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1. Governing Board Letter to the Shareholder

BOARD OF DIRECTORS

11 September 2018

His Excellency Dr. Fidelis Magalhaes
The Minister Legislative Reform & Parliamentary Reform
Shareholder Representative for BNCTL,
Palacio do Governo, Dili, Timor-Leste

Your Excellency,

Subject: *ANNUAL REPORT 2017 OF BANCO NACIONAL DE COMÉRCIO DE TIMOR LESTE (BNCTL)*

The Board of BNCTL is pleased to submit its 2017 Annual Report of BNCTL which elaborates on:

- (a) The financial and non-financial data and information as of 31st December 2017 (the summary and details).
- (b) The report also consists of the challenges, obstacles including an analysis of the Strengths, Weaknesses, Opportunities & Threats (SWOT) faced by the bank during the year.
- (c) **The bank's key objectives are those that have been stated and agreed in previous Annual Reports.**
- (d) The Macroeconomic environment under which the bank operated during 2017 and projected for 2018.
- (e) Action taken by the bank to address the issues relating to the economic environment is contained in the strategies including the the implementation of the Transformation Program.

- (f) The details of Key achievements of the bank in terms of financial and non-financial performance in 2017.
- (g) We wish to also confirm that the Board is committed to continue transforming the bank to become a viable, successful and best practice bank that meets the needs of the people of Timor-Leste and in changes for the better. The Transformation Program has been designed and implementation of it is to achieve this objective.
- (h) The External audit report with regard to the operational results is indicated in Section 16. It must be mentioned **that the bank has obtained an “unqualified audit opinion” from the external auditors for the past 5 consecutive years.**
- (i) The progress of the Transformation Program tasks continues to drive the way forward in terms of what the bank will initiate and continue to do. Additionally, the Short, Medium and Long-Term strategies will also drive the way forward.

We would be happy to answer any questions, clarify any issues and provide further explanations as required that are related to this report at your convenience.

Yours faithfully,

Brigido de Sousa
Chairman

2. Executive Summary

During 2017, BNCTL achieved substantial financial as well as non financial results as follows:

1) Financial Performance

Overall BNCTL had a very productive year having increased most aspects of its business substantially during the year 2017, compared to 2016 and has continued to perform its intermediation role much better than other banks in Timor Leste.

The highlights are as follows:

- i. Total Assets increased by **25.36%**
- ii. Total Loans increased by **59.5%**
- iii. Total Deposits increased by **17.46%**
- iv. Net After Tax Profit increased by **93.49%**
- v. Return on Average Equity to Shareholder was **11.83%** after tax (much higher than any other GoTL Investment)
- vi. Return on Average Assets after tax was **2.77%**
- vii. Liquidity Ratio of **37.81 %** - allowing a strong basis for continuing loan growth
- viii. Capital Adequacy Ratio of **28.42%** - compared to the regulatory requirement of 12% (**BNCTL's ratio is much** higher than the regional and local banks average)
- ix. NPL's were as low as **0.15%** (based on impairment assessment by external auditors) or **0.46%** if **assessment based on BCTL's Category 3, 4, 5** loans. In **either case the NPL's are** much lower than the average for banks in Timor Leste
- x. In comparison to other banks in Timor Leste BNCTL continued to strongly perform its intermediation role remarkably better in almost all important aspects of banking (see Table 11 below)
- xi. The Current Year to date financial position of BNCTL as at 30th June 2018 (see section 18) is looking better than expected and could exceed the 2018 Budget in spite of the current and recent internal uncertainties

2) Non-Financial Performance

- i. BNCTL completed its first outreach objective program in 2016 by having branches in each of the 13 municipalities in the country with seven (7) sub

branches in Dili- the only bank to be represented in all municipalities, with 13 mobile vehicle banking units servicing communities residing in the most remote areas.

- ii. Additionally, 24 hour/7 days access to cash withdrawals were made available by installing **ATM's in all municipalities** in the country with additional sub branches. As at end 2017 there were 30 **ATM's throughout the** country, 22 done and 8 to be done and to be placed in several areas t Dili, Baucau and Pante Makasar area.
- iii. The advancement of communications and technology and providers enabled BNCTL to proceed with SMS, Mobile Devices, internet banking including 30 Point of Sale (POS) making banking products and services further available to even remote locations.
- iv. During 2017 BNCTL also implemented overseas remittances (inward and outward) enabling its customers to send and receive funds internationally at reasonable time;
- v. In early 2016 BNCTL inaugurated a Transformation Program designed to take BNCTL commenced implementation of a new core banking system (Temenos-T24, **a CBS used by ±700 banks across continentals**) to replace Microbanker, The new system consists of ITC infrastructure, Integrated Delivery Channels. Financial Management System and enhancement of Bank wide Risk Management. It is expected that the remaining components of the Core banking System and associated add on's will be completed during 2018.
- vi. BNCTL also continued to channel salary payments for government officers and also benefit payments to the elderly, invalid, veterans and pensioners.

3. The Objectives of BNCTL S.A (BNCTL)

The objectives of BNCTL are contained in the Mission and Vision statement stated when BNCTL was given a banking license in 2011. This has been rigorously followed through the years since.

In providing micro loans, BNCTL has and will continue to adopt some aspects of the Grameen **Bank's business model taking into account the population density, terrain, culture, customs and social relationships, nature of business within the recipient communities, thereby aiming to empower both men and women in the low-income categories** (Endorsed by The Council of Ministers)

BNCTL will maintain its focus and expand on this mission throughout the business plan period (2018 to 2022) and beyond.

In pursuing this strategy, BNCTL has fully functional branches in all the municipalities of Timor-Leste and seven (7) sub-branches, 3 of which service government offices (notary, land transport and UNTL). Further expansion of its services and coverage continues to be operated through Mobile Vehicle Banks (MVB) operating from district offices to sub-municipalities and the interior regions of sub municipalities through a **combination of motorcycles operating in tandem with the MVB's**.

The advancement of technology and communications has also enabled BNCTL to commence SMS, POS banking facilities to areas not serviced by branch and MBV operations in 2016. Customers can now also access to 24/ 7 cash withdrawal that has been made possible through the implementation and operation of Automated Teller Machines (**ATM's**) in all 13 municipalities and Point of Sale (POS) equipment strategically located in the capital of municipalities . BNCTL is further in the process of planning to implement internet banking in 2019 which will enable our clients to perform a variety of banking transactions through their mobile devices and computers. Further penetration of banking into remote areas are in the process of **being implemented that will enable BNCTL's clients to perform essential banking services** such as deposit and withdraw cash, apply for loans through agents to be appointed in selected remote locations.

"The Government of Timor-Leste has expressed its desire for BNCTL to become a commercially run bank that will cater for Timorese individuals, micro, small & medium enterprises interests in both urban and rural areas. This continues to drive the development of BNCTL's mission statement and has formed the basis for the strategy and business plans that have been developed"

BNCTL has recently also provided internal and external money transfer services through reputable intermediaries and banks that enables its customers to remit funds presently for non trade personal purposes and later for overseas trade receipts and payments as well as to receive inward remittances for their families from those citizens working overseas and vice versa at reasonable cost and time.

The incoming Republican administration in the USA continues to add further uncertainty to the global community arising from some of the stated "America First" and "Free and Fair Trade" policies. It is also perceived that US investment overseas and AID programmes will continue to be reduced during the years ahead in addition to re-negotiated trade agreements that are aimed to be "Free but Fair" for all concerned. Recent events indicate possibility of trade wars between the USA and its major allies in the EU, G7, Canada, Mexico and China and the exit of the USA from the TPP and NAFTA. Regionally 2017 showed some consolidation of the Chinese economy and shift of focus from export to domestic consumption and services has also resulted in regional economies slowing down with a more positive outlook for 2018. Chinese investment in the region and in Africa has been maintained.

Global asset prices (Stock Markets and Property) have continued to grow substantially in 2017 as global interest rates have been low. However the recent increase in US\$ interest rates by 0.5 % (in two steps) is likely to continue for the rest of 2018 with the total rise in US interest rates for 2018 expected to be 1%.

Accordingly other interest rates in the EU and ASEAN are also likely to follow suit and rise during 2018. This projected rise in interest rates will progressively lead to lower assets prices in stocks and property related investments globally. In countries such as Australia there is an expectation of a "property bubble" developing in the years ahead, as property prices have escalated in price over the past few years in the main cities but are now starting to show signs of a gradual decline in prices.

As technology and communications advances, BNCTL will continue to design, expand and implement additional and supplementary banking services. In this regard in 2016 BNCTL commenced **replacing its "Microbanker"** core banking system with a more advanced and popular regional core banking system Temenos T24. This will enable the bank to expand into and provide other more advanced commercial banking services and products for its customers and to diversify its products and services. Some aspects of the CBS will be completed during 2018, while most of the essential functionalities of the CBS were implemented towards the latter half of 2017.

4. Assumptions about the Business Environment in which BNCTL Operates.

In terms of the external factors 2017 was a year that continued to experience slow global and regional economic growth with drops in **commodity prices including GoTL's major export products of oil and gas**. Post election turmoils in the formation of government and limited budget for more than 1 year which has significantly affected the bank loan repayment portfolio, disbursement and return as well as inability to mobilize deposits much higher than projected.

ASEAN's 2017 growth at 5.2% surpassed that of 4.7 % achieved in 2016. The projected growth for 2018 is expected to be steady at 5.1%. Inflation is expected to average 3.0 % for 2018.

Oil and Gas prices however have started to increase towards the end of 2017. This general slower growth environment resulted in continuing to substantially reduce national income for the GoTL (Government of Timor-Leste) from oil and gas and a general tightening of large infrastructure expenditure. Recent trends indicate that Russia and Saudi Arabia are likely to increase oil output, which could reduce prices further.

During 2017 GoTL's **economy** (GDP) grew by 8.0 % (7.9 % in 2016). Inflation was 1.6 % in 2017 (-0.1% in 2016). The year also saw an increase in banking system savings by 7.95% in 2017 (14.2% in 2016). While loan growth overall was 24.5% in 2017 (-4.3% in 2016). The Current Account balance was -US\$ 95 million in 2017 substantially down from (US\$ -523 million in 2016). **The country's** external debt was 20.1 % of GDP in 2017 (30.8% of GDP in 2016).

The projected outlook for 2018 is for higher growth compared to 2017. It is also expected that growth in Timor-Leste will likewise experience higher economic activity. With the expected cuts in the foreign aid, it is expected that a number of social projects funded through aid funds may continue to be affected. It is also expected that investment from the US to also experience some cut backs.

While donor support has been progressively reduced, GoTL has been able to obtain finance for its infrastructure financing from various international lenders and also through bilateral loans from Japan and China.

The pace of development and growth can be considerably increased once the recently passed Land Law and associated laws and regulations have been fully supported with regulations, policies, procedures, processes and the implementation of the land law, and also the passing and implementation of insolvency/ bankruptcy laws, mortgages and contract enforcement.

The continuing (albeit improving) shortage of the capacity, expertise and experience in business in the private sector can result in much of the businesses being controlled and run by foreign entities or through joint ventures between overseas and local partners.

Furthermore, the expected joining of ASEAN by GoTL in the next two years is likely to put pressure on competition and pricing of products and services from within the group and this will affect the development and advancement of local entrepreneurs. The normalisation of government activities such as the approval of the budget and implementation of the various government initiatives that support the continuation of economic activities will greatly enhance and contribute to increased business activity

In terms of the internal factors, seeing that GoTL's banking industry has been gradually evolving and is increasing pace with the rapid availability and advancement in technology and communications. BNCTL has had a very promising 2017 in all aspects of its business as shown in greater detail in Section 11 of this report. Having opened branches in all 13 municipalities and a few sub branches in Dili and installed ATM machines in these locations, and commenced advancing towards the provision of SMS, Mobile and internet banking services, BNCTL is well placed to continue to be a major player in the banking industry in RDTL.

The key aspects of the budget for 2017 and the performance in 2017 against budget are shown on table 2 and 3.

IMF Article IV Report of 2017

The key highlights of the IMF's Article IV Report (for the period up to 2022) issued in December 2017 that are likely to impact on Timor-Leste's economy and the banking industry are listed below:

KEY ECONOMIC DATA & PROJECTIONS	2015	2016	2017	2018	2019	2020	2021	2022
Real Total GDP (% growth)	20.90	(7.90)	(8.00)	(0.70)	(4.70)	(3.70)	(2.60)	(2.60)
Total Government Revenue (% growth)	33.20	33.70	29.90	30.00	28.90	27.50	26.10	24.90
Total Government Expenditure (% growth)	(50.20)	(64.50)	(49.90)	(70.60)	(73.80)	(63.90)	(57.80)	(50.90)
Net Balance borrowings (% growth)	17.00	30.80	20.10	40.70	44.80	36.30	31.70	26.00
CPI % (annual average)	0.60	(1.30)	1.00	2.70	3.60	3.80	3.90	4.00
Balance of Payments (in USD millions)	239	(523)	(95)	(523)	(574)	(585)	(585)	(630)
Non Petroleum Exports (in USD millions)	18	20	12	23	27	32	37	45
Petroleum Exports (in USD millions)	653	559	559	820	861	847	861	879
Total Exports (in USD millions)	671	579	571	843	888	879	898	924
Total Imports (in USD millions)	(580)	(527)	(516)	(543)	(547)	(504)	(484)	(567)
Trade Balance (in USD millions)	(635)	(539)	(548)	(797)	(834)	(815)	(823)	(835)
Crude Oil Prices (per barrel in USD -WEO)	51	43	49	49	50	52	53	55
Petroleum Fund Balance (in USD millions)	16,217	15,844	15,784	15,043	14,153	13,405	12,666	12,045
Petroleum Fund Balance (as a % of GDP)	523	574	571	523	478	434	387	340
Public External Debt (as a % of non- oil GDP)	46	77	87	304	527	749	902	1,002
Population Growth (% p.a)	2.40	2.30	2.30	2.30	2.30	2.30	2.20	2.20
Deposit Growth (%)	76.70	11.90	36.10	41.50	29.80	35.80	35.70	33.80
Private Sector Credit (% annual growth)	10.50	(1.80)	4.80	10.20	9.70	9.70	9.90	11.40

Source: IMF Article IV Report dated November 2017

Table 1- Key highlights of IMF Article Report of December 2017

- a) Real GDP (negative): in 2018 to be much less than in 2017, but continuing negative growth until 2022
- b) CPI: reflecting inflation to progressively increase from 2018 to 2022
- c) Balance of Payments: The deficit to increase substantially in 2018 for 2017 and continue rising until 2022
- d) Petroleum Exports: will continue rising each year until 2022 (mostly in 2018 and 2019)
- e) Non Petroleum Exports: will continue to rise marginally until 2022
- f) Petroleum Fund Balance: will progressively reduce as a % of GNP and also in US\$ terms over the period up to 2022

- g) *Deposit growth: will rise by 41.50% in 2018 from 36.10 % in 2017 and progressively fall over the ensuing years to 2022*
- h) *Annual Private Sector Credit growth will rise substantially in 2018 from 2017 and progressively slow down over the following years and increase in 2022*
- i) *Unemployment is at a high of 11% (22% of youth unemployment)*
- j) *International Reserves cover only 2.9 months of imports (the usual comfortable requirement is 6 months of import coverage)*

This report has also highlighted the fact that foreign banks in Timor collect US\$ deposits at very low interest rates and place them with their parent banks overseas, whereby those funds are then on-lent to borrowers overseas who benefit from low cost Timorese depositors funds. These banks also have a very low LDR and a very high % of Deposits to Total Assets and therefore are not performing their intermediation role in Timor Leste.

