BCN
BANCO CABOVERDIANO
DE NEGÓCIOS

ANNUAL REPORT

2019

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BCN
BANCO CABOVERDIANO DE NEGÓCIOS

Financial Highlights

	dec-2019	dec-2018	Var (abs)/p.p.	Var (%)
Income Statement Accounts				
Net interest income	748.571	632.331	116.240	18,4%
Complementar Net interest	178.078	153.278	24.800	16%
of which commissions	122.248	106.998	15.250	14,3%
Operating income	926.649	785.609	141.040	18,0%
Adminstrative Costs	445.832	404.563	41.269	10,2%
Operational Cash Flow	480.817	381.046	99.771	26,2%
Operating Results	434.092	347.893	86.200	24,8%
Impairment losses	(127.287)	(87.797)	(39.490)	45,0%
(of which: impairment losses on loans and advances)	(120.660)	(49.936)	(70.723)	141,6%
Profit / (loss) before income tax	306.806	272.401	34.405	12,6%
Net profit / (loss) for the period	278.480	207.193	71.286	34,4%
Assets and Own Funds				
Total Assets	24.170.321	19.396.318	4.774.003	24,6%
Total Equity	2.455.933	2.181.934	273.999	12,6%
Loans and advances to customers	15.589.187	13.646.138	1.943.049	14,2%
Debt Securities	1.532.404	1.389.691	142.714	10,3%
Loans and advances to customers (free from impairment)	14.175.173	12.353.478	1.821.695	14,7%
Loans and advances to customers (principal amount)	13.651.064	11.886.110	1.764.954	14,8%
Customer Accounts	21.178.884	16.668.049	4.510.835	27,1%
(of which: customer accounts from emigrants)	4.055.837	3.397.770	658.068	19,4%
Deposits from Banks	308.229	331.582	(23.353)	(7,0%)
Quality of Credit (Circular nº 150 from BCV)	8,85%	6,30%	2,546	
Loans and advances to customers / Total Liabilities	72,6%	80,3%	(7,722)	
Loans and advances to customers (free from impairment)/Total Assets	58,6%	63,7%	(5,043)	
Costs with deposits	1,9%	2,0%	(0,071)	
Costs with risk	(0,7%)	(0,2%)	(0,543)	
Net Assets/Total Assets	50,1%	43,6%	6,436	
Net Assets/Short-term liabilities	68,4%	56,1%	12,285	
Yield				
ROA	1,2%	1,1%	0,084	
ROE	11,3%	9,5%	1,843	
Operating Income/Net Assets	3,8%	4,1%	(0,216)	
Solvency				
Solvency Ratio	15,5%	17,4%	(1,908)	
Tier I Ratio	15,4%	16,1%	(0,768)	
Efficiency				
Cost-to-income	53,2%	55,7%	(2,562)	
Staff Costs/Operating income	27,8%	28,1%	(0,369)	
Complementar Net interest/Operating Income	19,2%	19,5%	(0,293)	
Other Information				
Number of Employees	154	139	15	10,8%
Number of branches	20	18	2	11,1%

I. MANAGEMENT REPORT

1. A JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS THE PRESIDENT OF THE EXECUTIVE BOARD AND

After evaluating the first two years of implementation of the GRUPO IMPAR it became evident that, in order to make the Group's strategy more operational, there was need for unifying the executive vision, focusing in Banking due to its greater growth potential.

This unified vision has been materialized in March 2019, when Mr. Luís Vasconcelos Lopes was appointed as the Chief Executive Officer of BCN in addition to his duty as the Chairman of Board of Directors of IMPAR and consequently of the GRUPO IMPAR.

Mr. Paulo Lima on the same date assumed the duties of Chairman of the Board of Directors of BCN, and the Vice-President of the Board of Directors of the insurance Company.

This measure consolidated the strategy that has been implemented, which has allowed the Bank to obtain visible results, managing in 2019 to increase the number of customers by 8%, growing its customer funds by 27,1%, the loans and advances portfolio by 14,2%, total assets by 24,6% and operating income at 18%, transformation ratio of 73% and Non-performing loan ratio of 8,9%.

The maintenance of a high operational efficiency was confirmed by the decrease of the cost to income ratio from 56% to 53%, one of the lowest ratios in the market.

The Bank's capital position remained robust, with the solvency ratio reaching 15,5%, which exceeds the regulatory minimum (12%) by 3,5 percentage points.

A special word of appreciation to our shareholders for the decision to not to distribute dividends during the current term, which allowed an increase of 42% of total equity, from 1.7 billion CVE in 2016 to 2.5 million CVE in 2019, impacting the Tier I capital ratio, which stood at 15,4%.

Considering that in 2019, the GRUPO IMPAR had a significant improvement in its profitability, with net profit of 278.5 million CVE, which represented a 34% growth compared to the same period of the previous year (207 million CVE), having this growth contributed to an increase of net profit in a context of a growth of operating results, impairments and the pressure on net interest income, also a continuously decrease in active interest rates in the baking system nationwide.

These results would not be possible to achieve without having highly skilled and motivated employees. The Bank objective of becoming one of the best workplaces in Cape Verde is supported by a simple and fair human resource policies and procedures. The employee management led the development of new performance evaluation methods in 2019.

Also, in 2019 was approved the Regulations for Preferential Conditions designated for the employees of the GRUPO IMPAR, which includes a set of benefits attributed to employees, both in Banking and Insurance sectors. Finally, GRUPO IMPAR gave a special attention on employees training, with 53 training programs, a total of 679 hours, and covering 447 participants (average of 3 programs per employee).

The performance achieved filled us with pride and gave us an added responsibility by launching a huge challenge to continue to grow, improve and create opportunities and value for the national banking system.

We could not end this message without leaving a word of appreciation and gratitude to our shareholders who believed and embraced this project of a 100% Cape Verdean Bank and Customers, the reason why we work, for the confidence shown, pledging the commitment to continue to grow in a sustained and balanced way based on our values of Simplicity, Morabeza, Commitment and Sustainability, in a true spirit of Djunta Mon which define and makes us very proud.

Luís Vasconcelos	Paulo Oliveira Lima
President of the Executive Board	Chairman of Board of Directors

2. CORPORATE BODIES AS AT 31 DECEMBER 2019

General Meeting Board

- **Chairman of the General Meeting Board**
  Dr. Carlos Andrade Miranda
- **First Secretary**
  Dra. Solange Correia Rodrigues
- **Second Secretary**
  Dra. Adénis Carvalho Silva

Board of Directors

- **Chairman**
  Dr. Luís Miguel Andrade Vasconcelos Lopes*
  Eng.º Paulo Jorge Ferro Ribeiro de Oliveira Lima**

- **Vice-Chairman**

  Embaixador Luís de Matos Monteiro da Fonseca

- **Members:**

  Dr. Luís Miguel Andrade Vasconcelos Lopes**
  Eng.º Paulo Jorge Ferro Ribeiro de Oliveira Lima*
  Dr. Pedro Mendes Barros*
  Dr. Carlitos Marcos Lima Fortes
  Dr. Marco António Rodrigues de Almeida Pereira
  Dr. António Olavo de Oliveira Rocha
  Dr. Raimundo Sousa Duarte Monteiro**

<u>Executive Commission</u>

- **President**

  Eng.º Paulo Jorge Ferro Ribeiro de Oliveira Lima*
  Dr. Luís Miguel Andrade Vasconcelos Lopes**

- **Executive Directors**

  Dr. Carlitos Marcos Lima Fortes
  Dr. Marco António Rodrigues de Almeida Pereira

Supervisory Board

- **President**

  Dr. José Maria Ramos Cunha

- **Vice-Chairman**

  Dr. Rui Oliveira Silva

- **Member**

  Dr. António Pedro Monteiro Delgado***

* Until 24 March 2019

** As from 24 March 2019

*** Until October 2019

3. SHAREHOLDER STUCTURE

In 2019 the Bank changed its shareholder structure. SEPI - Sociedade de Estudos e Promoção de Investimentos, SA., transferred its shares to IMPAR - Companhia Caboverdiana de Seguros and other private national investors corresponding to 43,87% of the share capital (equivalent to 394.818 shares). After this change, IMPAR - Companhia Caboverdiana de Seguros, SARL, increased its qualified shareholding in the Bank, and Banco de Cabo Verde (Central Bank of Cape Verde) raised no objection to this increase.

The share capital of 900 million CVE, as of 31 December 2019, was distributed as per the shareholder structure presented in the table below:

Shareholders	No. Shares	Amount (CVE)	Percentage
IMPAR, SEGUROS	780 800	780 800 000	86.76%
CRUZ VERMELHA DE CABO VERDE	40 000	40 000 000	4.44%
Private Investors	79 200	79 200 000	8.80%
	900 000	900 000 000	100%

4. OUR MISSION, OUR VISION AND OUR VALUES

MISSION

Our mission is to **IMPROVE** the lives of people who interact with BCN, providing banking products and services, integrated with insurance, idealized for the reality of the Country and the Diaspora, **CREATE** growth opportunities to Employees. **GENERATE** consistent returns for Shareholders, observing trough all our lines of action, high standards of conduct and corporate responsibility, contributing to the economic and social development of Cape Verde.

VISION

Our vision has behind the ambition that the Bank will be recognized as the **BEST BANK** of the Cape Verdean financial system, **trustworthy and leader in the quality of services** provided to customers, through excellence and innovation in the distribution of financial products and services.

VALUES

Our values are the expression of our identity and our singularity while Institution, those that guide our actions and drive the fulfillment of our mission, highlight one of the aspects that define the Cape Verdean people which is their spirit of inter-help, commonly designated **"DJUNTA-MOM", the "Umbrella" Value of BCN**.

Effectively, based on this "DJUNTA-MOM" spirit, the BCN Values are: MORABEZA, COMMITMENT, SIMPLICITY and SUSTAINABILITY, essential elements for building a strong and lasting relationship and commitments for life, which can be summarized as follows: **welcome with MORABEZA, honor the COMMITMENT to improve people's lives that interact with the Bank, be amongst our people with SIMPLICITY and act in the present with eyes focused on future SUSTAINABILITY.**

5. RELEVANT FACTS IN 2019

In 2019, the Bank continued to implement its Strategic Plan 2018-2022, which focus on sustained and balanced growth of the business, always searching for a differentiating approach, monitoring the business growth, and the positive evolution of results, focusing on development of families and companies highlighting these following facts:

- Banco Caboverdiano de Negócios (BCN) held on March 28th 2019, the Annual Board of Directors Meeting, which was attended by shareholders that hold 100% of the share capital, with the following resolutions:

  - ✓ Approval of the management report, financial report, and the results of 2018.

  - ✓ Approval of the corporate reorganization, in which were nominated (i) Eng.º Paulo Oliveira Lima as Chairman of the Board of Directors, leaving the position of President of the Executive Commission; (ii) Dr. Luís Vasconcelos Lopes as President of the Executive Commission, leaving the position of Chairman of the Board of Directors; (iii) Dr. Raimundo Duarte Monteiro as a member of the Board of Directors. The shareholders also approved the request for resignation of Dr. Pedro Mendes Barros as a member of the Board of Directors.

  - ✓ Approval of the Annual Corporate Governance report, as per Banco de Cabo Verde (Central Bank of Cape Verde) Notice no. 7/2017;

  - ✓ Approval of the constitution of the Remuneration Board chaired by Dr. Joaquim Alberto Coimbra and assisted by Dr. João Baptista Santos and Mrs. Nair Lucas.

. Opening of two new branches called BCN Business, these new branches are exclusively directed to work with small and medium enterprises. BCN Business represents a new approach in the relationship that the Bank intends to have with the national business sector, allowing the companies in a differentiated environment, to execute their banking operations and, at the same time, obtain business assistance of various nature;

- Launching of Mastercard International Debit Cards, both for the Companies and Individuals costumers, allowing its holders to make transactions abroad.

- Signing of commercial protocols with Câmaras de Comercio (Chambers of Commerce) of Barlavento and Sotavento, and launching the Entrepreneur Card, an identification card, exclusively for entrepreneurs, which is also an international debit card;

- Launching of the Cartão na Hora (Instant issuing). A debit card(Vinti4), not personalized, made available to new customers, upon opening a new deposit account, allowing them to make all the transactions available on the Vint4 network, immediately after opening the respective account and while they are waiting on the permanent and personalized card;

- Launching of a new platform for money transfer called RED – Rápido e Direto (Fast and Direct) - that allows customers abroad to send/transfer money quickly through their Vinti4 or VISA cards into their BCN checking account;

- Launching of a new product called FADART, aimed at financing under special conditions projects in arts and culture;

- Approval of a new Performance Evaluation and Management System aimed to improve the previous performance evaluation system and promoting the development of employees as well as their full engagement on challenges set by BCN, according with the strategic plan and the new Institutional environment;

- Negotiation and signing with AFD - Agence Française du Dévelopment -ARIZ which facilitates access of financial facilities for small businesses and microfinance institutions in developing countries, thus promoting access to credit for those that are perceived as risky clients with a limited access to financing.

6. MACROECONOMIC FRAMEWORK

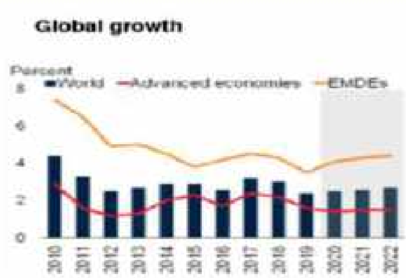
a) International environment

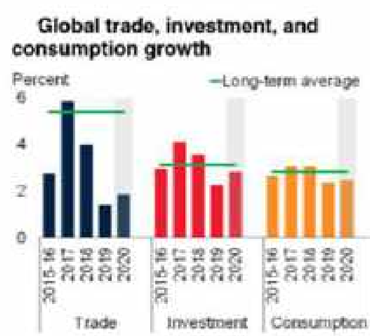
World economy evolution

The year 2019 was marked by a decrease in world economic growth standing at 2,4% (3% in the previous year), influenced particularly by the lost dynamics in global trade due to a decrease in investment. This slowdown affected both world´s large economies, particularly those in the Eurozone, and the Emerging and Developing Economies (EMDEs).

Thus in 2019, there was a significant contraction in trade in goods and industrial production, particularly influenced by the trade war between the US and China, with the adoption of protectionist measures, which caused uncertainty and weakened international trade. World Bank estimates a decrease in world trade of 2.6 p.p. from 4% in 2018 to 1,4% in 2019. Emerging and developing countries (EMDEs) continue to show a low level of investment, aggravated by commercial tensions, high indebtedness levels, and other structural problems that discourage an ongoing investment.

For advanced economies, the World Bank estimates growth of 1,6% in 2019 (2,2% in 2018), motivated by a slowdown both in the United States of America (USA) and in the countries of the Euro Zone, despite the slight upturn in the Japanese economy.





Source: World Bank Group Flagship Report, Global Economic Prospects, January 2020

In **USA**, the world's largest economy, registered a growth of 2,3%, (2,9% in 2018), a deceleration motivated by the commercial policy adopted by the USA, of an increase in customs tariffs, caused by a slowdown in investment and exports, as a result of the weakened confidence among U.S. investors, despite the progress in trade negotiations with China at the end of the year.

Despite these constraints, the labor market remained robust, while unemployment rate decreased and the wage level had an increase, reflecting on the level of consumption. In terms of inflation, the country continued to register a rate below the target, and the concerns about the global economy have caused the Federal Reserve to reduce the interest rate by 75 basis points since mid-2019.

In the **Eurozone**, economic activity deteriorated significantly, with several economies showing signs of recession throughout the year, with emphasis on the weakness in the German industrial sector motivated by the reduction in demand from Asian countries and interruptions in automobile production associated with the adjustment of the industry to the new CO_2 emission standards. Eurozone growth continued to be influenced by the uncertainties surrounding Brexit, and the commercial and technological tensions between the US and China. Thus, World Bank estimates a growth of around 1,1% (1,9% in 2018), despite the continuous monetary stimulus given by the European Bank Central, that maintained the interest rates negative, and offered lower loan rates to the banks.

In **China,** the economy decelerated in 2019 due to reduced domestic demand and increased trade tensions with the U.S., having recorded a growth rate of 6,1% (6,6% in 2018). The uncertainty in trade policy and the increase in customs tariffs in trade with the USA, negatively influenced investors during practically the whole year of 2019, with the growth of industrial production reaching historic lows. Trade flows have weakened significantly with net imports, mainly of intermediate goods falling more than net exports, partially reflecting the contraction in domestic demand. Aiming to introduce stimulus, the monetary policy has become more accommodative and the government has increased some fiscal measures such as tax cuts, and support to local governments for public investment.

In the **United Kingdom**, still affected by the uncertainties surrounding Brexit, aggravated by a possible exit without agreement with the European Commission, the economic confidence dropped to a lower level, reflecting a slow growth of only 0,7%, aggravated by the increase in commercial costs, despite budgetary stimulus. In terms of the employment market rate is at 3,8% and an increase in wages that caused a pressure on the level of inflation, which was at 1,8%.

For **Japan**, the World Bank estimates an increase of 1,1% in 2019 (0,8% in 2018), a low increase despite the negative impacts of natural phenomena and the increase in value added tax (VAT). Like other countries, both industrial activity and net exports showed a low growth dynamic, particularly influenced by China, with the government continuing to introduce stimulus. The unemployment rate remained low and there was an increase in per capita income as well.

The World Bank estimates a growth of **Emerging Market Economies and Developing Countries (EMDEs)** of 3,5% in 2019 (4,3% in 2018). EMDE continued to experience substantial weakness, reaching countries that until recently, showed resilience. Industrial production, trade flows and investments decelerated sharply. Although service activity was considerably more resilient than manufacturing, it was also moderate. The slowdown in the growth rate was noticed both in commodity exporting and in importing countries.

Still within the EMDEs, the group of countries designated as **LICs (Low Income Countries**), also registered a slowdown in external demand, influenced by lower commodity prices, political instability, and devastation by climatic phenomena. In the Democratic Republic of Congo, a decrease in metal prices shrunk mining activity, while the Ebola outbreak persisted in the northeastern region affected by conflict. Moderate economic growth in Mozambique mainly because of damages from two tropical cyclones and the coal production was weaker than expected.

For the **Portuguese economy**, the Banco de Portugal (BdP) estimates a gross domestic product (GDP) growth of 2,0% (2,4% in 2018), reflecting a less favorable external environment, which caused net exports to slow and the industry activity as well, despite the maintenance of dynamic domestic demand. Despite this reduction, the net exports mainly from tourism sector continue to sustain the growth of the Portuguese economy, which positively affects the other components, basically, private investment and public investment, in a scenario of maintaining the weight of private consumption with the unemployment rate maintaining lowering.

The unemployment rate maintaining its downward trend. The existence of some idiosyncratic factors contributed to the reduction of inflation to a particularly low value (0,3%).

At **African continent**, economic growth varies from region to region and economies have been affected by issues of various kinds such as insecurity, conflict, and food security. Natural disasters related to climate extremes ranging from floods to prolonged droughts remain a risk for many African economy's dependent on agricultural production. Alongside these phenomena, health crises continued to be concerns and obstacles to the growth of these economies, aggravated by structural challenges linked to low productivity and an inability to create qualified jobs.

World Trade

World trade in goods and services declined abruptly from 4% in 2018 to 1,4% in 2019, a markedly weaker pace of growth since the global financial crisis, as a result of the slowdown in the industrial sector, specifically in world´s largest economies and EMDEs, such as China and East Asia.

A decline in demand in Europe and Asia, particularly for automobiles and technology products, and a low GDP contributed to an unfavorable behavior of world trade, which was aggravated by the protectionist measures that the G20 countries have been adopting since 2018, reflecting the level of trade flows and the global trade in goods.

Trade tensions between the United States and China increased during 2019, with both countries raising tariff rates on most net imports. These tensions raised political uncertainty and influenced global trade decline, shaking the economy of different countries including United States alongside with other trading partners, such as, European Union, Japan, and Republic of Korea.

