

INSTRUCTION CPO/B-2001/2 EQUITY INVESTMENTS OF BANKS

I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, “CPO”) pursuant to Section 13.4 and 13.5 of Regulation N0. 2000/8 on Bank Licensing and Supervision (hereinafter, the “Regulation”).

II. APPLICABILITY

This instruction applies to all banks organized in East Timor.

III. DEFINITIONS

- A. Acting in concert** means two or more persons (either individual or juridical, including a bank) acting together with a common purpose whether or not they are organized as a formal business entity and whether or not they are operating pursuant to a written agreement. The determination of whether or not two or more persons are acting in concert is at the sole discretion of the CPO. “Affiliates,” “Related Persons,” “Related Banks and Financial Institutions,” and “Groups of Inter-Related Persons,” as those terms are defined in the CPO’s Instruction on Transactions with Related Persons, Related Banks and Financial Institutions, and Affiliates, shall be deemed to be acting in concert.
- B. Equity interest** is defined in Section 49(k) of the Regulation as any ownership right or voting right with respect to a juridical person or undertaking.
- C. Financial activity** is defined in Section 49(l) of the Regulation as any of the activities that are listed in Section 24 of the Regulation.
- D. Person** is defined in section 49(q) of the Regulation as an individual and a juridical person (a company, partnership, association, and group of persons acting together with a common purpose, whether or not organized as a formal business entity).
- E. Regulatory capital** is defined in the CPO’s Instruction on Regulatory Capital.
- F. Significant interest** is defined in Section 49(u) of the Regulation as a direct or indirect holding of an interest in a juridical person or undertaking that represents the equivalent of twenty percent or more of the equity or of any class of shares with voting rights, or that makes it possible to exercise a significant influence over the management or policies of that juridical person or undertaking.

IV. LIMITATIONS

- A.** Without the prior written authorization of the CPO, no bank shall (alone or acting in concert with one or more other persons, directly or indirectly) hold an equity interest in a juridical person or undertaking that is engaged in other than financial activities that either:
 - 1. Represent a significant interest; or
 - 2. Exceeds as to its net current value the equivalent of fifteen (15%) of the regulatory capital of the bank.
- B.** Without the prior written authorization of the CPO, no bank shall (alone or acting in concert with one or more other persons, directly or indirectly) permit the aggregate net current value of all of its equity interests in juridical persons or undertaking that are engaged in other than financial activities to exceed the equivalent of one hundred percent (100%) of the regulatory capital of the bank.
- C.** Prior written authorization of the CPO is not required for:
 - 1. Equity interests that have been acquired by a bank in lieu of repayment of credit granted by the bank; or
 - 2. Equity interests held by a bank as an agent in securities undertaking or brokerage or investment portfolio management.
- D.** A bank, which acquires equity interests in lieu of repayment of credit granted, by the bank shall entirely dispose of such equity interest within one year from the date they are acquired or within such longer time period as the CPO may approve in response to a written request by the bank.

V. RESTRICTIONS

- A.** With the exception of equity interests acquired by a bank pursuant to Section IV.C., only banks having the highest license level issued by the CPO pursuant to Section 24.1(c) of the Regulation may (alone or acting in concert with one or more other persons, directly or indirectly) hold equity interests in juridical persons or undertaking that are engaged in other than financial activities.
- B.** Pursuant to Section 26.5 of the Regulation, no bank shall extend credit secured by its own equity securities or by equity securities of a bank organized in East Timor.
- C.** No bank shall (alone or acting in concert with one or more other persons, directly or indirectly) hold equity securities of a bank organized in East Timor.

VI. POLICIES AND PROCEDURES

The Board of Governors of each bank shall adopt, and ensure that senior management implements, a written policy on the bank's holding of equity interests which shall be in line with the bank's risk management policies) and which shall comply with this instruction. Processes should be established within the bank to allow the Board of Governors to monitor compliance with the policy. The Board of Governors shall review the policy on at least an annual basis.

