States Dollar (USD). The statement of cash flows are prepared using direct method by classifying cash flows into operating, investing, and financing activities. For the purpose of statement of cash flows, cash and cash equivalents include cash, current accounts with Bank Central of Timor Leste and current account with other banks, as long as they are not being pledged as collateral for borrowing nor restricted.

b. Use of judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and activities, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

c. Financial assets and liabilities

The Bank's financial assets mainly consist of cash, current accounts with Bank Central of Timor Leste, current accounts with other banks, and loans receivables.

The Bank's financial liabilities mainly consist of deposits from customers and other payables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c. Financial assets and liabilities - continued

c.1 Classification

The Bank's classifies its financial assets in the following categories at initial recognition:

- i. Fair value through profit or loss, which has to sub-classifications, i.e. financial assets designated as such upon initial recognition and financial assets classified as held for trading;

As of 31 December 2012 and 2011, the Bank does not have fair value through profit or loss investment.

- ii. Available for sale;

As of 31 December 2012 and 2011, the Bank does not have available for sale investment.

- iii. Held to maturity;

As of 31 December 2012 and 2011, the Bank does not have hold to maturity (HTM) investment.

- iv. Loan and receivables;

The Bank's cash, current account with Bank Central of Timor Leste, current account with other banks, loan receivables and other receivables were included in this category.

Financial liabilities are classified into the following categories at initial recognition:

- i. Fair value through profit or loss, which has two sub-classifications, i.e. those designated as such upon initial recognition and those classified as held for trading.

As of 31 December 2012 and 2011, the Bank does not have fair value through profit or loss financial liabilities;

- ii. Financial liabilities measured at amortized cost.

The Bank's deposits from customers and other payables were included in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c. Financial assets and liabilities - continued

c.2 Recognition

The Bank initially recognizes loan receivables, current account with Bank Central of Timor Leste, current account with other banks on the date of origination.

Loan receivables recognize at cost net off allowances. 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 condition, collection and credit experience with specific accounts and an evaluation of potential losses based on existing guidelines of the Bank Payment Authority (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 require bank's 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 finance 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 statement of comprehensive income. Allowances for loan losses raised relating to loans classified as standard and under supervision are accounted for as reserves (appropriations of retained earnings).

This policy is differs with International Accounting Standards (IAS) No.39 "Financial Instruments: Recognition and Measurement". According to IAS 39, loan and receivables are initilally recognised at fair value plus transaction cost and subsequently measured at amortised cost using the effective interest rate method. Interest income on financial assets classified as loan and receivables is included in the statement of comprehensive income and is reported as "interest income". In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the financial assets classified as loan and receivables recognises in the statement of comprehensive income as 'Allowance for impairment losses'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c. Financial assets and liabilities - continued

Loan and receivables is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan and receivables that can be reliably estimated. The criteria is used to determine that there is objective evidence of an impairment loss include:

- i. Significant financial difficulty of the issuer of obligor;
- ii. A breach of contract, such as a default or delinquency in interest or principal payments;
- iii. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- iv. It become probable that borrower will enter bankruptcy or other financial reorganisation;
- v. The disappearance of an active market for that financial assets because of financial difficulties; or
- vi. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - 1) Adverse changes in the payment status of borrowers in the portfolio; and
  - 2) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for group of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c. Financial assets and liabilities - continued

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

Subsequent recoveries of previously loan written off, if in the current period are credited to the allowance account, but if after statement of financial position date, are credited to other operating income.

d. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, current accounts with Bank Central of Timor Leste and current accounts with other banks.

Current accounts with Bank Central of Timor Leste and current accounts with other banks are stated at face value or the gross value the outstanding balance, less allowance for impairment losses, where appropriate.

e. The minimum statutory reserve

On 26 October 2000, Bank Central of Timor Leste (previously Bank Payment Authority) issued a regulation No. CPO/B-2000/3 concerning the minimum statutory reserve at Bank Central of Timor Leste for commercial banks in USD. In accordance with such regulation, the minimum ratio of statutory reserve which the Bank shall maintain is 15% from third party fund.

f. Foreign currency transactions and balances

The financial statement is presented in United States Dollars which is the Bank's functional and reporting currency. The transaction during the year in currencies other than United States Dollars are recorded at the rates of exchange at the date of the transaction. At the balance date, monetary assets and liabilities denominated in currencies, other than United States Dollars, are translated into United States Dollars at the rate of exchange on that date. All exchange gains and losses and currencies translation adjustment are reflected in the statement of comprehensive income in the year incurred.

g. Loan receivables

Loan receivables represent provision of cash or cash equivalent based on agreements with borrowers, where borrowers are required to repay their debts with interest after a specified period.