In terms of commodity trade there was a decline, mainly reflecting the deterioration in economic growth, especially for EMDEs which tend to have greater elasticity of demand for commodities.

The price of oil averaged $ 61 / bbl in 2019 went down 10% from 2018. Prices for most metals also declined, mainly reflecting weak global growth and commercial tensions. In terms of agricultural products, there was also an increase with the FAO food price index increasing by 1,8%, pressured by strong global demand, in a context of moderation in the supply of dairy products, sugar and vegetable oils.

Financial Markets

Global financing conditions declined considerably in 2019. Bond yields in advanced economies fell to unprecedented levels, despite the recovery at the end of the year with improved market confidence. The main central banks, mainly the FED and the BCE, have adopted less restrictive monetary policies in order to cope with the slow pace in global economic growth, and persistently low inflation, with Euribor interest rates remaining negative. Still at the financial level, the risk of instability in the global financial markets should be noted, as a result of (1) a sudden increase in risk aversion associated to a weaker growth than expected in advanced or emerging economies; and (2) the persistent risk of worsening geopolitical tensions in the Middle East, especially between the United States and Iran.

Despite the weakness in global investment, corporate debt has increased in many countries, associated with an increase in some riskier categories, such as, loans to highly leveraged companies in the United States and the Euro Area.

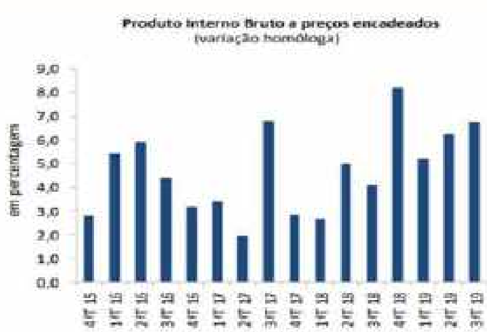
Overall, the EMDEs experienced a reduction in total interest cost on loans, and public debt issuance increase. However, the EMDEs are low rated, they do not benefit from the global decline in borrowing costs. Investors were particularly cautious about the riskier EMDE stock markets, which experienced significant capital outflows during the period of higher trade tensions.

Foreign direct investment (FDI) continued its downward trend, due to the uncertainty of global policy especially in the EMDEs that had previously been hit by financial crisis. On the other hand, remittances to EMDEs have continued to grow and have recently surpassed FDI.

The Euro, the currency to which the Cape Verdean Escudo is indexed, depreciated 1,7% in nominal effective terms and 2,4% against the US dollar in 2019.

b) National context

For the Cape Verdean economy, Banco de Cabo Verde (Central Bank of Cape Verde) estimated a growth rate of 5,2% (5,1% in 2018), the contribution to this performance coming from, (i) private consumption, (ii) government spending, as well as net exports. On the supply side, the growth was supported by the positive performances of public administration, commerce, manufacturing, construction, and agriculture.



Source: Banco de Cabo Verde, Indicadores Económico e Financeiros (Monetary Policy Report), January 2020.

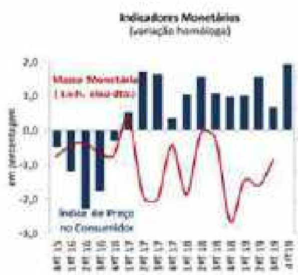
Annual average **inflation** which does not includes the trend in price of energy products and unprocessed food stands at 1,1%, increasing 0.9 p.p. compared to December 2018. Such behavior reflects on intensification of demand, and that the global inflation continues being determined by the evolution of the most volatile components of the consumer price index.

In terms of **external accounts**, BCV data points to an improvement, as a result of the reduction in the current account deficit, and an increase in net inflows of financing from the economy. The good performance of the current account was mainly due to a decrease of the trade deficit with the increase in exports of services and stabilization of imports of goods and also to the increase in remittances from emigrants and donations, the country's stock of net international reserves increased, covering 6 to 9 months of the imports of goods and services projected for the year.

Regarding the **monetary and financial** situation, there was an increase in the M2 aggregate around 5,2%. The external position of the banks deteriorated by 2.654 million CVE and net credit to the general administrative sector decreased by 23,5%. In 2019, there was a reduction in banks' exposure to the Estado (Government), following the settlement of the stock of Consolidated Financial Mobilization Securities.

By improving the effectiveness of the monetary transmission mechanism, the BCV changed in mid-2019, the structure of its reference rates, reducing the rate of the Liquidity-Providing Facilities (FPC) by approximately 150 basis points, going from 4,5% to 3,0% and indexing the rate of the Liquidity Absorption Facilities (FPA) to prime lending rate (1,5%),in order to guarantee the symmetry, in the long run, of the passage of the rates of the permanent liquidity facilities.

Regarding the interest rates practiced by commercial banks, there is a reduction in the average effective interest rate applied to bank loans and the maintenance of the downward trend in passive interest rates.



Source: Banco de Cabo Verde, Indicadores Económico e Financeiros (Monetary Policy Report), January 2020

The credit to the economy grew tenuously, due to less demand by public companies for financing from national banks and some reduction in demand from individuals. In terms of loans and advances to the central government, the pace of growth observed in previous years has been maintained, with the government is continuing to favor the issue of bonds, at an average interest rate of 3,85%.

Regarding **Public Finances**, BCV data points to an improvement as a result of moderation in current expenses, increased public revenues and contraction of non-financial expenses.

7. BANKING ACTIVITY OVERVIEW

Customer deposits

As of 31 December of 2019, customer deposits, which are the main source of financing of the Bank amounted to 21.179 million CVE, reflecting a 27,1% growth over the same period of the previous year (16.668 million CVE). In the evolution of Customer Deposits highlight goes to the increase of (i) 1.995 million CVE in Demand Deposits; (ii) 2.213 million CVE in Term Deposits; and (iii) the growth of emigrant funds by an additional 630 million CVE. This growth reflects the strong activity of the commercial network and the trust of customers in the Bank.

(in thousands of CVE)

Designation	2019		2018			Change
	Amount	Mix	Amount	Mix	Abs	%
Demand deposits	8.962.770	42,27%	6.957.369	41,74%	1.995.401	28,7%
Emigrants	510.508	2,41%	436.898	2,62%	73.610	16,8%
Others	8.442.262	39,86%	6.520.470	39,12%	1.921.791	29,5%
Term deposits and Savings accounts	10.988.847	51,89%	8.775.871	52,65%	2.212.975	25,2%
Emigrants	3.445.958	16,27%	2.889.812	17,34%	556.146	19,2%
Others	7.542.888	35,62%	5.886.059	35,31%	1.656.829	28,1%
Other payables	13.529	0,06%	1.335	0,01%	12.194	913,3%
Charges payable	247.591	1,17%	252.230	1,51%	(4.639)	(1,8%)
Securities sold with repurchase agreements	962.125	4,54%	669.008	4,01%	293.117	43,8%
Charges payable	14.023	0,07%	12.236	0,07%	1.787	14,6%
Total	**21.178.884**	**100,00%**	**16.668.049**	**100%**	**4.510.835**	**27,1%**

The growth at the level of deposits placed with BCN (27,1%) was higher than the growth in the market (6,6%), which led to an increase in market share from 8,9% to 10,6%.

	2018	% Mix	2019	% Mix	∆ abs.	∆ %
BCN	16 668	8,9%	21 179	10,6%	4 511	27,1%
National Banking System*	187 954	100%	200 295	100%	12 341	6,6%

*Estimation for December 2019 based on data published by BCV (Principal banking system indicators)

Regarding emigrant funds, BCN recorded an increase of 18,9%, from 3.327 million CVE in 2018 to 3.956 million CVE in 2019, a growth above the market consequently increasing market share to 6,1% (5,2% in 2018).

In the structure of customer funding, the emigrant segment has a weight of around 20% (18,7% in 2018). It should be noted that the Bank registered an increase in its market share for this segment.

Loans and Advances Portfolio

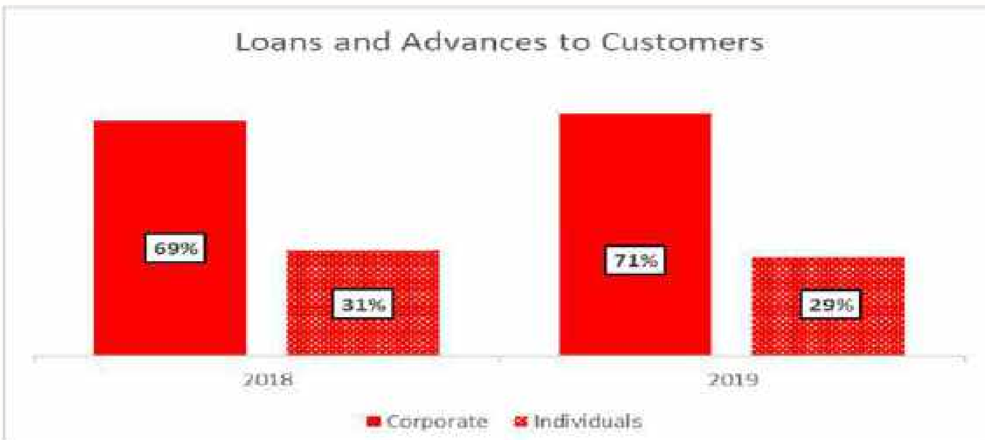
The Loan Portfolio (loans and advances to customers) as of 31 December 2019 totaled a gross amount of 15.589 million CVE and increase of 14,2% (+1.943 million CVE), compared to the same period of 2018 (13.646 million CVE).

The growth exceeded the market average (2,8%), BCN´s credit market share increased 0.9 p.p. from 8,8% in 2018 to 9,7% at the end of 2019.

	2018	% Mix	2019	% Mix	∆ abs.	∆ %
BCN	13 646	8,8%	15 589	9,7%	1 943	14,2%
National Banking System*	155 884	100%	160 249	100%	4 365	2,8%

*Estimation for December 2019 based on data published by BCV (Principal banking system indicators)

Regarding the portfolio composition by segments, Corporate and Individuals, to mention the increase on the Corporate segment, which now represents 71% of the portfolio (69% in 2018). On the other hand, Individuals dropped to 29% (31% in 2018), which largely reflects the business segmentation started in 2018 which emphasis on Small and Medium Enterprises (SMEs), a segment that, due to the fundamental role it plays in the national economy, it has become a strategic segment for the BCN.



In terms of concentration, the Bank's 20 largest exposures, dispersed across various sectors of activity, such as, energy, telecommunications, tourism, electricity, transport and public sector, represented in 2019 around 35,8% a reduction from previous year (38,0%) which reflects the strategy of portfolio diversification over various sectors of economic activity.

Regarding the portfolio maturity, 80,8% of the loans and advances granted have a maturity exceeding one year, when at the end 2018 this percentage was at 80,4%.

In terms of sectoral distribution, compared to the previous year, there was a reduction in the weight of the volume of loans and advances granted to Individuals, with emphasis on "Housing" loans, which represents 19,3% of the Loans and Advances Portfolio (21,4% in 2018) despite the growth in absolute terms of 86 million CVE.

Considering the distribution of Corporate loans , by economic activity sector, the highlight goes to **(1)** the growth of 383 million CVE in the volume of loans and advances to the companies operating in the tourism sector, consequently increasing its weight in the Portfolio structure that moved from 12,9% in 2018 to 13,7% in 2019; **(2)** the increase in loans and advances to companies operating in the services sector by an additional 283 million CVE; **(3)** the 237 million CVE increase in loans and advances to local authorities and **(4)** the 282 million CVE increase in loans and advances to companies whose activity is related to Real Estate Operations.

(in thousands of CVE)

	2019	%	2018	%	Change Abs	Change %
Commerce	1 681 716	10,79%	1 416 754	10,38%	264 962	18,70%
Construction and Public works	450 071	2,89%	443 676	3,25%	6 396	1,44%
Consumption	274 368	1,76%	196 828	1,44%	77 540	39,39%
Housing	3 008 282	19,30%	2 922 534	21,42%	85 748	2,93%
Industry	387 956	2,49%	201 569	1,48%	186 387	92,47%
Real State Operations	1 918 090	12,30%	1 635 647	11,99%	282 443	17,27%
Services	3 675 490	23,58%	3 392 123	24,86%	283 367	8,35%
Tourism	2 138 365	13,72%	1 755 373	12,86%	382 992	21,82%
Other Individuals	1 208 438	7,75%	1 128 669	8,27%	79 768	7,07%
Other Sectror	167 130	1,07%	110 977	0,81%	56 153	50,60%
Public Sector	679 282	4,36%	441 988	3,24%	237 294	53,69%
Total	**15 589 187**	**100,00%**	**13 646 138**	**100,00%**	**1 943 049**	**14,24%**

Quality of the Loans and Advances Portfolio[1]

In 2019, under Circular series "A" no. 195/DSF/2018 of Bank of Cape Verde the methodology for calculating non-performing loans (previously determined in accordance with Circular no. 150 / DSE / 2009), has changed, which negatively impacted the volume of non-performing loans and the ratio of non-performing loans, which increased from 6,3% to 8,9%, a variation of 2.55 p.p.

(in thousands of CVE)

Designation	2019 Amount	2019 %	2018 Amount	2018 %	Change Abs.	Change %
CORPORATE	898 218	67,17%	616 382	74,12%	281 837	45,72%
INDIVIDUALS	438 951	32,83%	215 257	25,88%	223 694	103,92%
TOTAL	**1 337 169**	**100,00%**	**831 638**	**100,00%**	**505 531**	**60,79%**

To mention that if we include credit operations, which under the terms of the regulator, article no. 11 of Notice no. 4/2006, should have already been written off, since they have been 100% provisioned for more than 6 (six) months, the non-performing credit ratio, calculated in accordance with the provisions of Circular Series "A" n. 195 / DSF / 2018 of 21 December 2018, would be 10,6% (8,6% in 2018).

[1] In December 2018, the Central Bank of Cape Verde ,published a set of technical instructions related to quality of the loans and advances, which changes the way of calculating the amount of loans and advances in default, which now includes the maturing part of the outstanding capital, regardless of the term of the loans and advances operation and the respective guarantee. Thus, the total amount of non-performing loans started to be determined in accordance with Circular Series "A" no. 195 / DSF / 2018 of 21 December 2018, according to which "a customer is in default when presenting overdue loans for a period greater than or equal to 90 days, considering the overdue exposure of this customer **the sum of overdue installments and maturities** ", And all client exposures must be considered past due" whenever exposures due for a period greater than or equal to 90 days exceed 20% of the debtor's total exposure ".

It should be noted that the defaulting loans and advances portfolio, for the purposes of this report, does not consider a set of transactions already identified and 100% provisioned that are waiting to be written off as soon as the Tax Authority provides due clarifications regarding the issue of the fiscal relevance of the amounts written off as regard to the determination of the taxable income. The amount in 2019 was 478 million CVE (450.7 million CVE in 2018).

Regarding the distribution of non-performing loans[2] due to the delay observed, it shows that the largest volume around 76%, corresponding to 1.015 million CVE (85% in 2018, corresponding to 708 million CVE), relates to operations past due for more than 1 (one) year and that are under litigation phase.

(in thousands of CVE)			Change	
	2019	2018	Abs.	%
Past due Loans and interest - 90 to 180 days	126.485	4.931	121.554	2465,28%
Past due Loans and interest - 180 days to 1 year	195.380	119.076	76.303	64,08%
Past due Loans and interest - 1 to 3 years	370.993	96.002	274.991	286,44%
Past due Loans and interest > 3 years	644.310	611.630	32.680	5,34%
Total	1.337.169	831.638	505.531	60,79%

In terms of the distribution of past due Loans and interest by activity sector, the weight of the past due loans in "Real Estate Operations" sector is of 24,4%, (34,9% in 2018) even though it has a decrease of 12.3 p.p. from previous year.

(in thousands of CVE)					Change	
	2019	%	2018	%	Abs	%
Commerce	182 233	13,63%	72 812	8,76%	109 421	150,28%
Construction and Public works	79 006	5,91%	12 451	1,50%	66 555	534,55%
Consumption	22 838	1,71%	13 816	1,66%	9 022	65,30%
Housing	236 695	17,70%	111 382	13,39%	125 313	112,51%
Industry	3 186	0,24%	3 770	0,45%	(583)	(15,48%)
Real State Operations	326 651	24,43%	290 780	34,96%	35 871	12,34%
Services	149 132	11,15%	24 942	3,00%	124 191	497,92%
Tourism	157 733	11,80%	211 605	25,44%	(53 872)	(25,46%)
Other Individuals	179 418	13,42%	90 059	10,83%	89 359	99,22%
Other Sectror	277	0,02%	23	0,00%	254	1089,85%
Public Sector	0	0,00%	0	0,00%	0	0,00%
Total	1 337 169	100,00%	831 638	100,00%	505 531	60,79%

At the end of 2019, impairments/provisions covered 70,0% of the volume of non-performing Loans and Advances (101,2% in the previous year), a reduction explained by the increase in the volume of overdue loans following the change in calculating the overdue loans following entry into force of Circular Series "A" no. 195 / DSF / 2018.

As mentioned before, the new way of calculating non-performing loans and advances, negatively impacted the volume of loans and advances in default, with the Credit's Quality indicator registering an increase of 2.55 p.p., from 6,3% in 2018 to 8,9% in 2019.

The total amount of renegotiated loans (amount in stock) at the end of 2019 was 1.233 million CVE (+ 926 million CVE than in 2018). Referring that this variation is also explained by the change introduced by BCV in the form of identification and classification of restructured loans with the publication and entry into force of Circular Series "A" no. 200 / DSF / 2018 of 12.26.2018 that revoked the previous Circular Series "A" no. 176 / DSE / 2013 of 25.04.2013.

[2] The amounts presented do not include past due loans for less than 90 days in the amount of 123 thousand CVE (478 million CVE in 2018) and 100% provisioned credits that are waiting to be written off in the amount of 478 million CVE (450.7 million CVE in 2018).

(in thousands of CVE)

Designation	2018		2017		Change			
					Balance		Impairment	
	Balance	Impairment	Balance	Impairment	Abs.	%	Abs.	%
Reestructured loans	1 232 237	196 900	306 483	50 532	925 754	302.1%	146 368	289.7%

Distribution Channels and Payment Means

The Banco Caboverdiano de Negócios, SA, maintained its distribution network, with a strong presence on the island of Santiago (7 Business branches) and an extended coverage nationwide. The distribution network consists of a total of 17 (seventeen) branches and 1 (one) Private Banking branch and 2 (two) BCN Business branches, which represents approximately 15% of the national banking system (same as previous year) in terms of physical distribution network.

As regards the **ATM** network, BCN has a national geographic coverage with 30 ATMs distributed over all inhabited islands (27 ATMs in the previous year), which represents about 15% of the total ATM system in 2019, representing a total of 204 machines (191 in 2018).

At the **POS** level, at the end of 2019 BCN had 1041 automatic payment terminals, which represents an increase of 42% (+306) compared to previous year (735 in 2018). BCN's weight in the total POS system increased from 10% to 13% (at system level there was an increase of +959 POS's, from 7.121 POS's in 2018 to 8.080 POS's in 2019.

BCN was responsible, while Support Bank (that is a Bank which ATMs and POS's served as a base for conducting transactions) for 12,6% transaction numbers[3] (11,5% in 2018), ranking as fourth largest Support Bank of Rede Vinti4.

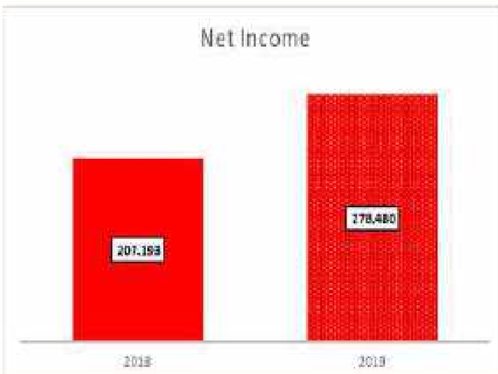
A total of 268.251 **active cards** in the system in 2019 (246.611 in 2018), BCN accounts for 16.233 cards (12.761 in 2018), which represents 9% of the total active cards at the national banking system level (5% in the previous year).