VII. REQUESTS TO THE CPO

- A.** Requests for the prior written authorization of the CPO pursuant to Section IV.A, B or C, shall be made in writing in the form prescribed by this instruction. The CPO may request additional or supplementary information if, in the opinion of the CPO, the basic information submitted is incomplete or insufficient. Failure to provide the CPO with all required information in a timely manner will result in the CPO returning the request without consideration.
- B.** Within 30 days from the date that the CPO receives all information required and sufficient for making a decision, the CPO shall render a decision on the request and shall notify the bank of its decision in writing.

VIII. APPENDICES

Appendix No. 1: Request for the Prior Written Authorization of the CPO for a Bank Hold Certain Equity Investments

Appendix No. 2: Request for the Prior Written Approval of the CPO to Hold Equity Investments Which Were Acquired by a Bank in Lieu of Repayment of Credit for a Period Exceeding One Year.

INSTRUCTION ON EQUITY INVESTMENTS OF BANKS

Appendix No. 1

Request for the Prior Written Authorization of the CPO For a Bank to Hold Certain Equity Investments

Form of Request

The original and one signed copy of the request shall be submitted to the CPO in the official language of East Timor.

Information Required

1. Provide a copy of the minutes of the meeting(s) of the Governing Board wherein the proposed equity investment is discussed and approved and the application to the CPO is authorized.
2. Provide information regarding the proposed investment: identity and location of the juridical person or undertaking, the type of shares to be acquired, the number of shares to be acquired, the number of shares already held by the bank, and the number of shares to be held after the acquisition.
3. State the purchase price per share and the total purchase price for the entire acquisition.
4. State the par value per share and the current market value per share. Indicate the date and source of information for market value.
5. State the percentage ownership interest of the juridical person or undertaking that the bank's equity investment will represent both before and after the proposed acquisition.
6. State the current net value of the bank's equity interest in the juridical person or undertaking as a percentage of the regulatory capital of the bank, both before and the proposed acquisition.
7. State the aggregate net current value of all equity interests held by the bank in juridical persons or undertakings engaged in other than financial activities as a percentage of the regulatory capital of the bank, both before and after the proposed acquisition.
8. Identify each transferor, the total number of shares to be transferred by each, and the purchase price per share if different among transferors. Indicate whether any shares will be newly issued by the juridical person or undertaking.
9. Describe the proposed acquisition in detail and provide copies of all agreements and documents related to the transfer.
10. Provide complete information as to the purpose of the investments, how the investment fits into the bank's existing business plan and comports to the bank's risk management policy, and provide a copy of the analysis which was performed by the bank regarding the proposed investment which served as the basis for the bank to acquire the subject equity interest.

INSTRUCTION ON EQUITY INVESTMENTS OF BANKS

Appendix No. 2

Request for the Prior Written Approval of the CPO to Hold Equity Investments Which Were Acquired by a Bank in Lieu of Repayment of Credit for a Period Exceeding One Year

Form of Request

The original and one signed copy of the request shall be submitted to the CPO in the official language of East Timor.

Information Required

1. Provide a copy of the minutes of the meeting(s) of the Governing Board wherein the equity interest and its holding period are discussed, and the application for permission to hold the equity interest for more than one year is authorized.
2. Provide information on the bank's original acquisition of the equity interest (identification of borrower, amount of credit, credit history, date of acquisition, etc.).
3. Describe the actions taken by the bank to dispose of the equity interest in the initial time period required by Section 13.5(a) of the Regulation.
4. State, and provide justification for, the additional time period requested by the bank to hold the equity interest.
5. Provide a breakdown of all expenses related to the bank's acquisition and holding of the equity interest, and those expenses projected for the future holding period. Provide a copy of the analysis which was performed by the bank covering the proposed future holding period.
6. State the current market value of the equity interest and indicate the date and source of information.
7. Describe the results of the bank's evaluation of the current market conditions regarding the equity interest.
8. Detail the bank's marketing efforts of the equity interest to date and those proposed during the future holding period requested.

11 April 2001

Fernando de Peralto, General Manager