



INSTRUCTION N.º 36/2026

ON THE LICENSING AND SUPERVISION OF DEVELOPMENT FINANCIAL INSTITUTIONS

Whereas development financial institutions play an important role in the sustainable economic and social development of Timor-Leste, given their capacity to address market failures in access to finance and to provide medium- and long-term financing, guarantees, risk-sharing instruments and technical assistance to sectors considered strategic;

Whereas Law No. 10/2026 of 12 August, which approves the General Regime of the Financial System and Banking Activity, introduced for the first time into the national financial system the category of development financial institutions, defined in Article 5(6) as legal persons with exclusively public capital, established by decree-law, which, without taking deposits or other repayable funds from the public, carry out other financial activities for the purpose of promoting economic and social development in strategic sectors defined by the Government;

Whereas, under Article 57 of the Banking Law, development financial institutions are governed by their respective establishing legislation and, on a subsidiary basis, by the provisions of that law applicable to them, and are subject to the supervision of the Banco Central de Timor-Leste (BCTL) and to the regulations issued by it, which shall establish, among others, rules on prudential requirements and own funds, limits per borrower or counterparty, credit-granting procedures, integrated risk management and internal policies on risk, conduct and compliance;

Whereas, under Article 5(2) of the Banking Law, development financial institutions are a category of financial institution distinct from banks; under Article 5(3), banks are legal persons authorized to take deposits or other repayable funds from the public and apply them in credit or investments on their own account; under Article 7(1) of the Banking Law, banking activity consists of accepting deposits or other repayable funds from the public and carrying out credit operations on one's own account; and Article 8(1), that activity is reserved to entities licensed as banks by the Central Bank of Timor-Leste;

Whereas, under Article 5(6) of the Banking Law, development financial institutions carry out financial activities without taking deposits or other repayable funds from the public, and do so as financial institutions under Article 8(2) and Article 5(6) of that law and their respective establishing decree-law; the licence categories provided for in Articles 11 and 12 of that law, which apply to banks with an unrestricted or restricted licence, therefore do not apply to them, and under Article 57(1) and (2) of that law they are governed by their establishing decree-law and by the regulations issued by the BCTL, making it necessary to establish their own authorization requirements and procedure;

Whereas, under Article 288(2) of the Banking Law, the provisions concerning development financial institutions entered into force on the day following the publication of that law. It is therefore necessary to provide the financial system, without delay, with a dedicated regulatory framework enabling the licensing and commencement of operations of these institutions under conditions of safety, transparency and sound and prudent management;

Accordingly, the Governing Board of the Banco Central de Timor-Leste, pursuant to Articles 31 and 65 of Law No. 5/2011 of 15 June, and to Articles 57(2) and 282(1) of Law No. 10/2026 of 12 August, hereby resolves to approve the following Instruction:

CHAPTER I

GENERAL PROVISIONS

Article 1

Definitions

1. For the purposes of this Instruction, the following terms shall have the meanings set out below:
 - a) “Administrator” means the person defined as an “Administrator” under Article 2(1)(b) of the Banking Law;
 - b) "BCTL" means the Central Bank of Timor-Leste (Banco Central de Timor-Leste);
 - c) “Board of Directors” means the Management and Supervisory Board or the equivalent body provided for in the articles of association of the DFI, responsible for setting strategy and overseeing management;
 - d) “Executive Board” means the executive body or the equivalent body provided for in the articles of association of the DFI, responsible for the day-to-day management of the institution;
 - e) “Exposure” means any asset, off-balance-sheet item, guarantee issued, credit commitment or equity holding that exposes the DFI to the risk of loss arising from the default of a counterparty;
 - f) “Eligible State guarantee” means a guarantee issued by the State that is direct, explicit, irrevocable and unconditional, documented in writing and legally enforceable, and that covers the obligation of the counterparty towards the DFI, and meets the requirements set out in Article 18;
 - g) “DFI” means a development financial institution within the meaning of Article 5(6) of the Banking Law;
 - h) “IFRS” means the International Financial Reporting Standards issued by the International Accounting Standards Board, including the International Accounting Standards and the related interpretations;
 - i) “License” means the authorization granted by the BCTL for a DFI to operate and carry out the activities within its object, which does not confer the status of a bank;
 - j) “Spokesperson” means the individual officially designated and authorized in writing by the applicant to act as the official point of contact in communications with the BCTL regarding the licence application process.
 - k) "Banking Law" means the General Regime of the Financial System and Banking Activity, approved by Law No. 10/2026 of 12 August, as currently in force;

- 1) "Key function holder" means the holder of a position identified under Article 33 of the Banking Law, including those responsible for the compliance, internal audit and risk management functions, as well as the person responsible for the DFI's finance function;
2. Terms not defined in this instruction shall have the meaning assigned to them under the Banking Law, in particular article 2 thereof, and other applicable regulation and legislation.