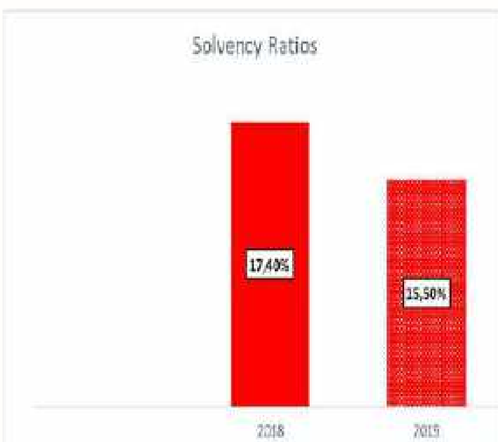
In 2019, there is also an increase in new contracts for the use of internet banking services, there has been a progressive transfer of transactional activities from branches to this channel, especially regarding intra-bank and interbank transfers.

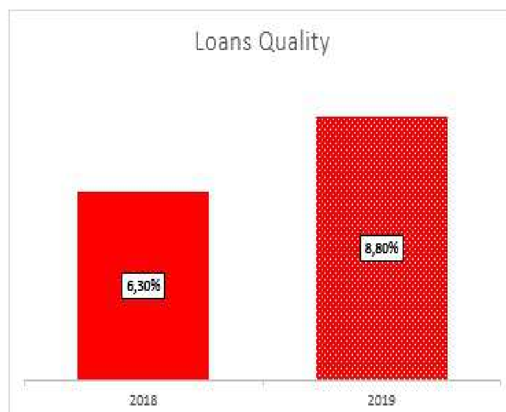
[3] According to data from SISP – Sociedade Interbancária de Sistema de Pagamento's Performance Evaluation Report of December 2019

The results of 2019 show a continuing sustained growth of the Bank in recent years reaching 278.5 million CVE, 34,4% more than the results reached in 2018.

The increase in turnover, with emphasis on Customer Funds, is a sign of an increase of trust level in a Bank focused on its customers and whose performance is motivated by the purpose to improve its customers service in other to fulfill their needs.







The financial statements of BCN for the 2019 financial year, prepared in accordance with International Financial Reporting Standards (IFRS), with the exception provided for in Notice no. 4/2006 of Banco de Cabo Verde, and the alterations introduced by Notice no. 6/2007 related to regulatory provisions, presented a Net profit for the period of 278.5 million CVE (207.2 million CVE in the previous year) resulting primarily from the commercial activity growth.

The Balance Sheet increased by 24,6% to 24.170 million CVE (+4.774 million CVE over the previous year), with the Loans and Advances to customers and, Customer Deposits continuing to have a significant weight in the composition of the same 58,6% (63,7% in 2018) and 87,6% (85,9% in 2018), respectively.

From the analysis of the Financial Statements and the main indicators it is also worth noting:

- *Net interest income* (NII) reached 748.6 million CVE, 18,4% more than in the previous year (632.3 million CVE), supported by the good performance of the credit activity;

- An increase in *Operating income*, which moved from 785.6 million CVE to 926.6 million CVE, mainly influenced by the increase in Net interest income;

- *Operating expense* increased by 10,2% to 445.8 million CVE (404.6 million CVE in 2018) reflecting an increase , both in Staff Expenses (+ 16,4%) and General administrative expenses (+ 2,7%) , with the increase of the staff cost explained by the increase of employees, which went from 139 in 2018 to 154 in 2019;

- *Net operating income* reached the amount of 434.0 million CVE, 24,8% more than recorded in the previous year (347.9 million CVE) contributing positively for a favorable Operating income evolution;

- The *structure cost* as a percentage of operating income (cost-in-income ratio) decreased compared with the previous period of 2018, from 55,7% to 53,2%, with the Bank presenting a high level of operating efficiency;

- Net *impairment losses and loans and advances* totaled 120.7 million CVE (49.9 million CVE in 2018);

- *Impairment related to other assets* totaled 6.6 million CVE, less than the previous year. Pointing out that such amounts, resulted essentially from the change in the fair value of certain properties held in the portfolio and own use properties;

- The *net profit* for the period amounted to 278.5 million CVE (versus 207.2 million recorded in the previous year), fundamentally by the improvement in the performance of the activity, despite the increase in structure costs and impairment;

- In terms of *liquidity*, the Bank maintains a comfortable liquidity position with a transformation ratio of Total Funds to Credit of 72,6%, 7.7 p.p. less than in the previous year (80,3%) reflecting the higher growth of Total Funding compared with that of Loans and Advances.

- As a result of the increase in the volume of Loans and Advances to customers, with consequent impact on weighted assets, the solvency ratio decreased to 15,5%, 1.9

p.p. lower than the previous year (17,4%) and 3.5 p.p. higher than the regulatory minimum, which at the reference date was 12%. The Tier I ratio was 15,4% (16,1% in 2018).

Evolution of the Balance Sheet

Assets

At the end of 2019, BCN´s Net assets amounted to 24.170 million CVE, representing an increase compared to 2018 over 24,6%, pointing out the reduction in the Loans and Advances to customers portfolio, which weight in Net assets went from 63,7% to 58,6%, which reflects a lower production of new Loans and Advances compared to the previous year.

The balances of Cash, Deposits with Central Bank and Deposits and other banks registered an increase of 20,2%, from 3.789 million CVE to 4.554 million CVE in 2019. Registering an increase of 2.026 million CVE in Deposits in other banks.

Liabilities

Total Liabilities increased 26,1%, from 17.215 million CVE in 2018 to 21.714 million CVE in 2019, with customer deposits representing 97,5% of Total liabilities (96,8% in 2018).

Customer deposits (including interest payable) experienced an overall increase of 27,1% (+4.511 million CVE) with Demand deposits increasing around 28,7% (+1.995 million CVE) and Term deposits increasing by 24,5% (+2.208 million CVE),mentioning that this increase occurred despite the fact that Bank has lowered its rates on funding.

(in thousands of CVE)

					Change	
	2019	% Mix	2018	% Mix	Amount	%
Securities sold with repurchase agreements	976.148	4,6%	669.008	4,0%	307.140	45,9%
Demand deposits	8.952.770	42,3%	6.957.369	41,7%	1.995.401	28,7%
Term deposits	11.236.437	53,1%	9.028.101	54,2%	2.208.336	24,5%
Other payables	13.529	0,1%	13.571	0,1%	(43)	(0,3%)
	21.178.884	**100,0%**	**16.668.049**	**100,0%**	**4.510.835**	**27,1%**

The Bank's total funding increased by 26,4% over the previous year, from 16.999 million CVE to 21.487 million CVE. Deposit from banks decreased by 7,0% (-23 million CVE). It should be noted that as of 31 December 2019, the Bank had recorded in the caption Deposit from banks, the amount equivalent to 2 million Euros related to the disbursement of the credit line contracted with IFC.

(in thousands of CVE)					Change	
	2019	% Mix	2018	% Mix	Amount	%
Deposits from banks	308.229	1,4%	331.582	2,0%	(23.353)	(7,0%)
Customer Deposits	21.178.884	98,6%	16.668.049	98,0%	4.510.835	27,1%
Total Funding	**21.487.113**	**100,0%**	**16.999.631**	**100,0%**	**4.487.482**	**26,4%**

Shareholders´ Equity

As of 31 December 2019, the Bank presented a Shareholders' equity of 2.456 million CVE, which represents a change of 12,6% compared with the same period of the previous year (CVE 2.182 million), driven by results of the year and by the non-distribution of dividends related to the previous year.

Evolution of the Income Statement

Net Interest Income

In 2019, the Net interest income amounted to 748.6 million CVE, which represents an increase of 18,4% (+116.2 million CVE), generated by the increase in interest and similar income of about 19,8% (+190.2 million CVE), essentially explained by the increase in the loan and advances portfolio. As regards interest expense and similar charges, a rise of 22,5% (+73.9 million CVE), resulting of an increase in the deposits' portfolio and the charges with the credit line contracted from IFC.

Supplementary Margin

Comparing with the previous year, the Supplementary margin increased by 16,2%, moving from 153.3 million CVE in 2018 to 178.1 million CVE in 2019.

Analysis of main components of the Supplementary margin reveals **(1)** an increase in **Fee and commission income**, +16,4% (+ 26.7 million CVE), related to the increase in the loan and advances portfolio and to commissions associated with services provided to third parties; **(2)** an increase in **Fee and commission expenses** of about 20,6% (+11.5 million CVE) explained by (i)commissions paid in order to formalize the credit line contract with IFC, (ii) the commission associated with the *AFD (Agence Française du Dévelopment)* portfolio guarantee line, (iii) costs associated with the sale of Mastercard cards, (iv) costs with correspondent banks associated with the increase in the volume of operations abroad ; **(3)** a decrease in **Other net operating gains/(losses)**, (- 14.8 million CVE), related to the increase in the recovery of default loans and advances; **(4)** an increase in **Net gains/(losses) from foreign exchange revaluation** around 103,3% (+10.9 million CVE) explained by the exchange rate swings, essentially USD, and by the Bank's position in this currency.

Operating Income

Operating income was at 926.6 million CVE (785.6 million CVE in 2018), which corresponds to an increase of 17,9% compared with the previous period of 2018, influenced by the performance of its components, Net interest income and Supplementary margin.

Operating Expense

Operating expenses (Staff costs, General administrative expenses and Depreciation and amortization) had a global increase in 2019, of 12,5%, (+ 54.8 million CVE), from 437.7 million CVE in 2018 to 492.6 million CVE in 2019.

The Staff costs were at 257.2 million CVE, 16,4% over previous year (220.9 million CVE), caused by a rise in the number of employees, which were 139 in 2018 and jumped to 154 in 2019, with consequent increase in the wage base.

The General administrative expenses presented an increase of 2,7% compared to the same period of the previous year, standing at 188.6 million CVE (+5.0 million CVE). This variation is mainly explained by cash transportation services, apartment rents, communication, and insurance.

The Depreciation and Amortization for this period amounted to 46.7 million CVE, an increase of 40,9% (+13.6 million CVE) compared to previous year. Mainly explained by the impact of the entry into force on 1 January 2019 of IFRS 16 - Leases, which had the opposite effect in terms of general administrative expenses.

The Operating cash flow reached 480.8 million CVE, which is an increase of 26,2% compared with previous year (381.0 million CVE) resulting from improvement in operating income, despite accommodating higher operating expenses.

The Cost-to-income ratio measured by the relation between Operating expenses, including depreciation and amortization, and Operating income, stood at 53,2%, 2.6 p.p. lower than in the previous financial year, influenced by the good performance of Operating income, despite the increase in structure costs.

The Impairment of loans and advances, net reversals and recoveries amounted to 120.7 million CVE, with the same result, essentially, of the reinforcement of the minimum regulatory provisions on the application of Notice no. 4/2006 of Banco de Cabo Verde, related to a Classification of Loans and Provisions, conjugated with compliance with Circular "A" no.179/DSE/2013 of Banco de Cabo Verde related to the recording of the minimum regulatory provisions.

The Impairment of other assets, net of reversals and recoveries which essentially includes the impairment recognized for real estate recorded in the balance sheet and received in lieu of payment of loans and advances (mostly referred to as "foreclosures"), was reinforced by CVE 6.6 million CVE in 2019 . This increase was mainly due to the change in the fair value of certain real estate held in the portfolio, based on the amount at which they were previously recorded.

Net Profit for the Period

Net profit for the period, in 2019, calculated in accordance with International Financial Reporting Standards, considering the provisions of Notice no. 2/2007, of the Banco de Cabo Verde (Bank of Cape Verde) of February 25th , with the exception provided in Notice no. 4 / 2006 and the changes introduced by Notice 7/2007 stood at 278.5 million CVE higher than that registered in 2018 (207.2 million CVE), due essentially, to the increase in the Bank's activity.

Main Indicators and Prudential Ratios

BCN ended the 2019 financial year meeting all the prudential limits imposed by the local Regulator, the Banco de Cabo Verde(Cape Verde Central Bank), pointing out the solvency ratio that stood at 15,5% (17,4% in 2018), well above the prudential limit of 12%. The decrease in solvency ratio is explained by the increase in loans and advances portfolio.

The returns on assets (ROA) and equity (ROE) stood at 1,2% (1,1% in 2018) and 11,3% (9,5% in 2018) respectively.

Cost-to-income ratio shows a favorable decrease of 2,6 p.p., moving from 55,7% in 2018 to 53,2% in 2019, as the Bank enhances its high level of operational efficiency.

The level of commercial transformation experienced a decrease of -7,7 p.p. in 2019, moving from 80,3% to 72,6%, as a result of the greater growth of funds portfolio compared with the loans and advances portfolio.

8. OVERVIEW OF MAIN INITIATIVES PERFORMED IN 2019

Commercial Actions

The Commercial Department has the mission of originating, maintaining, and developing business in the various customer segments and, ultimately, ensuring conformity with the Bank's commercial objectives. It is responsible for the implementation of the commercial measures recommended in the Strategic Plan and, ensuring that the commercial teams have the best operational conditions to continue their action and achieve its objectives.

Besides the network of branches present at all islands, the Commercial Department is also composed of four different segments: Corporate, Private, Small and Medium Enterprises and Marketing and Sales Support, with the following responsibilities:

- Corporate – (i)planning and executing the business plan; (ii) dealing with large corporate and institutional segment; (iii) managing customer's portfolio, as well as prospecting new customers;

- Small and Medium Enterprises – (i) responsible for planning and executing the business plan for the small and medium enterprises segment, as well as prospecting for new customers that belong to the target segment; (ii) supervising, controlling and supporting the daily activity of customer managers for the Business branch segments, ensuring a maximization and profitability of sales;

- Individuals – develop and maintain a commercial contact with private customers focusing on commercial management and counter sale, protocol banking (WPB), bancassurance, cross-selling and synergies with other branches. Ensuring alongside with the support area, the operationality and security of the branches and other distribution channels (ATM, POS, e-Banking, Call Center, etc.);

- Marketing and Sales Support – (i)planning and executing the marketing and sales action plan; (ii) incorporating needs of organized nucleus for Individuals , Corporate and Small and Medium-sized Enterprises; (iii) promoting the brand and business, product management and development , sales, monitoring results, developing of new channels and e-solutions, MIS (Management Information System), CRM management (Customer Relationship Management), and Customer Support management.

In 2019, the Commercial Department has continuing to focus on accomplishing its activities in order to attain the objectives set out in its Strategic Plan, developing a set of commercial and marketing initiatives, with emphasis on the following:

Product, Service and Price

Launching of new products and services in 2019, upon identification of needs of the market through the Marketing Plan, with special emphasis on:

RED- Fast and Direct- a digital platform (https://red.bcn.cve) that allows the customers that live abroad to make a deposit in their accounts by using a VINTI4 or VISA Card;

MASTERCARD debit card- it is an international debit card directed to private customers and companies, which offers some benefits abroad;

Entrepreneur's Card- it is an international debit card and an ID, for members of Câmara de Comércio (Chambers of Commerce), which offers a range of benefits in Cape Verde and abroad;

POS & MPOS na Hora: service that allows the customer to obtain their automatic payment terminal, since joining service;

In addition to the campaigns associated with the launching of the new products and services mentioned before, considering the strategic objective of growing the loans and advances portfolio, Auto and Consumption campaigns have been also launched with satisfactory results.

In terms of term deposits, resulting from the analysis of supply, in accordance with the Bank new strategy to attain its objective of growing its funds portfolio, a revision of the interest rates was made, and a set of term deposits were discontinued. With this initiative, the Bank has continued to provide its customers with the best interest rates on the market, offering a portfolio that is more suited to the needs of its customers.

Business protocols

Considering the need to create strategic partnerships to achieve the commercial objectives, various commercial protocols with national institutions were established in 2019, in other to attract and develop business with the employees of the referred to institutions.

Distribution channels

In 2019, two new branches called BCN Business were opened in Santa Maria and Mindelo. This reflects the new concept of bank branch implemented by BCN, that are intended exclusively for business segment. Besides executing banking transactions, BCN Business makes available management consultants exclusively for the Small and Medium Enterprises, which allows them to obtain personalized service and access to a set of financial solutions adjusted to their needs.

Events

Participation in trade fairs is seen by BCN as an essential tool to gain brand awareness, promote products and services and generate new business opportunities. Therefore in 2019 in partnership with Impar Seguros (Insurance), the Bank participated in Expoauto, FIC - International Fair of Cape Verde, Expomar and Facetur.

Regarding the emigrant segment and the strategy of attracting new emigrant customers, many promotional actions were held throughout the year. In addition to the differentiated offer, the Bank hosted mission in countries of emigrants, such as Portugal, Luxembourg, the Netherlands and the United States of America, with special emphasis on the participation in the Conference "Social Insertion through the economic initiative" organized by Moving Diaspora, held in June in Portugal.

Nationwide, Meetings with Emigrants were organized in Cape Verde, in Santo Antão, São Vicente, São Nicolau, Fogo and Brava islands, in order to fulfill its promise of getting closer to the emigrant communities and promote business development in this segment.

Social Responsibility & Sponsorships

Within the Social responsibility policy and the areas of intervention defined in its Marketing Plan specifically, the promotion of education, culture development, environment protection and promotion, combat against poverty and health promotion, sponsorships and support/help were granted to organizations for the development of their activities.

The organizations and / or activities planned in 2019 were: Mindelact; VIHLS; Organizing Committee of Sal Beach Games 2019; Cape Verdean Soccer Federation (Final of the National Soccer Championship); Câmara Municipal (City Council) da Praia -(Praia Carnival); Câmara Municipal de São Vicente -(Mindelo Carnival); CP Productions (Trail Running Santo Antão); Summer Jazz; Centro Nacional de Artesanato e Design (National Center for Crafts and Design-URDI Fair); Cape Verdean Association for the Fight Against Cancer; Cape Verde Red Cross and School of Ribeira da Prata (recovery works).

Activity Risk Management and Control

The Bank is subject to different risks of various orders to develop its activity. The Bank's risk management, an integral part of the institution's internal control system, is based on the identification, assessment, monitoring and control of all material risks to which the Bank is exposed, in order to ensure adequate risk levels and in line with what was previously defined by the Board of Directors, the body responsible for defining policies for the main activity risks, and such policies being the object of sporadic revisions, whenever warranted.

The Bank's risk management policy aims to maintain, at all times, an adequate relationship between its own capital and the activity performed, from a prudence and with the ultimate aim of safeguarding the institution's sustainability and solvency.

Regarding internal structure, 2019 was marked by the creation of the Risk Management Office, in accordance with the provisions of Notice no. 4/2017 of Banco Central de Cabo Verde (Central Bank of Cape Verde) about the Internal Control System.

This function is transversal to the entire organizational structure of the Bank. Even though it is performed independently and centralized by the Risk Management Office (RMO),a body in the organizational structure of the Bank which is directly dependent on the Board of Directors, through the respective Board Executive, that has no direct responsibilities over the Commercial Department, thus guaranteeing its independence from this area.