In some African countries in the past there were similar situations and the Central Banks of those countries (on the advice of the Bank of England) imposed minimum LDR ratios on the foreign banks and forced them to deposit their excess funds that did not meet the minimum LDR ratios with the Central Bank whereby such funds were then utilised for the benefit of local businesses/ government deficit reduction. There is a strong case for a similar arrangement to be introduced in Timor-Leste.

5. Business Strategies of BNCTL

The Business Strategies of BNCTL which also include the required investment and financing programs and business initiatives (client facing and internal) can be divided into the following, many of which are included in the Transformation Program.

(a) Short Term Strategies (2018 to 2019)

- i. Mobilization of deposits and creation of new deposit products and enhancements to existing products.
- ii. IT Infrastructure and continuing core banking system enhancement with National Switch is in progress with BNCTL participation.
- iii. Credit expansion of 30-35% targeting commercial loans, Project, Investment and Housing loans once the land law and associated regulations have been prepared and implemented.
- iv. Delivery channels: ATM, internet banking, POS, mobile phone banking.
- v. Strengthening of operational and credit risk management and internal controls and IT. Consultancy from a Portuguese bank has been earmarked to compliance and risk management strengthening.
- vi. Capacity building, training & skills development/enhancement.

- vii. International banking-import and export related trade finance and remittances and Credit Card cooperation with bank(s) overseas.
- viii. Office infrastructure – building of 4 new branches each year costing US\$ 750,000 each plus 5 new in Dili and one in Maubisse (not fully done) costing US\$ 2 million including the rehabilitation of the existing Head Office. Three branches and refurbishment of Head Office, Gleno, Ainaro and Oecusse will be built in 2018 and expected to be completed in 2019.
- ix. Complete arrangements for construction of the new Head Office- the design has already been done.
- x. Continue to enhance and develop new loan and deposit products and mobile and internet banking services using mobile devices, computers and agents.

(b) Medium Term Strategies (2019 to 2020)

- i. Further Strengthening and expanding of the above short term strategies and initiatives.
- ii. Continue building 3 or 4 new branches each year costing approximately US\$ 750,000 each (subject to price presented in open tender).
- iii. Emphasis on investment loans for transformative industry, economic growth and job creation.
- iv. Strengthening of bank governance and management, risk management and compliance and conduct according to international best practice and independency norms.
- v. Building new and modest Head Office phase one costing about US\$ 12 million (total cost estimated was about US\$ 22million).
- vi. Arrangements to deal direct with VISA/ MasterCard have been discontinued due to the high fees and non listing of Timor-Leste. However, BNCTL will explore partnership with other bank in sponsoring BNCTL issuance of its own credit card.

(c) Long Term Strategies (2021 to 2022 and beyond) Reaffirming those previously reported as follows

- i. Become a front line of banking services in Timor-Leste in terms of banking services, deposits, loans and assets (\$500 million – 1 billion).
- ii. Involvement in derivative transactions and foreign exchange, retail and non-retail.

- iii. Knowledge centre in retail banking.
- iv. Go international- possible overseas representation and participation in loan syndications.
- v. **Issue “back to back” guarantees** to international firms tendering for work in GoTL.

(d) Key Financial Projections (2018 to 2022)

BNCTL has revised its original 2018 projections based on the results of 2017, the issues relating to project loans (discussed below), combined with the outstanding initiatives rolled over from 2017 and 2016 and most importantly taking into consideration the implementation of initiatives arising from the Transformation Program referred to above.

The Transformation Program also includes initiatives in process or carried over from 2016 and before. The projections have been made on a conservative basis with ability for BNCTL to generate higher loan and deposit growth as the numbers and ratios progressing up to 2022 signal the opportunity for BNCTL to be able to grow its loans and deposits strongly.

In loans, the areas of high growth are likely to be in infrastructure financing, housing finance for owner occupation as well as for investment although the initial focus will be for owner occupied housing finance.

Likewise, high value Project Loans would also be considered as the legal and regulatory environment enables collateralised and secured lending with laws in place to clarify and determine ownership rights, mortgage rights and general contract enforcement.

It is expected that these legal and regulatory hurdles will be cleared by 2019 or 2020 clearing the way to a substantial growth of high value collateralised investment and project loans.

A separate report contains the detailed Strategy, Business Plan and Financial Projections for the period 2018 to 2022 was already included in the 2016 Annual Report and reproduced in this report. The changes to the projections for the period 2019 to 2022 is envisaged due to the actual 2017 results and the revised 2018 budget.

6. Financial Targets and Projections of BNCTL (2019 – 2022)

Balance Sheet	Dec-17 ACTUAL	Dec-18 BUDGET REV	Dec-19 PROJECTED	Dec-20 PROJECTED	Dec-21 PROJECTED	Dec-22 PROJECTED
ASSETS:						
LIQUID FUNDS	62,980,301	107,918,880	131,476,415	171,853,025	226,558,229	301,029,968
LOAN, ADVANCES & DISCOUNTS	96,437,411	73,168,090	116,019,423	143,590,648	178,394,042	222,419,272
CURRENT LOAN	96,134,509	72,888,870	116,014,151	143,583,795	178,385,132	222,407,690
PAST DUE LOANS	448,120	540,015	52,716	68,531	89,091	115,818
PROVISION FOR LOAN LOSSES	(145,218)	(260,795)	(47,445)	(61,678)	(80,182)	(104,236)
ACCOUNTS RECEIVABLE	1,651,025	2,085,459	286,868	315,555	347,110	381,821
FIXED ASSETS	5,021,909	13,088,936	6,105,250	6,486,366	7,245,452	8,246,723
Reserve for Depreciation	(3,532,295)	(4,067,565)	(4,960,521)	(5,704,599)	(6,560,289)	(7,544,333)
OTHER ASSETS	487,483	900,217	1,220,102	1,403,117	1,613,585	1,855,622
Office Accounts	196,433	241,953	226,294	260,238	299,274	344,165
Assets Held In Res. Of Debt			89,401	102,811	118,233	135,968
Miscellaneous Assets	98,485	80,264	706,032	811,937	933,727	1,073,786
TOTAL ASSETS:	166,578,129	197,161,582	255,108,057	323,648,710	414,158,417	533,933,406

Table 2- Key Assets- 2017, 2018 (Budget) and Projections 2019 to 2022

Liabilities	Dec-17 ACTUAL	Dec-18 BUDGET REV	Dec-19 PROJECTED	Dec-20 PROJECTED	Dec-21 PROJECTED	Dec-22 PROJECTED
Total Deposits	114,202,137	152,373,246	208,065,000	273,396,500	359,783,450	474,270,485
Demand Deposit:	23,101,322	33,367,198	62,023,000	80,629,900	104,818,870	136,264,531
Time Deposits (Others)	22,922,045	36,709,769	14,560,000	21,840,000	32,760,000	49,140,000
Other (Passbook Saving):	68,178,770	82,296,278	131,482,000	170,926,600	222,204,580	288,865,954
OTHER SUNDRY CURRENT LIABILITIES	14,831,787	3,019,632	2,742,926	2,742,926	2,742,926	2,742,926
CAPITAL ACCOUNTS:	37,525,577	41,768,704	44,300,131	47,509,284	51,632,041	56,919,995
Provisioning	1,991,776	2,768,762	2,321,337	2,873,047	3,569,484	4,450,470
Capital Paid-Up & Assigned	25,020,160	25,020,160	27,522,176	27,522,176	27,522,176	27,522,176
Capital Reserve	1,579,770	1,579,770	-	-	-	-
Profits / Losses	8,933,871	12,400,012	14,456,618	17,114,062	20,540,381	24,947,349
Previous Financial Year Profits/(Losses)	4,739,310	10,109,006	12,400,011	14,456,618	17,114,062	20,540,381
Current Financial Year Profits/(Losses)	4,194,560	2,291,005	2,056,607	2,657,444	3,426,319	4,406,968
TOTAL LIABILITIES & CAPITAL ACCOUNTS:	166,578,129	197,161,582	255,108,057	323,648,710	414,158,417	533,933,406

Table 3- Key Liabilities, Capital & Annual Profit- 2017, 2018 (Budget) and Projections 2019 to 2022

7. The Annual Budget for 2018

The 2018 Budget

Key highlights and explanations for the budget for 2018 are listed below. The Tables 2 to 5 below include numbers and % changes for key balance sheet and income statement items for the 2018 budget including the key financial and performance ratios.

i. Assets

Total Assets- Increased by 18% (compared to 2017), in spite of the reduction in loan growth in 2018 (see below).

Liquid Funds- Increased by 71 % (compared to 2017) due to increased deposit growth (+33%) and decreased loan growth (-24%).

Loans- Decreased by 24% (compared to 2017) due to the bank temporarily suspending lending for Projects until such time that there is certainty regarding the settlement of government sponsored new contracts and settlement of existing commitments under contracts already completed. However other types of loans would continue to show increased lending.

Fixed Assets- Increased by 161 % (compared to 2017) due to the substantial increase in building of branch and head office, leasehold improvements to existing buildings. Other classes of fixed assets such as machinery and equipment also show increases compared to 2016.

ii. Total Liabilities & Capital Account

Total Liabilities including the Capital Account- Increased by 18% (compared to 2017) as follows:

Deposits- Increased by 33% (compared to 2017) with substantial increases in demand Deposits (by 44%), Time Deposits (by 60%) and Savings Deposits (by 21%).

Net (after tax) Profit - Reduced by 45% compared to 2017 due to substantial reduction in loans (essentially Project Loans) and increased Operational Expenses by 46% (compared to 2017). This is essentially due to the increased Provision for Loan losses of 30% (compared to 2017) relating to delayed settlement of Project Loans due to project contractors. As a result the Cost to Income ratio has increased substantially to 82%. The 2018 Budget has been conservatively assessed by the bank and it is hoped that the issue relating to settlement of Project Loan debts would be satisfactory resolved.

Retained Earnings: Increased by 39% (compared to 2017).

8. Dividend Policy

So far GoTL has opted to continue to retain accumulated profits in BNCTL but has the option of distributing or re allocating or withdrawing such retained earnings at any time in part or in full. However given the very favourable ROE (12.51% in 2017) compared to other GoTL investments, GoTL has until now retained such profits within the Bank.

9. Legal, Regulatory & Prudential Compliance

BNCTL has a proactive and long-established Risk Management Committee (RMC) that now also includes the Compliance function and continues to meet once a month to review the quantitative and qualitative risks facing by the bank.

These risks consist of Credit Risk, Currency & Market (FX) Risk, Interest Rate Risk, Liquidity Risk and all types of Operational risk (that includes Compliance, Legal, Reputation, IT and Cyber Security Risk, Strategic Risk). The Compliance function was previously performed by the Internal Audit Department, but is now part of the Risk Management & Compliance Department. This department supports the activities of the Risk Management Committee and has one unit focussing on Risk Management while another unit focuses on Compliance.

Compliance in this case includes external compliance with the laws of GoTL, the key laws include the laws governing Commercial Companies, The Decree Law governing the operations of BNCTL, BCTL laws, regulations, directives and guidelines, Government regulations. In terms of internal compliance these include **BNCTL's policies, procedures, limits and delegated authorities**. The Risk Management & Compliance Department reports any and all breaches of internal and external compliance violations to the RMC. Additionally, the Internal Audit Department of BNCTL also reviews compliance during their annual audits of branches and Head Office departments. The central bank (BCTL) has initiated Anti Money Laundering and Financing of Terror policies and regulations. BNCTL has been diligent in adhering to and enforcing these requirements as it is now included as an international standard.

The Risk Management Department in conjunction with the Internal Audit Department has initiated and is in the process of implementing the now widely accepted international standard of Risk Based Audit (RBA). This means that the Internal Audit Department when auditing branches and Head Office departments will focus not only on the financial and compliance audit but also on the risks associated with the operations of branches and Head Office departments. It is expected that RBA would be fully operational by 2019 throughout BNCTL.

10. Review of 2017 Performance against previous strategic plans and established targets

(a) 2017 Consolidated Financial Performance:

The following tables show BNCTL's key financial performance numbers for 2017 against those of 2016 and also against the 2017 Budget and the variance against budget and pertinent comments and observations. It also includes the Budget for 2018 that has been approved by the bank's Board of Directors (BOD).

■ Total Assets Growth

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
ASSETS :							
LIQUID FUNDS	62,980,301	68,225,946	(7.69)	68,568,325	-8.15	\$ 107,918,880	71.35
LOAN,ADVANCES & DISCOUNTS	96,437,411	80,277,274	20.13	60,441,721	59.55	\$ 73,168,090	(24.13)
CURRENT LOAN	96,134,509	80,277,168	19.75	60,421,900	59.11	\$ 72,888,870	(24.18)
PAST DUE LOANS	448,120	31,193	1,336.61	64,001	600.17	\$ 540,015	20.51
PROVISION FOR LOAN LOSSES	(145,218)	(31,087)	367.13	(44,180)	228.69	\$ (260,795)	79.59
ACCOUNTS RECEIVABLE	1,651,025	237,081	596.40	259,253	536.84	\$ 2,085,459	26.31
FIXED ASSETS	5,021,909	8,532,988	(41.15)	1,715,865	192.68	\$ 13,088,936	160.64
RESERVE FOR DEPRECIATION	(3,532,295)	(3,750,867)	(5.83)	(2,693,696)	31.13	\$ (4,067,565)	15.15
OTHER ASSETS	487,483	854,972	(42.98)	1,891,006	-74.22	\$ 900,217	84.67
Total Assets :	166,578,129	158,195,861	5.30	132,876,169	25.36	\$ 197,161,582	18.36

Table 4- Key Asset Items: 2016, Budget & Actual 2017 and Budget 2018 & % Variances

■ Liquid Funds

The Liquidity ratio has fallen during 2017 to 37.8% compared to (51.6% in 2016) as a result of the substantial growth in loans during 2017 but still above the usual 30% regulatory requirement. Of this 15% of Total Assets must be kept with BCTL as a liquidity reserve. BNCTL has 17.07 % with BCTL. Plus the bank has 7.8 % of its total assets in cash in branch vaults to meet **customers'** cash requirements. Additionally BNCTL has 12.87% of total assets in accounts with local banks that can be withdrawn at any time in case of need. Hence there is still potential for BNCTL to increase its lending to utilize the excess and residual portion of liquidity, especially given that the bank's NPL's are a low 0.15% as at end 2017.

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
ASSETS :							
LIQUID FUNDS	62,980,301	68,225,946	(7.69)	68,568,325	-8.15	\$ 107,918,880	71.35
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CURRENT LOAN	96,134,509	80,277,168	19.75	60,421,900	59.11	\$ 72,888,870	(24.18)
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FIXED ASSETS	5,021,909	8,532,988	(41.15)	1,715,865	192.68	\$ 13,088,936	160.64
RESERVE FOR DEPRECIATION	(3,532,295)	(3,750,867)	(5.83)	(2,693,696)	31.13	\$ (4,067,565)	15.15
OTHER ASSETS	487,483	854,972	(42.98)	1,891,006	-74.22	\$ 900,217	84.67
Total Assets :	166,578,129	158,195,861	5.30	132,876,169	25.36	\$ 197,161,582	18.36

Table 5- Liquid Funds Actual 2016, Budget & Actual 2017, Budget 2018 & % Variances

▪ *Current Loans & NPL's*

Total assets have increased by 25.36% in 2017 compared to 2016. Mostly due to the increase in loans by 59.56% with a **drop in the bank's liquid assets** which still stands at a healthy amount of US\$ 62.98 million even after the substantial growth in loans in 2017. Loan growth was considerably in excess of the 2017 budget by about US\$ 16.3 million.