Article 2

Purpose and Scope

1. This Instruction sets out the requirements for authorisation granting for starting the operations (licensing), organization, corporate governance, suitability of members of the corporate bodies, risk management, prudential requirements, reporting, conduct and supervision applicable to DFIs.
2. This Instruction applies to all DFIs established pursuant to Article 5(6) of the Banking Law, without prejudice to their respective establishing legislation and articles of association.
3. In all matters not specifically governed by the legislation establishing the DFI or by this Instruction, the provisions of Parts III, V, VI and IX of the Banking Law shall apply to DFIs, with the necessary adaptations and in accordance with Article 57 of the mentioned law, together with the BCTL regulations applicable to banks, to the extent that they are compatible with establishing legislation of the DFI and with this Instruction.
4. In the event of conflict, the establishing legislation of the DFI prevails, in accordance with Article 57(1) of the Banking Law.
5. Any legal and regulatory provisions relating to the taking of deposits or other repayable funds from the public and to the Deposit Guarantee Fund, as in force from time to time, shall not apply to DFIs.
6. The DFI pursues its public policy mandate in a financially sustainable manner and is subject to standards of sound and prudent management equivalent to those applicable to banks, in proportion to its nature, size, complexity and risk profile.

Article 3

Permitted activities

1. A DFI may carry out the financial activities falling within its object, in accordance with its establishing legislation and articles of association and within the limits of the license granted by the BCTL, namely:
 - a) Granting credit of any term and other forms of financing, including financial leasing;
 - b) Wholesale financing to banks and other financial institutions licensed by the BCTL;
 - c) Issuing guarantees and assuming other obligations on behalf of third parties, as well as participating in risk-sharing mechanisms;
 - d) Acquiring equity holdings in companies and investment funds, with a view to stimulating business investment;
 - e) Subscribing, acquiring and placing securities, and managing its liquidity reserves through treasury operations;
 - f) Managing autonomous funds and public financial instruments on behalf of the State or third parties;
 - g) Providing financial advisory and technical assistance services related to its object.

2. A DFI shall not carry out activities not expressly provided for in its license, and shall apply to the BCTL, in accordance with Article 12(5) of this Instruction, for the extension of its license to new activities.

Article 4

Sources of Funding

1. A DFI may raise financial resources through the following means:
 - a) Capital contributions and other allocations from the Shareholder;
 - b) Issuance of bonds, commercial paper and other debt instruments, on the terms and within the limits set out in the establishing legislation and in Article 7(2) of the Banking Law;
 - c) Loans, credit lines, guarantees and grants provided by foreign governments, bilateral development institutions and multilateral organizations;
 - d) Loans and credit facilities obtained from domestic or foreign banks and other financial institutions;
 - e) Other sources provided for in the establishing legislation, provided that they do not constitute the taking of deposits or other repayable funds from the public.
2. For the purposes of the paragraph e) of the previous number, the issuance of bonds and similar instruments under Article 7(2) of the Banking Law and funds obtained from the State from financial institutions or from development partners are not considered repayable funds from the public.
3. Financing agreements and the terms of debt issues entered into by the DFI shall be in writing and shall specify the amount, term, interest rate, fees, collateral and repayment conditions.
4. The DFI shall notify the BCTL, within 10 business days of its execution or approval, of any financing agreement or debt issue in an amount equal to or greater than 10% of its own funds.

Article 5

Prohibitions and Restrictions

1. No entity shall carry out the business of a DFI without a license granted by the BCTL under this Instruction.
2. A DFI is prohibited from:
 - a) Providing payment services for the public, carrying out foreign exchange operations for third parties or distributing insurance, unless the activity is ancillary to its object and has been authorized by the BCTL, without prejudice to the DFI's right to make and receive payments relating to its own operations, including disbursements, repayments and settlements with financial institutions, to participate for that purpose in the payment systems operated by the BCTL in accordance with their own rules, and carry out foreign exchange operations and grant credit in foreign currency relating to its own activity, within the limits on open foreign exchange positions set by the BCTL;
 - b) Granting credit in any form to members of its corporate bodies or to entities related to them, other than in the cases permitted under its establishing legislation and Article 70 of the Banking Law;
 - c) Directly or indirectly acquiring or financing the acquisition of shares representing its own capital;
 - d) Carrying out, on its own account, commercial, industrial or agricultural activities outside the scope of its object, without prejudice to the temporary holding of assets received in repayment of its own

credit, on the terms and within the time limits of Article 131 of the Banking Law, including the temporary operation, management and maintenance of such assets, and of businesses received in repayment until their disposal;

- e) Holding equity in companies included in the exclusion list of its environmental and social risk management policy, established in line with the exclusion lists of international development finance institutions.

CHAPTER II

ORGANISATION AND CORPORATE GOVERNANCE

SECTION I

CAPITAL AND GOVERNANCE STRUCTURE

Article 6

Corporate form and internal regulations

1. A DFI shall be established under the corporate form of a public limited liability company (sociedade anónima), with exclusively public capital under Article 5(6) of the Banking law, in accordance with the legislation applicable to commercial companies.
2. The provisions of the Commercial Companies Law, including the provisions of that law with respect to the organizational structure shall apply to the DFI to the extent that they are not inconsistent with its establishing Decree-Law, its Articles of Association, or this Instruction.
3. The Board of Directors of the DFI shall consist of a minimum of 3 (three) and a maximum of 7 (seven) members.
4. Without prejudice to the establishing legislation and the articles of association, the Board of Directors shall approve internal regulations setting out, at a minimum, the functioning of the corporate bodies and specialized committees, the organizational structure, the reporting lines and the limits on delegation of powers.