Main activities developed in 2019

Throughout the year, the control of subjacent risks to the Bank's activity was performed regarding the principle of prudence, based on the following aspects:

- Improvements in terms of risk management infrastructure with the development of a digital platform called Risk Management System (SGR), as an integrated management tool and reference to the main risks to which the Bank is exposed, especially credit risk , and to monitor some Key Performance Indicators (KPI's) relevant for the normal operation of the Bank;

- Analysis of performance indicators;
- Realization of stress tests for the main activity risks considering different scenarios and shock magnitudes;
- Regular reporting (quarterly) to the Management Body, on the Bank's situation regarding the main activity risks;
- Control of credit risk, the centralized management model for granting loans and advances was consolidated, ensuring that all the main loans and advances proposals from the various business divisions in the commercial areas have the intervention of either the Credit Department or the Risk Management and Control office;
- Additional implementation of the requirements for compliance with the IFRS 9 standard, with the introduction of necessary adjustments, especially in the impairment aspect, with emphasis on the implementation of the following models:

Segmentation model: Considering the characteristics of the loan and advances portfolio, the Bank defined segments that group operations with similar characteristics and risks;

Staging model: According to IFRS 9, the classification of operations and financial assets must reflect the credit risk associated with each of them, depending on the deterioration of loans and advances quality since the initial recognition. Thus, three risk states or stages were considered:

(i) Stage 3: Exposures for which there is objective evidence of impaired credit, in accordance with the definition of default in force at the Bank;

(ii) Stage 2: Exposures for which there has been a significant deterioration in the level of loans and advances risk since initial recognition. For these cases, an expected loss is recognized from a lifetime perspective (throughout the life of the operation);

(iii) Stage 1: Exposures, typically in a regular situation, that do not fit on Stage 2 and Stage 3.

Default Probability Model (PD) -According to the methodology developed for calculating the estimated credit loss, the probability of default associated with an operation must be estimated following two different approaches: estimation of the PD Lifetime considering the useful life of the operation, and PD estimation at 12 months. Both PD estimates represent the probability that the credit operation will default, subject to the respective maturity date, and the period considered for the calculation. However, the PD Lifetime estimated over maturity is only applicable to operations associated with a certain level of credit risk (and considered in Stage 2), while the 12-month PD must be applied to operations identified as regular loan (and considered on Stage1);

Loss Given Default (LGD) Model- A Loss Given Default represents an estimate of the loss of a given transaction after defaulting. It is used in the calculation of the Expected Credit Loss (ECL) of operations in Stage1, 2 or 3. In the model developed for the segments in which there are collateral of a real nature and mortgage associated with loans and advances operations, the recovery value of these collateral was incorporated in the definition of LGD. Also, the estimated LGD's are represented by LGD's curves for time since default.

A Behavioral Maturity Model - For operations, whose maturity dates are not precisely defined (typically revolving operations), a behavioral maturity was determined in order to identify the period during which the Bank is exposed to the risk of credit of these operations.

Expected Credit Loss Model (ECL) - The calculation of the Expected Credit Loss (ECL) intends to estimate the expected loss considering the risk states of each operation subject to credit risk. In other words, a distinction is made between expected loss at 12 months (stage 1) and expected loss over the useful life of each of the operations (lifetime loss). The calculation of the ECL through collective impairment analysis is applied to the Bank's entire portfolio and is based on risk parameters such as Credit Conversion Factors (CCF), Default Probabilities (PD), Loss Given Defaults (LGD), Behavioral Maturities.

Credit Risk

Credit risk is the most significant risk of the Bank's activity and is associated with losses and the level of uncertainty regarding the ability of a customer/counterparty to meet its obligations, and it's essentially present in the loans and guarantees granted. Given the nature of the banking activity, credit risk is very important, given its materiality, despite its interconnection with other risks.

In 2019, despite its loan portfolio growth objective, the Bank maintained prudent and conservative criteria in relation to granting and monitoring of loans and loan portfolio, prioritizing financing new operations with a risk level that was considered adequate according to the exposure of the risk itself.

Regarding the loans and advances granting policy, formalized in specific norms, the Bank has continued the process of consolidating the analysis of procedures, requiring that all credit processes, whether for corporate or private entities being analyzed by an independent department that is not related to the commercial structure. The Credit Department, and the Risk Management Office, are responsible to determine the levels of materiality (aggregate exposures in excess of 1% of the Bank's Own Funds) as a form of complementing the identification of possible situations that could jeopardize the repayment of the amounts requested.

The process of decision has continued to be ensured by different levels, clearly defined, and prioritized by the Credit Regulation, depending on the type, amount and nature of the operations.

Regarding the monitoring/accompanying of the loans portfolio, this continued to be performed in a continuous and comprehensive approach in order to preserve its quality and ensure its diversification, by its sector of activity, or credit segment, or currency.

Ultimately, credit risk materializes in impairment losses, which are the best estimates of losses at a given reference date. In this regard, the model developed by the Bank under IFRS 9, allows to estimate the expected losses (impairment) according to the credit quality of the borrowers, by allocating credits to the following defined segments:

• Stage 1 - Credit performing as per schedule, with no evidence of a significant increase in credit risk

• Stage 2 - Credit without default, but with a significant increase in credit risk. In this segment, among other characteristics, credit operations restructured due to the client's financial difficulties are included; and

• Stage 3 - Credit in default

The risk factors used in the credit impairment model (12-month PD, PD lifetime, LGD, etc.) are updated annually to ensure that they adequately reflect market conditions.

The credit impairment model maintains the concepts of collective impairment and individual impairment, as described below:

• **Collective Impairment Analysis** – for those exposures considered individually as less relevant, the expected loss is determined by subsegment of risk, which include assets with similar risk characteristics (credit segment, type of collateral, history of payment behavior, among others);

• **Individual Impairment Analysis** - for customers with exposures considered individually significant, an individual valuation is made, according to the thresholds:

- Responsibilities exceeding 25,000,000 (twenty-five million CVE) for customers in default or with a significant increase in risk (customers in stage 2 or 3);

- Responsibilities above 100,000,000 (one hundred million CVE) for regular customers (stage 1);

By applying a conservative approach, the Bank has as its principle the recognition of a minimum impairment value for all loan operations, even when the individual analysis resulted in a zero impairment.

In order to focus on the credit control, the Bank has taken a few measurements, such as:

- A continuous and permanent monitoring of the loans and advances portfolio, in other to maintaining a strict control over its risk, through a monthly report, to ensure that the measures are taken on time regarding potential defaults as well as to the resolution of non-performing loans, focusing on materially relevant operations;

- Reinforcement of rigor in the credit analysis and approval criteria for the various segments, aimed at portfolio quality;

- Preservation of portfolio quality, acting on past due loan delays, providing loan restructuring solutions that allow for the adjustment of customers' repayments in function of their current and future income availability/repayment capacity;

- Identification of at-risk loan operations, under the terms defined by the Central Bank regulations in this matter;

Credit Recovery Area

The Credit Recovery Areas have as their mission to contribute to the recovery of past due loans, both through extrajudicial negotiations/agreements and through litigation.

In this manner, credit recovery is divided into two broad areas according to the associated collection phase, with pre-litigation operations under the management of the Credit Department through the Credit Monitoring Center (CRC) and on litigation phase under the management of the Legal Advisory Office (LAO).

The Bank has opted, whenever it is possible, for a loan renegotiation through its restructuring, depending on the financial capacity of the customers. In the cases which restructuring is not possible, extrajudicial negotiation is recommended, in order to the realization of foreclosure operations with donation of assets, as opposed to litigation, knowing for being costly and a slow pace process.

On the other hand, the Bank has focused strongly on prevention, identifying the operations with indications of default, aiming at a more efficient resolution of the processes accompanied by the areas.

Regarding the portfolio under the management of the Credit Recovery Center (CRC), there was an increase of 28% in the volume of exposure of loans and advances portfolio. This increase is mainly due to the transfer to this department of some operations that had been negotiated extrajudicially by the Legal Advisory Office (LAO). On the other hand, the allocation of new operations transferred from the Business branches, where commercial negotiation was not satisfying. Consequently, the number of customers under management of the CRC increased by 16%.

On the contrary, at the level of loan operations under litigation associated with the Legal Advisory Office (LAO), there was a decrease around 9% due to the transfer mentioned above, despite the allocation of new operations for judicial collection.

It should be noted that the weight of litigation cases due to the total loans and advances being followed by the recovery' areas dropped from 64% to 56%. Regarding the number of litigation cases, there was a decrease of approximately by 3%.

Market Risk

Market risk is defined as the probability of negative impacts on results or shareholders' equity due to adverse movements in the market price of the trading portfolio instruments, caused, specifically, by fluctuations in interest rates, exchange rates, share quotations or commodity prices. As of 31 December 2019, the Bank had no exposure in securities held for trading, for which reason the Bank's approach to this type of risk has been one of monitoring the foreign currency restatement.

Interest Rate Risk

Interest rate risk is defined as the possibility of financial losses arising from adverse movements in interest rates. In this case, the medium/long-term interest rate risk at the banking portfolio level is evaluated, to determine the Bank's exposure to this risk and to measure its ability to absorb adverse changes in the rates to which it is exposed.

Interest rate risk is calculated by classifying all asset, liability and off-balance sheet items that belong to the banking portfolio and are sensitive to interest rate fluctuations, by interest rate re-fixing levels. The analysis considers assets, liabilities, and off-balance sheet items sensitive to changes in the interest rate, that is, that have an associated remunerative interest rate. The exposure to fixed interest rate is considered by residual maturity.

The analysis is based on positive and negative parallel shock scenario of the 200 base-point yield curve, and respective impact on net equity and net interest income, based on assumptions made in accordance with Circular Series "A" 164/DSE/2011, of Banco de Cabo Verde.

As of 31 December 2019, based on the Exposure Schedule of the Assets and Liabilities and Off Balance Sheet Items that are part of the banking portfolio, by residual and rate re-fixing maturity, the impacts on Own Funds and on the interest margin resulting from the shift of the 200 base-point yield curve would be 54% (64% in the previous year) and 3% (-2 p.p.), respectively.

The Bank's situation regarding this risk is reported half-yearly to the regulator.

Exchange Rate risk

Exchange Rate risk consists of the probability of a negative impact on results or equity due to adverse movements in exchange rates, meaning that, it represents the risk that the value of positions denominated in foreign currency present fluctuations due to exchange rate changes.

The Bank monitors its exposure to exchange rate risk by controlling and revaluating the daily exposure of open global positions assumed against the various currencies and adopts comprehensive hedging strategies to ensure that these positions remain within predefined limits.

The breakdown of the Bank's balance sheet by currency can be found in Note 36.6 - Foreign Exchange Risk, attached to the Financial Statements.

Liquidity Risk

Liquidity risk arises from the probability of the Bank undergoing difficulties both in financing assets by maturity periods and at appropriate rates, and in liquidating portfolio positions on a timely basis and at reasonable prices. Liquidity management, executed jointly with the Finance and International Department, is done from the short-term and the long-term perspectives. From either perspective, the main objective is to maintain a minimum mandatory balance with Banco de Cabo Verde, seeking a return on any excess in relation to this balance using the different instruments existing, such as deposit facilities with BCV, short-term deposits with correspondent banks, investments in public debt securities, etc.

The Bank continued to maintain a very balanced position in managing its liquidity, having the transformation ratio stood at 76,2% in 2019 (80,3% in 2018). To point out that the growth in the fund's portfolio (27,1%) was higher than the growth in the loan portfolio (14,2%), explaining the lower transformation ratio.

The liquidity levels are monitored through the identification of liquidity gaps for the different maturity periods, especially in the very short term. The assessment of this type of risk is also based on the calculation and analysis of regulatory indicators defined by the supervisory authority that translate into an analysis of the maturity profile of the assets and liabilities in order to identify possible *mismatches*. The asset and liability positions are arranged according to the corresponding residual maturities, by time intervals.

Still regarding liquidity management, on a bi-weekly basis the Bank determines the existence of potential gaps, considering the potential commitments assumed.

Operational Risk

Operational risk should be understood as the probability of the occurrence of direct or indirect losses resulting from inadequate internal processes or systems, or their breakdown, the behavior of people or external events (natural disasters, for example), and is present in any activity, routine or not, performed by the institution.

Operational risk is intrinsic to all the banking activity likewise it is generated both by the Business branches and by the support areas. Given its nature, all employees are responsible for managing and controlling operational risks through its identification, assessment, and mitigation. In this sense, the response to risk comprises avoiding, accepting, mitigating, sharing, or transferring the risk, within the established parameters and evaluating the cost/benefit.

Regarding this type of risk, the Bank continued the process of consolidating its procedures and control mechanisms, which are clearly defined and established through internal regulations, such as: segregation of duties, access control, definition of responsibilities and respective levels of authorization, process definitions, centralized processing of key operations, etc.

Compliance and Reputational Risk

Compliance risk is defined as the probability of negative impacts on results or equity arising from the violation of legal and regulatory standards, contractual obligations and the code of conduct, which may materialize in administrative infractions, fines, penalties or the demand for compliance with obligations by third parties.

Reputational risk is defined as the probability of negative impacts on both equity and results arising from the negative perception by both the customers and by the suppliers and public.

In accordance with the legal and regulatory provisions, the organizational structure of the Bank integrates a compliance function, performed by the Compliance Office, a first-line area in the hierarchical structure of the Bank that is specifically responsible for these two types of risks.

The Bank's policy regarding the management of these two types of risk covers the following instruments:

- Compliance policy;
- Policy for the prevention of money laundering and financing of terrorism;
- Codes of conduct;
- Conflict of interests;
- Processing and protection of personal data;

- Monitoring and follow-up of regulations and legal and regulatory provisions;
- Policy regarding the financing of sensitive sectors;

These actions are complemented by the risk and finance areas, which are responsible for the articulation with the supervisory authority and the compliance with the reporting obligations and prudential limits to which the Bank is subject.

Real Estate Risk

Real Estate risk is defined as the probability of negative impacts on results of equity arising from a change in market prices of real estate, including of properties over which the Bank has a usufruct.

The portfolio of real estate received in credit reimbursement continues to deserve special attention from the Bank given its weight in the balance sheet and the level of intrinsic risk.

The Bank has been guided by a conservative approach, with the timely recognition of potential losses arising from these assets, with the practice of obtaining annual assessments made by independent evaluators certified by the Cape Verde Engineers Association and / or by the General Audit of the Securities Market of Cape Verde, to support these losses mentioned.

Regarding the commercialization of real estates, the Bank has the following guideline:

- All real estate held by the Bank, with exception of that in its own service, is held for sale, either through internal or external channels, with the attribution of incentives to employees and payments of real estate brokerage commissions;
- Assign the management and sale of real estate to IMOPAR, the Group's entity dedicated to real estate management, functions previously performed by the Bank, to focus on its core activity;
- The Bank has a specific product to finance the sale of its real estate, with attractive conditions regarding the rate, commissions, and terms;
- In other to guarantee the maintenance of the real estate values, there were a few interventions made. The Bank has contracted this year a specialized company in other to guarantee the maintenance and the optimization of the real estate.

Foreclosed real estate is mandatorily valued on the date of its initial recognition by independent expert appraisers certified by the Ordem dos Engenheiros de Cabo Verde (Engineers' Association) and/or the Auditoria Geral de Mercado de Valores Mobiliários de Cabo Verde (General Audit of the Securities Market). These properties are recorded at the lower of the valuation amount and the amount of the foreclosure/adjudication, including all costs incurred up until the formal registration of the property in the Bank's name. These assets are not depreciated, and, in general, it is the policy of the Bank to revalue them annually, for the purpose of determining any additional impairment (after initial recognition).

The annual valuations of these properties are performed by independent experts in accordance with the criteria and methodologies accepted for this purpose, with the fair value being defined by the amount which can reasonably be expected from a transaction between an interested buyer and seller, on a fair basis, none of them being obliged to sell or to buy and both being knowledgeable of all the relevant factors as at a certain date.

The table below shows that 100% of the properties held in the portfolio at the reference date having been valued by independent experts/appraisers less than one year ago.

Time elapsed since the last valuation	< 1 year	>= 1 year and < 2 years	>= 2 years	Total
Quantity	45	-	-	45
%	100%	0	0	100%

According to the Bank´s internal policy, when it is not possible to revalue the real estate, the Bank applies haircuts to the amount of the last existing valuation[4], based on the time elapsed since the last valuation and the percentage of completion of the works, as a reflected in the table below:

Time elapsed (Months)

		<12	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	>36
Haircut	>= 50% Works	0%	10%	10%	11%	11%	12%	12%	13%	13%	13%	14%	14%	15%	15%	16%	17%	18%	18%	19%	20%	21%	22%	23%	23%	24%	25%	50%
	< 50% Works	0%	10%	11%	12%	13%	13%	14%	15%	16%	17%	18%	18%	19%	20%	21%	23%	24%	25%	26%	28%	29%	30%	31%	33%	34%	35%	40%

All valuation reports are subject to internal analysis, regarding their comparison with amount of previous years, as well as the property's state of repair and location, with the application of haircuts to the valuation amounts attributed by the expert appraisers and, consequently, the amount recognition of impairment whenever the amount of the current valuation is lower than the average of the historical values of a given property.

Whenever the valuation method used was the cost method, the Bank compares the average construction values per m² considered by the appraisers with the reference values provided by the Ordem dos Engenheiros de Cabo Verde, as there is still no real estate market observatory in the country, to publish reference values for the construction cost per m².

Real estate asset flows are monitored daily, both the entries (foreclosures/adjudications) and the exits (sales) with their respective impacts at the level of the income statement. Such monitoring is done through the Credit Department with the support of other organic branches of the Bank.

During 2019, foreclosed[5] real estate in an amount of 59.678 thousand CVE were received, a reduction of 75% compared to the previous year, in which 237.625 thousand CVE were

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[4] As defined in the criteria of Annex III to Series "A" Circular No. 201 / DSF / 2018 of 26 December 2018, from Banco de Cabo Verde

[5] Refers solely to real estate received for which the registration of the property in the Bank's name as at the respective reference date had already been concluded. As 31/12/2019 the amount, net impairment was 950 million CVE (1.103 million CVE in 2018).

received. It should be mentioned that, during 2019, infrastructure works were performed on land lots held in portfolio in a total amount of 11.663 thousand CVE.

Foreclosed real estate distribution, according to the time elapsed since its recording, shows that 5,6% (equals to 59.678 million CVE), of the real estate registered on the balance sheet was received less than a year, and 90,3% of the real estate in the portfolio was received less than five years ago.

To be noted that 9,7% of the real estate (equals to 102.923 million CVE) was received more than five years ago, with this amount being deducted, from the Own Funds, at a 20% annual rate, as provided on the article 4, paragraph b) of Notice no. 07/2015 of BCV 60/VIII/2014.

(in thousands of CVE)

	<1 YEAR	< 2,5 YEARS	< 5 YEARS	> = 5 YEARS	TOTAL
LAND	**0**	**3.272**	**209.480**	**86.211**	**298.963**
URBAN	0	3.272	209.480	86.211	298.963
RURAL	0	0	0	0	0
BUILDINGS UNDER CONSTRUCTION	**0**	**0**	**33.111**	**0**	**33.111**
COMMERCIAL	0	0	22.785	0	22.785
HOUSING	0	0	10.326	0	10.326
OTHERS	0	0	0	0	0
BUILDINGS CONSTRUCTED	**59.678**	**65.823**	**349.407**	**16.713**	**491.621**
COMMERCIAL	34.645	0	60.292	0	94.938
HOUSING	25.033	65.823	91.882	16.713	199.451
OTHERS	0	0	197.232	0	197.232
OTHERS	**0**	**0**	**240.513**	**0**	**240.513**
TOTAL	**59.678**	**69.095**	**832.510**	**102.923**	**1.064.207**

As of 31 December 2019, the Bank had in its portfolio around 45 properties, including land, residential, commercial, and other buildings, with their fair value being reflected in the table below:

(in thousands of CVE)

	No. PROPERTIES	FAIR VALUE	ACCOUNT VALUE
LAND	**11**	**399.057**	**298.963**
URBAN	11	399.057	298.963
RURAL	0	0	0
BUILDINGS UNDER CONSTRUCTION	**2**	**31.500**	**33.111**
COMMERCIAL	1	25.000	22.785
HOUSING	1	6.500	10.326
OTHERS	0	0	0
BUILDINGS CONSTRUCTED	**30**	**502.130**	**491.621**
COMMERCIAL	4	74.700	94.938
HOUSING	24	192.930	199.451
OTHERS	2	234.500	197.232
OTHERS	**2**	**271.000**	**240.513**
TOTAL	**45**	**1.203.687**	**1.064.207**

Given that at the level of the financial market, there was a generalized increase in the real estate in the balance sheet of all the Credit Institutions operating in the country, Banco de Cabo Verde introduced, through the Notice mentioned above, a transitional provision, complemented by the annex to the Circular Series, no. 188 of 2017.01.31, according to which "the net carrying amount in the balance sheet of assets received, as from 2013 and until 31 December 2016, in repayment of own loans, shall be deducted from Own Funds, starting in 2018, with 45% in that same year and 55% in 2019, and so on until 2022". The Bank has been adopting disposal strategies for these assets; however, if it does not dispose of these within the period foreseen, the greatest impact will be felt in 2020 and 2021, with the deduction of the real estate received in 2015 and 2016, respectively, nevertheless, these deductions will not bring into question the compliance with the capital ratio.