Loan receivables are classified as loans and receivables. See Note 2c for the accounting policy of loans and receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

h. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment asset, if any. Property and equipment are depreciated using the straight line method over the estimated useful life of the assets, commencing in the month in which the assets are placed into service.

The estimated useful lives of the assets are as follows:

Group	Depreciation rate	Useful lives
Leasehold improvement	20% - 50%	2 – 5 years
Furniture and fixture	50%	2 years
Equipment	33%	3 years
Vehicles	33%	3 years

The costs of maintenance and repairs are charged to current operations as incurred; significant renewals and improvements affecting useful lives are capitalized. The Company choose to cost model for property and equipment recognition.

When property and equipment are retired or otherwise disposed, their carrying values and the related accumulated depreciation are removed from the accounts. Any resulting gains or losses are reflected in the current operations.

i. Other assets

Other assets include prepaid expense, interbranch accounts and others.

j. Deposits from customers

Deposits from customers are the funds placed by customers (excluding banks) with the Bank based on a fund deposit agreements. Include in this account are demand deposits, saving accounts and other similiar.

Demand deposits represent deposits of customers that may be withdrawn at anytime by cheque, or other orders of payment or transfers.

Savings deposits represent deposits of customers that may only be withdrawn over the counter or transfer when certain agreed conditions are met, but which may not be withdrawn by cheque or other equivalent instruments.

Deposits from customers are classified as financial liabilities at amortised cost. See Note 2c for the accounting policy for financial liabilities at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

k. Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is provided using the statement of financial position liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for each entity separately.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

l. Obligation for post-employment benefits

The Bank have various post-employment schemes in accordance with prevailing Labor Law No. 4 year 2012 which is the superceded from UNTAET regulation No. 2002/05 year 2002 and the Bank's policies.

The obligation for post-employment benefits is calculated at present value of estimated future benefits that the employee have earned in return for their services in the current and prior periods, deducted by any plan assets. The calculation is performed by an independent actuary using the projected-unit-credit method.

When the benefits of a plan change, the portion of the increased or decreased benefits relating to past service by employees is charged or credited to profit or loss on a straight –line basis over the period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the defined benefit obligation (before being deducted by plan assets) and the fair value of the plan assets at the date. These gains or losses are recognized on a straight-line basis over the expected average remaining working lives of the employees. Otherwise, the actuarial gains or losses are not recognized.

m. Interest income and expense

Interest income and interest expense 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

m. Interest income and expense - continued

This policy is differs with International Accounting Standards (IAS) No.39 "Financial Instruments: Recognition and Measurement". According to IAS 39, interest income and expense are recognized in profit or loss 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. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate is not includes all fees and points paid or received that are intergral part of the effective interest rate which is required by IAS 39. IAS 39 require interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortized cost calculated on an effective interest basis.

n. Fees and commission

Fees and commission 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. Fees and commission are amortized based on loan maturity on straight-line basis. It is differs with IAS 39 which fees and commission and expenses that are integral to the effective interest rate on a financial assets or liability are included in the measurement of the effective interest rate.

o. Related parties transaction and balance.

The Bank engage in transactions with certain parties which are regarded as having related party relationship in accordance with IAS 24, "Related Party Disclosures" and Bank Central of Timor Leste's (BCTL) regulation, Instruction No. CPO/B-2000/6 dated 26 December 2000 concerning "Transaction with Related Persons, Related Banks and Financial Institutions, and Affiliates".

All significant transaction with related party are disclosed in notes to the financial statements.

p. Use of estimates

The preparation of financial statement is conformity with International Accounting Standard (IAS) requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

q. Change in accounting policy

In 2012, the Bank adopted IAS 19, Employee Benefits. The comparative financial statements as of 31 December 2011 and 2010/ 1 January 2011 has been restated accordingly as required by the Standard (refer to Note 4).

### 3. FINANCIAL RISK MANAGEMENT

#### a. Introduction and overview

The Bank has exposure to the following risk from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk.

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

#### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the the Bank's risk management framework. The Board has established the Asset and Liability Management Committee (ALMC), Risk Management Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risk faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, product and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Bank's Audit Committee.