Article 7

Capital requirements

1. The minimum capital shall not be less than the minimum capital amount required under Article 10(2) of the Banking Law (USD 25,000,000), without prejudice to any higher amounts set in the DFI's establishing decree-law or articles of association.
2. The minimum capital of the DFI is the share capital set in its establishing decree-law or Articles of Association, fully subscribed by the shareholders.
3. The BCTL sets, in the preliminary approval decision, the minimum amount of paid-up capital required for the commencement of activity and, where the establishing legislation provides for the capital to be paid up in phases, approves the binding schedule for paying up the remainder.

4. The minimum capital referred to in paragraph 1 takes into account to the nature of the authorized activities, the DFI's risk profile and the fact that it does not take deposits from the public.
5. The provisions of the preceding paragraphs do not exempt the DFI from continuous compliance with the own funds requirements provided for in Article 16.
6. Whenever the DFI's own funds fall below the amount provided for in paragraph 1, the DFI shall immediately inform the BCTL and shall submit, within a period of 30 (thirty) days, a capital restoration plan approved by the Board of Directors and communicated to the shareholder, setting out the measures and the timeline, agreed with the BCTL, to restore capital to the required level.
7. Operating losses incurred during the first three years of activity that were projected in the business plan submitted under Article 13 and accepted by the BCTL in the licensing decision are addressed in accordance with that business plan and do not, by themselves, trigger the previous number, provided that the DFI complies at all times with the own funds requirements provided for in Article 16.

Article 8

Governance Structure

1. The composition, appointment and terms of office of the corporate bodies of the DFI are governed by its establishing legislation and articles of association and, where applicable, by Article 23 of the Banking Law.
2. The corporate governance framework of the DFI shall be governed by its establishing legislation and Articles of Association, Articles 93 to 97 of the Banking Law, and the BCTL regulations on corporate governance applicable to banks, to the extent applicable to the DFI, subject to the following specifications:
 - a) the composition of the Board of Directors and of the Executive Board, including the number of their members and the number of executive members, as well as the composition of the Audit Committee, are those set in the establishing decree-law and the articles of association;
 - b) members of the Government who sit on Board of Directors ex officio are not considered independent, the remaining members being independent in accordance with its articles of association;
 - c) the specialized committees are those provided for in the articles of association, with the composition set therein; the chair of the Audit Committee must have technical knowledge of accounting and auditing, and members of the Executive Board may not sit on the committees supporting the Board of Directors;
3. The DFI ensures a clear separation between the oversight functions of the Board of Directors and the management functions of the Executive Board.
4. Members of the Board of Directors who sit on it ex officio shall abstain from participating in the discussion and approval of individual credit, guarantee or investment operations involving entities placed under the oversight or influence of the services they head, and such abstention shall be recorded in the minutes.

SECTION II

SUITABILITY, REMUNERATION AND INTERNAL CONTROL

Article 9

Suitability of members of the corporate bodies and key function holders

1. The members of the corporate bodies of the DFI shall be approved by the BCTL before assuming office, in accordance with Article 25 of the Banking Law.
2. Pursuant to Article 25(11) of the Banking Law, the approval provided for in the preceding paragraph is also required for key function holders, including, at a minimum, the Chief Financial Officer and the heads of the compliance, risk management and internal audit functions.
3. All persons referred to in the preceding paragraphs shall meet requirements of good reputation, academic qualifications corresponding to a university degree awarded by a recognized higher education institution, appropriate qualifications and professional experience relevant to the functions to be performed, and availability, in accordance with Articles 23 to 33 of the Banking Law.
4. In assessing the fitness and propriety of an Administrator, the BCTL shall take into consideration, among other relevant factors, the nature, size, complexity and risk profile of the DFI, as well as the specific responsibilities associated with the position to be held.
5. With regard to members of the Government who sit ex officio on the Board of Directors of the DFI, the BCTL's assessment shall cover their good reputation, the absence of conflicts of interest and their availability to adequately perform their functions.
6. Upon a reasoned request, the BCTL may, applying the principle of proportionality set out in Article 23(5) of the Banking Law, accept alternative evidence of the academic qualifications or professional experience required, where this is compatible with the nature and responsibilities of the position. Requirements relating to good reputation, absence of conflicts of interest, availability and other requirements concerning the integrity of the holder of the position may not be dispensed with.
7. A decision under the preceding paragraph may be made conditional upon the implementation of appropriate compensatory measures, including, in particular:
 - a) the appointment of an experienced and appropriately qualified deputy;
 - b) the secondment or provision of qualified personnel by a partner institution;
 - c) the implementation of a specific training or capacity-building plan; or
 - d) any other measure considered appropriate by the BCTL to ensure the effective and prudent performance of the functions.
8. A decision under paragraph 6 may be granted for a specified period, and the BCTL shall determine, where applicable, its duration and conditions for its expiry or for the fulfilment of the outstanding requirements.
9. The DFI shall notify the BCTL, as soon as it becomes aware of it, of any subsequent fact or circumstance that may affect the good reputation, qualifications, professional experience, independence or availability of any Administrator or key function holder, and the procedures provided for under the Banking Law and applicable BCTL regulations shall apply.