One of the key developments was the continuous low non-performing loans showing effective collection and continuing good and prudent lending policies whereby **Non-Performing Loans (NPL's) to total loans was 0.15%** in 2017 based on the external auditors assessment (0.08% in 2016).

If NPL's are based on BCTL's Category 3, 4, 5 loans the NPL ratio to total loans would be 0.46% –in either case this ratio is substantially lower than the maximum < **5% ceiling considered by regional and international banks and BNCTL's internal maximum limit of <2% NPL's to total loans.**

The NPL's in 2017 were much higher than in previous two years because of the delayed settlement of contractor payments due to changes in the government and the approval of the new budget. It is anticipated that these delayed project payments would be progressively received during the latter half of 2018. The Weighted Average Interest Rate (WAIR) obtained from Loans was 12.18% in 2017 (12.98% in 2016).

The increase in loans is also due to increase in Project Loans and Investment Loans introduced in 2016. BNCTL has decided to selectively grant Market Vendor loans due to the high risk of default as a result of the mobility of these categories of **borrowers**'. Loan related ratios show a mixed performance. The Loan to Deposit Ratio (LDR) was 84.45% in 2017 (62.21% in 2016).

Substantial improvement has been seen in this is ratio towards the regional and international benchmark of around 80 to 90%. Net Loans to total assets are about 57.89% in 2017 (45.49% in 2016) with potential for more loan growth. Payroll Loans to total gross loans are still quite high at 52.62% of total loans compared to 49.71% in 2016; however this is a stable and relatively low risk sector.

In terms of composition of gross loans as at the end of 2017, 52.62% (49.72% in 2016) of loans were Payroll Loans, 32.34% (29.80% in 2016); Project Loans, 9.69 % (13.43% in 2016) of Business Loans, 1.76 % (2.15% in 2016) of Investment Loans and 1.1 % (1.7% in 2016) of Seasonal Crop loans.



It must be stressed that "Payroll Loans" are effectively "Multi Purpose Loans" granted to salaried employees. The purposes of such loans are mostly for education, health, maintenance of buildings, and for small viable retail business ventures of salaried employees immediate family members.

Average Loan sizes were \$ 4,467 for total current loans, \$ 147 for Microfinance Loans, \$ 2,983 for Business Loans, \$3,406 for Payroll Loans, \$ 544 for Seasonal Crop Loans, \$ 339,509 for Project Loans, \$7,148 for Investment Loans, \$10,364 for Staff Loans. While the average size of past due loans was \$ 628.

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
ASSETS:							
LOAN,ADVANCES & DISCOUNTS	96,437,411	80,277,274	20.13	60,441,721	59.55	\$ 73,168,090	(24.13)
CURRENT LOAN	96,134,509	80,277,168	19.75	60,421,900	59.11	\$ 72,888,870	(24.18)
Market Vendor Daily Loans	-	83	(100.00)	167	-100.00		
Seasonal Crop Loans	1,038,857	1,766,587	(41.19)	1,008,174	3.04	\$ 1,329,372	27.96
Other business Laons	9,202,039	12,552,085	(26.69)	8,110,900	13.45	\$ 10,390,305	12.91
Project Loan	31,234,798	18,288,224	70.79	18,023,061	73.30	\$ 20,107,985	(35.62)
Investment Loans	1,672,582	5,634,685	(70.32)	1,299,516	28.71	\$ 2,516,644	50.46
Microfinance Group Loans (Direct)	163,301	1,116,044	(85.37)	327,067	-50.07	\$ 369,642	126.36
Payroll Loans	50,687,874	40,919,460	23.87	30,062,328	68.61	\$ 35,905,389	(29.16)
Loans to Employee and Staff	2,135,058	-		1,590,687	34.22	\$ 2,269,534	6.30
PAST DUE LOANS	448,120	31,193	1,336.61	64,001	600.17	\$ 540,015	20.51

Table 6-Current Loans2016, Budget & Actual 2017, Budget 2018 & % Variances

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
ASSETS :							
LOAN,ADVANCES & DISCOUNTS	96,437,411	80,277,274	20.13	60,441,721	59.55	\$ 73,168,090	(24.13)
CURRENT LOAN	96,134,509	80,277,168	19.75	60,421,900	59.11	\$ 72,888,870	(24.18)
PAST DUE LOANS	448,120	31,193	1,336.61	64,001	600.17	\$ 540,015	20.51
Past Due Market Vendor Daily Loans	3,549	403	780.69	1,772	100.30	\$ 403	(88.65)
Past Due Seasonal Crop Loans	30,478	14,690	107.48	19,397	57.13	\$ 25,387	(16.71)
Past Due Business Loans	155,759	4,206	3,603.25	11,628	1239.46	\$ 44,686	(71.31)
Past Due Project Loans	5,000	-				\$ 307,791	6,055.82
Past Due Investment Loans	25,738	-				\$ 35,974	39.77
Past Due Microfinance Group Loans	71,392	8,519	738.04	12,787	458.32	\$ 39,020	(45.34)
Past Due Payroll Loans	130,487	-		7,856	1561.08	\$ 82,769	(36.57)
Past Due Loans to Employee & Staff	25,717	3,375	661.98	10,561	143.50	\$ 3,985	(84.50)
PROVISION FOR LOAN LOSSES	(145,218)	(31,087)	367.13	(44,180)	228.69	\$ (260,795)	79.59

Table 7- Past due Loans 2016, Budget & Actual 2017, Budget 2018 & % Variances

- *Fixed Assets*

Fixed Assets which are still quite low because until now BNCTL does not own most of its bank offices. However, this is set to change as the bank has embarked on a scheduled annual program to build its own branches and a new Head Office rather than renting and renovating office premises.

BNCTL plans to build 4 branches a year costing about US\$ 750,000 each plus 5 new sub branches in Dili and one other branch costing US\$.2 million in total including the rehabilitation of the existing Head Office which commenced in 2018. BNCTL also completed arrangements and planning, design of a new Head Office building. It is estimated that the new but modest Head Office building would cost about US\$ 12 million and would be financed by the shareholder through an injection of additional capital.

However, with the rapidly expanding communications and mobile banking technology the modern trend is for banks regionally and globally to reduce investment in building elaborate and prestigious brick and mortar branches and move towards branchless banking driven by advancements in telecommunications and mobile technology.

In 2017 the bank implemented a new and widely used Core Banking System (CBS) (Temenos T24) to replace the MB Win/ Microbanker system that had served BNCTL well starting from its IMfTL era. The replacement of the CBS while also adding to the asset values will also greatly enable the bank to increase its banking products and

services. Total asset growth has exceeded both 2016 actuals as well as the 2017 budget mainly due to the substantial increase in loan growth.

- **Total Liabilities & Capital Account Growth**

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
LIABILITIES :							
DEPOSITS	114,202,137	118,140,000	(3.33)	97,233,792	17.45	\$ 152,373,246	33.42
Demand Deposit:	23,101,322	36,700,000	(37.05)	28,031,736	-17.59	\$ 33,367,198	44.44
Time Deposits (Others)	22,922,045	3,640,000	529.73	2,740,595	736.39	\$ 36,709,769	60.15
Other (Passbook Saving):	68,178,770	77,800,000	(12.37)	66,461,460	2.58	\$ 82,296,278	20.71
Other Sundry Current Liabilities	14,831,787	2,742,926	440.73	3,090,850	379.86	\$ 3,019,632	(79.64)
CAPITAL ACCOUNTS :	37,525,577	37,312,935	0.57	32,551,527	15.28	\$ 41,768,704	11.31
Provisioning	1,991,776	1,393,294	42.95	1,212,287	64.30	\$ 2,768,762	39.01
Capital Paid-Up & Assigned	25,020,160	27,522,176	(9.09)	25,020,160	0.00	\$ 25,020,160	-
Capital Reserve/Reserva Legais	1,579,770	-				\$ 1,579,770	-
Profits / Losses	8,933,871	8,397,465	6.39	6,319,080	41.38	\$ 12,400,012	38.80
Previous Financial Year	4,739,310	5,201,844	(8.89)	4,151,187	14.17	\$ 10,109,006	113.30
Current Financial Year	4,194,560	3,195,621	31.26	2,167,893	93.49	\$ 2,291,006	(45.38)
Total Liabilities & Capital Accounts	166,578,129	158,195,861	5.30	132,876,169	25.36	\$ 197,161,582	18.36

Table 8- Key Liability & Capital Acct Items: 2016, Budget & Actual 2017 & Budget 2018 + % variances

- **Deposits**

Total Deposits have continued growing strongly (17.46%) again in 2017 compared to 2016 but short of the 2017 budget. **As customers become more “bank- savvy”** they have opted to save their monies in savings and time deposits rather than keeping large amounts in Demand or Current accounts, consequently Demand Deposit growth in 2017 was substantially lower than 2016 by -17.59 %. Moderate growth continues in Savings Deposits (+2.58% in 2017) substantial growth in Time Deposits (+736% in 2017).

The recently (2015) implemented savings products such as **“Pledged Savings”** accounts which are savings accounts for children built up usually by their parents, **relatives and “pocket money” until they are 18 years old**. Essentially such savings are designed to provide some or all financing for the education of these child depositors.

The **“Elderly Savings”** accounts started in 2015 are essentially designed for retired and elderly citizens and those receiving state and Indonesian government benefits.

Both these segments have shown strong growth since their implementation in 2015 with 76% and 76 % growth experienced in 2017 over 2016 actuals. Likewise the **“Deposito Hau Nia Futuru”** has shown strong growth since its introduction in 2015 and increased by 92% in 2017 compared to 2016.

The Weighted Average Interest Rate (WAIR) paid to depositors was 0.24% in 2017 (0.25% in 2016) showing low interest expense costs. Net interest rate received from BCTL and other banks was 0.95% in 2017. In terms of composition of Total deposits 59.7% were Passbook Savings, 20.2% Demand Deposits, and 20% for Time Deposits.

During 2017 many Demand depositors switched to better yielding Time Deposits. Average size of deposits was as follows: Overall size was \$ 387, \$ 5,859 for Demand Deposits, \$ 42,765 for Time Deposits and \$ 459 for Savings accounts. In terms of number of deposit accounts 98.3% were Passbook Savings Accounts, 1.4% were Demand Deposits and 0.2% of Time Deposits.

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
LIABILITIES:							
DEPOSITS	114,202,137	118,140,000	(3.33)	97,233,792	17.45	\$ 152,373,246	33.42
Demand Deposit:	23,101,322	36,700,000	(37.05)	28,031,736	-17.59	\$ 33,367,198	44.44
Financial Institutions	-	-		956,686	-100.00	\$ -	
Government	8,661,161	-		9,699,824	-10.71	\$ 13,347,133	54.10
Business Enterprises	14,405,489	-		7,692,174	87.27	\$ 19,982,643	38.72
Others	34,671	36,700,000	(99.91)	9,683,053	-99.64	\$ 37,422	7.93
Time Deposits (Others)	22,922,045	3,640,000	529.73	2,740,595	736.39	\$ 36,709,769	60.15
Other (Passbook Saving):	68,178,770	77,800,000	(12.37)	66,461,460	2.58	\$ 82,296,278	20.71
Others	-	76,000,000	(100.00)	46,456,239	-100.00	\$ 62,303,470	
Passbook Saving	47,528,109			13,288	357585		(100.00)
Pledge Saving	129,063			116,427	10.85	\$ 139,801	8.32
Saving Enderly	18,511,771			18,098,861	2.28	\$ 17,185,286	(7.17)
Deposito Hau Nia Futuru	2,009,827	1,800,000	11.66	1,046,260	92.10	\$ 2,667,721	32.73

Table 9-CustomerDeposits: 2016, Budget & Actual 2017 & Budget 2018 + % variances

▪ Equity

The shareholders funds or total equity has shown 15.28% increase above the 2016 actuals but is about the same as budgeted for 2017. Paid up Capital is US\$ 25,020,160 and retained earnings at a healthy US\$ 10,513,641, showing a 66.38% increase over 2016.

Total Liabilities and Capital has increased by 25.37 % since 2016. The Return on average Equity (ROE) to the shareholder was substantially higher at 11.83 % in 2017 (7.52% in 2016). **GoTL's investment in BNCTL has shown that it** continues to exceed other investments of GoTL including its rate of return on investment in the Petroleum Fund. Given the continuing high ROE to the shareholder, compared to its other investments it is expected that any additional equity injection required from the shareholder would be forthcoming.

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
LIABILITIES :							
CAPITAL ACCOUNTS :	37,525,577	37,312,935	0.57	32,551,527	15.28	\$ 41,768,704	11.31
Provisioning	1,991,776	1,393,294	42.95	1,212,287	64.30	\$ 2,768,762	39.01
Capital Paid-Up & Assigned	25,020,160	27,522,176	(9.09)	25,020,160	0.00	\$ 25,020,160	-
Capital Reserve/Reserva Legais	1,579,770	-				\$ 1,579,770	-
Profits / Losses	8,933,871	8,397,465	6.39	6,319,080	41.38	\$ 12,400,012	38.80
Previous Financial Year	4,739,310	5,201,844	(8.89)	4,151,187	14.17	\$ 10,109,006	113.30
Current Financial Year	4,194,560	3,195,621	31.26	2,167,893	93.49	\$ 2,291,006	(45.38)
Total Liabilities & Capital Accounts	166,578,129	158,195,861	5.30	132,876,169	25.36	\$ 197,161,582	18.36

Table 10 - Capital Account: 2016, Budget & Actual 2017 & Budget 2018 + % variances

Income Performance

INCOME :	Audited	BUDGET 2018	% Change 2017 BUDGET/ACTUAL	Audited	2016/17 Actual % Chge	% Change Over 2017	
	DEC.2017			2017 BUDGET			DEC.2016
INTEREST INCOME	\$ 11,397,528	\$ 11,593,815	-1.69	\$ 7,848,017	45.23	12,493,531	9.62
Interest on Due from Banks	\$ 210,297	\$ 250,000	-15.88	\$ 158,033	33.07	300,000	42.66
Interest & Fees on Loans & Discounts	\$ 11,187,231	\$ 11,218,399	-0.28	\$ 7,689,983	45.48	12,182,677	8.90
Interest Income on Loans	\$ 9,552,382	\$ 8,414,588	13.52	\$ 6,800,208	40.47	11,563,334	21.05
Loan Fee Income	\$ 1,634,849	\$ 2,803,811	-41.69	\$ 889,775	83.74	619,343	(62.12)
NON INTEREST INCOME	\$ 2,613,406	\$ 1,629,678	60.36	\$ 1,431,974	82.50	3,053,030	16.82
Commission Income & Transaction Fees	\$ 763,639	\$ 729,268	4.71	\$ 675,183	13.10	965,316	26.41
Other Non Interest Income	\$ 1,849,766	\$ 744,317	148.52	\$ 756,791	144.42	2,087,714	12.86
EXTRAORDINARY INCOME	\$ -	\$ 1,020,000	-100.00			1,020,000	
TOTAL OPERATING INCOME :	\$ 14,010,934	\$ 14,243,493	-1.63	\$ 9,279,991	50.98	16,566,562	18.24

Table11 - Key Income Items: 2016, Budget & Actual 2017 and Budget 2018 & % Variances

Total Operating Income has increased by 50.98 % in 2017 over 2016 with Interest Income comprising 81.34% of total income in 2017 (84.49% in 2016) also marginally lower than the 2017 budget mainly due to the strong growth of both loans and deposits during 2017.