#### b. Credit risk management

Credit risk is the risk of financial loss from counterparties being unable to fulfill their contractual obligations. To ensure credit deterioration is quickly detected, credit portfolios are actively monitored at each layer of the risk structure and will be mitigated through the implementation of remediation strategies.

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3. FINANCIAL RISK MANAGEMENT - CONTINUED

b. Credit risk management - continued

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit Department, reporting to the Credit Committee, is responsible for management of the Bank's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assesment, reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to Credit Department. Large facilities require approval by Credit Comittee or the Board of Directors as appropriate.
- Reviewing compliance of business units with agree exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Bank Credit Department on the credit quality of local portfolio and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Regular audits of business units and Credit Department processes are undertaken by Internal Audit.

i. Maximum exposure to credit risk

For financial assets recognized on the statement of financial position, the maximum exposure to credit risk generally equals their carrying amount.

The following table presents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancement.

	2012	2011
Current accounts with other banks	5,703	711,549
Loan receivables	17,057,490	11,741,746
	<u>17,063,193</u>	<u>12,453,295</u>

ii. Concentration of credit risk analysis

Concentration of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similiar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.



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3. FINANCIAL RISK MANAGEMENT - CONTINUED

b. Credit risk management - continued

The Bank encourages the diversification of its credit portfolio among a variety of geographies, industries, and credit product in order to minimize the credit risk. The extent of diversification is based on the Bank's strategic plan, target sectors, current economic conditions, government policy, funding sources and growth projections.

The Bank's credit policy satisfactorily established the authority, standards and framework for managing, operating, monitoring and administering the credit portfolio. The policy is approved by the Board of Directors and periodically updated to incorporate changes in the market place and new banking regulations.

Concentration by counterparty:

		2012			
		Corporate	Banks	Retail	Total
Current account with other banks	-	-	5,703	-	5,703
Loan to customer	-	-	-	17,057,490	17,057,490
Total	-	-	5,703	17,057,490	17,063,193
%	-	-	0,03%	99,97%	100,00%

		2011			
		Corporate	Banks	Retail	Total
Current account with other banks	-	-	711,549	-	711,549
Loan to customer	-	-	-	11,741,746	11,741,746
Total	-	-	711,549	11,741,746	12,453,295
%	-	-	5,71%	95,39%	100,00%

c. Market risk

Market risk is the risk changes in market prices, such as interest rates, foreign exchange rates and credit spreads 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 exposure within acceptable parameters, while optimizing their return on risk.

Overall authority for market risk is vested in ALMC. Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALMC) and for the day-to-day review of their implementation.

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3. FINANCIAL RISK MANAGEMENT - CONTINUED

c. Market risk - continued

In overall, market risk divided into following risks:

i. Currency risk

The Bank is exposed to currency risk through transaction in foreign currencies. The Bank monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transaction and monetary assets and liabilities into US Dollar.

As of 31 December 2012 and 2011, there is no significant exposure to this risk.

ii. Interest risk

The Bank's exposure to interest rate risk and the effective interest rates of the financial assets and financial liabilities both recognized and unrecognized at the balance sheet 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 sheet date are as follows:

As of 31 December 2012 (in thousand USD)

Financial Instruments	Non-interest Bearing	Floating interest	Fixed interest rate maturing in		Total	Weighted average effective interest rate
			1 year or less	Over 1 to 5 years		
Amount in '000s	31 Dec 2012	31 Dec 2012	31 Dec 2012	31 Dec 2012	31 Dec 2012	
Financial asset						
Cash	8,455	10,085			18,540	0.01%
Loan to customer			4,407	12,651	17,058	17.98%
Financial liabilities						
Customer account			(23,027)		(23,027)	0.50%
Other liabilities	(1,487)				(1,487)	Nil
Interest Sensitivity Gap	6,968	10,085	(18,620)	12,651	11,084	

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3. FINANCIAL RISK MANAGEMENT - CONTINUED

c. Market risk - continued

As of 31 December 2011 (in thousand USD)

Financial Instruments	Non-interest Bearing	Floating interest	Fixed interest rate maturing in		Total	Weighted average effective interest rate
			1 year or less	Over 1 to 5 years		
Amount in '000s	31 Dec 2012	31 Dec 2012	31 Dec 2012	31 Dec 2012	31 Dec 2012	
Financial asset						
Cash	3,198	3,842			7,040	0.01%
Loan to customer			2,835	8,907	11,742	17,98%
Financial liabilities						
Customer account			(9,581)		(9,581)	0,50%
Other liabilities	(1,538)				(1,538)	Nil
Interest Sensitivity Gap	1,660	3,842	(6,746)	8,907	7,663	

d. Liquidity risk

Liquidity risk is the risk that the Bank has insufficient capacity to fund increase in assets, or is unable to meet its payment obligations as they fall due, including repaying depositors.