Article 10

Remuneration

1. The remuneration policy of the DFI is approved in accordance with its establishing decree-law and articles of association and communicated to the BCTL before its application and whenever it is amended.
2. The remuneration of the members of the governing bodies and of the key function holders is set on a reasoned basis, according to the complexity, demands and responsibility inherent in their respective functions and having regard to market practice in the banking sector of Timor-Leste and in the region.
3. The remuneration of the independent members of the Board of Directors is fixed and may not include variable components, profit-sharing or bonuses.
4. The variable remuneration of the members of the Executive Board and of the key function holders may not depend on the volume of credit, guarantees or disbursements, and the performance criteria shall include portfolio quality, risk-related indications, financial results and their sustainability and fulfilment of the mandate.
5. During the first three years after final authorization, amendments to the remuneration policy shall be communicated in advance to the BCTL, which may object to them within 30 days.

Article 11

Internal control system

1. The DFI shall have an internal control system appropriate to the nature, size, and complexity of its activity in accordance with articles 85, 93, 94, and 96 of the Banking Law and applicable BCTL regulations, which shall include, at a minimum:
 - a) Segregation of duties between origination, approval, disbursement, accounting, and monitoring of operations, and application of the four-eyes principle;
 - b) Risk management, compliance, and internal audit functions that are permanent, independent from the business areas they control, and adequately resourced, with direct access to the Board of Directors;
 - c) A record-keeping system ensuring that all assets, liabilities, and transactions are accurately recorded and retained in accordance with Article 78 of the Banking Law and the applicable legislation;
 - d) Procedures for reporting any material transactions or events to the management body and, where material under the thresholds set by the DFI, for their prior approval by the Board of Directors;
 - e) Security measures for assets, information systems, and client data, as well as information backup and recovery procedures, proportionate to the scale and complexity of its operations and systems.
2. The risk management function shall have direct and unrestricted access to the management body and the risk committee, shall operate independently from the business areas, and shall not have commercial targets or responsibility for originating operations.
3. For the purposes of the previous number, the head of the risk management function issues a prior opinion on credit operations above the threshold set in the credit policy, which is recorded in the decision.

4. The compliance function shall ensure compliance with legal, regulatory, and internal rules, including those on the prevention of money laundering and terrorist financing (AML/CFT), and shall report directly to the Board of Directors or its Audit Committee.
5. Where justified by the nature, size and complexity of the DFI, the compliance function may be combined with the risk management function, provided that it retains direct access to the Board of Directors, neither function being combined with internal audit.
6. The internal audit function shall report directly to the audit committee, shall have unrestricted access to all areas, records, and personnel of the DFI, and shall submit its annual risk-based work plan to that committee for approval.

CHAPTER III

LICENSING

Article 12

License and its scope

1. The DFI may commence its activities only after obtaining a written approval (licence), from the BCTL in accordance with this Instruction.
2. The granting of a license to a DFI does not confer on the DFI the status of a bank and is not subject to the license categories provided for in Articles 11 and 12 of the Banking Law.
3. The license defines the financial activities that the DFI is permitted to carry out, from among those provided for in Article 5(6) of the Banking Law and in its establishing decree-law, and may not include the receipt of deposits from the public.
4. The DFI shall not carry out activities that are not covered by its license.
5. Any change to the scope of the license shall be subject to prior approval by the BCTL, and shall be consistent with the establishing legislation of the DFI.
6. The DFI shall disclose the scope of its license, shall display the license or a copy thereof in a visible place at its head office and at each of its establishments, and shall not use any designation liable to mislead the public as to the activities it is authorized to carry out, in accordance with Article 9(3) of the Banking Law.
7. The BCTL publishes on its website the scope of DFI license.
8. The grounds for refusal set out in Article 19 of the Banking Law shall apply to the refusal of a license application.
9. The BCTL may charge the following fees, as notified by the BCTL from time to time:
 - a) A license application fee: USD 100,000;
 - b) An initial licensing fee: USD 50,000; and
 - c) An annual licensing fee: USD 50,000.

Article 13

License Application and decision

1. An application for a license shall be submitted in writing to the BCTL, in one of the official

languages of Timor-Leste, by the Board of Directors of the DFI or, before its constitution, by the shareholder, and shall be signed by a person with powers to bind the applicant.

