

Autoridade Bancária e de Pagamentos de Timor-Leste
Banking and Payments Authority of Timor-Leste

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MEDIA RELEASE

Appointment of Global Custodian essential step for gaining higher returns from Petroleum Fund

Dili, 2 June 2008

The Banking & Payments Authority announced today that it had taken a major step forward in the operational management of the Petroleum Fund by signing a Global Custody Agreement with the Australian branch of JPMorgan to act as the global custodian for the Fund's assets.

The General Manager of the BPA, Mr Abraão de Vasconcelos, said, "We are delighted to have selected JPMorgan, which is one of the leading global banks with extensive experience in custody and related matters. Its Australian branch has over 75 custody clients and holds more than \$300 billion of assets on their behalf. Part of the agreement provides for BPA officials to undertake capacity building in financial markets drawing on JPMorgan's long experience. We are completely confident in JPMorgan's ability to provide a world-class standard of service to the Petroleum Fund." He added that the procurement process for the global custodian had been by international tender and had identified a number of other very strong candidates. "The Petroleum Fund's ranking as number three in the world and the highest in South-East Asia for transparency and accountability in a scorecard of sovereign wealth funds published by the Petersen Institute for International Economics in Washington has given the Fund a very high international profile," Mr de Vasconcelos said. "This allows us to approach the most reputable companies in the world when searching for custodians, external managers and other financial service providers."

Mr de Vasconcelos said that the agreement not only involved JPMorgan managing the custody of the Petroleum Fund's investments, but providing a wide range of related services. JPMorgan will receive and arrange the settlement of trading instructions from external managers, and will monitor their performance. This supports the future appointment of specialist external managers to manage portions of the Petroleum Fund, a necessary step to implement the government's intention to broaden the investment mandate of the Petroleum Fund to achieve higher long-term returns.

JPMorgan will also provide the BPA with investment performance and compliance services, as well as the Fund's financial accounting and reporting. This is the first

major step in the implementation of the BPA's strategy to form a team of finance professionals, including the global custodian and a number of external managers, to manage the assets of the Petroleum Fund. "Each member of the team will have a specific role to play," Mr de Vasconcelos said. "Within a few years the Fund will be supported by fixed interest and equities managers, each highly specialised in particular financial markets. While the players will be shooting for financial goals, the role of the custodian is more like a coach, watching the play from the side and helping the BPA as captain to make sure the team is playing its best game."

The total value of assets held by the Petroleum Fund is now \$2.9 billion. The return on the Fund for the year to 31 March 2008 was 9.1%. This represents an excellent result compared with the returns of other sovereign wealth funds, a number of which suffered losses or much reduced returns over the same period as a result of exposure to the US sub-prime crisis.

"It has been a particularly good year for holding highly rated government bonds," Mr de Vasconcelos said, "but it is important that we consider the long-term returns and objectives of the Fund and not focus on short-term results. This is why the government is studying ways to diversify the Fund's investment portfolio."

Mr de Vasconcelos added, "The appointment of JPMorgan as the global custodian is the foundation for these long-term developments. The appointment is essential so that the BPA can support the government's intention to develop a long-term investment strategy that reflects the needs of current and future generations of Timorese citizens."

TECHNICAL ANNEX

What is a Custodian?

A Custodian is a financial institution responsible for safeguarding a firm's or individual's financial assets. The role of a custodian in such a case would be the following: to hold in safekeeping assets such as equities and bonds, arrange settlement of any purchases and sales of such securities, collect information on and income from such assets (dividends in the case of equities and interest in the case of bonds), provide information on the underlying companies and their annual general meetings, manage cash transactions, perform foreign exchange transactions where required and provide regular reporting on all their activities, including external managers' compliance with their investment mandates, to their clients. Custodian banks are often referred to as **global custodians** if they hold assets for their clients in multiple jurisdictions around the world, using their own local branches or other local custodian banks in each market to hold accounts for their underlying clients. Assets held in such a manner are typically owned by pension and other investment funds.

About the Banking & Payments Authority of Timor-Leste

The Banking and Payments Authority of Timor-Leste is the future central bank of Timor-Leste and under the Petroleum Fund Law No 9/2005 has responsibility for the operational management of the Petroleum Fund of Timor-Leste.

The BPA is an autonomous public institution with legal responsibility for the regulation and supervision of the financial sector and the payments system. The BPA also acts as banker to the government, issues national coins in the form of Centavos, and monitors the economy.

More information on the BPA is available at www.bancocentral.tl

About JPMorgan Chase Bank NA

JPMorgan Chase Bank is a subsidiary of J.P. Morgan Chase & Co. (NYSE: JPM). JPMorgan Chase is a leading global financial services firm with assets of \$759 billion and operations in more than 50 countries. The firm is a leader in investment banking, asset management, private banking, private equity, custody and transaction services, and retail and middle market financial services. A component of the Dow Jones Industrial Average, JPMorgan Chase is headquartered in New York and serves more than 30 million consumer customers and the world's most prominent corporate, institutional and government clients. Information about JPMorgan Chase is available on the Internet at www.jpmorganchase.com

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