The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations, and may be impacted from internal and/ or external events, including: credit or operational risks, market disruptions, or systemic shocks. The management of the liquidity and funding positions and risks are overseen by Asset and Liability Committee (ALMC).

The Bank's liquidity management policy defines the responsibilities, management and strategic approach to be taken to ensure sufficient liquidity is maintained to meet the Bank's contractual or regulatory obligations.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval ALMC.

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3. FINANCIAL RISK MANAGEMENT - CONTINUED

d. Liquidity risk - continued

The Bank relies on deposits from customers as its primary sources of funding. While the Bank's debt securities has maturities of over one year, deposits from customers and banks generally have shorter maturities and a large proportion of them are payable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents. As of 31 December 2012 and 2011, the reported ratios of net liquid assets to deposits from customers were 81% and 73%, respectively.

	2012	2011
Cash and cash equivalents	18,540,441	7,040,248
Deposits from customers	23,027,415	9,581,145
Ratios of net liquid assets to deposit from customers	81%	73%

Maturity gap analysis of financial assets and liabilities

The table below analyses the carrying amount of financial assets and liabilities of the Bank into maturity time bands based on remaining term to contractual maturity as at reporting date:

2012						
No.	Description	0-30 Days	31-90 Days	91-180 Days	181 Days – 1 Year	Over 1 Year
A.	Interest-Earning Assets					
	1. Deposit at the Central Bank	10,079,348	-	-	-	-
	2. Other Deposits	5,703	-	-	-	-
	3. Credit and Leases	-	-	264,000	1,004,000	15,263,245
	Total Interest-Earning Assets	10,085,051	-	264,000	1,004,000	15,263,245
B.	Interest-Bearing Liabilities					
	1. Deposits	22,027,964	-	-	-	-
	Total Interest-Bearing Liabilities	22,027,964	-	-	-	-
C.	Net Position	(11,942,913)	-	264,000	1,004,000	15,263,245

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3. FINANCIAL RISK MANAGEMENT - CONTINUED

d. Liquidity risk - continued

2011						
No.	Description	0-30 Days	31-90 Days	91-180 Days	181 Days – 1 Year	Over 1 Year
A.	Interest-Earning Assets					
	1. Deposit at the Central Bank	3,130,000	-	-	-	-
	2. Other Deposits	711,549	-	-	-	-
	3. Credit and Leases		-	786,000	2,188,000	8,710,054
	Total Interest-Earning Assets	3,841,549	-	786,000	2,188,000	8,710,054
B.	Interest-Bearing Liabilities					
	1. Deposits	8,872,348	-	-	-	-
	Total Interest-Bearing Liabilities	8,872,348	-	-	-	-
C.	Net Position	(5,030,799)	-	786,000	2,188,000	8,710,054

e. Operational risk management

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall the Bank's standards for the management of operational risk on the following areas:

- requirement for appropriated segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans training and professional development ethical and business standards
- risk mitigation.

Compliance with the Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

3. FINANCIAL RISK MANAGEMENT - CONTINUED

e. Operational risk management - continued

Regulatory capital

Bank Central of Timor Leste (BCTL) sets and monitors capital requirements for the Bank. The Bank is required to comply with prevailing BCTL regulation in respect of regulatory capital.

The Bank's regulatory capital is analyzed into two tiers:

- tier 1 capital, which includes issued and fully paid ordinary shares, and related capital surplus, issued and fully paid perpetual non-cumulative preferred shares, and related capital surplus, retained earnings and goodwill.
- Tier 2 capital, which includes hybrid (debt/ equity) capital instruments, subordinated term debt and limited life redeemable preferred shares, investment in the capital of other banks and financial institutions and total risk weighted assets.

The Bank's policy is to maintain a strong capital base and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the year.