2. The applicant shall designate in writing a spokesperson to act on their behalf regarding the license application process.
3. The application is accompanied by the following documents:
 - a) the establishing decree-law and articles of association, and the shareholder resolution authorizing the application;
 - b) proof of subscription of the minimum capital, of the resolution on its paying-up and of the deposit, in a bank headquartered in Timor-Leste or at the BCTL, of the portion already paid up;
 - c) identification of the shareholder and of the members of the Government exercising its rights;
 - d) for each member of the Board of Directors, the chief executive officer and the chief financial officer appointed or proposed at the date of the application: curriculum vitae, fit-and-proper questionnaire, criminal record certificates, declarations of interests and, where applicable, a reasoned request under Article 9(6); for positions not yet filled at that date, a description of the selection procedure and, where applicable, the shortlist of candidates, the respective documents being submitted before the decision on preliminary approval;
 - e) the shareholder mandate or equivalent instrument, where adopted;
 - f) a three-year business plan, including the type of operations to be carried out, the geographical presence, the internal organization and the human, technical and material resources to be used, as well as a projected balance sheet, income statement and capital and liquidity positions under a baseline scenario and a stress scenario;
 - g) the organizational structure and a description of the governance, risk management, compliance and internal audit functions;
 - h) policies or policy frameworks on credit, risk appetite, liquidity and asset-liability management, prevention of money laundering and terrorist financing, conflicts of interest, related parties and remuneration;
 - i) a description of the information systems and the plan for their acquisition and implementation;
 - j) the intended premises and the terms of appointment of the external auditor.
4. The BCTL may request additional information and shall decide on preliminary approval within a maximum period of four months from receipt of the application, in accordance with Article 16(1) of the Banking Law.
5. The period provided for in the preceding paragraph is suspended during the period set by the BCTL for remedying insufficiencies or correcting deficiencies in the application file, in accordance with Article 14(6) of the Banking Law.
6. Without prejudice to the conditions provided for in Article 13 of the Banking Law, applicable with the necessary adaptations, the BCTL grants preliminary approval where it considers that:
 - a) the establishing decree-law and the articles of association are in force;
 - b) the minimum capital has been subscribed and there is a paying-up plan approved by the shareholder;
 - c) the members of the Board of Directors, the chief executive officer and the chief financial officer meet the requirements of Article 9 of this Instruction;

- d) the business plan is credible, consistent with the DFI's mandate and compliant with this Instruction;
 - e) the governance, risk management and internal control systems are adequate.
- 7. Preliminary approval lapses if the definitive license is not obtained within 12 months, which the BCTL may extend for an additional period of up to 12 months upon a reasoned request, in accordance with Article 16(3) of the Banking Law.
- 8. To obtain a definitive license, the applicant shall fulfil the following conditions within the period referred to in the previous paragraph:
 - a) the minimum capital provided for in Article 7 of this Instruction has been paid up in the amount required;
 - b) the members of the Executive Board and the key function holders have been approved under Article 9 of this Instruction;
 - c) the policies on credit, risk appetite, liquidity and asset-liability management, prevention of money laundering and terrorist financing, conflicts of interest, related parties, remuneration, outsourcing and business continuity have been adopted;
 - d) the information systems, including reporting through the Banking Supervision Application (BSA), are operational and integrate, as applicable to the licensed activities, with the CRIS (Credit Registry Information System), CRIGM (Central de Registo de Informações sobre Garantias Mobiliárias), and R-Timor system;
 - e) the DFI has premises suitable for carrying out its activity, whether owned or leased, and has appointed an external auditor;
 - f) an on-site inspection by the BCTL has been completed to verify compliance with the conditions set out in the preceding subparagraphs.
- 9. BCTL shall grant the definitive license once the conditions attached to the preliminary license have been fulfilled satisfactorily.
- 10. The DFI shall commence its activity after definitive license, without prejudice to the lapse provided for in Article 20 of the Banking Law.

Article 14

Revocation of a License

- 1. The BCTL may revoke the license on the grounds provided for in Article 21 of the Banking Law, applicable to DFIs with the necessary adaptations, where the conditions for license are no longer met or where the DFI repeatedly fails to comply with this Instruction.
- 2. Revocation does not entail the dissolution of the DFI, which requires a decree-law.
- 3. The BCTL shall immediately notify the shareholder of the revocation, and non-compliance is governed by the provisions of the Banking Law.

Article 15

Acts subject to authorization of BCTL

- 1. The acts listed in Article 42 of the Banking Law are subject to prior authorizations by the BCTL, with the necessary adaptations and within the time limits laid down therein, in particular any reduction of

capital, any merger, division or restructuring of the DFI, any material change to the business plan or to the activities carried out, and the acquisition of holdings conferring control of another company, except for holdings acquired in repayment of its own credit under Article 25(3), which are notified to the BCTL within 10 (ten) business days.

2. Draft amendments to the establishing decree-law or to the articles of association of the DFI are submitted to the BCTL for a prior opinion, to be issued within 30 (thirty) business days.
3. The opening of representative offices abroad and the outsourcing of functions material to the activity of the DFI are notified to the BCTL at least 30 (thirty) business days in advance, and the BCTL may object within that period.