Non Interest income contributed 18.6% in 2017 (15.4% in 2016). This trend of the increased component of non interest income to total income is expected to continue into 2018 and beyond, as the bank continues to grow its internet and technology driven mobile banking and other fee based **services such as ATM's** and international banking related products.

The capacity for BNCTL to continue to increase its loan growth given its current excess liquidity and potential for further increase in equity will further increase both interest and fee income.

- Expenses Performance

EXPENSES :	Audited		% Change 2017 BUDGET/ACTUAL	Audited		BUDGET 2018	
	DEC.2017	2017 BUDGET		DEC.2016	2016/17 Actual % Change	Numbers	% Change Over 2017
INTEREST EXPENSE	\$ 293,642	\$ 232,304	26.40	\$ 231,833	26.66	494,708	68.47
NON INTEREST EXPENSE	\$ 107,658	\$ 40,550	165.49	\$ 67,082	60.49	269,400	150.24
OPERATING EXPENSE	\$ 8,990,123	\$ 9,377,271	-4.13	\$ 6,381,020	40.89	11,878,424	32.13
Salaries and Employee Benefits	\$ 2,796,053	\$ 3,714,250	-24.72	\$ 2,960,699	(5.56)	3,344,686	19.62
Administrative Expenses	\$ 1,529,941	\$ 1,205,106	26.95	\$ 946,585	61.63	1,916,864	25.29
OTHER ADMINISTRATIVE EXPENSE	\$ 1,105,039	\$ 834,800	32.37	\$ 946,585	16.74	1,313,227	18.84
Rents Paid	\$ 216,106	\$ 237,338	-8.95	\$ 85,053	154.09	486,819	125.27
Depreciation and Amortization	\$ 935,937	\$ 1,019,744	-8.22	\$ 631,385	48.24	1,187,166	26.84
Provision	\$ 1,919,888	\$ 449,800	326.83	\$ 294,810	551.23	1,345,690	(29.91)
Other Operating Expense	\$ 1,070,536	\$ 1,584,563	-32.44	\$ 1,113,117	(3.83)	1,477,362	38.00
EXTRAORDINARY EXPENSE	\$ (47,718)	\$ 1,020,000	-104.68	\$ 93,101	(151.25)	1,020,000	(2,237.56)
Other Extraordinary Expenses	\$ -	\$ 1,020,000	-100.00	\$ -	-	1,020,000	-
Actuarial (gain) Loss	\$ (47,718)	\$ -	-	\$ 93,101	(151.25)	-	(100.00)
TOTAL OPERATING EXPENSES :	\$ 9,343,705	\$ 10,670,125	-12.43	\$ 6,773,036	37.95	13,662,533	46.22
NET INCOME (LOSS) BEFORE TAX :	\$ 4,667,229	\$ 3,573,368	30.61	\$ 2,506,955	86.17	2,904,029	(37.78)
PROVISION FOR INCOME TAX :	\$ 472,669	\$ 377,748	25.13	\$ (271,461)	(274.12)	613,023	29.69
DEFERRED TAX INCOME (EXPENSE)	\$ -	\$ -	-	\$ (67,600)	-	-	-
NET INCOME (LOSS) AFTER TAX :	\$ 4,194,560	\$ 3,195,620	31.26	\$ 2,167,893	93.49	2,291,006	(45.38)

Table 12- Key Expenses & P & L: 2016, Budget & Actual 2017 and Budget 2018 & % Variances

- Operating Expenses

Total operating expenses have increased by 37.95 % during 2017 over that of 2016 as the growth in business activity saw a substantial increase in loan and deposit growth, expenses relating to increased staffing, expenditure related to developing communications and internet based products, implementation of a new core banking system and many aspects of the Transformation program started in 2016, costs relating to implementation and installation of ATM's in each of the 13 municipalities and selected ATM's in Dili together with the renovation and building maintenance costs of the bank's existing Head Office and Dili branch.

Total employee related costs (including Executive Directors) represented 31% of total operating costs in 2017 (29.9% in 2016).

Taxation amounted to 10.12% of net profit in 2017 compared to 14.5% in 2016. Interest Expense has increased by 26.66% in 2017 as a result of the substantial increase in deposits.

However, the Cost to Income Ratio has come down to 66.06% in 2017 compared to 71.05% in 2016 showing increasing control over costs. Banks usually maintain this

ratio at around 60%. The reduction in this ratio shows that BNCTL is managing its costs around benchmark norms.

▪ Profit & Loss

The bank continued to maintain its high net after tax profit by 86.71 % in 2017 (129.56 % in 2016) due to the increased revenue from loan and fee income, the Net Interest Margin (NIM) at 11.5% in 2017 (11.5% in 2016) is generally regarded has been considered as being too high given that the regional average for banks is < 6%.

The lower than external US\$ market costs of deposits and the relatively moderate lending costs have increased the NIM. With US\$ interest rates globally expected to increase by 1% by end of 2018, it is expected that both deposit and lending rates in Timor may also rise in 2018, however a high NIM can still continue.

It however has also to be remembered that presently with there being only a recently passed Land Law, Bankruptcy law, enforcement of legal ownership rights and collateral recovery to support secured lending there is relative high risk for banks that lend money that is effectively unsecured.

For this reason the high NIM may be justified. However, as the legal shortcomings mentioned are resolved in 2017 and 2018 and the risks of collateralised lending become substantially reduced, the NIM will progressively become less, as loan interest rates will naturally goes down.

▪ Key Financial Ratios

KEY FINANCIAL & PERFORMANCE RATIOS %	ALL BANKS 2017	BNCTL 2016	2017 BNCTL	Regional Benchmark	COMMENTS-
CAPITAL ADEQUACY RATIO	6.68	33.18	22.67	< 20%	Fgn Banks Capital in parent calculation
LIQUIDITY RATIO	78.45	51.60	37.93	About 30%	Fgn Banks focus on Deposit taking
RETURN ON AVERAGE ASSETS (ROA)	1.37	1.74	2.94	About 4 %	BNCTL ROA better loan intermediation
RETURN ON AVERAGE EQUITY (ROE)	23	7.52	12.51	About 15%	Fgn Banks ROE high as low capital base
LOANS / TOTAL ASSETS	19.43	45.52	57.98	About 60%	BNCTL performing better "intermediation"
LOAN/ DEPOSIT	22.97	62.21	84.58	80-90%	BNCTL maximizing profits
COST TO INCOME	52.92	72.99	65.69	< 60%	BNCTL higher due to branch network
OTHER INCOME/ TOTAL INCOME	42.7	25.03	39.55	About 20%	BNCTL's Fee Income Increasing
NPL'S/TOTAL LOANS	-16.76	0.11	0.6	< 5% Max	BNCTL's NPL's much lower
EMPLOYEE & BOD COSTS/ TOTAL COSTS	NA	48	30.81	About 35%	Effective reductions in employee costs
WAIR ON LOANS (WEIGHTED)	NA	12.98	11	Varies	Loan interest rates reduced
WAIR ON DEPOSITS (WEIGHTED)	NA	0.25	0.5	Varies	Deposit interest rate increased
NET INTEREST MARGIN (NIM)	NA	12.73	10.5	4-6%	NIM still better than regional average

Sources: BCTL and BNCTL External Auditor Reports

Table 13- Financial Ratios 2016, 2017 BNCTL & Local Banking Industry Comparison



BNCTL's Key Financial Ratios in 2017 continue in many respects to be better than the regional benchmarks as indicated in the table above. Likewise BNCTL's performance as a bank intermediary compared to its peers in the local banking market continues to show superior performance in Loans to Assets, Loans to Deposits, Capital Adequacy, Return on Assets, NPL's to Total Loans



(b) Branch Key Financial Performance:

Branches have made a substantial contribution towards increasing loans, deposits, liquid funds and the overall net profit of BNCTL

Income, Expenses and Profit

Account Titles	Dili	Gleno	Maliana	Aileu	Oe-Cusse	Baucau	Same	Ainaro	Suai	Viqueque	Lospalos	Liquica	Manatuto	Consolidated
	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	
INCOME:														
INTEREST INCOME	5,708,111	555,388	650,449	440,495	404,264	510,378	444,596	402,110	467,683	392,011	391,994	394,056	425,706	11,397,528
Loan Fee Income	475,117	117,771	138,031	90,445	83,884	110,420	102,085	80,337	121,397	69,630	80,654	80,481	84,595	1,634,848
NON INTEREST INCOME	1,390,301	113,803	86,351	49,495	109,270	73,245	65,156	40,964	79,876	64,496	58,220	65,690	59,117	2,613,406
TOTAL OPERATING INCOME:	7,098,412	669,190	736,800	489,991	513,534	583,593	509,752	443,074	547,559	456,508	450,214	459,745	484,823	14,010,934

Table 14- Key Branch Income 2017 & Retained Earnings

Account Titles	Dili	Gleno	Maliana	Aileu	Oe-Cusse	Baucau	Same	Ainaro	Suai	Viqueque	Lospalos	Liquica	Manatuto	Consolidated
	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	Branch	
EXPENSE:														
INTEREST EXPENSE	113,818	17,782	18,802	15,463	27,922	32,638	9,079	6,608	10,789	14,932	11,774	6,687	7,347	293,642
NON INTEREST EXPENSE	7,867	739	1,210	4,422	4,507	4,718	1,502	1,192	4,594	4,108	1,134	1,133	844	107,658
OPERATING EXPENSE	2,286,476	259,743	290,153	236,748	255,059	258,778	230,624	211,471	262,918	222,476	242,710	253,120	229,805	8,990,123
Salaries and Employee Benefits	383,441	98,026	139,759	119,701	105,662	113,519	99,184	98,153	101,982	105,751	108,235	97,351	106,201	2,796,053
ADMINISTRATIVE EXPENSES	101,205	27,305	21,531	21,088	24,923	25,570	25,729	18,247	34,182	23,236	22,942	23,977	22,827	1,529,941
OTHER ADMINISTRATIVE EXPENSE	101,205	27,305	21,531	21,088	24,923	25,570	25,729	18,247	34,182	23,236	22,942	23,977	22,827	1,105,039
Rents	14,381	1,050	4,800	3,096	5,099	510	570	8,715	3,755	3,791	3,452	25,287	3,160	216,106
Depreciation and Amortization	167,599	32,808	30,890	43,222	26,249	30,766	31,971	27,724	40,853	29,803	34,733	34,249	40,674	935,937
Provision	1,442,800	67,361	53,720	15,576	57,480	51,114	39,178	24,114	47,198	21,952	36,235	40,888	22,274	1,919,888
Provision for loans losses	1,442,800	67,361	53,720	15,576	57,480	51,114	39,178	24,114	47,198	21,952	36,235	40,888	22,274	1,919,888
Other Operating Expense	172,424	32,806	38,513	33,663	33,722	36,681	31,714	34,254	33,526	35,901	35,880	31,077	33,334	1,070,536
TOTAL OPERATING EXPENSES:	2,408,161	278,264	310,165	256,633	287,488	296,134	241,206	219,271	278,302	241,516	255,617	260,940	237,997	9,343,705
NET INCOME (LOSS) BEFORE TAX:	4,690,250	390,927	426,635	233,347	226,046	287,459	268,547	223,803	269,257	214,992	194,597	198,805	246,826	4,667,229
PROVISION FOR INCOME TAX:	43,301	3,316	3,592	2,434	2,554	2,842	2,485	2,204	2,654	2,255	2,180	2,278	2,393	472,669
NET INCOME (LOSS) AFTER TAX:	4,646,949	387,611	423,043	230,914	223,492	284,618	266,062	221,599	266,603	212,737	192,417	196,527	244,433	4,194,560

Table 15- Key Branch Expenses & Net after Tax Profits 2017 & Retained Earnings

All branches were profitable during 2017, with the Top 5 branches contributed 77% of the bank's total net after tax profit led by Dili, with 60%, Gleno 5%, Maliana 5%, Baucau 3.6% and Suai 3.4%.

Head Office being a cost centre incurred expense of \$ 3,602,000. There has been no cost allocation of Head office costs to branches as the bank has not yet developed a

full and complete Profitability Measurement and Transfer Pricing methodology which this is planned for implementation in 2018/2019.

Loans

in US\$	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts
ASSETS :	Dili	Gleno	Maliana	Alien	Oe-cusse	Baucau	Same	Ainaro	Suai	Viqueque	Lospalos	Liquisa	Manatuto	Consolidated	
CURRENT LOAN	57,525,154	4,290,477	4,650,408	2,747,543	2,377,119	4,014,167	3,465,662	2,634,120	3,785,561	2,776,951	2,712,479	2,385,875	2,773,993	96,139,508	
Market Vendor Daily L.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Seasonal Crop Loans	-	136,352	102,097	91,388	64,293	83,840	126,769	135,915	102,000	42,990	58,059	64,453	30,702	1,038,857	
Other Business Loans	2,188,299	507,358	951,456	516,020	594,238	856,240	522,950	395,878	567,657	636,375	490,651	551,814	423,102	9,202,039	
Project Loan	28,877,750	106,400	476,717	-	115,076	150,000	239,795	344,000	648,000	15,000	195,159	30,000	41,900	31,239,798	
Investment Loans	1,431,264	126,600	8,177	27,557	2,000	-	-	-	76,984	-	-	-	-	1,672,582	
Microfinance Group L.	(1,873)	11,154	-	32,129	18,101	-	36,798	29,565	16,188	-	11,108	14,348	12,895	180,413	
Payroll Loans	23,791,780	3,299,696	3,019,714	1,997,139	1,531,159	2,857,739	2,455,974	1,645,530	2,355,489	2,043,681	1,901,866	1,607,714	2,172,965	50,680,444	
Loans to Empl. & Staff	1,237,934	102,917	92,248	83,311	52,252	66,347	83,376	83,233	19,242	38,905	55,635	117,547	92,429	2,135,376	
PAST DUE LOANS	301,483	21,382	8,286	0	-	19,962	5,926	26,284	10,961	4,784	14,106	26,646	3,299	443,120	
Past Due Mark.Vend.D.L.	811	0	2,738	-	-	-	-	-	-	-	-	-	-	3,549	
Past Due Seas. C.Loans	-	9,794	560	-	-	-	-	484	4,413	-	-	15,227	-	30,478	
Past Due Other Busi. L.	148,978	791	168	0	-	1,255	-	-	386	1,384	-	-	-	155,759	
Past Due Project Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Past Due Investment Loan	-	-	-	-	-	-	-	25,738	-	-	-	-	-	25,738	
Past Due Microf. GL	42,928	10,797	3,453	0	-	9,904	-	62	2,406	-	-	1,341	501	71,392	
Past Due Payroll Loans	107,233	-	1,367	-	-	8,804	-	-	-	3,400	-	-	-	120,865	
Past Due L.to E.& Staff	1,533	-	-	-	-	-	5,926	-	3,757	-	14,106	10,078	-	35,399	
PROV. FOR L. LOSSES	(94,591)	(5,265)	(2,072)	(0)	-	(7,190)	(2,963)	(6,571)	(2,740)	(1,196)	(7,053)	(14,220)	(1,257)	(145,218)	
Total Assets :	62,816,537	5,287,495	5,789,956	3,537,861	3,209,311	4,992,260	4,531,137	3,707,156	4,475,893	3,623,462	3,754,166	3,180,826	3,531,937	166,578,129	

Table 16- Key Branch Loans amounts Dec 2017

In terms of loan values the Top 5 branches contributed 77.3% of the bank's loan portfolios. Dili (59.8%), Maliana (4.8%), Gleno (4.4%), Baucau (4.3%) and Suai (3.9%) were the top 5 in that order. (All branches have increased their loan values in 2017) and total loans have increased by 59.69% in 2017 over 2016.