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3. FINANCIAL RISK MANAGEMENT - CONTINUED

e. Operational risk management - continued

The Bank's regulatory capital position under prevailing BCTL regulation as at 31 December 2012 and 2011 were as follows:

No.	Description	2012	2011
A.	Tier One Capital		
1.	Issued and fully paid ordinary shares, and related capital surplus	10,020,160	7,520,160
2.	Issued and fully paid perpetual non-cumulative preferred shares, and related capital surplus	-	-
3.	Retained Earnings	1,206,270	502,664
4.	Subtotal 4=(1+2+3)	11,226,430	8,022,824
5.	Goodwill	-	-
6.	Total Tier One Capital 6=(4-5)	11,226,430	8,022,824
B.	Tier Two Capital		
7.	Hybrid (debt/equity) capital instruments	-	-
8.	Subordinated term debt and limited life redeemable preferred shares. Limit: 50% of Tier One Capital (line 6). If line 8 is greater than 50 % of line 6, enter 50% of line 6. If line 8 is equal to or less than 50 % of line 6, enter the amount of line 8.	-	-
9.	Subtotal 9 = (7 + 8)	-	-
10.	Eligible Tier Two Capital. Limit: 100 % of Tier One Capital (line 6). If line 9 is greater than the amount on line 6, enter the amount on line 6. If line 9 is equal to or less than the amount on line 6, enter the amount on line 9.	-	-
11.	Subtotal 11 = (6 + 10)	11,226,430	8,022,824
12.	Inv. In the capital of other banks & financial institutions	-	-
13.	Regulatory Capital 13 = (11 - 12)	11,226,430	8,022,824
14.	Total Risk-Weighted Assets. Sum all risk-weighted assets and credit equivalents and indicate the total risk-weighted assets here.	18,140,929	13,489,528
15.	Capital Adequacy Ratio 15 = (13/14) x 100	61,88%	59,47%
	Required Capital Adequacy Ratio	12%	12%

4. RESTATEMENT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2011/ 1 JANUARY 2011

As explained in Note 2q, the Bank adopted IAS 19, Employee Benefits in 2012, the comparative financial statements as of 31 December 2011 and 31 December 2010/ 1 January 2011 has been restated as follows:

	31 December 2011		
	Previously reported	Adjustment	After restatement
Statement of financial position			
Deferred tax assets	-	44,193	44,193
Total assets	19,774,034	44,193	19,818,227
Employee benefits obligation	-	441,926	441,926
Total liabilities	11,119,069	441,926	11,560,995
Retained earnings	900,397	(397,733)	502,664
Total equities	8,654,965	(397,733)	8,257,232
Profit and loss account			
Employee benefits expense	-	87,876	87,876
Other comprehensive loss – actuarial losses	-	103,109	103,109
Deferred tax income	-	19,098	19,098
Total comprehensive income for the year	151,067	(171,887)	(20,820)

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4. RESTATEMENT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011  
AND 1 JANUARY 2011 – CONTINUED

31 December 2010/ 1 January 2011

	Previously reported	Adjustment	After restatement
Statement of financial position			
Deferred tax assets	-	25,095	25,095
Total assets	12,709,030	25,095	12,734,125
Employee benefits obligation	-	250,941	250,941
Total liabilities	7,565,132	250,941	7,816,073
Retained earnings	841,185	(225,847)	615,338
Total equities	5,143,899	(225,847)	4,918,052

5. CASH

	2012	2011
United States Dollar	8,455,390	3,198,690
Foreign currencies	-	-
	<u>8,455,390</u>	<u>3,198,690</u>

Total cash in US Dollar currency included cash in mobile vehicle in Baucau Branch amounted to USD369,990 for 2012.

6. CURRENT ACCOUNT WITH BANK CENTRAL OF TIMOR LESTE

	2012	2011
United States Dollar	10,079,348	3,130,009
Foreign currencies	-	-
	<u>10,079,348</u>	<u>3,130,009</u>

Current account with Bank Central are provided to fulfill Bank Central requirements on minimum reserve requirements.

As of 31 December 2012 and 2011, the minimum reserve requirement of the Bank were 15% respectively.

The Bank has fulfill Bank Central's regulation regarding Minimum Reserve Requirement of Commercial Banks.

7. CURRENT ACCOUNT WITH OTHER BANKS

	2012	2011
United States Dollar		
Bank Mandiri	4,729	704,597
Bank BNU	774	6,952
Foreign currencies	-	-
	<u>5,703</u>	<u>711,549</u>

Management believes that there is no allowance for impairment losses on current account with other banks to be recognized as of 31 December 2012 and 2011.