CHAPTER IV

PRUDENTIAL REQUIREMENTS

Article 16

Own funds and capital ratios

1. The own funds of the DFI shall comprise the sum of the following items:
 - a) Paid-up share capital;
 - b) Capital reserve, legal reserve and other reserves constituted from retained earnings;
 - c) Retained earnings and profit for the financial year, where positive and certified by the external auditor and after the appropriation of results has been approved;
 - d) Additional Tier 1 and Tier 2 instruments meeting the eligibility requirements of the BCTL capital regulation applicable to banks, within the limits set therein.
2. The following items shall be deducted from the items referred to in the preceding paragraph:
 - a) Losses, whether carried forward or for the current financial year;
 - b) Intangible assets and deferred tax assets;
 - c) Holdings in financial institutions;
 - d) Any provisioning shortfall determined by the BCTL.
3. The own funds requirements, capital buffers, leverage ratio and internal capital adequacy assessment applicable to banks apply to the DFI with the calibration set by the BCTL for DFIs, in particular as regards the minimum ratio, buffers and risk weights, and in the absence of specific provisions, in line with the Basel Accords as defined in Article 2(1)(a) of the Banking Law, and with the following adaptations:
 - a) the minimum capital is that provided for in Article 7 of this Instruction is a condition of the license and does not replace the capital ratios, which apply at all times; the minimum capital amounts by license tier do not apply;
 - b) guarantees given by the DFI are converted using the credit conversion factor set by the BCTL by regulation or in the licensing decision or, pending such determination, the factor applicable to banks, taking into account the risk actually retained by the DFI after risk-sharing;
 - c) first-loss protection provided by the DFI is treated as a direct exposure to the underlying portfolio, up to the amount of the protection, except if the BCTL sets a different method;
 - d) exposures covered by an eligible State guarantee are weighted at 0% for the covered portion.

4. The DFI's internal capital adequacy assessment includes stress scenarios relating to the calling of guarantees, concentration and the loss of State support.

Article 17

Allocation of Profits

1. The allocation of the profits of the DFI is governed by its establishing legislation, and any positive results shall be retained in the DFI's equity.
2. The BCTL may require the constitution of additional reserves, pursuant to Article 124(2) of the Banking Law.

Article 18

Eligible State guarantee

A State guarantee is eligible for the purposes of this Instruction where:

- a) it is direct, explicit, irrevocable and unconditional;
- b) it is granted by or under a legislative act, within any limit set in the General State Budget law, and registered where so required;
- c) it can be called in a timely manner in the event of default, without the need to first proceed against the debtor;
- d) it clearly identifies the guaranteed obligations;
- e) the DFI holds a legal opinion confirming its enforceability.

Article 19

Bank exposures to DFIs

1. Bank exposures to a DFI, including debt securities issued by it, that benefit from an eligible State guarantee are weighted as exposures to the Government of Timor-Leste.
2. Other bank exposures to a DFI are weighted at 5%.

Article 20

Large exposures and concentration

1. This article establishes the specific limits per borrower or counterparty required by Article 57(2)(b) of the Banking Law.
2. The DFI sets, in its credit policy, limits on exposures to a counterparty or group of connected counterparties and on wholesale financing exposures to financial institutions authorized by the BCTL, calibrated according to the DFI's own funds, the risk actually retained after risk-sharing and the nature of the counterparty, approved by the Board of Directors and communicated to the BCTL, which may require their revision where they are not appropriate to the DFI's risk profile.
3. The following do not count towards the limits provided for in the preceding paragraphs:

- a) exposures to the Government of Timor-Leste and to the BCTL, as well as exposures to the extent that they are covered by an eligible State guarantee;
 - b) exposures to multilateral development banks recognized by the BCTL;
 - c) the portion of the exposure effectively transferred to a co-financier or to a guarantor that is an eligible credit protection provider.
- 4. The limits applicable to wholesale financing exposures to financial institutions authorized by the BCTL take into account that the funds are on-lent to final beneficiaries and may therefore be higher than those applicable to direct exposures, provided that:
 - a) the exposure is approved by the Board of Directors;
 - b) the counterparty complies with the BCTL's prudential requirements;
 - c) disbursement is made in tranches linked to actual on-lending;
 - d) the BCTL is notified before the first disbursement.
- 5. The DFI sets concentration limits by sector, product and geographical area in its risk appetite framework, approved by the Board of Directors and communicated to the BCTL.
- 6. New exposures and increases of existing exposures above the approval threshold set in the credit policy, including those referred to in paragraphs 3 and 4, require the prior approval of the Board of Directors and all exposures above that threshold are reported monthly to the BCTL as part of the periodic prudential reporting.

Article 21

Related parties and State-related exposures

- 1. The DFI identifies and records its related parties and its exposures to them, which are granted on market terms or, where they result from the DFI's public policy mandate, on the terms set therein, provided that any subsidy element is covered by a budget appropriation.
- 2. Exposures to the State, public enterprises and other State-controlled entities, as well as to entities connected to the members of the Government designated in the establishing decree-law or to members of the DFI's governing bodies, are monitored as a separate category, approved by the Board of Directors without the participation of conflicted members, granted on market terms, subject to the aggregate limit set in the credit policy and reported quarterly to the BCTL.
- 3. Exposures covered by an eligible State guarantee are excluded from the limit provided for in the preceding paragraph, but are reported.
- 4. Exposures to public enterprises and other State-controlled entities that are not controlled by members of the DFI's governing bodies, and do not result from financing for budgetary or operational purposes, are not subject to the limits applicable to related-party exposures and follow the general limits set in the credit policy, without prejudice to the recording, approval by the Board of Directors and reporting provided for in paragraph 2.