During 2019, the Bank sold a total of 14 (fourteen) properties for an overall value less than the respective net value, having obtained a loss of 1.144 thousand CVE (496 thousand CVE in 2018), recognized in the income statements as "Results from the sale of other assets" (Note 28).

Years	Gross amount	Accumulated Impairment	Net amount	Sales amount	Intermediation cost	Gains / (losses) on sale of Real State
2019	**220 601**	9 970	210 631	211 936	2 450	(1 144)
2018	**411 777**	47 094	364 683	364 575	388	(496)

Compliance Function

It is an independent, permanent and effective Compliance function responsible for controlling compliance with the obligations and duties to which the Institution is bound, namely to ensure that the management bodies, functional structures and all the employees comply with the legal and regulatory rules governing the activity of the financial sector, the Institution's by-laws, and the superiorly approved rules of ethics and conduct, in order to minimize the risks of the Bank incurring in legal or regulatory sanctions, and in financial losses or penalties of a reputational nature arising from non-compliance.

The Compliance Office (CO) is part of the internal control body, according to the organic structure in force, reports administratively to the Board of Directors, through the responsible Director, and permanently reporting information to the Board of Directors and has a staff affection in exclusivity.

A summarized responsibility of the Office:

- Ensuring the compliance with and updating of the policies and procedures considering the legislation and regulations;
- Ensuring and supervising compliance with the policies and procedures adopted in the Manual on Prevention of Money Laundering and Financing of Terrorism (PML/FT);
- Ensuring the monitoring of transactions in the matter of PML/FT;
- Preparing a monthly report on the analysis of eligible transactions in the scope of PML/FT, including a summary of any suspicious transactions;
- Complying with the duty of reporting suspicious transactions to the Financial Information Unit (FIU);
- Submitting a quarterly report to the Board of Directors (BD), on the activity developed by the Compliance Office;
- Acting as a privileged interlocutor of the judicial authorities, police, Financial Information, and supervision departments and ensuring the provision of all information requested by these entities;

- Developing training actions and internal information in order to generate an appropriate team attitude towards Compliance-related issues.

Aiming to adopt the best internal governance practices, the Bank has established a number of comprehensive committees in relation to the main business, internal control and business support areas, among which the Internal Control Committee in which the Compliance Office (CO), the remaining control areas (Audit and Risk), the Customer Ombudsman Office, the members of the Executive Commission and, upon invitation, the members of the Supervisory Board participate. This Committee has as an indicative agenda the assessment of the internal audit reports, the assessment of the impact of regulatory measures on the Bank's activity (Compliance), the analysis of statistical reports on complaints, the monitoring of the state of the implementation of corrective measures for weaknesses identified in internal control reports, among others.

In financial year 2019, the Compliance Office was involved in the implementation of support tools, and in the development of policies and procedures necessary to effectively comply with the provisions of Notices no. 3/2017 - Opening of deposit accounts, no. 4/2017 - Internal Control System and no. 5/2017 - Notice of the conditions, mechanisms and procedures necessary for the effective fulfillment of the preventive duties regarding money laundering and financing of terrorism, published by Banco de Cabo Verde in 2017. With reference to the latter, the Bank has taken a set of initiatives / decisions that will make it possible to reinforce the prevention system currently implemented, so it will be possible to follow the international recommendations.

The Office followed the publication of other regulations applicable to banking activity, as well as made the disclosure / implementation internally, with the following being highlighted in 2019, published by Banco de Cabo Verde:

• Notice no. 1/2019 - Accumulation of positions of corporate bodies;

• Notice no. 2/2019 – Wages Policy for Financial Institutions;

• Notice no. 3/2019 - Behavioral Supervision that alters notice 3/2014, of October 17;

• Notice no. 4/2019 - Amendment to notice 4/2014, of October 17 - Members of the Financial Institutions Management and Supervision bodies.

• Notice no. 5/2029 amending Notice no. 9/2017, of 3 October, which regulates the Deposit Guarantee Fund;

Banking Operations and Services

The execution and control of banking operations and services is performed by the Operations Department (OD), which is a first-level body of the Bank's structure, with direct dependence on the Executive Commission.

Following the guidelines, and focusing on mitigating operational risks and increasing the speed of operations, throughout the year 2019 several activities and initiatives were performed by the OD, emphasizing on the implementation of measures leading to the improvement of some processes, especially regarding loan processes, always considering the binomial simplicity/security of the operations.

In line with previous years and in order to safeguarding the Bank's future position, continuity was given to the collection and safekeeping of all loan contracts and guarantees processed during the course of 2019 as well as the procedures for the periodic updating of collateral values, in line with internal and regulatory provisions.

During 2019 the Operations Department continued following the development and implementation of various projects, following stand out:

- Contribution by the Operations Department to launch the new commercial concept for the new branches BCN BUSINESS Santa Maria, and Mindelo;
- Continuity in the integration of certain offices of Seguradora IMPAR (IMPAR Insurance Company) into the new BCN Business' branches, consolidating the GRUPO IMPAR; adjusting all operational functionalities, both in terms of structure and operational processing; closing of certain bank branches; and Bancassurance;
- Implementation of international MASTERCARD cards in different features;
- Operationalization of new products made available to customers, by the Bank through its branch networks.

Information Systems

The management of the Bank's information system is the responsibility of the Information Systems and Technology Department (DIT), which main task is to ensure the correct operation of the IT systems and the proper functioning of the communications networks, as well as the security and integrity of the data, ensuring too, the design and development of IT systems according to the needs of the Bank with the aim of enhancing the banking activity and the quality of the services rendered, in line with its Strategic Plan.

At the beginning of 2019, we reinforced the team with a new element with expertise in the area of infrastructure to consolidate and implement the improvements developed in 2018. The team remains committed to improving the IT platform and the internal and external services provided by BCN.

The highlights of the activities performed are centered on the improvement of the physical infrastructures of the branches and the headquarters, migration of communications architecture, migration of internal telephone, and the operationalization of a new environment for the provision of external and internal services (still ongoing).

Also, in 2019, a set of activities were performed in various fields, in terms of Development, Core Banking and Systems, which aimed to improve the existing conditions and services or activities that required a change in environment.

Internal Audit Function

The internal audit function is the responsibility of the Internal Audit Office (IAO) ,which main mission is to assist the Bank achieve its objectives, verify using a systematic and disciplined approach, with rigor and competence that the established controls are adequate for compliance with the ethical principles and standards of conduct defined in the internal regulations of the Bank.

The internal audit seeks to ensure compliance with internal regulations and conformity with legal provisions governing the banking activity, reporting the facts and situations that constitute deviations from that laid down and that are unadjusted to the rules and procedures established for internal control, but also to comply with internationally recognized and accepted principles of internal audit.

The internal Audit function implemented at the Bank seeks to comply with the control requirements of the function, namely those defined in the Notice no. 4/2017 of Banco de Cabo Verde, and international best practice in the matter of audits.

It performs its activity with scrupulous observance of the principles of independence, legality, objectivity, impartiality, professionalism, and confidentiality. It also seeks to develop its activity in conformity with the internal audit principles recognized and accepted internationally.

All the Bank's organic processes and departments, including the Risk Management Office and Compliance Office, are subject to its evaluation.

The audit plan for the year 2019 considered the standards of Notice no.4/2017 and the best international practices in matters of audit. It was based on the risk assessment of the institution's activities, systems and processes, in order to allow the focus on assessing the adequacy and effectiveness of the internal control system in the areas of greatest risk (credit risk, operational and Compliance). In order to prepare the audit plan, contributions from the management body, management staff and external auditors were requested.

In the audits of the Business branches, the areas audited in 2019 were those considered to be at greater risk, namely: treasury; internal security means, verification of cashier documents, filing, transfers, debit cards, check payments, Term deposit, accounts opening procedures, verification of loan processes, compliance with price list and delegated powers and compliance with internal and regulatory provisions in the matters of money laundering and the financing of terrorism.

The IAO, through its work actions, face-to-face and remote, followed the Activities Plan approved by the Executive Commission, which covered the Bank's various functional areas, having the weaknesses identified which had the special attention of the bodies involved, thus contributing to the strengthening of the internal control in place.

In total, 33 audit works were executed, covering all the Bank's Business branches and some Central Services, as shown in the table below:

Type of Audits	Performed in 2019
In progress_ Business Units	19
Remote_ Business Units	7
Evaluation_ Business Units	3
Lawsuits	4
Total Audits	**33**

The Audit actions performed in different areas of the Bank; they were structured as follows:

Designation
Retail Banking
Mortagage loans
Commercial Banking
Loans
Own Portfolio
Securities portfolio
Others
Deposits
General Functions
Management
Control functions: Internal Audit, Compliance, Risk Management
External Reporting
Adaministrative services/Human Resources/ Credit Department / Operations Department - Insurance

Reports were issued for each audit action and investigation and analyzed by the Internal Control Committee (ICC). The recommendations were subsequently monitored, in order to following up the implementation of the corrective measures approved by the ICC.

The IAO also performed the following activities:

- Preparation of the report for the Board of Directors and for the Supervisory Board of BCN on audit issues, with a summary of the main weaknesses detected in the control actions;
- Validation of medium- and high-risk internal control points with closed status;
- Preparation of follow-up actions on the occurrences identified in the work done;
- Preparation of reports of remote audits performed in the business branches (reversals, account numbers, checks' incidents)
- Preparation of reporting information for the management body.

Considering the extension and nature of the activities performed by BCN, its internal audit function is based on a solid, coherent and consistent organizational model that incorporates the regulatory requirements, guidelines and best practices for internal audit, recognized and accepted nationally and internationally for the pursuit of its vision, mission, strategic objectives and attributions.

Customer Ombudsman

Created with the mission of contributing to the improvement of the quality of the services provided by BCN to its Customers and to the Public in general , the Customer Ombudsman Office (COO) reflects an integrated concept of the internal management of the issues that give rise to customer complaints and suggestions, aimed at providing a comprehensive response to the questions raised.

The COO acts with full and complete exemption and functional autonomy.

Customer confidence and its satisfaction levels can be increased if the **Customer Ombudsman** requests are promptly and efficiently handled, helping to maintain and implement BCN's reputation.

The Customer Ombudsman, responsible for the handling of complaints; must respond to the Customer complaints within a maximum of 10 business days following the reception of the complaint; imposing a greater need for fast response, which also implies greater speed on the part of the other services of the Bank regarding its cooperation and response to the requests of the Ombudsman.

The complaints received were forwarded directly from the Bank to Banco de Cabo Verde (Cape Verde Central Bank) through Extranet Platform.

During 2019, there were 9 complaints submitted and resolved by the COO, which were submitted either directly to the BCN, through a letter and Complaints Book and through the Banco Cabo Verde (BCV).

By breaking down the total numbers of complaints, 5 (five) were received in the first half, and 4 (four) in the second, with 8 (eight) of complaints originating from the Business Units in the Sotavento area.

There were different types of complaints:

- Miscellaneous - 5 (deposit account block by court order, problems accessing BCN online, parking, operation refund, counterfeit bill);
- Visa - 2 (unauthorized transactions and exchange rate);
- Loan - 1 (guarantor)
- Customer Service - 1 (delay in service).

The complaints were all analyzed and resolved within legal deadline set by Cape Verde Central Bank within 10 business days.

The efficient handling of complaints received allowed the adoption of corrective and preventive measures, making it possible to respond quickly to complainants and correct anomalies, thus improving the provision of services to customers and the public in general.

Social Balance Sheet and Human Resources

The Administrative and Human Resources Department (AHRD) is organizational structure of BCN, which mission is to promote the necessary conditions for the development of an adequate work environment conducive to the growth and satisfaction of Employees, promoting sustainable relations with all Stakeholders of the Bank, incorporating, in all circumstances, the Values of BCN.

The materialization of the Vision, the Mission and the strategic objectives of the Bank depend, fundamentally, on the commitment, dedication and the "Djunta Mom" of the Employees.

Thus, during the year 2019, several initiatives were performed in order to value the Human Resources asset that represents one of the biggest strengths of BCN.

Benefits

The well-being the of BCN' Employees are one of the main concerns of the Bank's management.

In this sense, in 2019, the Bank continued to review the preferential conditions of Employees with more than 1 year of work, extending the benefits by including health insurance to all Employees, regardless of the type of employment relationship.

Training

Training is elected as an essential investment for the achievement of the objectives of the Bank, for obtaining results and for enhancement of Staff.

In this perspective, a training plan was drawn up and was in force during 2019, including a set of internal and external training actions, national and abroad.

A total of 53 training actions, 1 abroad, and 52 in Cape Verde took place. Of the 53 training actions, 35 were performed by external entities and 18 by internal trainers.

Of the total training actions, a total of 447 participants and 679 hours of training were recorded, with emphasis on (1) insurance training in general and, specifically, for SORCA (2) training in sales techniques (3) training in specific products and services, such as international operations, and POS (4) Microsoft Excel training.

Internship program

Continuing the implementation of the partnership between the BCN and the IEFP, materialized through the Protocol signed between the two institutions in the matter of Recruitment, Professional Internships, Professional Training, Entrepreneurship and Self-employment. In 2019, BCN continued offering professional internships program, giving internship opportunity for young professionals and recent graduates looking for their first job.

Characterization of the permanent staff

At the end of 2019, the payroll had a total of 154 Employees (139 in 2018), of which 152 were in active service (138 in 2018) and 2 were inactive due to the exercise of public functions.

There were 23 (twenty and three) new employees admitted, and 8 (eight) departures.

Year 2018	Joiners in 2019	Leavers in 2019	Total Year 2019
139	23	8	154

The admissions more than compensated the departures, with a growth of 11% in the number of Employees of BCN being verified in 2019.

Of the 154 permanent Employees, 60% had undefined-term contracts with the Bank and the rest had a defined term.

Distribution by Gender

Analyzing permanent staff by gender, 73% correspond to female Employees and 27% to male Employees. Compared with the previous year, there was a decrease of 2 p.p. of male Employees.

Distribution by Age

The average age of the Employees of BCN in 2019 remained at 36 years, with most of the Employees falling within the age range of 30 and 40 years old.

Distribution by Academic Qualification

Regarding the distribution of the staff by academic qualification, most Employees have higher education.

Distribution by Organic Unit

In 2019 the distribution by organic unit continued to be predominantly led by the commercial area, with 60% (58% in 2018), while 40% (42% in 2018) of the Employees were in Central Services.

Distribution by Geographical Areas

The highest concentration of the Employees is in Santiago' island, totaling 61% of Employees, of which 62% are at the headquarters, followed by São Vicente island with 12% of the Employees.

9. PROPOSAL FOR APPROPRIATION OF RESULTS

Considering that:

i) In financial year of 2019, Banco Caboverdiano de Negócios, SA, generated in its accounts a net profit of 278.479.773 million CVE (Two hundred and seventy- eight million, four hundred and seventy-nine thousand and seventy hundred and seventy- three Cape Verdean escudos);

ii) The shareholders of the bank adopted a prudent posture and intend to reinforce the shareholders Equity of the bank in order to boost its activity, and have decided not to distribute dividends starting in 2018 and until 2022;

iii) The Bank intends to benefit from the exemption provided for in the Tax Benefits Code which, in its article 29, establishes the possibility of deducting to the taxable matter of the portion of retained earnings assigned to a specific reserve to reinforce Own Funds;

The Board of Directors, under the terms and for the purposes of paragraph b) of no. 1 and of no. 2 of article 407 of the Commercial Companies Code and of no. 1 of article 42 of Law no. 62/VIII/2014 of 23 April, proposes that the Net profit for financial year of 2019 should be distributed as follows:

(in thousanads of CVE)

	Percentage (%)	Amount
Legal reserve	10%	27 847 977
Other reserves and retained earnings	50%	139 239 887
Retained earnings	38%	105 101 721
Profit Sharing	2%	6 290 188
TOTAL	**100%**	**278 479 773**

II. FINANCIAL STATEMENTS

Balance Sheet as of 31 December 2019 and 2018

(in thousands of CVE)

Description	Notes	2019 Amounts before provisions, impairment and amortization	2019 Provisions, impairment and amortization	2019 Net book value	2018 Net book value
Assets					
Cash and deposits with Central Banks	4	3.675.292	-	3.675.292	2.429.820
Deposits with Banks	5	878.575	-	878.575	1.359.177
Financial assets designated at fair value through profit or loss	6	50.804	-	50.804	33.456
Financial assets measured at fair value through other comprehensive income	7, 10 & 32	179.855	-	179.855	179.855
Financial assets measured at amortized cost					
Debt securities	10	1.540.218	7.814	1.532.404	1.389.691
Loans and advances to banks	8	2.132.007	-	2.132.007	106.124
Loans and advances to customers	9, 32 & 36	15.589.187	1.414.014	14.175.173	12.353.478
Other tangible assets	11, 32	791.955	492.484	299.471	231.593
Other intangible assets	12	165.880	138.877	27.003	7.667
Tax Assets					
Current tax assets	14	16.531	-	16.531	-
Deferred tax assets	13	38.092	-	38.092	22.751
Other assets	15 , 32	1.285.562	120.449	1.165.113	1.282.707
Total Assets		26.343.960	2.173.639	24.170.321	19.396.318

Description	Notes	2019	2018
LIABILITIES			
Financial liabilities measured at amortized cost			
Deposits from Banks	16	308.229	331.582
Customer deposits	17	21.178.884	16.668.049
Provisions	34	7.675	7.675
Current tax liabilities	18	-	31.985
Deferred tax liabilities	13	3.907	4.107
Other liabilities	19	215.693	170.986
Total Liabilities		21.714.388	17.214.385
EQUITY			
Share Capital	20	900.000	900.000
Revaluation reserves	21	181.164	181.854
Legal reserve	22	124.693	103.974
Other reserves and retained earnings	22	971.596	788.912
Net profit for the period		278.480	207.193
Total Equity		2.455.933	2.181.934
Total Liabilities + Equity		24.170.321	19.396.318

Financial and International Department

The Board of Directors

Income statement for the financial ended as of 31 December 2019 and 2018

(in thousands of CVE)

Description	Notes	2019	2018
Interest and similar income	23	1 151 633	961 432
Interest and similar expenses	23	(403 062)	(329 101)
Net interest income		748 571	632 331
Dividend income	24	13 086	12 828
Fee and commission income	25	189 624	162 878
Fee and commission expenses	26	(67 377)	(55 881)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	6	16 891	3 077
Net gain / (losses) from foreign exchange revaluation	27	21 540	10 597
Net gain / (losses) on disposal of other assets	28	(172)	474
Other net operating gains / (losses)	29	4 486	19 303
Operating income		926 649	785 609
Staff costs	30	257 186	220 937
General and administrative expenses	31	188 646	183 626
Depreciation and amortization	11 & 12	46 724	33 153
Provisions, net of reversals	34	-	(12 305)
Impairment losses of loans and advances, net of reversals and recoveries	32	120 660	49 936
Impairment losses of other assets, net of reversals and recoveries	32	6 627	37 860
Profit / (loss) before income tax		306 806	272 401
Income Tax		28 326	65 207
Current tax		43 667	87 011
Deferred tax		(15 341)	(21 804)
Net profit for the period		278 480	207 193
Earnings by share	33		
. Basic (CVE)		309	230
. Diluted (CVE)		309	230

Financial and International Department

The Board of Directors

Statement of comprehensive income for the financial years ended as of 31 of December 2019 and 2018