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8. LOAN RECEIVABLES

A. Details of loans:

a. By type

	2012	2011
Market daily loans	3,076	3,739
Seasonal crop loans	610,240	482,022
Business loans	3,793,530	2,410,394
Microfinance group loans	175,675	135,197
Payroll loans	12,329,810	8,549,473
Employee loan	145,159	160,921
	17,057,490	11,741,746
Less: Allowance for impairment losses	(56,317)	(57,692)
	17,001,173	11,684,054

b. By geographical location

	2012	2011
Dili	5,498,797	3,826,477
Gleno	1,147,802	922,866
Maliana	1,261,668	945,393
Aileu	1,021,674	872,515
Oe-cusse	1,046,674	797,335
Baucau	1,144,998	983,334
Same	994,025	807,284
Ainaro	1,041,629	640,775
Suai	1,056,778	830,441
Viqueque	914,682	583,515
Los Palos	1,000,745	315,025
Liquiza	928,018	216,786
	17,057,490	11,741,746
Less: Allowance for impairment losses	(56,317)	(57,692)
	17,001,173	11,684,054

c. Allowance for impairment losses

Changes in allowance for impairment losses during the year:

	2012	2011
Balance, beginning of the year	57,692	58,824
Addition:		
Written off	-	(477)
Charge to profit and loss	104,785	(655)
Reclass from (to) reserve	(106,160)	-
Balance, end of the year	56,317	57,692

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8. LOAN RECEIVABLES – CONTINUED

c.Allowance for impairment losses - continued

At 31 December 2012 and 2011, the ageing analysis of loans to customers are as follows:

	2012	2011
Standard	16,977,325	11,646,287
Under supervision	20,415	29,644
Substandard	2,233	7,900
Doubtful	3,514	4,398
Losses	54,003	53,517
Total	17,057,490	11,741,746
Less: Allowance for impairment losses	(56,317)	(57,692)
	17,001,173	11,684,054

B. Other significant information related loans:

a. Market daily loans

These loan specifies that market vendor loans are available to legitimate storeowners and stall holders in the markets. The purpose of these loans is to help them increase their inventory of goods for sale.

b. Seasonal crop loans

These loan are short-term agricultural loans available to farmers/growers of rice, corn, vegetables and cash crops harvested seasonally. The purpose of these loans is to assist these farmers/growers in securing financial support for farm inputs and labor expenses.

c. Business loans

These loans are intended for micro entrepreneurs to support their acquisition of raw materials, increase inventory and pay labour expenses, mostly are expected to be for working capital purposes, although these loans may also be used to finance the acquisition of equipment.

d. Microfinance group loans

These loan is open to rural and urban poor, especially women who are willing to be members of financial groups. As part of the poverty alleviation mission of BNCTL, this loan supports income generating projects and other productive activities at the village level.

Group usually include between 4 and 8 members, with most group consisting of 5 members. Group members are mostly women, and this should be encouraged, since international experience suggests that women borrowers are more responsible than men in meeting their loan obligations. They also more responsive to the required training and the discipline of weekly meetings.

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**8. LOAN RECEIVABLES – CONTINUED**

e. Payroll loans

These loan are granted to employees of the government, non-government organizations (NGO's) and foreign agencies for home improvement, vehicles purchase, health/medical, educational, small business and other.

f. Employee loan

These loan is only for confirmed and permanent staff that used for home building improvement, household goods purchases, medical expenses, educational expenses, motor vehicles purchase and other purposes.

**9. OTHER RECEIVABLES**

	2012	2011
Interest accrued	36,479	27,518
Others	105,248	53,236
	<u>141,727</u>	<u>80,754</u>

**10. PROPERTY AND EQUIPMENT**

	2012				
	Beginning	Addition	Deduction	Reclass	Ending
Acquisition cost:					
Leasehold improvement	467,201	116,273	157,512	-	425,962
Furniture and fixtures	266,894	40,008	9,527	4,430	301,805
Plant and equipment	722,096	169,126	75,820	485	815,887
Vehicles	353,912	381,201	90,421	-	644,692
	<u>1,810,103</u>	<u>706,608</u>	<u>333,280</u>	<u>4,915</u>	<u>2,188,346</u>
Accumulated depreciation:					
Leasehold improvement	156,816	112,330	-	(112,330)	156,816
Furniture and fixtures	189,419	88,925	7,295	-	271,049
Plant and equipment	429,522	224,886	20,418	-	633,991
Vehicles	173,988	153,857	75,737	-	252,107
	<u>949,745</u>	<u>579,998</u>	<u>103,450</u>	<u>(112,330)</u>	<u>1,313,963</u>
Net book value	<u>860,358</u>				<u>874,383</u>