Article 22

Liquidity and funding risk

- 1. The DFI has a liquidity and funding risk management system that includes an asset-liability management committee, a contingency funding plan, stress testing and the calculation and reporting of

the liquidity coverage ratio and the net stable funding ratio, in compliance with the minimum levels set by the BCTL for DFIs.

2. In addition, the DFI holds high-quality liquid assets sufficient to cover net cash outflows over the period set by the BCTL under a stress scenario that includes the maturity of funding obtained, undrawn committed lines and the expected calling of guarantees.
3. For the purposes of the previous paragraph, reserves held with the BCTL and debt securities issued or guaranteed by sovereigns or multilateral development banks with a 0% risk weight qualify as high-quality liquid assets.
4. The DFI's short-term liabilities may not exceed 20% of its medium- and long-term liabilities, in accordance with the establishing decree-law, short-term liabilities being those with a residual maturity of up to one year.
5. The DFI sets and monitors funding concentration limits by source and by maturity.

Article 23

Credit risk management and credit granting

1. The DFI has a credit policy and a credit-granting process covering the analysis, decision, documentation, disbursement, monitoring and recovery of exposures, approved by the Board of Directors and communicated to the BCTL.
2. The DFI's credit policy further establishes:
 - a) eligibility, additionality and pricing criteria consistent with the mandate of the DFI set out in its establishing legislation and business plan, identifying priority sectors and segments by reference to the Strategic Development Plan in force;
 - b) in wholesale financing, the analysis of the intermediary, the monitoring of the use of funds and of the eligibility of final borrowers and the reporting of sub-portfolios, with the credit process maintained at the intermediary level;
 - c) in guarantee products, the coverage, pricing, reserves and a calling procedure under which payment depends solely on the documentary conditions set on the date the guarantee is given;
 - d) the management of environmental and social risks in project and infrastructure financing, in accordance with recognized international standards.

Article 24

Classification and provisioning

1. The DFI classifies its exposures and constitutes the respective provisions and reserves in accordance with IFRS 9, applying a definition of default consistent with international and complying with the BCTL regulation on credit classification.
2. For the purposes of the previous number, where the provisions required under that regulation exceed the loss allowance recognized under IFRS 9, the difference is constituted as regulatory reserve, with the specifications set out in this article.
3. Contractual grace periods and seasonal repayment schedules do not constitute default.

4. Portfolio restructurings approved by the Board of Directors and communicated in advance to the BCTL do not count towards the limit on restructurings of a single credit, provided they are not used to avoid classifying exposures as impaired.

Article 25

Equity participations

1. Where the DFI provides for the acquisition of equity participations in its investment policy, approved by the Board of Directors and communicated to the BCTL, participations in companies and investment funds acquired as part of its development activity are subject to the limits set in that policy.
2. Participations in financial institutions are permitted where provided for in the establishing decree-law and the articles of association, and are deducted from own funds in accordance with Article 16(2).
3. Participations and other assets acquired in the course of credit recovery are held temporarily in accordance with Article 131 of the Banking Law, and the BCTL may extend the period for their disposal.

Article 26

Other risks

1. The DFI measures and limits interest rate risk in the banking book and foreign exchange risk, and hedges or matches its foreign-currency liabilities, in proportion to its activity.
2. The DFI manages operational, technology, cyber, outsourcing and business continuity risks in proportion to its activity.

Article 27

Prevention of money laundering and terrorist financing

1. The DFI shall comply with the legislation and BCTL regulations in force on the prevention of money laundering and terrorist financing and, with the necessary adaptations, with Articles 85 to 92 of the Banking Law.
2. In wholesale financing exposures, due diligence procedures are applied to the intermediary, including an assessment of its anti-money laundering and counter-terrorist financing system.

CHAPTER V

REPORTING AND DISCLOSURE

Article 28

Accounting and Prudential reporting

1. The DFI shall prepare its financial statements in accordance with IFRS, including the recognition of expected credit losses under IFRS 9, and the BCTL reporting and publication requirements applicable to banks.