The provision for loan losses in 2017 was 0.15% of total loans compared to 0.08% in 2016 and is still under BNCTL's maximum internal NPL limit of 2%.

Deposits

in US\$	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts
LIABILITIES :	Dili	Gleno	Maliana	Alien	Oe-cusse	Baucau	Same	Ainaro	Suai	Viqueque	Lospalos	Liquisa	Manatuto	Consolidated
DEPOSITS	39,895,039	6,127,810	6,056,891	4,104,090	23,006,396	9,525,975	3,225,427	3,474,520	4,154,168	5,421,903	3,934,716	2,641,258	2,633,945	114,202,137
Demand Deposit	15,586,288	871,000	769,558	687,777	394,552	748,788	470,191	730,144	799,401	480,814	642,840	391,988	527,981	23,101,322
Time Deposits	1,272,634	135,802	106,327	86,223	20,171,094	226,266	169,869	127,434	219,700	116,273	154,241	31,079	105,105	22,922,045
Other (Passbook Saving)	23,036,117	5,121,008	5,181,007	3,330,090	2,440,749	8,550,921	2,585,367	2,616,942	3,135,067	4,824,817	3,137,636	2,218,190	2,000,859	68,178,770
Other Sundry Current Liabilit.	1,424,579	10,303	4,865	1,857	2,455	11,177	67	801	42	26	1,731	12	46	14,831,787
Loan Collec. Fee in Advance	1,395,384	10,221	-	-	-	-	-	-	-	-	-	-	-	1,405,605
Other Liabilit/Due To Branch	15,643,062	(1,325,436)	(790,618)	(854,292)	(20,070,814)	(4,911,927)	968,636	(45,366)	(21,062)	(2,067,918)	(428,805)	296,179	597,477	18,629
CAPITAL ACCOUNTS :	5,853,856	474,818	518,818	286,206	271,275	367,035	337,007	277,201	342,744	269,450	246,523	243,378	300,470	37,525,577
Provisioning	1,206,907	87,207	95,775	55,292	47,783	82,417	70,946	55,602	76,141	56,713	54,106	46,850	56,037	1,991,776
Profits / Losses	4,646,949	387,611	423,043	230,914	223,492	284,618	266,062	221,599	266,603	212,737	192,417	196,527	244,433	8,933,871
Current Financial Year	4,646,949	387,611	423,043	230,914	223,492	284,618	266,062	221,599	266,603	212,737	192,417	196,527	244,433	4,194,560
Total Liabilities & Capital	62,816,537	5,287,495	5,789,956	3,537,861	3,209,311	4,992,260	4,531,137	3,707,156	4,475,893	3,623,462	3,754,166	3,180,826	3,531,937	166,578,129

Table 17- Key Branch Deposits, Capital & Liabilities amounts Dec 2017

Total Deposits increased by 17.45% in 2017 compared to 2016 (+ 2.58% of Savings Deposits, -17.59% of Demand Deposits, +736% of Time Deposits).

The top 5 branches were (Dili, Gleno, Suai, Maliana, and Baucau) contributed 81 % of total Demand Deposits during 2017.

The top 5 branches (Dili, Baucau, Maliana, Gleno and Viqueque) contributed 68.52 of total Savings Deposits during 2017.

The top 5 branches (Oecusse, Dili, Baucau, Same and Lospalos) contributed 95.96% of total Time Deposits in 2017.

(c) Non-Financial Performance- Transformation Program

In early 2015 with the sponsorship of the ADB an external consultant was appointed to **co-ordinate and drive BNCTL's internal and external facing initiatives. Most of the non-financial performance items are covered under the Transformation Program**

The key tasks and responsibilities of the Transformation Program that commenced in early 2016 were as follows with *(current status)*:

➤ TECHNOLOGY

- a. Improve Capacity of IT Staff- *(ongoing)*
- b. IT Policy for BNCTL- *(partly implemented. The IT department has been splitted into three main departments each headed by a manager)*
- c. Hardware & Connectivity- *(implemented since 3Q 2017 & functioning)*
- d. **Implement ATM's** *(20 implemented, 10 more in April 2018- 22 functional, 8 to follow)*
- e. Implement point of sale- *(launched April 2018- 23 POS is functional in selected business establishments in all municipalities)*
- f. Migrate ATMs to new Core Banking System (CBS)- *(completed 3Q 2017)*
- g. Implement Mobile Phone Banking- *(being developed, to be launched in Q4 2018)*
- h. Implement Internet Banking- *(being developed-to be launched in Q4 2018)*
- i. Implement new CBS Temenos T 24- *(T24 went live 4 Sept 2017)*

- j. Integrate BCTL Payment & settlements system with CBS- *(done since Nov. 2017)*
- k. Implement :SWIFT, Credit Scoring, Customer Credit info, AML- *(models to be procured when T24 fully operational - 4Q 2018))*
- l. Implement Enterprise Resource Planning (ERP) - *(models to be procured when T24 fully operational- 4Q2018)*

➤ CREDIT OPERATIONS

- a. Review existing Credit Products – *(completed)*
 - b. Introduce new Credit products – *(1 product introduced in early 2018)*
 - c. Review Credit Policy & Manual – *(completed and partly implemented)*
 - d. Credit Process re- engineering – *(completed and partly implemented)*
 - e. Strengthen Risk Management Unit – *(established with credit department)*
 - f. General Risk Management system & staff capacity – *(adopted the policy and gradually implemented)*
- (All of the above- consultants appointed expect BOD adoption Q2 2018)*

➤ IMPLEMENT INTERNAL COMMUNICATION

- a) Creation of email system for all staff- *(completed)*
- b) Install LAN for all bank- *(completed)*
- c) **Upgrade and improve bank's website** - *(in progress recruitment ongoing – 2 months to complete, expected to be launched in Oct 2018)*

➤ FINANCE & ACCOUNTING

- a. Appoint Finance Manager - *(in progress)*
- b. Review Chart of Accounts (CofA)- *(completed)*
- c. Parameterize C of A to CBS- *(completed)*
- d. Establish reports and frequencies - *(partly done, rest when ERP done)-*
- e. Prepare annual plans - *(completed)*

➤ **BANKING & TREASURY**

- a. Establish International Banking (IB) unit-(established & fully functional)
- b. Capacity building for IB staff-(staff trained -incl. SWIFT in Sydney)
- c. Establish Correspondent Banking Relationships (CBR)- (done with BCA & BRI in Indonesia)
- d. Join SWIFT- (completed and live)
- e. Launch Inward and Outward remittances-(ongoing for outgoing transfers)
- f. **Process International Documentary Credits (DC"s) (ongoing, at least 1 DC Issued)**
- g. Introduce new Domestic Banking products- (defer until T24 fully established)
- h. Capacity building for Treasury staff- (in progress -new Treasury Manager, staff to be recruited 2018)
- i. Establish Asset Liability Management (ALM)-(completed, functional in 2018)
- j. Establish Legal Services Unit- (established and functioning)
- k. Strengthen Internal Audit Department-(Audit expert being recruited to support Internal Audit and Audit Committee)
- l. Establish a Marketing & Business Development Unit- (a new structure has been adopted and this unit is to be established by early 2019 subject to board approval)
- m. Strengthen Risk Management-(consultant for RMCU to be hired 2Q2018)
- n. **Integrate BNCTL's delivery channels to BCTL's National Cards and Mobile Switch in Timor-Leste(expected launch 3Q 2018–BNCTL may be ready to join in Q4 2018)**

(d) Risk Management & Compliance

The bank's Risk Management Department has been re-configured to now also include the Compliance function. Most banks have a Risk Management & Compliance Unit (RMCU) with one division handling Risk Management and the other division handling Compliance. The compliance function includes both external legal and regulatory (including BCTL) compliance as well as internal compliance with **BNCTL's** policies, procedures, limits and delegated authorities.

As Operational Risk usually also includes compliance risk, the amalgamation of the risk and compliance function under one department is a logical and widely adopted model.

The Risk Management & Compliance function provides all of the reporting and support for the bank's Board Risk Management Committee (RMC).

The RMC in addition to responsibility for managing bank wide risks also includes the Asset/ Liability Management Committee and also the Credit Committee (an option given by BCTL). BNCTL has however recently established a separate Asset Liability Management Committee (ALCO). The support for this activity will still be done by RMCU.

This committee in addition to overseeing the total bank wide risk now also oversees the bank wide compliance function. The Risk Management & Compliance department reports functionally to the RMC but organisationally to one of the Executive Director's who is not on the RMC.

The Risk Management Department measures and quantifies the bank's Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk, Credit Risk and all aspects of Operational Risk and produces a comprehensive report at the end of each month that is reviewed by the RMC that also includes the key financial and performance ratios as shown in Section 11 of the report and also specific risk related ratios.

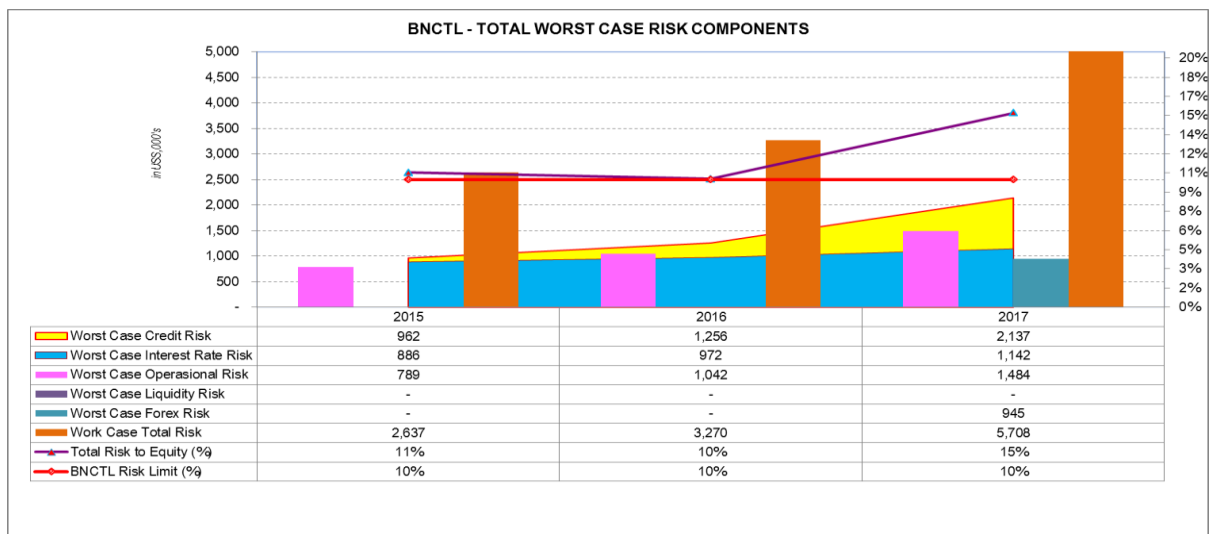


Table 18- Risk Measurement as at end 2017

The RMC also produces the monthly regulatory required CARMEL report (Capital, Asset quality, Risk, Earnings and Liquidity) and supplied to the Board.

CARMEL COMPONENTS		INTERNATIONAL BENCHMARK	BCTL	BNCTL 31 st Desember*17
C	Capital Adequacy Ratio (CAR)	> 12% to [$> 30\%$ (Basel III)]	> 12%	28.42% (Calculation based on Basel III Formula)
A	Asset Quality - NPL's - LDR	< 5% of all Loans < 90%	< 5%	0.46% 85%
R	Risk Management (Total Risk)	Total Worst Case Risk < 10% of equity	-	Total Worst Case Risk 15 % of Equity
M	Management (NPM)	> 25%	-	31 %
E	Earnings	ROA $\geq 5\%$ ROE $\geq 15\%$	-	ROA = 2.96 % ROE = 11.97 %
L	Liquidity Ratio	> 15% to [$> 30\%$ (Basel III)]	> 15%	49%

Table 19-CARMEL 2017

(e) International Banking & Correspondent Banking Relations

The bank has established some banking correspondence relations with banks overseas and hopes to promote inward and outward trade and non-trade related transactions through such banks, including the conformation of BNCTL's Letters of Credit as well as providing BNCTL's customers with access to international Visa and Master cards. The two main banks used for International Banking transactions are Bank Central Asia (BCA) and Bank Rakyat Indonesia (BRI) both located in Jakarta, Indonesia.

A new International Banking Department has been created and is operational and presently handles all inward and outward transactions. Trade related transactions such as Documentary Letters of Credit, Documentary Collections for pre-shipment and post-shipment export and import financing needs to be assessed and the staff effectively given "on the job" training in these international transactions.

11. Factors likely to affect achievement of targets and create significant financial risk for BNCTL or for the State of Timor-Leste.

Factors likely to impact achievement of national initiatives by GoTL

External factors that are likely to affect GoTL in 2017 are stated below. As far as internal factors are concerned the implementation policies, procedures and processes resulting from the cadastral plan, the successful resolution of the land ownership issues, legal contract enforcement and bankruptcy laws need to be resolved as a pre-request to new investment and loan expansion.

The reduced revenue from a fall in oil and gas prices will likely restrict GoTL in its plan to increase much needed infrastructure spending.

While the land law has been passed implementation of secured lending, issues relating to legal ownership, legal enforcement of contracts and the passing of the bankruptcy law and its implementation policies and procedures need to be in place to enable banks to provide increased lending for large amounts and longer maturities and have comfort knowing that the security from loss as a result of its lending activities will be minimized.

There has also to be certainty of payment without delay (progress and final payments) for contracts successfully done by contractors, so that banks can continue to provide funds to contractors to enable them execute their work or supply contracts.

As the number of persons who have access to banking services nationwide is still relatively small (but growing) for individuals and small and micro businesses, the potential for BNCTL to expand its loans, deposits and other services remains high especially considering the rapidly expanding and advancing technology and communications, also communications stability is still lagging behind the technological advancements in the manner in which banking products and services are provided.