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**10. PROPERTY AND EQUIPMENT - CONTINUED**

	2011				
	Beginning	Addition	Deduction	Reclass	Ending
Acquisition cost:					
Leasehold improvement	225,058	253,971	-	(11,828)	467,201
Furniture and fixtures	147,193	99,664	-	20,037	266,894
Plant and equipment	397,334	355,433	-	(30,671)	722,096
Vehicles	275,492	70,950	-	7,470	353,912
Construction in progress	53,681	-	-	(53,681)	-
	1,098,758	780,018	-	(68,673)	1,810,103
Accumulated depreciation:					
Leasehold improvement	101,903	54,913	-	-	156,816
Furniture and fixtures	106,508	89,165	-	(6,254)	189,419
Plant and equipment	249,482	171,616	-	8,424	429,522
Vehicles	104,803	86,215	-	(17,030)	173,988
	562,696	401,909	-	(14,860)	949,745
Net book value	536,062				860,358

**11. OTHER ASSETS**

	2012	2011
Prepaid expense	5,454	86,297
Stationary and office supplies	54,600	22,323
	60,054	108,620

**12. DEPOSITS FROM CUSTOMERS**

	2012	2011
Saving deposits	22,027,964	8,872,348
Demand deposits	999,451	708,797
	23,027,415	9,581,145

Saving deposits by geographical location:

	2012	2011
Dili	7,567,022	3,612,050
Gleno	1,144,649	589,788
Maliana	1,693,278	773,571
Aileu	1,314,434	663,939
Oe-cusse	692,513	425,289
Baucau	3,063,116	689,290
Same	1,405,269	792,798
Ainaro	852,570	348,844
Suai	1,325,895	353,692
Viqueque	1,353,615	280,204
Los Palos	998,051	300,081
Liquiza	617,552	42,802
	22,027,964	8,872,348

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12. DEPOSITS FROM CUSTOMERS - CONTINUED

Demand deposits by geographical location:

	2012	2011
Dili	594,611	408,374
Gleno	32,358	720
Maliana	27,803	500
Aileu	67,078	63,886
Oe-cusse	2,198	-
Baucau	32,811	3,994
Same	65,563	115,545
Ainaro	89,279	87,423
Suai	20,613	-
Viqueque	14,402	-
Los Palos	19,440	28,355
Liquiza	33,295	-
	<u>999,451</u>	<u>708,797</u>

13. TAXATION

a. Current tax liabilities consist of:

	2012	2011
Corporate and other income tax	<u>85,571</u>	<u>8,656</u>
	<u>85,571</u>	<u>8,656</u>

b. The components of tax income (expense) were as follows:

	2012	2011
Current	<u>(91,873)</u>	<u>(16,785)</u>
Deferred	<u>13,695</u>	<u>19,098</u>
	<u>(78,178)</u>	<u>2,313</u>

c. Corporate income tax

Reconciliation between profit (loss) before corporate income tax as shown in the statements of comprehensive income and the Bank's estimated taxable income for the year ended 31 December 2012 and 2011 were as follows:

	2012	2011
Profit before corporate income tax	820,384	79,976
Other comprehensive loss before tax	<u>(38,600)</u>	<u>(103,109)</u>
Total profit (loss) before corporate income tax	<u>781,784</u>	<u>(23,133)</u>
Tax adjustment:		
Employee benefits	98,353	87,876
Actuarial losses	<u>38,600</u>	<u>103,109</u>
Taxable income (loss)	<u>918,737</u>	<u>167,852</u>
Corporate income tax expense	91,873	16,785
Less prepaid income tax	<u>(18,303)</u>	<u>(8,129)</u>
Income tax payable (over payment)	<u>73,570</u>	<u>8,656</u>