(in thousands of CVE)	2019	2018
Net income for the period	278.480	207.193
OTHER COMPREHENSIVE (EXPENSE) / INCOME		
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFED TO PROFIT OR LOSS:		
Changes in fair value from equity instruments measured at fair value thorugh other comprehensive income	-	27.524
Tax associated with elements that will not subsequently be reclassifed	-	36.294
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFED TO PROFIT OR LOSS:		
Debt securities at fair value through other comprehensive income		
Gains or (losses) from fair value adjustments of tangible assets	(890)	4.394
Transfered to profit or loss		
Deferred tax liability associated with fair value adjustment of other elements	200	(1.121)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	277.790	274.285

Financial and International Department

The Board of Directors

Statement of alterations in equity as of 31 December 2019 and 2018

(in thousands of CVE)

Accounts	Notes	Share Capital	Legal Reserve	Other reserves and retained earnings	Net income for the period	Total
Balances at 31 of december of 2017		**900 000**	**83 589**	**731 499**	**203 850**	**1 918 939**
Appropriation of net income from the year of 2017		-	20 385	171 285	(203 850)	(12 180)
Comprehensive income of 2018		-	-	**67 982**	**207 193**	275 175
Balances at 31 of december of 2018	-	**900 000**	**103 974**	**970 766**	**207 193**	**2 181 934**
Appropriation of net income from the year of 2018		-	20 719	181 794	(207 193)	(4 680)
Comprehensive income of 2019		-	-	**200**	**278 480**	278 679
Balances at 31 of december of 2019		**900 000**	**124 693**	**1 152 760**	**278 480**	**2 455 933**

Financial and International Department

The Board of Directors

Statement of cash flow as of 31 December of 2019 and 2018

(in thousands of CVE)

Accounts	Notes	2019	2018
Operating Activities			
Operating Results			
Net profit for the period		278 480	207 193
Impairment charges for the period	32	127 287	87 797
Depreciation and amortization for the period	11 & 12	46 724	33 153
Alocation for income taxes for the period	18	43 667	87 011
Deferred taxes	13	(15 341)	(21 804)
Provisions	34	-	(12 305)
Dividends		(4 680)	(12 180)
Change in Operating Assets and Liabilities:			
(Increase) / Decrease in Financial Assets designated at Fair Value through profit or loss	6	(17 348)	(4 002)
(Increase) / Decrease in Financial Assets designated at Fair Value thorugh other comprehensive income	7	-	-
(Increase) / Decrease in Loans and advances to banks	8	(2 025 883)	(53 955)
(Increase) / Decrease in Held-to-maturity investments	10, 32	(142 019)	1 238 143
(Increase) / Decrease in Loans and advances to customers	9, 32 & 36	(1 949 677)	(4 320 728)
(Increase) / Decrease in Other Assets	15 , 32	20 224	185 099
Increase / (Decrease) in Deposits from banks	16	(23 353)	(213 151)
Increase / (Decrease) in Customer Deposits		4 510 835	2 765 080
Increase / (Decrease) in Other Liabilities		49 894	62 672
Cash Flow from Operating Activities (1)		898 810	28 024
Investing Activities			
Purchase of Other Tangible Assets	11, 32	(115 745)	(71 229)
Disposals of Other Tangible Assets	11, 32	5 266	1 712
Purchase of Other Intangible Assets	12	(23 459)	(7 516)
Disposals of Other Intangible Assets	12	-	-
Others		-	5 694
Cash Flow from Investing Activities (2)		(133 938)	(71 339)
Financing Activity			
Increase in Share Capital		-	-
Change in Reserves and Retained earnings	21 , 22	-	-
Cash Flow from Financing Activities (3)		-	-
Change in cash and cash equivalents (4)=(1)+(2)+(3)		764 871	(43 315)
Effect of foreign exchange differences			
		764 871	(43 315)
Change in cash and cash equivalents			
Cash and Cash equivalents at the beginning of the period		3 788 997	3 832 312
Cash and Cash equivalents at the end of the period		4 553 867	3 788 997
		764 871	**(43 315)**
Balance sheet amounts of cash and cash equivalents:			
Cash and deposits with Central Banks	4	3 675 292	2 429 820
Deposits with Banks	5	878 575	1 359 177
		4 553 867	3 788 997

Financial and International Department

The Board of Directors

III. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

BCN – Banco Caboverdiano de Negócios, SA (hereinafter designated as BCN or Bank), having it origin in 2003, has its registered office in the city of Praia, in the Republic of Cape Verde, having as its object the exercise of a banking activity, which includes all banking and financing operations permitted by Cape Verdean Law.

2. IFRS Disclosures- New standards as of 31 December of 2019

I. Impact of the adoption of amendments to standards that became effective as from 1 January 2019:

a) IFRS 16 (new), 'Leases'. This new standard replaces IAS 17 - 'Leases', with a significant impact on accounting by tenants who are now required to recognize a lease liability reflecting future lease payments and a "right of use" asset for all lease agreements , except for certain short-term leases and low value assets. The definition of a lease agreement has also been changed, being based on the "right to control the use of an identified asset." Regarding the transition regime, the new standard can be applied retrospectively, or a modified retrospective approach can be followed.

b) IFRS 9 (amendment), 'Prepayment Features with Negative Compensation'. This amendment introduces the possibility of classifying financial assets with prepayment conditions with negative compensation, at amortized cost, provided that specific conditions are met, instead of being classified at fair value through profit or loss.

c) IAS 19 (amendment), 'Amendments, curtailments, and settlements' . This amendment to IAS 19 requires an entity to: (i) use updated assumptions to determine the current service cost and net interest for the remaining period after the plan change, reduction or settlement; and (ii) recognize in the income for the year as part of the cost of past services, or as a gain or loss on settlement, any reduction in the coverage surplus, even if the coverage surplus was not previously recognized due to the impact of the asset ceiling. The impact on the asset ceiling is always recorded in the Other Comprehensive Income and cannot be recycled as a result of the year.

d) IAS 28 (amendment), 'Long-term investments in Associates and Joint Ventures'. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investment in associates and joint ventures), which are not being measured using the equity method, are accounted for in accordance with IFRS 9 - ' Financial instruments'. Long-term investments in associates and joint ventures are subject to estimation of losses per impairment model, before being added for the purpose of impairment testing to the overall investment in an associate or joint venture, when there are indicators of impairment.

e) **Improvements to standards 2015-2017.** This cycle of improvement affects the following standards: IAS 23, IAS 12, IFRS 3, and IFRS 11.

f) **IFRIC 23** (new), 'Uncertainty over Income Tax Treatments' This is an interpretation to IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there are uncertainties regarding the acceptance of a certain tax treatment by the Tax Administration regarding income tax . In case of uncertainty regarding the Tax Administration's position on a specific transaction, the entity should make its best estimate and record the income tax assets or liabilities under IAS 12, and not IAS 37 - 'Provisions, Contingent Liabilities and Contingent Assets ', based on the expected value or the most likely value. The application of IFRIC 23 can be retrospective or modified retrospective.

II. Standards and interpretations published, which application is effective for annual periods beginning on or after 1 January 2020, already endorsed by the European Union:

a) **IAS 1 e IAS 8** (amendment), 'Definition as Material' (effective for annual periods beginning on or after 1 January 2020). This amendment introduces a modification to the concept of material and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, and the entity should assess the materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of "main users of financial statements", which are defined as 'current and future investors, financiers and creditors' who depend on the financial statements to obtain a significant part of the information they need.

b) **Conceptual structure**, 'Changes in the reference to other IFRSs' (effective for annual periods beginning on or after 1 January 2020). As a result of the publication of the new Conceptual Framework, the IASB introduced changes in the text of several standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of assets / liabilities and expense / income, in addition to some of the characteristics of financial information. These changes are retrospectively applicable, unless impracticable.

III. Standards (new and amendments) and interpretations published, which application is effective for annual periods beginning on or after 1 January 2020, but not yet endorsed by the European Union:

a) **IFRS 3** (amendment), 'Business definition' (effective for annual periods beginning on or after 1 January 2020). This change is still subject to the European Union's endorsement process. This amendment constitutes a revision of the definition of business for the purpose of accounting for business combinations. The new definition requires that an acquisition includes an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits for shareholders. 'Concentration tests' are now allowed to determine whether a transaction relates to the acquisition of an asset or a business.

b) **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Reform of reference interest rates' (effective for annual periods beginning on or after 1 January 2020). These changes are still subject to European Union approval. These changes are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the benchmarking reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: i) risk components; ii) 'highly likely' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for IAS 39 adopters); and v) recycling of the cash flow hedge reserve, with the objective that the reform of the reference interest rates does not determine the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement.

c) **IFRS 17** (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical responsibilities, at each reporting date. Current measurement can be based on a complete ("building block approach") or simplified ("premium allocation approach") model. The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is retrospectively applied.

On 1 January 2019, IFRS 16 - Leases came into force, which replaced IAS 17 - Leases and which came to establish new ways of identifying, measuring, presenting and disclosing leases. The Bank decided to adopt the new standard following the modified retrospective approach, which allows estimating the value of the right to use by reference to the financial liability, without generating any adjustments in reserves.

The adoption of IFRS 16 substantially changed the concept of Leasing. In effect, under IAS 17, leases were classified as financial whenever their terms transferred substantially all the risks and rewards associated with ownership of the asset to the lessee. The rest were classified as operational, meaning that the classification of leases was made according to the substance and not according to the form of the contract.

IFRS 16 puts the focus on controlling the identified asset, meaning that, **a contract constitutes or contains a lease if it transfers the right to control the use of an identified asset, that is, obtaining substantially all the economic benefits of using it and the right to guide the use of that identified asset, for a certain period of time in exchange for a fee**. IFRS 16 provides, however, for the exception of contracts with a period of less than 12 (twelve) months and contracts that focus on low value assets, that is, that at the date of application of the standard, they present a value lower than 5.000 USD.

In terms of the income statement, the adoption of IFRS 16 led to changes in headings, general administrative expenses, amortizations for the year and in the financial margin, with the net impact being immaterial.

More information on the impact of adopting IFRS 16 in point 37.

The remaining standards / interpretations had no impact on the financial statements presented.

Summary of table of new standards:

Description	Amendments	Effective date
1. New standards, changes to standards and effective interpretations on 1 January 2019		
• IFRS 16- Leases	New lease definition. New accounting of lease contracts for tenants. There are no changes to rental accounting by lessors	1 January 2019
• IFRS 9- Financial Instruments	Exemption from the classification of financial assets at amortized cost for financial assets with prepayment conditions with negative compensation.	1 January 2019
• IAS 19- Employee Benefits	It requires the use of updated assumptions to calculate the remaining liabilities after updating, cutting or settling benefits, with an impact on the income statement, except for the reduction of any excess falling under the scope of the asset ceiling	1 January 2019
• IAS 28- Long-term investments in Associates and Joint Ventures	Clarification regarding long-term investments in associates and joint ventures that are not being measured using the equity method	1 January 2019
• Improvements to standards 2015-2017	Various clarifications: IAS 23, IAS 12, IFRS 3 and IFRS 11	1 January 2019
• IFRIC 23- Uncertainty over Income Tax Treatments	Clarification regarding the application of the principles of recognition and measurement of IAS 12 when there is uncertainty about the tax treatment of a transaction, regarding income tax	1 January 2019

Description	Amendments	Effective date
2. Amendments to the rules that become effective on or after 1 January 2020, already endorsed by the EU		
• IAS 1- Presentation of Financial Statements IAS 8- Accounting policies, changes in accounting estimates errors	Update of the definition of material, in the application of the standards to the financial statements as a whole	1 January 2020
• Conceptual structure- Changes in the reference to other IFRS	Amendment to some IFRS regarding cross-references and clarifications on the application of the new definitions of assets / liabilities and expenses / income	1 January 2020
3. Standards (new and amended) that become effective on or after 1 January 2020, not yet endorsed by the EU		
• IFRS 3- Business Combination	Changes in Business Definition	1 January 2020
• IRS 9, IAS 39 and IFRS 7- Reform of reference interest rates	Introduction of exemptions to hedge accounting with the aim that the reform of the reference interest rates does not determine the cessation of hedge accounting	1 January 2020
• IFRS 17- Insurance Contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics	1 January 2021

Considering the changes to the standards / interpretations referred to above, the Bank is analyzing the main impacts on the Financial Statements presented, however, there are no significant impacts expected from their adoption.

3. Bases of Presentation and Accounting Policies

3.1. Bases of presentation of the accounts

BCN's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued and adopted by the International Accounting Standards Board (IASB), in terms of the provisions of Notice no. 2/2007, of Banco de Cabo

Verde, of 25 February with the exception foreseen in Notice no. 4/2006 the amendments introduced by Notice no. 6/2007.

The Financial Statements, approved by the Board of Directors on 5 March 2020, were prepared in accordance with the historical cost convention, except for the revaluation of real estate and financial instruments recorded at fair value. The main accounting policies used by BCN are presented in the following notes.

3.2. Comparative information

Exception made to the adoption of IFRS 16, the impact of which has already been mentioned in previous chapters, the Bank has not made changes to accounting policies, so in general the amounts presented are comparable, in relevant aspects, with those of the previous year. As already mentioned, IFRS 16 was applied retrospectively with the impacts of its adoption recognized on 1 January 2019. As a result of the adoption of the standard, the Bank recognized one (1) liability at the current value of future payments, discounted at reference rates issued by Banco de Cabo Verde and (2) a right to use the underlying asset for the amount of the liability.

The impacts of the adoption of this standard with reference to 1 January 2019, as well as the reconciliation between balance sheet as of 31 December 2018 and 1 January 2019 are found in Note 37. Application of IFRS 16 - Leases.

3.3. Use of estimates in the preparation of the financial statement

The preparation of the financial statements requires the preparation of the estimates and the adoption of assumptions by the Bank's Management, which affects the assets and liabilities value, income, and expenses, as well as the contingent liabilities disclosed. In preparing these estimates, Management used its judgment as well as the information available at the date of the preparation of the financial statements. Consequently, the future amounts realized may differ from the estimates made.

The most significant management estimates and assumptions are as follows:

Continuity of Operations

The financial statements were prepared on the assumption of continuity of operations, given that Management considers that the Bank has the means and capacity to continue business in the foreseeable future. For this judgment, the Bank considered the various information it has on current conditions and future projections of profitability, cash flows and capital.

Estimate of the value of assets

The fair value of financial instruments is estimated whenever possible using quotations in active markets, and the amount at which an asset held in the portfolio can be traded is considered fair value. Financial assets are initially recognized at their fair value plus transaction costs, except in the case of financial assets and liabilities recognized at fair value through profit or loss, in which case these transaction costs are directly recognized in income statement.

After initial recognition, the fair value of financial assets is determined based on (i) prices in an active market; (ii) valuation techniques including discounted cash flow models, as appropriate; or (iii) evaluation performed by an independent entity.

Note 39 describes the criteria for classifying financial assets by levels and the methodology used to obtain the respective fair value, in accordance with IFRS13 - Fair Value Measurement. It should be noted that in 2019 there were no significant changes in the evaluation methodologies compared to the previous year.

Impairment losses of loans and advances to customers

Loans and advances to customers in default (Stage 3) and whose total liabilities are considered as having significant amount are subject to individual analysis to assess the needs for recording impairment losses. In this analysis, the amounts and terms of future flows are estimated. These estimates are based on assumptions about a set of factors that may change in the future and, as such, are likely to change the impairment amounts. In addition, a collective impairment analysis is also performed by loan segments with similar characteristics and risks and certain associated impairment losses are determined.

Real estates for own use

The fair value of property held for own use, classified as Other tangible assets, is determined based on valuations made by independent experts. These valuations are based on estimates of revenue and maintenance or replacement costs, as well as comparable market values.

Deferred tax

The recognition of deferred tax assets assumes the existence of results and future taxable income. Deferred tax assets and liabilities were determined based on tax legislation currently in force on legislation already published for future application. Changes in interpretation of tax legislation may influence the amount of the deferred taxes.

Evaluation of real estates

The real estate evaluation service is provided by independent external evaluators, registered with the AGMVM – Auditoria Geral de Mercados de Valores Mobiliários (General Audit of Securities Markets) or members of the Cape Verde Engineers Association (Ordem dos Engenheiros de Cabo Verde) , with qualifications and recognized professional competence and experience, appropriate to the performance of the respective functions.

The assessment procedures presuppose the collection of rigorous information, either from updated documentation, or in an inspection of the real estate and surrounding area, either from the city councils and other bodies, or in the analysis of the market, transactions, supply / demand and development prospects. The treatment of this information, areas and uses and market values, allows the adoption of base values for the calculation, by applying the methods and their comparison. The market comparative method is always used either directly or as a basis for cash flows of development, updated at the valuation date at rates that incorporate the risk of the projects.

The replacement cost method is also directly used in the evaluation of properties in continuous use and an indispensable contribution in the referred development scenarios.

The realization value of these assets is dependent on the future evolution of real estate market conditions.

Real estate assets are registered under the caption Other Assets (Note 15) and, on Other Tangible Assets when it comes to own-use properties (Note 11).

Provisions

The description of the nature of these obligations is described in Note 34

3.4. Transactions in Foreign Currency

Foreign currency transactions are translated at the exchange rate prevailing on the transaction date. Monetary assets and liabilities expressed in foreign currency are converted to Cape Verde escudos (CVE) at the exchange rate in force on the balance sheet date. Exchange differences resulting from this conversion are recognized in the income statement. Non-monetary assets and liabilities recorded at historical cost, expressed in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities expressed in foreign currency recorded at fair value are converted at the exchange rate in force on the date when the fair value was determined.

3.5. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include national and foreign currency, in cash, demand deposits with central banks, demand deposits with other banks in the country and abroad, checks receivable from other banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts and that are subject to an insignificant risk of changes in value.

3.6. Financial Instruments

3.6.1 Financial Instruments (IFRS 9)

Financial Assets

Since 1 January 2018, the Bank adopted the IFRS 9- Financial Instruments, that replaced IAS 39- Financial Instruments: recognition and measurements. The IFRS 9 introduced a new way to recognize the financial instruments based on the characterization of the cash flows and the business model inherent to the asset in question.

3.6.1.1 Classification, Recognition and initial measurement and subsequent measurement of financial assets

Upon initial recognition, the Bank classifies its financial instruments in one of the following categories:

I. Financial assets at amortized cost, comprising Debt Securities, Loans and Advances to Customers and Due from Banks);
II. Financial assets at fair value through other comprehensive income; or
III. Financial assets at fair value through profit or loss.

The subsequent classification and evaluation of these instruments is performed by considering the following aspects:

• The Bank's business model for managing financial assets;

• The characteristics of the contractual cash flows of the financial asset; and

• The type of financial instrument.

Business model assessment

The Bank performed an assessment of the business model in which the financial instrument is held, as well as the policies and objectives established for the portfolio held, including how management focuses on receiving contractual interest or on realizing cash flows through the sale of instruments. It should be noted that for the identification of the business model the Bank considers a set of indicators, among which:

• History, with respect to the way cash flows are received;

• How asset performance is assessed and reported to management;

• How risks are assessed and managed; and

• How are directors paid.

Financial assets held for transactions and financial assets valued at fair value are measured at fair value through profit or loss because they are neither held for the receipt of contractual cash flows nor for sale.

Evaluation if the contractual cash flows correspond only to the receipt of capital and interest (SPPI - Solely Payments of Principal and Interest)

When evaluating financial instruments in which the contractual cash flows refer exclusively to the receipt of capital and interest[6] the Bank has considered the original contractual terms of the instrument. This assessment included the analysis of the existence of situations in which the contractual terms may modify the periodicity and the amount of the cash flows so that they do not fulfill the SPPI condition. In the evaluation process, the Bank considered a set of potential events that may change the periodicity and amount of cash flows and:

• Contractual provisions relating to prepayment;

• Extension of maturity; and

• All other contractual clauses that may limit the Bank's right to claim cash flows in relation to specific assets, etc.