Hence while the outlook for the global economy, trade and investment remains **uncertain it is unlikely to impact much on BNCTL's business focus and projected performance.**

A comparison of the 2017 performance of BNCTL and banks in Timor-Leste

Key Financial & Performance Ratios (%)	All banks 2017	BNCTL 2016	BNCTL 2017	2018 Budget	Actual 30 June 2018	Regional Benchmark
Capital Adequacy Ratio	6,68	33,24	28,42	24,14	29,32	>20%
Liquidity Ratio	78	51,6	37,75	54,73	55,57	30%
Return on Assets	1	1,74	2,8	1,26	1,64	4%
Return on Equity	23	7,52	11,97	5,78	6,68	15%
Loan/Total Assets	19	45,52	37,75	54,73	53,91	60%
Loan/Deposit	23	62,21	84,44	48,02	76,92	80-90%
Cost to Income	53	72,99	66,69	82,47	64,18	<60%
Other Income/Total Income	43	25,03	18,65	18,43	11,82	20%
NPL/Total loans	(17)	-0,11	0,46	-0,74	-1,15	<5%
Employee cost/total costs	N/A	48	46,29	38,51	58,38	35%
Wair on loans (weighted)	N/A	12,98	11			Varies
Wair on deposits (weighted)	N/A	0,25	0,5			Varies
Net Interest Margin	N/A	12,73	10,5			4-6%

Table 20- Key Financial & Performance Ratios for BNCTL & banks in RDTL as at 31st Dec 2016 & 2017

It can be seen from the above comparisons that BNCTL is the only bank that is continuing to perform its intermediation function effectively- especially with regard to utilizing depositor funds in loan disbursements, while some of the others are gathering deposits from Timorese residents and placing these funds overseas for the benefit of their parent organisations and locations with only a fraction of such deposits being on lent to businesses in Timor-Leste (see Loan to Deposit Ratio comparisons).

One of the banks has also continued to be plagued with NPL's resulting with very small loan growth. The ROE of other banks shows a high number because they do not have much capital in Timor-Leste, and being branches of foreign banks their capital is consolidated at their head offices overseas. This ratio for other banks in Timor-Leste is therefore not **comparable to the "real" ROE for BNCTL**.

BNCTL's Cost to Income is higher because it has branches and sub branches in municipalities, conducts Mobile Vehicle Banking operations in rural areas not represented by other banks.

12. Human Resources (HR) Strategies and Industrial Relations Strategies

- a) Identify the gap and weakness in HR in BNCTL in relation with the bank expansion and future needs in terms of knowledge and right number of staff. The

initiatives detailed in the Transformation Program will require the bank to strengthen existing weaknesses in terms of adopting to changes in the nature of the banking business, its strategy and the changes in technology that is driving changes in the way banks deliver products and services. Staff need to be equipped with the skills to deal with the advancing technology and required skills. As Timor Leste inches its way towards joining ASEAN, it is also essential that all **of the bank's staff from top down also are fluent** in the common ASEAN language- English.

- b) In this regard only staff from International Banking division who attended English courses. From January – December 2017, there were 7 training courses focused on Information Technology, Credit, Risk Management and Compliance and Internal Audit. There was also banking system training as result of the banking **system's transformation**.
- c) Continue to update and develop the training need analysis that is consistent with the needs arising from the initiatives of the Transformation Program. Undertake training in all key banking areas with focus on practical hands-on training, in-house technical training and study visit to reputable banks overseas- mostly in Indonesia. Entry level and basic training will be conducted within the country by visiting training experts, while training and short on the job secondments for senior staff, management and Board members will continue to be done through the training programs provided by the LPPI (Banking Institute of Indonesia), Infobank also through already established connections with BRI and BCA. The training plan for 2018/2019 covers 4 key areas. They are language (English and Portuguese), technology, soft skills and hard skills and Leadership Program for Managers. Hard Skills include BCTL Supervisory, Internal Control, Compliance, Risk Management, Internal audit, Client relationship, Marketing, Banking Contracts, Bank Guarantees, Notary and Registry, Taxation of banking products and services, Credit Risk analysis, Labour law.
- d) Implementation of KPIs and Performance Based Remuneration to all categories of management and staff according to best practices for the banking sector will

be implemented as this issue has been discussed and agreed by the BOD. In future remuneration will be based on a pre-**determined set of KPI's and** Performance Measures for all categories of staff including management. This system will be transparent, fair and open and implemented without exception. Blink prepared the KPI based on performance evaluation. HRD will socialize new performance evaluation based on the KPI. There is two will be focused on performance evaluation: the competencies and target of goal each division/branch.

- e) Recruitment of staff – good educational qualifications, experience and integrity and strong determination and a gender balance. BNCTL aims to get the best quality of graduates. Bright students will be identified during their last high school and university/ academy year in collaboration with the educational institutions as is the practice widely used in recruiting the best quality students and graduates in other countries. BNCTL has always ensured that there is equal opportunity to both genders. Total employees were 287 in 2017 (expected to be 300 in 2018). In 2018/2019 BNCTL plans to recruit 13 staff including (Assistant Commercial, Compliance Officer, National Treasury Officer, HR Development Officer, Account Manager).
- f) The bank will continue to improve and strengthen employment contracts including terms and conditions, benefits that are transparent, fair and in accordance with the legal and regulatory requirements, comparable with the banking industry and
- g) **in compliance with the bank's internal regulations, that will be reviewed and** updated regularly. Staff annual reviews will be modified to ensure that staff and management are adjudged fairly and that there is no discrimination or favouritism what so ever. An appeal system will be implemented.
- h) Better compensation and recognition of performance will continue to be evaluated reviewed and amended at least annually **to ensure that BNCTL's staff** are not disadvantaged compared to their peers in other banks in Timor-Leste.

Promotions and transfers will be done based on merit, needs and taking into consideration staff family situations- especially when transfers are contemplated to another branches/ Head Office.

- i) **The bank's policy relating to its staff and management is based on the principle of being "firm but fair" this involves the use of the "stick and carrot" strategy** whereby serious faults, errors, fraud are treated accordance with the seriousness of the offense. Fraud, breach of confidentiality, collusion, theft would be regarded as serious offenses warranting dismissal and or prosecution. Likewise good deeds and performance in excess of allocated duties and responsibilities will be noted in staff files and taken into consideration during annual reviews of staff. The staff annual review form will be redesigned to include staff signing the form after review and agreement in order to outlaw favouritism or discrimination.

- j) In October 2017, BNCTL hired Blink Consulting for 6 months to undertake competency framework & assessment, performance management, career management, training and employee development program, and compensation and benefits. It included re-structure the Human Resources Division to two (2) Departments: HR Administration and HR Development; Division IT to three (3) departments.

13. Relationship with stakeholders and the strategies for managing these relationships

- a) The bank recognises the importance of building and continues to maintain excellent relationships with all stakeholders such as the Government Ministries, Shareholder Representatives, Parliament, BCTL, Business Associations and **other regulators and the bank's customers.**

- b) This relationship is built and maintained through the regularly updating and **providing information about the bank's current news, policies, products, services,** initiatives, annual report and financial results on its official websites. In addition, the bank will continue to meet on a regular basis with the shareholder representatives to discuss performance, strategies and plans.
- c) The bank also plans continue to introduce face to face strategies such as dialogues, field trips to maintain relationships through having regular meetings with industry leaders, trade groups, customer segments and conducting research surveys to determine the requirements of the various stakeholder groups.
- d) Build strategies to meet demands for changes and better services to all stakeholders that include the provision of enhanced and new products and services (including branchless banking delivery products) and pricing. Currently interest rates are relatively high because lending is virtually unsecured. However, as the land law, bankruptcy law, certainty of land, building titles and ownership is determined, mortgagee rights, and contract enforcement is implemented with the required laws, regulations, policies, procedures and processes it will enable the bank to provide fully secured, longer term, and higher value lending which would reduce interest rates for all categories of customers quite substantially.
- e) **Regularly updating of the key stakeholders of BNCTL's development, progress, new products and services, financial performance and important news through the bank's website and also important information through customers mobile devices.**
- f) **The Transformation Program that is driving the bank's short, medium and long-term strategies and direction is providing robust promotion efforts through various approaches such as direct person to person marketing through mobile devices, media (TV and Newspapers) and regular press conferences and briefings of**

- g) progress, products and services to Municipality heads and sub heads throughout the country.

14. Affirmation from the Governing Board

- a) The conduct of the bank continues strictly adheres and follows the laws, **regulator's regulations and internal** policies, limits and guidelines.
- b) The bank uses International Accounting Standards as required and embraces best practices in bank operations.
- c) Immediately addresses any issues as raised by regulators and audit by undertaking measures to correct, mitigate and prevention.
- d) Zero tolerance of misconduct including frauds.
- e) **BNCTL financial report has been given "unqualified" opinion for** the past 5 years in the row by the external auditors.
- f) Professional and timely intervention of Audit Committee and internal audit.

15. Approval of the audit report of 2017 & Accounting Principles used

The BOD reviewed the results of the External Auditors report on the Financial Performance of BNCTL, including the use of International Accounting Standards as required by BCTL. Issues and recommendations for improvement recommended by the external auditors were accepted and an implementation plan for addressing these issues has been put in place. Some items have already been completed while others are expected to be completed shortly.

16. 2017 Audit Report from External Audit

The External Auditors, Syarief Basir & Rekan (associated with the international audit firm Russell Bedford) completed their 2017 audit of BNCTL and issued their report at the end of July 2018 and provided the following opinion:

"In our opinion, the financial statements present fairly, in all material respects, the financial performance of Banco Nacional de Comercio de Timor-Leste as of 31st December 2017, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards"

BNCTL has received an "unqualified opinion" from the external auditors for the past 5 years in a row.

The key audited results are shown and discussed in section 11 above.

The auditors highlighted 5 “high” and 5 “moderate” findings that required Board and Management attention. Of these all 5 “high” items are in the process of being resolved and expected to be completed by end of October 2018. While 4 out of 5 “moderate” items have been resolved and 1 to be completed by end October 2018.

The final audited detailed copy of the external auditors Income Statement and Balance Sheet for 2016 and 2017 are attached as Annexe 2.

17. Composition of Governing Board and Management

There have been no changes to the Governing Board or its Committees (Risk Management Committee, Audit Committee) during 2017. The shareholder temporarily appointed a fully Executive Board of Directors in order to strengthen and support the management while the bank is in development mode and to ensure that BNCTL takes advantage of the opportunities arising from impending passing of the long-awaited Land Law, Bankruptcy Law, Legal Contract Enforcement, ownership certainty and other associated regulations. It is the plan of the shareholder to revert to a BOD that consists of some independent directors in order to effective independence and proper oversight and non-interference with management functions in accordance with universally accepted banking practice.

The composition of the Governing Board (Executive Directors), Committees and the management team as at 2017 is shown in the attached organisational and functional structure diagram.

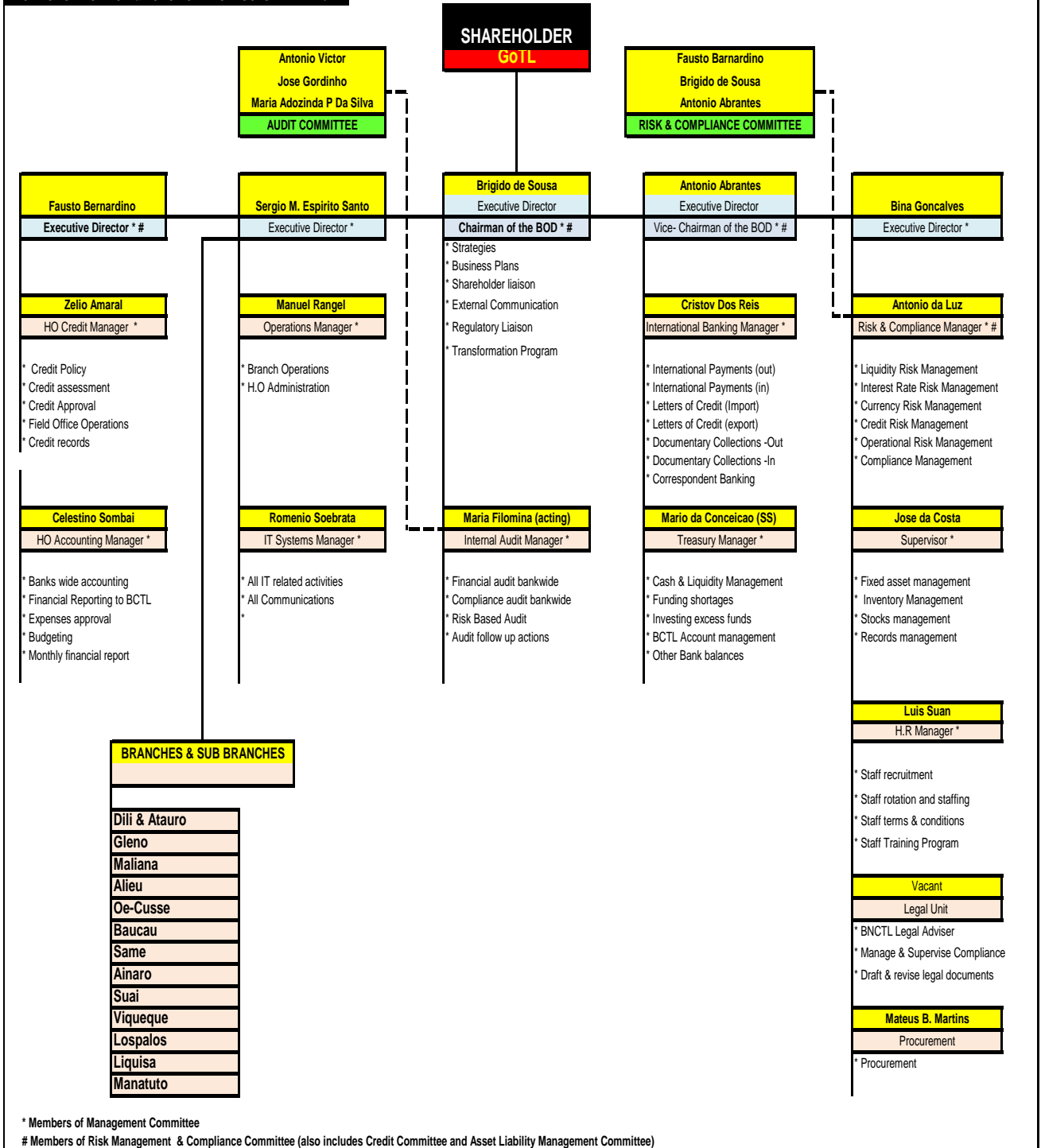
BNCTL ORGANISATION & FUNCTIONAL STRUCTURE-END 2017


Table 21-Governing Board and Management Organisational & Functional Structure

18. Summary of Key Current Financial Position as at 30th June 2018

Account Titles	Consolidated
Assets	Amounts
Liquid funds	60.617.083
Loan, advances & discounts	80.387.924
Current Loan	79.168.852
Past Due Loans	2.094.094
Provision for loan losses	(875.022)
Account Receivable	2.762.434
Fixed Assets	4.607.471
Reserve for depreciation	(4.144.522)
Other Assets	748.391
Miscellaneous Assets	450.556
Total Assets	149.123.303

Table 22- Key Assets as at 30th June 2018

Account Titles	Consolidated
Liabilities	Amounts
DEPOSITS	104.507.909
Demand deposits	27.982.741
Time deposits	23.380.766
Passbook savings	53.144.402
Other liabilities	4.321.088
CAPITAL ACCOUNTS	40.054.320
Provisioning	1.701.956
Capital paid up & assigned	25.020.160
Capital reserve	1.579.770
Profit & losses	11.752.434
Previous financial year	9.159.313
Current financial year	2.593.122
Total Liabilities & Capital Accounts	149.123.303

Table 23- Key Liabilities, Capital Account & Net Profit as at 30th June 2018

Account Titles	Consolidated
Income	Amounts
Interest income	5.942.246
Loan fee income	166.124
Non interest income	865.594
Extra-ordinary income	510.000
Total Operating Income	7.317.841