2. The DFI shall instruct its external auditors to perform an annual audit of its annual financial statement and of the internal control framework in accordance with BCTL regulation on audits, publication of auditor's opinion and annual report for banks and to report to the Board of Directors any material weakness in its internal control identified in the course of the audit.
3. The DFI shall appoint an external auditor previously authorized by the BCTL, in accordance with Article 83 of the Banking Law, to audit its annual financial statements, and shall comply with the BCTL regulations on audit and on the publication of the auditor's opinion and of the annual report applicable to banks.
4. The external auditor shall immediately report to the BCTL any fact of which it becomes aware in the course of its duties that constitutes a serious breach of the applicable rules, evidence of a crime, losses threatening the continuity of the DFI, or non-compliance with the rules on the prevention of money laundering and terrorist financing.
5. The DFI records in separate accounts the guarantees given and commitments undertaken, as well as the funds and portfolios managed on behalf of the State, disaggregating the exposures covered by State guarantees.
6. The DFI submits periodic prudential and financial reports to the BCTL through the Banking Supervision Application (BSA), using the templates and at the frequencies applicable to banks, unless otherwise determined by the BCTL.
7. In its periodic reports, the DFI disaggregates:
 - a) guarantees given, by product, coverage, calls and recoveries;
 - b) exposures and liabilities covered by State guarantees and the use of any limit set in the General State Budget law;
 - c) wholesale financing exposures and the performance of the underlying sub-portfolios;
 - d) funds and portfolios managed on behalf of the State.
8. The BCTL may require any other reporting necessary for supervision, in accordance with the law.

Article 29

Public disclosure

The DFI complies with the public disclosure duties applicable to banks, including on corporate governance, and also discloses the State guarantees from which it benefits as required by IFRS.

CHAPTER VI

SUPERVISION AND ENFORCEMENT

Article 30

Supervisory powers

1. The BCTL supervises DFIs under Law No. 5/2011, the provisions of the Banking Law applicable by virtue of Articles 56 and 57, and this Instruction.
2. The DFI is subject to inspections by the BCTL or by auditors or other agents appointed by it.
3. In conducting inspections of the DFI, its subsidiaries or branches, the BCTL and its auditors or agents may examine the accounts, books, documents and other records of the DFI, its subsidiaries or branches,

and require its Administrators, employees and agents to provide any information relating to its activities, affairs, financial condition and operations that the BCTL considers necessary for the purposes of supervision, in accordance with the applicable legislation.

Article 31

Corrective measures

1. Articles 144 to 151 of the Banking Law apply to corrective intervention, with the necessary adaptations, and this Instruction does not add any measures to those provided for therein.
2. Measures that presuppose the receipt of deposits, namely that provided for in Article 146(2)(m) of the Banking Law, and those that presuppose the existence of private shareholders, do not apply to the DFI.
3. Infringements are subject to the sanctioning regime provided for in Part IX of the Banking Law and in Law No. 5/2011.

Article 32

Measures concerning members of governing bodies and employees

1. Articles 23 to 33 of the Banking Law apply to the fit-and-proper assessment of members of the governing bodies and key function holders and to the consequences of their subsequent unsuitability, and the BCTL may revoke the approval provided for in Article 9(1) and (2) under the terms set out therein.
2. The removal or suspension of members of the governing bodies follows Article 146(2)(v) and Article 161 of the Banking Law, and the DFI is responsible for exercising disciplinary power over its employees.
3. The BCTL may record findings concerning former members or employees for the purposes of future fit-and-proper assessments.

Article 33

Information to the shareholder

Without prejudice to the independence of the BCTL and the duty of professional secrecy, the BCTL informs the members of the Government exercising the shareholder's rights of the measures adopted under Articles 31 and 32, and may share supervisory findings relevant to the DFI's capital needs or to the State guarantee.

Article 34

Recovery and dissolution plans

1. The DFI maintains a recovery plan, reviewed annually, that identifies the measures available to restore its capital and liquidity, including shareholder support, in accordance with Articles 152 to 156 of the Banking Law and any guidance issued by the BCTL under Article 283(3) of that law.
2. The provisions of the Banking Law on resolution, the resolution fund and deposit guarantee do not apply to DFIs.
3. The BCTL cooperates with the shareholder in the event of the dissolution of a DFI under its establishing decree-law.

CHAPTER VII
FINAL AND TRANSITIONAL PROVISIONS

Article 35

Final and Transitional provisions

1. During the first twelve months after the definitive license is granted, the BCTL may set a lower reporting frequency for reports that are not relevant to the DFI's activity.
2. The BCTL may grant temporary derogations from the requirements arising from the instructions applicable under Article 2(3), upon a reasoned request, where compliance with them is not proportionate to the DFI's activity in its first years of operation.
3. Without prejudice to the provisions of this Instruction and its establishing Decree-Law, the regulatory instructions and directives issued by the BCTL applicable to commercial banks shall apply to the DFI, with the necessary adaptations to its nature as a non-deposit-taking public financial institution, namely regarding:
 - a) Internal Control System, Compliance, and Internal Audit;
 - b) Corporate Governance;
 - c) Prudential Reporting and Publication of Financial Statements;
 - d) Liquidity Risk Management;
 - e) Regulatory Capital, Capital Ratios, and Leverage Ratio;
 - f) Credit Classification, Regulatory Provisions, and Reserves;
 - g) Credit Risk Management;
 - h) External Audit, Publication of Auditor's Opinion, and Annual Report.
4. When necessary for implementation and supervision, the BCTL may, from time to time, establish or apply specific prudential instruments, requirements, or measures to DFIs, taking into consideration their nature, activities, funding structure, development mandate, and risk profile.

Article 36

Entry into force

This Instruction enters into force on the day following its publication in the Official Gazette (Jornal da República).

Dili, 12 october 2026

The Governor,

Hélder Lopes