I. Financial assets at amortized cost

Classification

Financial instruments are classified in this category whenever the following conditions are observed, cumulatively (i) the main business model is to maintain these assets in order to receive contractual cash flows; and (ii) the contractual conditions give rise to specific cash flows (payments of principal and interest on the outstanding amount) and on specific dates.

This category includes Deposits in other financial institutions, Loans and advances to customers and Debt Securities managed based on a business model which objective is the receipt of their contractual cash flows.

Initial recognition and subsequent measurement

Due from banks, and Loans and advances to customers are recognized on the date on which the funds are made available to the counterpart and the debt securities on the date on which they are physically settled through the organized market.

These financial assets are initially recognized at fair value, plus any transaction costs and are subsequently measured at amortized cost. Since their initial recognition, they are subject to the determination of impairment losses for expected losses, which are recorded against the income statement "Impairment of financial assets at amortized cost". Interest is recognized in the item "Interest and similar income" and the gains or losses generated at the time of its recognition are recorded in the item "Gains / losses on the derecognition of financial assets and liabilities at amortized cost".

II. Financial assets at fair value through other comprehensive income

[6] For the purposes of this assessment, "capital" is defined as the fair value of the financial asset at its initial recognition. "Interest" is defined as the consideration for the time value of money, for the credit risk associated with the amount due over a certain period of time and for other risks and costs associated with the activity (eg: liquidity risk and administrative costs), as well as profit margin.

Classification

A financial asset is recognized in this category whenever the following conditions are cumulatively observed: the asset is held in a business model in which the objective is to collect contractual cash flows and sell these assets; and (ii) the contractual conditions give rise to cash flows on specific dates and correspond only to payments of principal and interest on the outstanding amount (SPPI).

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income, are initially recognized at their fair value, plus transaction costs, and are subsequently measured at fair value. Changes in fair value are recorded against other comprehensive income and, at the time of disposal, the respective accumulated gains or losses in other comprehensive income are reclassified to a specific income item called “Accumulated gains / losses with the derecognition of financial assets at fair value through other comprehensive income ”.

Since their recognition, debt instruments are subject to impairment losses for expected losses, which are recognized in the income statement, “Impairment of financial assets at fair value through other comprehensive income” against other comprehensive income and do not reduce the carrying amount of the financial instrument on the balance sheet. Interest and premiums are recognized in the income statement in the “Interest and similar income” account.

Regarding equity instruments at fair value through other comprehensive income, they are also initially recognized at their fair value, plus transaction costs, and subsequently measured at fair value. Variations are recorded against other comprehensive income and dividends, when received, are recognized in the income statement.

III. Financial assets at fair value through profit and loss

Classification

Financial instruments are classified in this category whenever, due to the business model or contractual characteristics in relation to cash flow, it is not possible to classify financial instruments in any of the previous categories.

Also classified under this caption are all financial instruments for which any of the following characteristics are fulfilled: (1) are acquired with the objective of transacting in the short term; (2) recent actions are evident with the objective of obtaining short-term gains; and (3) are derivative instruments that do not meet the definition of a financial guarantee contract or have not been designated as hedging instruments.

Initial recognition and subsequent measurement

They are initially recognized at fair value, with the costs or income associated with the transactions recognized in the income statement at the initial moment. Subsequent changes in fair value will also be recognized in profit or loss.

The interest and the premium are subject to accrual-based accounting and recognized in the caption Interest and similar income and dividends, when received, are recognized in the income statement.

3.6.1.2 Reclassification between categories of financial assets

A reclassification of financial assets to other categories is permitted only when there is a change in the business model used, and this reclassification is applied prospectively from the date of the reclassification, without any previously recognized gains, losses or interest being restated.

The reclassification of investments in equity instruments measured at fair value through other comprehensive income and financial instruments designated at fair value through profit or loss is not permitted.

3.6.1.3 Modification and derecognition of financial assets

The Bank derecognizes a financial asset when:

- The Bank's contractual rights of the Bank to the reception cash flows expire;
- The Bank has transferred all the risks and benefits arising from its holding;
- The Bank has transferred control over these assets, despite maintaining the risks and benefits associated with their ownership.

The Bank also considers that a change in the terms and conditions of a given loan operation will result in the derecognition of that transaction and in the recognition of a new transaction whenever such a change causes a substantially different change from the initial conditions of the transaction. In this case, it recognizes a new asset at fair value, with the renegotiation / modification date being the initial recognition date.

3.6.1.4 Initial classification, recognition and measurement and subsequent measurement of financial liabilities

Regarding the measurement of financial liabilities, IFRS 9 did not introduce significant changes compared to the requirements of the previous standard, except for the recognition of changes in fair value, which should be recognized in equity. Subsequent reclassifications of these variations to results are not permitted**.**

Regarding other financial liabilities, composed of Deposit from central banks and credit institutions, and Customer deposits, there are initially valued at fair value, net of transaction costs directly associated and subsequently valued at amortized cost, using the effective rate method. The Amortization is recognized in the income statement under "Interest and similar charges".

Securities sold with a repurchase agreement ("repos") for a fixed price or for a price that equals the sale price plus interest inherent to the term of the transaction are not derecognized from the balance sheet. The corresponding liability is recorded in customer funds and other loans. The difference between the sale price and the repurchase value is treated as interest and is deferred over the lifetime of the agreement, using the effective rate method.

Securities transferred through loan agreements are not derecognized from the balance sheet but are classified and valued in accordance with the accounting policy referred to in Note 3.6.1.1. Securities received through loan agreements are not recognized in the balance sheet.

Securities received or pledged as collateral in sale transactions with repurchase agreements ("repos") are recognized in off-balance sheet caption.

3.6.1.5 Impairment losses of financial instruments

3.6.1.5.1 Financial instruments subject to the recognition of impairment losses

IFRS 9 introduces the concept of expected loan losses and replaced IAS 39, whose concept of impairment is based on incurred losses. Thus, with IFRS 9, institutions anticipate the recognition of credit losses in their financial statements.

In accordance with IFRS 9, the concept of impairment should be applied to all financial assets except financial assets measured at fair value through profit and loss, and equity instruments recognized at fair value.

The Bank applies the concept of expected losses in IFRS 9 to financial assets at amortized cost, debt instruments measured at fair value through other comprehensive income, off-balance sheet exposures, financial leasing, other receivables, financial guarantees and unrecognized credit commitments at fair value.

The Bank recognizes impairment losses for expected credit losses on financial instruments recorded in the following accounting accounts:

3.6.1.5.2 Financial assets at amortized cost

The Bank recognizes the existence of impairment losses on financial assets recorded at amortized cost, and these losses reduce the carrying amount of these financial assets through the income statement caption Impairment of financial assets at amortized cost.

In accordance with IFRS 9, exposures should be assessed considering changes in credit risk as from their initial recognition, i.e. entities holding financial instruments should recognize at initial recognition any expected loss associated with such financial instruments.

Expected credit losses should be measured based on the present value of the difference between the contractual cash flows and the cash flows expected to be received by the entity, including the cash flows from the sale of collateral and the sale of non-performing loans.

The measurement of expected credit losses should reflect:

- ✓ An objective amount determined by assessing a set of possible outcomes weighted by their respective probabilities;
- ✓ The time value of money;
- ✓ Sustainable reasonable information that is available at the reporting date, without undue cost or effort, on past events, current conditions and forecasts of future economic conditions.

Specifically, regarding the recognition/calculation of Impairment losses on financial instruments and more specifically on the loan portfolio, the new IRFS 9 Standard has the following subjacent fundamental principles:

- ✓ Expected Credit Loss (ECL) model;
- ✓ Early detection of situations of significant increase in credit risk (Stage 2);
- ✓ Calculation of the expected loss over the lifetime of the assets with a significant increase in credit risk (Stage 2) or in default (Stage 3);
- ✓ Incorporation of a prospective approach, based on macroeconomic data, in the calculation of the expected loss; and
- ✓ Use of scenarios in the calculation of expected loss;

The Bank recognizes as a cost, the expected loss related to a financial asset measured at amortized cost. Such loss should be measured by an amount equal to the expected loss over the lifetime of the financial asset if the credit risk associated with this financial asset has increased significantly since the initial recognition (Stage 2).

The credit risk assessment should be performed on an individual basis, as well as, on a collective basis, based on reasonable and sustainable information, including prospective approaches.

Whenever, in a subsequent period, there is a decrease in the amount of the estimated impairment loss, the previously recognized amount is reversed through an adjustment of the impairment loss account. The amount of the reversal is recognized directly in the income statement under the same caption.

3.6.1.5.3 Debt instruments at fair value through other comprehensive income

Impairment losses on debt instruments at fair value through other comprehensive income are recognized in the income statement in the caption impairment of financial assets at fair value through other comprehensive income. It should be noted that the carrying amount of these assets is not reduced.

3.7. Non-current Assets Held for Sale

Non-current assets are classified as held for sales whenever is determined the balance amount will be recovered through sales. This condition only applies when the sales is highly possible, and the asset is available for immediate sale in its current state. The sale will occur until a period of one year maximum after its classification. An extension of sale within that period will not exclude the asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Bank and if the commitment is maintained regarding the sale of the assets.

The assets recorded in this category are subject to periodic evaluations performed by independent appraisers that give rise to the recording of impairment losses, whenever the value resulting from these valuations, net of costs to be incurred with the sale, is lower than the amount for which they are recorded.

3.8. Other Tangible Assets

The caption Other tangible assets include properties held for own use, motor vehicles and other equipment.

Properties classified as a real estate for own use, are those used by BCN in the development of its activities. Own use properties are carried at fair value, determined based on valuations performed by experts, less subsequent depreciation, and impairment losses.

The Bank's own use properties are revalued regularly, so that their amounts do not differ significantly from their fair value on the balance sheet date, using a three-year period between revaluations as a reference.

Positive changes in fair value are credited to revaluation reserves, included in equity, except to the extent that this change constitutes a reversal of losses of the same asset recognized in the income statement, in which case this positive variation must be recognized in the income statement.

Negative changes in fair value are recognized in profit or loss, except to the extent that they can be offset against existing positive revaluation reserves for the same asset.

The remaining tangible fixed assets are recorded at cost, less subsequent amortization, and impairment losses since the acquisition date. Repair and maintenance costs and other expenses associated with their use are recognized as costs when they occur.

Tangible assets are amortized on a straight-line basis, according to the expected useful life as follows (in years):

Real Estate	10 - 33
Motor Vehicles	5 - 8
Other tangible assets	3 - 25

On the transition date, the Bank used the option permitted by IAS to consider the respective fair value as the “estimated cost” of tangible assets.

A tangible asset is derecognized when sold or when future economic benefits from its use or sale are not expected. On the date of derecognition, the gain or loss calculated by the difference between the net sale value and the net carrying amount is recognized in the income statement under Other operating gains/(losses).

3.9. Other Intangible Assets

Other intangible assets, which essentially correspond to “software”, are recorded at acquisition cost, less accumulated amortization, and impairment losses. Amortization is recorded on a straight-line basis, over the estimated useful lives of the assets, which currently stands at 3 years.

3.10. Leases

3.10.1 IAS 17- Leases

Until 31 December 2018, and in accordance with IAS 17, leases were classified as financial whenever their terms transferred substantially all the risks and rewards associated with ownership of the asset to the lessee. The remaining leases were classified as operational. The classification of leases was made according to the substance and not the form of the contract.

Finance leases

From the lessee's point of view, finance lease contracts are recorded on the date they start as assets and liabilities at the fair value of the leased property, which is equivalent to the current value of maturing lease payments. Rents are made up of the financial charge and the financial amortization of the capital. Financial charges are imputed to the years during the lease term, in order to produce a constant periodic interest rate on the remaining liability balance for each period.

From the perspective of the lessor, assets held under finance leases are recorded in the balance sheet as leased capital at an amount equivalent to the net investment of the finance lease. The rents are constituted by the financial profit and the financial amortization of the capital. The recognition of the financial result reflects a constant periodic rate of return on the lessor's remaining net investment.

Operating leases

In the lessee's view, BCN had several operating lease agreements for properties. Payments made under these lease agreements were recognized under General Administrative Expenses, over the life of the contract, and neither the asset nor the liability associated with the agreement entered into in its balance sheet.

3.10.2 IFRS 16 – Leases

As described in note 2, BCN adopted IFRS 16 - Leases on 1 January 2019 to replace IAS 17 - Leases, which was in effect until 31 December 2018. BCN did not adopt any of the requirements of IFRS 16 in advance.

This standard establishes new requirements regarding the classification / recognition, and measurement of leases:

- from the perspective of the lessor, leases continue to be classified as finance leases or operating leases;

- from the lessee's point of view, the standard defines a single accounting model for lease contracts that results in the recognition of an asset under right of use and a lease liability for all lease agreements except for leases with a period less than 12 months or for leases that focus on low value assets in which the lessee may opt for the exemption from recognition provided for in IFRS 16, in which case, it must recognize the lease payments associated with these contracts as expenses.

The Bank applied this rule to lease contracts, with renewal for periods equal to or less than 12 (twelve) months, whose economic loss resulting from the non-renewal of the contract is significant.

Definition of lease

The new definition of a lease entails a focus on controlling the identified asset, that is, a contract constitutes or contains a lease if it conveys the right to control the use of an identified asset, that is, obtaining substantially all the economic benefits of using it and the right to guide the use of that identified asset, for a certain period of time in exchange for a fee.

Impacts on the tenant's point of view

BCN recognizes for all leases, with the exception of leases with a period of less than 12 months or for leases that relate to assets with a reduced unit value:

- an asset under right of use, initially measured at cost, taking into account the Net Present Value (NPV) of the lease liability, plus payments made (fixed and / or variable) less the lease incentives received, penalties for termination (if reasonably certain), any cost estimates to be borne by the lessee with the dismantling and removal of the underlying asset and / or with the restoration of the location where it is located, as well as other economic losses resulting from the non-renewal of the contract. Subsequently, it is measured according to the cost model (subject to depreciation / amortization in accordance with the lease term of each contract and impairment tests);

- a lease liability, initially recorded at the present value of the lease's future cash flows (NPV), which includes:

- fixed payments, less incentives for lease receivables;

- variable lease payments that depend on an index or rate, measured initially and using the index or rate at the start date of the contract;

- the amounts to be paid by the lessee as residual value guarantees;

- the price of exercising a call option, if the lessee is reasonably certain to exercise that option;

- penalty payments for terminating the lease if the lease term reflects the exercise of an option to terminate the lease by the lessee.

Since it is not possible to easily determine the interest rate implicit in the lease (paragraph 26 of IFRS 16), lease payments are discounted at the lessee's incremental financing interest rate. For fixed-term contracts, this date is considered the end date of the lease, for other open-ended contracts, the term in which it will be enforceable is evaluated. In assessing the strength enforceable are considered the particular clauses of the contracts as well as the current legislation regarding the Urban Leasing.

Subsequently it is measured as follows:

- by increasing its carrying amount to reflect interest on it;

- by decreasing its carrying amount to reflect the lease payments;

- the carrying amount is remeasured to reflect any revaluations or changes in the lease, as well as to incorporate the review of fixed lease payments in substance and the review of the lease term.

The Bank reevaluates a lease liability, and calculates the respective adjustment related to the asset under right of use whenever:

- there is a change in the lease term or in the assessment of a purchase option of the underlying asset, the lease liability is remeasured, discounting the revised lease payments, and using a revised discount rate;

- there is a change in the amounts payable under a residual value guarantee, or in future lease payments resulting from the change in an index or rate used to determine those payments, the lease liability is remeasured, discounting revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in variable interest rates, in which case a revised discount rate should be used);

- a lease agreement is changed, but this lease change is not accounted for as a separate lease, the lease liability is remeasured, discounting revised lease payments using a revised discount rate.

BCN did not make any adjustments for the periods presented.

Assets under right of use are depreciated / amortized from the date of entry into force until the end of the lifetime of the underlying asset, or until the end of the lease term, whichever is earlier. If the lease transfers ownership of the underlying asset, or if the cost of the asset under right of use reflects the fact that the Bank will exercise a call option, the asset under right of use must be depreciated / amortized from the date of entry into force until the end of the lifetime of the underlying asset. Depreciation / amortization begins on the lease's effective date.

The adoption of the standard implies changes in the Bank's financial statements, namely:

<u>- in the income statement:</u>

i. recording in Financial margin of interest expense related to lease liabilities;

ii. recording in Other administrative expenses of the amounts related to short-term lease contracts and lease contracts for low-value assets; and

iii. recording in Amortization of the depreciation cost of assets under right of use.

<u>- in the balance:</u>

i. registration in Other tangible assets, due to the recognition of assets under right of use; and

ii. recording in Other liabilities for the amount of recognized lease liabilities.

Impact on the lessor's point of view

In accordance with IFRS 16, lessors will continue to classify leases as financial or operational, with no significant changes compared to what is defined in IAS 17.

The Bank presents the assets under right of use under the heading “Other Tangible Assets” (Note 11), that is, in the same line of items in which it presents the underlying assets of the same nature that are its property.

3.11. Income Tax

The Bank is subject to tax on profits under the current tax legislation. The tax rate is 22%, to which is added a fire rate of 2% on the calculated tax, which corresponds to an aggregate tax rate of 22,44%.

For the tax estimate, the Bank considers the provisions of the IRPC Code and the Board of Directors understand that the criteria and assumptions adopted are in accordance with the legislation in force.

Current tax is calculated based on taxable income for the year, which differs from the accounting result due to adjustments to the tax base resulting from costs or income not relevant for tax purposes, or which will only be considered in other accounting periods. In addition, the IRPC Code introduced a set of expenses that are subject to autonomous taxation and that are considered for the purposes of calculating the amount of the tax on profit.

The Bank records as deferred tax assets and liabilities the amounts relating to the recognition of taxes to be recovered and payable in the future, arising from deductible and taxable temporary differences, respectively.

Deferred tax assets and liabilities are calculated and valued on an annual basis using the tax rates anticipated to be in effect at the date of the reversal of timing differences, which correspond to the rates approved or substantially approved on the balance sheet date. Deferred tax liabilities are always recorded. Deferred tax assets are only recorded to the extent that it is probable that there will be future taxable profits that allow their realization.

Income taxes are recorded in the income statement for the year, except in situations where the events that gave rise to them have been reflected in a specific caption equity, namely regarding the valuation of available-for-sale assets available and properties held for own use. In this case, the tax effect associated with the valuations is also reflected in equity, without affecting the net profit for the year.

3.12. Provisions and Contingent Liabilities

A provision is established when there is a present obligation (legal or constructive) resulting from past events where the future outflow of resources is expected, and this can be reliably determined. The provision corresponds to the Bank's best estimate of any amounts that would have to be disbursed to settle the liability on the balance sheet date.

If the future outflow of resources is not probable, it is a contingent liability. Contingent liabilities are only subject to disclosure unless the possibility of their realization is remote.

3.13. Dividends

Dividends are recognized as a liability and deducted from equity when they are approved by the shareholders. Dividends relating to the year, approved by the Board of Directors after the reference date of the financial statements are disclosed in the Notes to the Financial Statements.

3.14. Recognition of Revenue and Costs

In general, income and costs are recognized according to the period of validity of the operations in accordance with the accrual accounting principle, that is, they are recorded as they are generated, regardless of when they are collected or paid. Income is recognized to the extent that it is probable that economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured.

For financial instruments measured at amortized cost, interest is recognized using the effective rate method, which corresponds to the rate that exactly discounts the set of future cash receipts or payments until maturity, or until the next repricing date, for the amount currently recorded net of the financial asset or liability. When the effective interest rate is calculated, future cash flows are estimated considering the contractual terms and considering all other income or charges directly attributable to the contracts.

3.15. Fee and Commission income and fee and commission Expenses

The Bank charges commissions to its customers by providing various range of services. These include commissions for the provision of ongoing services, for which customers are usually charged on a periodic basis, or commissions charged for performing a certain significant act.