Table 24- Key Operating Income as at 30th June 2018

Account Titles	Consolidated
Expense	Amounts
Interest expense	465.570
Interest on expense on other borrowing (inter branch)	171.665
Non interest expense	10.247
Operating expense	3.712.798
Salaries and employees benefits	1.417.621
Administrative expenses	535.844
Remuneration of BOD	214.361
Other administrative expenses	321.482
Advertysing and public relations	14.225
Audit legal & profesional fees	170.521
Rents paid	103.189
Depreciation and amortization	639.696
Provision	253.833
Other operating expense	565.502
Extra-ordinary expense	510.000
Total operating expense	4.696.614
Net income (loss) before tax	2.621.226
Provision for income tax	28.105
Net income (loss) after tax	2.593.122

Table 25- Key Operating Expenses & After Tax Profit as at 30th June 2018

Key Financial & Performance Ratios (%)	All banks 2017	BNCTL 2016	BNCTL 2017	2018 Budget	Actual 30 June 2018	Regional Benchmark
Capital Adequacy Ratio	6,68	33,24	28,42	24,14	29,32	>20%
Liquidity Ratio	78	51,6	37,75	54,73	55,57	30%
Return on Assets	1	1,74	2,8	1,26	1,64	4%
Return on Equity	23	7,52	11,97	5,78	6,68	15%
Loan/Total Assets	19	45,52	37,75	54,73	53,91	60%
Loan/Deposit	23	62,21	84,44	48,02	76,92	80-90%
Cost to Income	53	72,99	66,69	82,47	64,18	<60%
Other Income/Total Income	43	25,03	18,65	18,43	11,82	20%
NPL/Total loans	(17)	-0,11	0,46	-0,74	-1,15	<5%
Employee cost/total costs	N/A	48	46,29	38,51	58,38	35%
Wair on loans (weighted)	N/A	12,98	11			Varies
Wair on deposits (weighted)	N/A	0,25	0,5			Varies
Net Interest Margin	N/A	12,73	10,5			4-6%

Table 26- Key Financial & Performance Ratios as at 30th June 2018, Budget 2018, 2017 and comparisons with other banks in RDTL as at 2017

19. Annexes

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
ASSETS :							
LIQUID FUNDS	62,980,301	68,225,946	(7.69)	68,568,325	-8.15	\$ 107,918,880	71.35
Cash in Vault/ on hand	11,929,710	18,517,745	(35.58)	23,322,051	-48.85	\$ 15,284,947	28.13
Cash in ATM Vault	1,177,265					\$ 1,455,712	23.65
Due from Banco Central	28,429,041	16,082,623	76.77	15,093,054	88.36	\$ 39,798,474	39.99
Items in course of collection	3,370	112,293	(97.00)	-		\$ 4,381	30.00
Due from Commercial Banks	21,440,915	33,513,285	(36.02)	30,153,220	-28.89	\$ 51,375,365	139.61
Domestic Currency	20,502,550	32,620,854	(37.15)	29,319,389	-30.07	\$ 50,191,153	144.80
Foreign Currency (IDR)	938,365	892,431	5.15	833,830	12.54	\$ 1,184,212	26.20
INVESTMENT							
LOAN,ADVANCES & DISCOUNTS	96,437,411	80,277,274	20.13	60,441,721	59.55	\$ 73,168,090	(24.13)
CURRENT LOAN	96,134,509	80,277,168	19.75	60,421,900	59.11	\$ 72,888,870	(24.18)
Market Vendor Daily Loans	-	83	(100.00)	167	-100.00		
Seasonal Crop Loans	1,038,857	1,766,587	(41.19)	1,008,174	3.04	\$ 1,329,372	27.96
Other business Loans	9,202,039	12,552,085	(26.69)	8,110,900	13.45	\$ 10,390,305	12.91
Project Loan	31,234,798	18,288,224	70.79	18,023,061	73.30	\$ 20,107,985	(35.62)
Investment Loans	1,672,582	5,634,685	(70.32)	1,299,516	28.71	\$ 2,516,644	50.46
Investment							
Microfinance Group Loans (Direct)	163,301	1,116,044	(85.37)	327,067	-50.07	\$ 369,642	126.36
Payroll Loans	50,687,874	40,919,460	23.87	30,062,328	68.61	\$ 35,905,389	(29.16)
Loans to Employee and Staff	2,135,058	-		1,590,687	34.22	\$ 2,269,534	6.30
PAST DUE LOANS	448,120	31,193	1,336.61	64,001	600.17	\$ 540,015	20.51
Past Due Market Vendor Daily Loans	3,549	403	780.69	1,772	100.30	\$ 403	(88.65)
Past Due Seasonal Crop Loans	30,478	14,690	107.48	19,397	57.13	\$ 25,387	(16.71)
Past Due Business Loans	155,759	4,206	3,603.25	11,628	1239.46	\$ 44,686	(71.31)
Past Due Project Loans	5,000	-				\$ 307,791	6,055.82
Past Due Investment Loans	25,738	-				\$ 35,974	39.77
Past Due Microfinance Group Loans	71,392	8,519	738.04	12,787	458.32	\$ 39,020	(45.34)
Past Due Payroll Loans	130,487	-		7,856	1561.08	\$ 82,769	(36.57)
Past Due Loans to Employee & Staff	25,717	3,375	661.98	10,561	143.50	\$ 3,985	(84.50)
PROVISION FOR LOAN LOSSES	(145,218)	(31,087)	367.13	(44,180)	228.69	\$ (260,795)	79.59
Business Enterprises	(88,806)	(16,255)	446.33	(23,267)	281.68	\$ (214,731)	141.80
Others	(56,412)	(14,832)	280.34	(20,913)	169.74	\$ (46,064)	(18.34)
ACCOUNTS RECEIVABLE	1,651,025	237,081	596.40	259,253	536.84	\$ 2,085,459	26.31
Interest Accrued	1,601,365	232,081	590.00	185,519	763.18	\$ 2,012,371	25.67
Other Receivable	49,660	5,000	893.20	73,735	-32.65	\$ 73,088	47.18
FIXED ASSETS	5,021,909	8,532,988	(41.15)	1,715,865	192.68	\$ 13,088,936	160.64
Offices							
Office Under Construction	186,952	4,455,593	(95.80)	42,852	336.27	\$ 6,470,000	3,360.77
Leasehold Improvements	191,074	270,082	(29.25)	267,936	-28.69	\$ 702,376	267.59
Furniture and Fixtures	507,882	507,663	0.04	445,282	14.06	\$ 647,961	27.58
Machinery and Equipment	2,736,388	2,720,965	0.57	1,938,660	41.15	\$ 3,248,891	18.73
Vehicles	1,853,933	2,032,169	(8.77)	1,475,133	25.68	\$ 2,347,603	26.63
Non Physical Assets	3,077,974	2,297,383	33.98	239,698	1184.10	\$ 3,739,670	21.50
RESERVE FOR DEPRECIATION	(3,532,295)	(3,750,867)	(5.83)	(2,693,696)	31.13	\$ (4,067,565)	15.15
Accum.Depr.Furniture & Fixture	(465,573)	(427,565)	8.89	(420,593)	10.69	\$ (539,359)	15.85
Accum.Depr.Machinery & Equipment	(1,543,210)	(1,454,967)	6.06	(1,070,557)	44.15	\$ (1,792,535)	16.16
Accum.Depr. Vehicles	(1,265,711)	(1,218,335)	3.89	(1,022,332)	23.81	\$ (1,439,200)	13.71
Accum.Depr. Non-Physical Assets	(257,801)	(650,000)	(60.34)	(180,215)	43.05	\$ (296,471)	15.00
OTHER ASSETS	487,483	854,972	(42.98)	1,891,006	-74.22	\$ 900,217	84.67
Prepaid Expenses	83,500	150,000	(44.33)	24,378	242.52	\$ 578,000	592.22
Inter branch - Net	109,065			0			(100.00)
Office Accounts	196,433	171,111	14.80	183,781	6.88	\$ 241,953	23.17
Petty Cash Fund	-					\$ -	
Stationery and Office Supplies	196,433	171,111	14.80	183,781	6.88	\$ 241,953	23.17
Shortages	-					\$ -	
Asset Held In Res. of Debt	-	67,600	(100.00)			\$ -	
Assets Held In Res. of Debt	-	67,600	(100.00)			\$ -	
Allowance for Probable Losses	-					\$ -	
Items in Suspense	-					\$ -	
Miscellaneous Assets	98,485	533,861	(81.55)	1,682,846	-94.15	\$ 80,264	(18.50)
Intangible Assets (Assets in Progress)	-			1,613,051	-100.00		
Other Assets-Deposit Payment Emp	98,485	533,861	(81.55)	69,795	41.11	\$ 80,264	(18.50)
Deferred Charges							
Total Assets :	166,578,129	158,195,861	5.30	132,876,169	25.36	\$ 197,161,582	18.36

Annex 1 (a) -Actuals 2016& 2017 against 2017 Budget and Budget for 2018- Balance Sheet-Assets

Account Titles	Audited 31-Dec-17	BUDGET 2017	Variation % 2017 Budget/Actual	Audited 31-Dec-16	Variation % Change 2016/2017	BUDGET 2018	
						Amounts	% Change 2017/2018
LIABILITIES:							
DEPOSITS	114,202,137	118,140,000	(3.33)	97,233,792	17.45	\$ 152,373,246	33.42
Demand Deposit:	23,101,322	36,700,000	(37.05)	28,031,736	-17.59	\$ 33,367,198	44.44
Financial Institutions	-	-		956,686	-100.00	\$ -	
Government	8,661,161	-		9,699,824	-10.71	\$ 13,347,133	54.10
Business Enterprises	14,405,489	-		7,692,174	87.27	\$ 19,982,643	38.72
Others	34,671	36,700,000	(99.91)	9,683,053	-99.64	\$ 37,422	7.93
Time Deposits (Others)	22,922,045	3,640,000	529.73	2,740,595	736.39	\$ 36,709,769	60.15
Other (Passbook Saving):	68,178,770	77,800,000	(12.37)	66,461,460	2.58	\$ 82,296,278	20.71
Financial Institutions	-			501,638	-100.00	\$ -	
Government	-			37,021	-100.00	\$ -	
Business Enterprises	-			191,727	-100.00	\$ -	
Others	-	76,000,000	(100.00)	46,456,239	-100.00	\$ 62,303,470	
Passbook Saving	47,528,109			13,288	357585		(100.00)
Pledge Saving	129,063			116,427	10.85	\$ 139,801	8.32
Saving Enderly	18,511,771			18,098,861	2.28	\$ 17,185,286	(7.17)
Deposito Hau Nia Futuru	2,009,827	1,800,000	11.66	1,046,260	92.10	\$ 2,667,721	32.73
Other Sundry Current Liabilities	14,831,787	2,742,926	440.73	3,090,850	379.86	\$ 3,019,632	(79.64)
Staff Expense	-	450,000	(100.00)			\$ -	
Income Tax	435,643	327,000	33.22	230,630	88.89	\$ 100,000	(77.05)
Other Tax	23,577	-		32,693	-27.88		(100.00)
Tax Payable	15,845	8,725	81.61			\$ 28,098	77.33
Interest Accrued	887	6,058	(85.37)	5,594	-84.15	\$ 1,279	44.29
Item in Suspense	10,199,965	751,143	1,257.93	566,529	1700.43	\$ 218,441	(97.86)
Restricted Deposit (Bank Garansi)	2,750,265	1,200,000	129.19	1,079,789	154.70	\$ 2,094,603	(23.84)
Unearned Interest (Loan Fee)	1,405,605	-		1,175,615	19.56	\$ 577,210	(58.94)
Other Liabilities/Inter Branch (HO-Branch)	-	-				\$ (0)	
Others/Overages	18,629	-				\$ -	(100.00)
CAPITAL ACCOUNTS :	37,525,577	37,312,935	0.57	32,551,527	15.28	\$ 41,768,704	11.31
Provisioning	1,991,776	1,393,294	42.95	1,212,287	64.30	\$ 2,768,762	39.01
Capital Paid-Up & Assigned	25,020,160	27,522,176	(9.09)	25,020,160	0.00	\$ 25,020,160	-
Capital Reserve/Reserva Legais	1,579,770	-				\$ 1,579,770	-
Profits / Losses	8,933,871	8,397,465	6.39	6,319,080	41.38	\$ 12,400,012	38.80
Previous Financial Year	4,739,310	5,201,844	(8.89)	4,151,187	14.17	\$ 10,109,006	113.30
Current Financial Year	4,194,560	3,195,621	31.26	2,167,893	93.49	\$ 2,291,006	(45.38)
Total Liabilities & Capital Accounts	166,578,129	158,195,861	5.30	132,876,169	25.36	\$ 197,161,582	18.36

Annex 1 (b) - Actuals 2016& 2017 against Budget and Budget for 2018 - Balance Sheet-Liabilities & Capital

INCOME :	Audited		% Change 2017	Audited	2016/17	BUDGET 2018	
	DEC.2017	2017 BUDGET	BUDGET/ACTUAL	DEC.2016	Actual % Chge	Numbers	% Change Over 2017
INTEREST INCOME	\$ 11,397,528	\$ 11,593,815	-1.69	\$ 7,848,017	45.23	12,493,531	9.62
Interest on Due from Banks	\$ 210,297	\$ 250,000	-15.88	\$ 158,033	33.07	300,000	42.66
Interest & Fees on Loans & Discounts	\$ 11,187,231	\$ 11,218,399	-0.28	\$ 7,689,983	45.48	12,182,677	8.90
Interest Income on Loans	\$ 9,552,382	\$ 8,414,588	13.52	\$ 6,800,208	40.47	11,563,334	21.05
Market Vendor Daily Loans	\$ 3,724	\$ 137	2618.45	\$ 274	1,261.01	0	(100.00)
Seasonal Crop Loans	\$ 161,733	\$ 220,275	-26.58	\$ 138,093	17.12	274,379	69.65
Other Business Loan	\$ 1,240,788	\$ 1,123,363	10.45	\$ 920,252	34.83	1,556,596	25.45
Microfinance Group Loans	\$ 69,082	\$ 111,394	-37.98	\$ 59,817	15.49	86,404	25.08
Payroll Loans	\$ 5,008,013	\$ 4,266,051	17.39	\$ 3,944,082	26.98	5,884,276	17.50
Employee and Staff Loans	\$ 124,013			\$ 129,630	(4.33)	145,731	17.51
Project Loan	\$ 2,764,136	\$ 2,238,910	23.46	\$ 1,446,379	91.11	3,393,844	22.78
Investment Loan	\$ 180,894	\$ 454,458	-60.20	\$ 161,683	11.88	222,103	22.78
Loan Fee Income	\$ 1,634,849	\$ 2,803,811	-41.69	\$ 889,775	83.74	619,343	(62.12)
Loan Fee Income Microfin Group	\$ 28,652	\$ 44,366	-35.42	\$ 26,745	7.13	22,576	(21.21)
Loan Fee Income Market Vendor	\$ 49	\$ 9	446.22	\$ 98	(49.60)	0	(100.00)
Loan Fee Income Seasonal Crop Loan	\$ 41,519	\$ 62,102	-33.14	\$ 36,807	12.80	39,796	(4.15)
Loan Fee Income Business Loan	\$ 74,167	\$ 375,729	-80.26	\$ 119,032	(37.69)	109,300	47.37
Loan Fee Income Payroll	\$ 795,465	\$ 1,202,510	-33.85	\$ 338,524	134.98	233,000	(70.71)
Loan Fee Income Employee and Staff Loans	\$ 7,474	\$ 12,480	-40.11	\$ 3,538	111.26	2,221	(70.28)
Loan Fee Income Project Loan	\$ 680,061	\$ 928,962	-26.79	\$ 356,449	90.79	180,750	(73.42)
Loan Fee Income Investment Loans	\$ 7,461	\$ 177,653	-95.80	\$ 8,582	(13.06)	31,700	324.86
Other Interest Income	\$ -	\$ 125,416	-100.00	\$ -		10,854	
NON INTEREST INCOME	\$ 2,613,406	\$ 1,629,678	60.36	\$ 1,431,974	82.50	3,053,030	16.82
Commission Income & Transaction Fees	\$ 763,639	\$ 729,268	4.71	\$ 675,183	13.10	965,316	26.41
Other Non Interest Income	\$ 1,849,766	\$ 744,317	148.52	\$ 756,791	144.42	2,087,714	12.86
Atm Fee	\$ 82,051	\$ 170,000	-51.73	\$ 32,728	150.71	116,914	42.49
Foreign Transfer Fees	\$ 14,048	\$ 7,500	87.31	\$ 3,196	339.51	16,257	15.72
Foreign Exchange Gains	\$ 41,297	\$ 14,500	184.81	\$ 10,216	304.25	47,733	15.58
Others	\$ 1,068,975			\$ 124,144	761.07	1,109,603	3.80
Fee From Government	\$ 149,924	\$ 260,000	-42.34	\$ 324,145	(53.75)	250,000	66.75
Fee From Bank Guarante & SI Fee	\$ 39,158	\$ 20,000	95.79	\$ 16,918	131.46	34,925	(10.81)
Urgent Fee & OTS Fee	\$ 454,312	\$ 272,317	66.83	\$ 245,444	85.10	512,282	12.76
EXTRAORDINARY INCOME	\$ -	\$ 1,020,000	-100.00			1,020,000	
Miscellaneous Income / Loss	\$ -	\$ 1,020,000	-100.00			1,020,000	
TOTAL OPERATING INCOME :	\$ 14,010,934	\$ 14,243,493	-1.63	\$ 9,279,991	50.98	16,566,562	18.24