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13. TAXATION – CONTINUED

d. Deferred tax

Description	2012		
	Beginning balance	Deferred tax income (expense)	Ending balance
Deferred tax assets (liabilities):			
Post employment benefits obligation	44,193	13,695	57,888
	<u>44,193</u>	<u>13,695</u>	<u>57,888</u>
Description	2011		
	Beginning balance	Deferred tax income (expense)	Ending balance
Deferred tax assets (liabilities):			
Post employment benefits obligation	25,095	19,098	44,193
	<u>25,095</u>	<u>19,098</u>	<u>44,193</u>

14. OTHER LIABILITIES

	2012	2011
Deferred income	675,340	556,664
Accrued expense	4,758	6,366
Others	736,706	966,238
	<u>1,416,804</u>	<u>1,529,268</u>

15. EMPLOYEE BENEFITS OBLIGATION

The following table summarizes the obligation for post-employment benefits obligation of the Bank as recorded in the statement of financial position, movement in the obligation and expenses recognized in statement of comprehensive income during the years ended 31 December 2012 and 2011.

	2012	2011
Liability and assets reconciliation:		
Present value of defined benefit obligation	578,879	441,926
Fair value of obligation	-	-
Deficit/ (surplus)	578,879	441,926
Unrecognized past service cost – non vested	-	-
Liability/ (assets) recognized in the statement of financial position	<u>578,879</u>	<u>441,926</u>



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15. EMPLOYEE BENEFITS OBLIGATION - CONTINUED

	2012	2011
Movement liability/ (assets) to be recognized in the statement of financial position:		
Liability/ (assets) at beginning of year	441,926	250,941
Expense/ (income)	102,264	88,808
Actuarial (gains) or losses recognized through other comprehensive income (OCI)	38,600	103,109
Actual benefit payment	(3,911)	(932)
Company contribution	-	-
Liability/ (assets) at end of year	578,879	441,926
	2012	2011
Key assumption used in the above calculation		
Pension age	62 years	62 years
Annual discount rate	2,5%	3%
Annual basic salary growth rate	3%	3%

16. SHARE CAPITAL

	2012	
Shareholders	Percentage of ownership	Nominal value
Government of Timor-Leste	100%	10,020,160
	100%	10,020,160
	2011	
Shareholders	Percentage of ownership	Nominal value
Government of Timor-Leste	100%	7,520,160
	100%	7,520,160

The Bank obtained additional capital from the Government of Timor-Leste based on letter No.56/GMED/II/2012 dated February 02, 2012 about transfer to capital addition of BNCTL amounted USD2,500,000.

17. RESERVE

	2012	2011
Reserves – beginning balance	234,408	142,554
Transfer from accumulated surplus	106,159	91,854
	340,567	234,408

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18. NET INTEREST INCOME

	2012	2011
Interest income		
Placement in Bank Central and other banks	1,080	555
Loan receivables	2,836,388	1,656,894
	<u>2,837,468</u>	<u>1,657,449</u>
Interest expense		
Deposits from bank	2,930	411
Deposits from customers	57,375	24,075
Others	-	6,836
	<u>60,305</u>	<u>31,322</u>
	<u>2,777,163</u>	<u>1,626,127</u>

19. PERSONNEL EXPENSES

	2012	2011
Salary and wages	785,008	759,198
Fringe benefits	335,445	98,679
Employee benefits	98,353	87,876
	<u>1,218,806</u>	<u>945,753</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Depreciation and amortization	493,687	401,909
Information system	114,115	42,345
Stationery and office supplies	92,337	65,859
Fuel and lubricants	70,761	69,295
Travelling	66,539	50,049
Representation and entertainment	60,069	28,873
Professional fee	64,868	57,248
Rent	47,626	36,786
Advertising and public relation	44,288	24,257
Repairs and maintenance	34,584	25,052
Communication	19,826	14,393
Power, light and water	18,164	17,286
Others	1,396	5,022
	<u>1,128,260</u>	<u>838,374</u>

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21. OTHER EXPENSES

	2012	2011
Security, janitorial & messenger services	188,057	156,946
Freight and handling	10,438	10,549
Overtime	14,542	2,823
Kitchenette	30,360	18,548
Training	45,385	104,084
Others	24,441	33,254
	<u>313,223</u>	<u>326,204</u>

22. RELATED PARTIES TRANSACTION

Key management personnel compensation for the year comprised:

	2012	2011
Short term employee benefits	54,938	133,727
	<u>54,938</u>	<u>133,727</u>

23. Completion date of preparation of the financial statements

The Bank's management was responsible for the presentation and disclosures of the financial statements for the year ended 31 December 2012 which its have been completed 9 September 2013.