Annex 1 (c) - Actuals 2016 & 2017 against Budget and Budget for 2018 - Income Statement- Income

EXPENSES :	Audited		% Change 2017 BUDGET/ACTUAL	Audited		BUDGET 2018	
	DEC.2017	2017 BUDGET		DEC.2016	2016/17 Actual % Change	Numbers	% Change Over 2017
INTEREST EXPENSE	\$ 293,642	\$ 232,304	26.40	\$ 231,833	26.66	494,708	68.47
Interest by Individual Deposits	\$ 293,642	\$ 232,304	26.40	\$ 227,544	29.05	494,184	68.30
Saving Deposits	\$ 251,022	\$ 205,121	22.38	\$ 205,121	22.38	312,868	24.64
Time Deposits	\$ 42,620	\$ 22,423	90.07	\$ 22,423	90.07	181,316	325.42
Interest on Legal Entities Deposits	\$ -	\$ 4,760	-100.00	\$ 4,290	(100.00)	-	-
Saving Deposits	\$ -	\$ -	-	\$ 4,290	(100.00)	-	-
Interest On Expense On Other Borrowing (Inter Branch)	\$ -	\$ -	-	\$ -	-	524	-
NON INTEREST EXPENSE	\$ 107,658	\$ 40,550	165.49	\$ 67,082	60.49	269,400	150.24
Foreign Exchanges Losses	\$ 26,566	\$ -	-	\$ 29,610	(10.28)	75,851	185.52
Commission Expense & Transaction Fees	\$ 55,896	\$ 40,550	37.84	\$ 37,471	49.17	23,549	(57.87)
Other Non Interest Expense	\$ 25,196	\$ -	-	\$ -	-	170,000	574.71
OPERATING EXPENSE	\$ 8,990,123	\$ 9,377,271	-4.13	\$ 6,381,020	40.89	11,878,424	32.13
Salaries and Employee Benefits	\$ 2,796,053	\$ 3,714,250	-24.72	\$ 2,960,699	(5.56)	3,344,686	19.62
Salaries and Wages	\$ 2,423,344	\$ 2,639,000	-8.17	\$ 2,276,627	6.44	2,786,846	15.00
Fringe Benefits - Employee	\$ 289,692	\$ 977,500	-70.36	\$ 684,072	(57.65)	456,470	57.57
Contribution to Retirement / Prov. Fun	\$ 83,017	\$ 97,750	-15.07	\$ -	-	101,370	22.11
Administrative Expenses	\$ 1,529,941	\$ 1,205,106	26.95	\$ 946,585	61.63	1,916,864	25.29
Remuneration of BOD	\$ 424,902	\$ 370,306	14.74	\$ -	-	488,637	15.00
Representation & entertainment BOD/AC	\$ -	\$ -	-	\$ -	-	30,000	-
Travelling Expenses BOD/AC	\$ -	\$ -	-	\$ -	-	85,000	-
OTHER ADMINISTRATIVE EXPENSE	\$ 1,105,039	\$ 834,800	32.37	\$ 946,585	16.74	1,313,227	18.84
Information Tech./Automation Expenses	\$ 158,145	\$ 150,000	5.43	\$ 70,525	124.24	237,495	50.18
Communication Expense	\$ 170,503	\$ 156,000	9.30	\$ 119,726	42.41	212,104	24.40
Power, Light and Water	\$ 61,765	\$ 68,500	-9.83	\$ 51,631	19.63	84,149	36.24
Fuel and Lubricants	\$ 51,822	\$ 63,900	-18.90	\$ 52,381	(1.07)	71,623	38.21
Traveling Expenses	\$ 107,037	\$ 123,800	-13.54	\$ 110,114	(2.79)	134,730	25.87
Stationery and Office Supplies	\$ 151,149	\$ 141,300	6.97	\$ 126,891	19.12	187,406	23.99
Representation and Entertainment	\$ 58,444	\$ 65,100	-10.22	\$ 58,049	0.68	81,959	40.24
Repairs and Maintenance	\$ 346,175	\$ 66,200	422.92	\$ 57,062	506.66	303,760	(12.25)
Fee For Board Meeting	\$ -	\$ -	-	\$ 300,206	(100.00)	-	-
Advertising and Public Relation	\$ 82,006	\$ 94,000	-12.76	\$ 74,489	10.09	223,306	172.31
Audit, Legal & Professional Fees	\$ 397,591	\$ 820,000	-51.51	\$ 227,360	74.87	1,734,000	336.13
Rents Paid	\$ 216,106	\$ 237,338	-8.95	\$ 85,053	154.09	486,819	125.27
Rent Paid	\$ 211,819	\$ 218,575	-3.09	\$ 77,012	175.05	471,858	122.76
Car Rents	\$ 4,287	\$ 18,763	-77.15	\$ 8,041	(46.68)	14,961	248.98
Expense on Premises and Fixed Assets	\$ 42,064	\$ 252,470	-83.34	\$ 47,522	(11.48)	227,915	441.82
Depreciation and Amortization	\$ 935,937	\$ 1,019,744	-8.22	\$ 631,385	48.24	1,187,166	26.84
Depr. Machinery & Equipment	\$ 472,653	\$ 373,644	26.50	\$ 177,862	165.74	579,058	22.51
Depr. Furniture & Fixture	\$ 45,031	\$ 59,800	-24.70	\$ 48,848	(7.81)	85,693	90.30
Depr. Vehicles	\$ 244,478	\$ 293,800	-16.79	\$ 246,168	(0.69)	288,526	18.02
Depr-Non Physical Assets	\$ 77,586	\$ 108,000	-28.16	\$ 81,253	(4.51)	108,826	40.27
Amort. Leasehold Right & Improvement	\$ 96,189	\$ 184,500	-47.86	\$ 77,254	24.51	125,062	30.02
Amort. Deferred Charges	\$ -	\$ -	-	\$ -	-	-	-
Provision	\$ 1,919,888	\$ 449,800	326.83	\$ 294,810	551.23	1,345,690	(29.91)
Provision for loans losses	\$ 1,919,888	\$ 449,800	326.83	\$ 294,810	551.23	1,345,690	(29.91)
Other Operating Expense	\$ 1,070,536	\$ 1,584,563	-32.44	\$ 1,113,117	(3.83)	1,477,362	38.00
Security, Janitorial & Messengerial Services	\$ 348,440	\$ 383,000	-9.02	\$ 356,200	(2.18)	402,398	15.49
Freight and Handling Expenses	\$ 181	\$ 10,000	-98.19	\$ 2,370	(92.36)	355	96.30
Taxes and Licenses	\$ 541	\$ 1,953	-72.30	\$ 497	8.85	2,009	271.26
Bad-Debts Written Off	\$ -	\$ 28,000	-100.00	\$ -	-	58,000	-
Health Expenses	\$ 24,843	\$ -	-	\$ -	-	36,000	44.91
Miscellaneous Expenses/Staff Uniform Exp	\$ 84,422	\$ -	-	\$ -	-	36,000	(57.36)
Miscellaneous Expenses/Over time	\$ 37,133	\$ 33,200	11.85	\$ 24,306	52.78	50,719	36.59
Miscellaneous Expenses/Cleanliness	\$ 43,445	\$ 94,750	-54.15	\$ 3,098	1,302.59	116,913	169.10
Miscellaneous Expenses/Kitchenette	\$ 73,713	\$ 59,650	23.58	\$ 51,910	42.00	98,584	33.74
Miscellaneous Expenses/Annual Leave	\$ 221,490	\$ 227,500	-2.64	\$ 183,940	20.41	268,768	21.35
Miscellaneous Expenses/Dokumentation	\$ 3,030	\$ 4,510	-32.82	\$ 3,167	(4.34)	4,350	43.58
Training Expenses	\$ 187,679	\$ 500,000	-62.46	\$ 410,446	(54.27)	375,000	99.81
Miscellaneous Expenses/Dead Contribution	\$ 6,206	\$ 12,000	-48.28	\$ 8,461	(26.65)	8,563	37.99
Miscellaneous Expenses/Others	\$ 39,412	\$ 230,000	-82.86	\$ 68,723	(42.65)	19,703	(50.01)
EXTRAORDINARY EXPENSE	\$ (47,718)	\$ 1,020,000	-104.68	\$ 93,101	(151.25)	1,020,000	(2,237.56)
Losses With disposal of Fixed Assets	\$ -	\$ -	-	\$ -	-	-	-
Other Extraordinary Expenses	\$ -	\$ 1,020,000	-100.00	\$ -	-	1,020,000	-
Actuarial (gain) Loss	\$ (47,718)	\$ -	-	\$ 93,101	(151.25)	-	(100.00)
TOTAL OPERATING EXPENSES :	\$ 9,343,705	\$ 10,670,125	-12.43	\$ 6,773,036	37.95	13,662,533	46.22
NET INCOME (LOSS) BEFORE TAX :	\$ 4,667,229	\$ 3,573,368	30.61	\$ 2,506,955	86.17	2,904,029	(37.78)
PROVISION FOR INCOME TAX :	\$ 472,669	\$ 377,748	25.13	\$ (271,461)	(274.12)	613,023	29.69
DEFERRED TAX INCOME (EXPENSE)	\$ -	\$ -	-	\$ (67,600)	-	-	-
NET INCOME (LOSS) AFTER TAX :	\$ 4,194,560	\$ 3,195,620	31.26	\$ 2,167,893	93.49	2,291,006	(45.38)

Annex 1 (d) - Actuals 2016 & 2017 against Budget and Budget for 2018 - Income Statement- Expenses & Net Profit

	Note	2017	2016
OPERATING INCOME			
Interest income	2m, 18	9,762,679	6,958,242
Interest expense	2m, 18	<u>293,641</u>	<u>231,833</u>
Net interest income		<u>9,469,038</u>	<u>6,726,409</u>
Fees and commission income	2n	1,634,849	889,775
Fees and commission expense	2n	<u>107,658</u>	<u>67,082</u>
Net fees and commission income		<u>1,527,191</u>	<u>822,693</u>
Other income		<u>2,613,406</u>	<u>1,431,974</u>
TOTAL OPERATING INCOME		<u>13,609,634</u>	<u>8,981,076</u>
OPERATING EXPENSE			
Net impairment loss on financial assets		1,919,888	294,810
Personnel expenses	19	2,796,053	2,960,699
General and administrative expenses	20	3,203,646	2,012,396
Other expenses	21	<u>1,070,536</u>	<u>1,113,117</u>
TOTAL OPERATING EXPENSE		<u>8,990,122</u>	<u>6,381,022</u>
PROFIT BEFORE INCOME TAX		4,619,512	2,600,054
Tax income (expense)			
Current	2k, 13c	(472,669)	(271,461)
Deferred	2k, 13d	-	(107,581)
Tax income (expense) – net		<u>(472,669)</u>	<u>(379,042)</u>
PROFIT FOR THE YEAR		<u>4,146,843</u>	<u>2,221,012</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			
Actuarial gain (loss)		47,718	(93,101)
Deferred		-	39,982
		<u>47,718</u>	<u>(53,119)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>4,194,561</u>	<u>2,167,893</u>

Annex2 (a) -External Auditors 2016 and 2017 Audited Statements- Consolidated Income Statement & P&L

	Note	2017	2016
ASSETS			
Cash	2a, 2c, 2d, 2f, 3, 4	13,106,975	23,322,051
Current accounts with Bank Central of Timor Leste	2a, 2c, 2d, 2f, 3, 5	28,429,041	15,093,054
Current accounts with other banks	2a, 2c, 2d, 2f, 3, 6	21,444,285	30,153,220
Loans receivable, net of allowance for impairment of losses of USD145,218 in 2017 and USD44,180 in 2016	2c, 2g, 3, 7	96,437,411	60,441,720
Other receivables	8	1,651,025	259,253
Property and equipment, net of accumulated depreciation of USD3,910,926 in 2017 and USD3,053,721 in 2016	2h, 9	2,014,783	1,613,529
Intangible asset, net of amortization of USD257,801 in 2017 and USD180,215 in 2016	10	2,820,173	59,483
Other assets	2i, 11	674,436	1,933,859
TOTAL ASSETS		<u>166,578,129</u>	<u>132,876,169</u>

Annex 2 (b) - External Auditors 2016 and 2017 Audited Statements- Consolidated Balance Sheet- Assets

	Note	2017	2016
LIABILITIES AND EQUITY			
Deposits from customer	2c, 2j, 3, 12	114,202,137	97,233,792
Taxes payable	2k, 13	475,065	263,322
Other liabilities	2c, 14	<u>14,375,350</u>	<u>2,827,527</u>
TOTAL LIABILITIES		<u>129,052,552</u>	<u>100,324,642</u>
EQUITY			
Share capital	16	25,020,160	25,020,160
Reserve	17	1,991,776	1,212,287
Retained earnings		<u>10,513,641</u>	<u>6,319,080</u>
TOTAL EQUITY		<u>37,525,577</u>	<u>32,551,527</u>
TOTAL LIABILITIES AND EQUITY		<u>166,578,129</u>	<u>132,876,169</u>

Annex 2 (c) - External Auditors 2016 and 2017 Audited Statements- Consolidated Balance Sheet- Liabilities & Capital.