Commissions charged for services provided during a given period are recognized over the duration of the service. Commissions related to the performance of a significant act are recognized at the time the said act occurs.

Dividends are recognized when the right to receive payment is established.

3.16. Financial Guarantees

In the normal course of its banking activities, the Bank provides financial guarantees, such as letters of credit, bank guarantees, and documentary credits.

Financial guarantees are initially recognized as a liability, at their fair value. Subsequently, the liability is carried at the amount of the estimated future expenses to settle the obligation, at the balance sheet date. The commissions obtained for the provision of financial guarantees are recognized on a straight-line basis in the income statement, under the caption Fee and commission income during the validity period of same.

4. Cash and Deposits with Central Banks

(in thousands of CVE)			Change	
	2019	**2018**	**Amount**	**%**
Cash				
National currency				
Bank notes	193 019	126 815	66 204	52,21%
Coins	1 062	1 452	(390)	(26,88%)
ATMs	161 583	113 179	48 404	42,77%
Foreign bank notes and coins	183 421	471 054	(287 634)	(61,06%)
Deposits with BCV				
Bank of Cape Verde - NC	3 136 207	1 717 319	1 418 888	82,62%
	3 675 292	2 429 820	1 245 472	51,26%

The caption Bank notes, and National coins refers to cash in treasuries in the Business branches and in the General Treasury.

The caption ATMs shows the balance in the Rede Vinti4 automatic teller machines managed by BCN.

The amounts stated in foreign currency are valued at the average exchange rate in force at the end of financial year.

The caption Bank of Cape Verde – NC, refers to demand deposits placed with Banco de Cabo Verde (the Bank of Cape Verde), to satisfy the minimum cash requirements. According to the provisions of Banco de Cabo Verde, these funds must correspond to 13% of the average effective liabilities in local and foreign currency, with the Bank being obliged to keep the equivalent of 20% of this average with BCV daily. In 2018 and 2019, these deposits were not remunerated.

5. Deposits with Banks

The breakdown of this caption is as follows:

(in thousands of CVE)

	2019	2018	Change Amount	Change %
Foreign deposits	833 410	1 306 100	(472 690)	(36,19%)
Domestic deposits	22 859	23 671	(813)	(3,43%)
Checks to collect - Domestic	22 143	29 181	(7 038)	(24,12%)
Checks to collect - Foreign	163	225	(62)	(27,48%)
	878 575	1 359 177	(480 602)	(35,36%)

The caption Foreign deposits includes the local currency equivalent of the foreign currency deposits placed with foreign correspondent banks, which present the following breakdown:

(in thousands of CVE)

	2019	2018
Banco de Investimento Global, SA	193.323	947.750
Banco Santander Totta	550.048	264.016
Post finance-luxemburgo	-	16.218
Post finance-frança	18.739	7.852
Banco Privado Atlântico Europa	71.300	70.265
	833.410	1.306.100

These deposits are valued at the average foreign exchange rate on the last business day of the year.

The captions Checks to collect relate to the amount of checks drawn on other banks as of 31 December 2019. Checks to collect relate to customer checks drawn on the other banks sent to clearing. In the case of Checks to be collected - in the country, financial settlement takes place on the first business day of the subsequent year.

6. Other Financial Assets at Fair Value through Profit and Loss

The caption presents the following breakdown, comprising listed securities:

(in thousands of CVE)

Security	Quantity	2019 Book value	2019 Quotation	2018 Book value	Change Amount	Change %
Equity instruments						
Enacol	2 381	9 110	3 826	5 500	3 610	65,63%
Sociedade Caboverdiana Tabacos	1 498	7 490	5 000	4 494	2 996	66,67%
VISA	1 848	34 204	187,90	23 462	10 742	45,79%
		50 804		**33 456**	**17 348**	**51,85%**

As of 31 December 2019, these assets were valued based on active market quotations as that date. For the shares of Enacol and Sociedade Caboverdiana de Tabacos the reference is the value of the respective quotation on the Bolsa de Valores de Cabo Verde (Cape Verde Stock Exchange) and for VISA, the reference is the quotation of this company on the NYSE - New York Stock Exchange.

Changes in the fair value of these instruments were recorded under the caption Net gains/(losses) from financial assets at fair value through profit and loss.

As of 31 December 2019, the amount of income from assets and liabilities measured at fair value through profit or loss amounted to 16.891 thousand CVE (3.077 thousand CVE in 2018), the difference of 17.348 thousand CVE is related to exchange variations associated with VISA shares that are denominated in USD.

7. Financial Assets at Fair Value through Other Comprehensive Income

(in thousands of CVE)

		Fair value		Change	
Security	**Quantity**	**2019**	**2018**	**Amount**	**%**
Equity instruments					
SISP	10 000	179 855	179 855	-	0,00%
		179 855	**179 855**	**0**	**0,00%**

The caption consists essentially of the 10% shareholding held by the Bank in the share capital of Sociedade SISP - Sociedade Interbancária e Sistemas de Pagamentos, SA .The shareholding in SISP is recognized at fair value through other comprehensive income, and is supported by an independent valuation performed in February 2019. It should be noted that the Bank has neither control nor significant influence on the management of SISP.

To determine the fair value of the Bank's shareholding in SISP, two valuation methods were used, the Adjusted Present Value method, and the Discount Dividend Model method. The valuation was based on (i) the assumption of continuity of the operation and activity, (ii) the accounting elements related to the 2018 closing estimate, (iii) the Reports and Accounts of SISP related to the 2015 through 2017 financial years, (iv) the financial statements for October 2018; and (v) the activities plan for 2019.

The valuation amount considered by the Bank resulted from the average of two methods used.

Mentioning that, for the 2019 financial year, taking into account the recent date of the last valuation, less than 1 (one) year, the Bank did not perform the valuation of shareholding in SISP, however, validating the maintenance of the assumptions of the last assessment that supports the current accounting record.

For further details see Note 21 – Revaluation reserves

8. Loans from Banks

The breakdown of its caption is as follows:

(in thousands of CVE)				
			Change	
	2019	2018	Amount	%
Domestic Banks	1 975 150	-	1 975 150	0,00%
Foreign Banks	162 354	106 124	56 230	52,99%
Interest Deferral	(5 497)	-	(5 497)	0,00%
	2 132 007	106 124	2 025 883	1908,98%

Of the amount of 162.354 thousand CVE, registered in Foreign Banks in 2019, 32.377 thousand CVE, corresponds to a security deposit in US dollars to guarantee the company VISA, 110.265 thousand CVE, to an application placed with Banco Santander Totta and 19.701 thousand CVE to an application in USD placed with Banco Atlântico Europa.

The application with Santander Totta refers to an unremunerated term deposit in EUR, which guarantees a trade finance line in the amount of 1 million euros. That placed with Banco Privado Atlântico Europa refers to a term deposit in USD.

9. Financial Assets at Amortized Cost - Loans and Advances to Customers

The breakdown of this caption is as follows:

(in thousands of CVE)				
			Change	
	2019	2018	Amount	%
Performing Loans and Advances				
Loans	9 499 957	9 069 723	430 234	4,74%
Guaranteed current accounts	3 991 480	2 678 889	1 312 591	49,00%
Overdrafts demand deposits	75 647	91 564	(15 917)	(17,38%)
Financial leasing	42 117	10 738	31 379	292,22%
Sub- total	13 609 202	11 850 914	1 758 288	14,84%
Non-Performing Loans and Advances				
Principal	1 919 567	1 741 283	178 284	10,24%
Past due interest	18 557	18 746	(189)	(1,01%)
Sub- total	1 938 123	1 760 028	178 095	10,12%
Interest receivable	83 039	81 199	1 840	2,27%
Deferred commissions and other income	(41 176)	(46 003)	4 827	(10,49%)
Accumulate Impairment	(1 414 014)	(1 292 660)	(121 354)	9,39%
	14 175 173	12 353 478	1 821 695	14,75%

The credit risk management policies and the impairment assessment methodologies are described in notes 36.1 and 36.2.

As of 31 December 2019, the amount of impairments recognized in the balance sheet amounts to 1.414.014 thousand CVE (1.292.660 thousand CVE in 2018), and reflects the impairment determined in accordance with the current impairment model, increased by the adjustment to provisions calculated in accordance with Notice no. 4/2006 Banco de Cabo Verde, and which include additional provisions determined by the regulator, due to the fact that said Notice sets the minimum level of provisions per ageing classes to be recognized by the banks .

10. Financial Assets at Amortized Cost – Debt Securities

The breakdown of this caption is as follows:

(in thousands of CVE)	2019	2018	Change Amount	Change %
Government debt securities	1 149 087	967 759	181 328	18,74%
Other debt securities	378 944	416 329	(37 385)	(8,98%)
Accrued interest	12 187	14 112	(1 925)	(13,64%)
Accumulated impairment	(7 814)	(8 509)	695	(8,17%)
	1 532 404	1 389 691	142 713	10,27%

Government debt securities correspond to Cape Verdean Treasury Bonds

It should be noted that the Bank follows the assumption of low credit risk for the 'State of Cape Verde', for this reason it does not recognize expected losses for the debt securities issued by that counterparty, based on the following assumptions:

i. the history of full compliance by the State of Cape Verde with all responsibilities related to its financial securities issued;
ii. there being no deterioration in the risk level of the securities issued;
iii. there being no deterioration in the sovereign rating;
iv. the possibility of the Treasury renewing / refinancing the securities issued;
v. the issue is denominated in local currency;
vi. the entire current regulatory framework points to a zero risk for the State;
vii. that there being an obligation for banks to hold government bonds in a percentage equal to or greater than 5% of total deposits; and
viii. the non-tax deductibility of provisions made on debt securities issued by the State.

In accordance with the accounting policy in force, with regard to impairment of financial assets, the Bank validated the maintenance of these assumptions for 2019 through the observance of a set of objective criteria and respective materiality's, having concluded as to maintain the ECL - Expected Credit Loss as zero.

Of the securities in the portfolio on 31 December 2019, the amount of 3.750 thousand CVE (1.875 thousand CVE in 2018) was pledged in favor of the Deposit Guarantee Fund according to the paragraph 4 of article 14 of the Law no. 07 / IX / 2017, of 27 January, and numbers 1 and 2 of article 6 of Notice no. 09/2017, republished on 13 August 2019, according to which credit institutions can replace the payment of the annual contribution due to the Deposit Guarantee Fund (FGD) for an irrevocable commitment to make the payment at any time the FGD requests it.

It is worth knowing that of the amount of securities in the portfolio at 31 December 2019, 962.125 thousand CVE were assigned to customers with a repurchase agreement (669.008 thousand CVE in 2018). More details in Note 17.

The other debt securities correspond to bonds of the corporates such as: Sogei - Sociedade Gestora de Investimentos, IFH - Imobiliária Fundiária e Habitat, SA, of ASA - Aeroporto e Segurança Aérea and TACV - Transportes Aéreos de Cabo Verde, as follows:

(in thousands of CVE)

	Gross Amount		Change	
	2019	2018	Amount	%
Sogei	3.329	3.329	-	0,00%
IFH Imobiliária	66.000	88.000	(22.000)	(25,00%)
ASA	125.000	125.000	-	0,0%
TACV	184.615	200.000	(15.385)	(7,69%)
	378.944	416.329	(37.385)	(8,98%)
Impairment	(7.814)	(8.509)	(5.180)	(8,17%)
Total	371.130	407.820	(42.565)	(9,00%)

Regarding Sogei's bonds, it should be noted that on 22 October 2019, the bondholders, at the General Meeting, decided to authorize the exchange of all bond coupons in units of the Real Estate Investment Fund, closed by private subscription, called "Salinas Beach". The bondholders also decided to order Cabo Verde Asset Management SGF, SA to perform all the necessary acts and procedures in order to execute this decision.

Regarding the IFH' bonds, it is a subscription of 110.000 bonds, made in 2015 issued by that entity with a 7-year maturity, guaranteed by an endorsement of the State of Cape Verde. In 2019, IFH amortized the equivalent of 20% of the capital (22.000 thousand CVE).

The Bank also holds 125.000 ASA' bonds, and 184.615 TACV' bonds in its portfolio. TACV' bonds obtained a specific guarantee of the State of Cape Verde, and 15.385 thousand CVE were settled throughout 2019.

As of 31 December 2019, and 2018, an impairment amount of 7.814 thousand CVE and 8.509 thousand CVE, respectively, is recorded to cover the expected losses from these exposures.

It should be noted that, in the case of securities issued by public companies and / or operations with express and binding guarantees from the State of Cape Verde, applicable to IFH, ASA and TACV entities, companies classified in Stage 1, the impairment determined results from the recognition of an expected loss associated with a possible default by the State of Cape Verde. To calculate the ECL of these entities, the Bank used the country rating, according to the rating agency's rating agency Moddy's and respective risk factors. The Sogei entity is on Stage 3 with an impairment rate of 100% applied.

11. Other Tangible Assets

Other tangible assets had the following evolution:

(in thousands of CVE)

Movement	Properties	Vehicles	IT Equipment	Furniture and Fittings	Other equipment	Total
31 December 2017	**137 296**	**18 394**	**9 359**	**11 969**	**14 843**	**191 860**
. Gross amount	253 831	27 357	110 755	64 539	144 156	600 638
. Accumulated depreciation	(116 833)	(8 963)	(104 533)	(52 570)	(138 566)	(421 466)
Impairment	(2 720)	-	-	-	-	(2 720)
. In progress (gross amount)	3 019	-	*3 137*	-	*9 252*	*15 408*
Evolution:						
Acquisitions - In progress	9 568	-	3 028	233	264	13 093
Acquisitions - In use	44 177	3 415	5 877	1 452	12 551	67 472
Revaluations	5 284	-	-	-	0	5 284
Transfers + (in progress to use)	(410)	-	-	-	-	(410)
Transfers - (in progress to use)	(2 731)	-	(49)	-	(8 871)	(11 651)
Regularizations	-	-	(2 587)	-	(382)	(2 969)
Depreciation	(15 438)	(3 508)	(3 934)	(4 606)	(1 890)	(29 375)
Disposals / Write-offs - Gross amount	-	(5 101)	(345)	(296)	(1 775)	(7 517)
Disposals / Write-offs - Acc. Depreciat.	-	4 445	219	282	859	5 806
31 December 2018	**177 745**	**17 645**	**11 568**	**9 036**	**15 599**	**231 593**
. Gross amount	308 575	25 672	116 287	65 696	154 931	671 161
. Accumulated depreciation	(132 271)	(8 026)	(108 248)	(56 893)	(139 597)	(445 035)
Impairment	(8 415)	-	-	-	-	(8 415)
. In progress (gross amount)	9 855	-	*3 529*	*233*	*264*	*13 882*
Evolution:						
Acquisitions - In progress	22 086	-	2 902	10 930	6 535	42 453
Acquisitions - In use	18 342	-	18 435	6 572	12 401	55 749
Revaluations	-	-	-	-	-	-
Transfers + (in progress to use)	-	-	-	-	-	-
Transfers - (in progress to use)	(9 538)	-	(3 028)	(233)	(218)	(13 017)
Regularizations	-	-	-	-	30 560	30 560
Depreciation	(15 364)	(3 592)	(7 515)	(3 958)	(12 172)	(42 601)
Disposals / Write-offs - Gross amount	(6 849)	-	-	(38)	-	(6 887)
Disposals / Write-offs - Acc. Depreciat.	1 621	-	-	1	-	1 622
31 December 2019	**188 043**	**14 053**	**22 362**	**22 309**	**52 705**	**299 471**
. Gross amount	318 786	25 672	134 599	72 077	197 505	748 638
. Accumulated depreciation	(145 782)	(11 619)	(115 640)	(60 698)	(151 381)	(485 120)
Impairment	(7 364)	-	-	-	-	(7 364)
. In progress (gross amount)	22 403	-	*3 403*	*10 930*	*6 581*	*43 317*

Depreciation is calculated on a straight-line basis over the estimated useful lives shown in Note 3.8.

As mentioned in Note 3.8., Real estate held for own use is recorded at fair value, revalued every 3 years, having the Bank revaluated them in 2018, with positive differences recorded in the revaluation reserves, and the negative differences under the caption Impairments of other assets.

12. Other Intangible Assets

The Other Intangible Assets refers exclusively to Software had the following evolution:

(in thousands of CVE)

Movement	Software
31 December 2016	**6.375**
. Gross amount	134.086
. Accumulated depreciation	(127.711)
Evolution:	
Acquisitions	818
Amortization	3.778
Regularizations	-
31 December 2017	**3.929**
. Gross amount	134.904
. Accumulated depreciation	(130.975)
Evolution:	
Acquisitions	7.516
Amortization	(3.778)
Regularizations	-
31 December 2018	**7.667**
. Gross amount	142.420
. Accumulated depreciation	(134.753)
Evolution	
Acquisitions	23.459
Amortization	(4.123)
Regularizations	-
31 December 2019	**27.003**
. Gross amount	165.880
. Accumulated depreciation	(138.877)

Amortization of software is calculated on a straight-line basis over an estimated lifetime of 3 (three) years, as evidenced in Note 3.9.

13. Deferred Tax Assets and Deferred Tax Liabilities

2019

(in thousands of CVE)	2018	Increase during 2019	Use during 2019	Annulment during 2019	2019
Deferred tax assets	**22 751**	**15 341**	**-**	**-**	**38 092**
Deferred tax liabilities	**4 107**	**0**	**200**	**0**	**3 907**
Revaluation of financial assets measured at fair value through other comprehensive income	-	-	-	-	-
Revaluation of tangible assets	4 107	-	200	-	3 907

2018

(in thousands of CVE)	2017	Increase during 2018	Use during 2018	Annulment during 2018	2018
Deferred tax assets	947	21.804	-	-	22.751
Deferred tax liabilities	39281	1347	227	36294	4107
Revaluation of financial assets measured at fair value through other comprehensive income	36.294	-	-	36.294	-
Revaluation of tangible assets	2.986	1.347	227	-	4.107

The Deferred tax assets amount of 38.092 thousand CVE is related to the temporary non-acceptance of impairment of loan operations with express and binding guarantees of the State and of loan operations covered by rights over immovable property, being supported by article no. 42 of the IRPC Code.

14. Current Tax Assets

2019

(in thousands of CVE)	2018	Increase during 2019	Use during 2019	2019
Current tax assets	**0**	**92 183**	**75 652**	**16 531**

2018

(in thousands of CVE)	2017	Increase during 2018	Use during 2018	2018
Current tax assets	**35 676**	**-**	**35 676**	**-**

The increase of 92.183 thousand CVE refers to fractional payments made during 2019 in the amount of 55.335 thousand CVE; the provisional settlement of 2018 in the amount of 34.510 thousand CVE and also the payment on account related to the interest on bonds held in the portfolio in the amount of 2.338 thousand CVE.

The use of 75.652 thousand CVE refers to the tax liability of the previous year (31.985 thousand CVE) and 43.667 thousand CVE to the tax calculated for 2019.

15. Other Assets

The breakdown of this caption is as follows:

(in thousands of CVE)	2019	2018	Change Amount	Change %
Stationery	6.175	19.805	(13.630)	(68,82%)
Sundry Debtors	9.579	8.842	737	8,34%
Active Operations to Regularize:				
Compensation from Western Union and RedeVinti4	20.093	14.131	5.963	42,20%
Accrued Income	-	-	-	
Others	1.201.787	1.359.883	(158.095)	(11,63%)
Prepayments	47.927	6.733	41.194	612%
Sub-total	**1.285.562**	**1.409.394**	**(123.831)**	**(8,79%)**
Accumulate impairment	(120.449)	(126.687)	6.237	(4,92%)
	-		-	
	1.165.113	**1.282.707**	**(117.594)**	**(9,17%)**

The caption Other assets is mainly composed of foreclosed real estate that have since 2016, been recorded in Other assets, due to not meeting the IFRS 5. In terms of foreclosed real estate, the movement occurring, in the years of 2018 and 2019 is as reflected on the table below:

2019

(in thousands of CVE)	Balance as of 31/12/2018		Movement of the period					Balance as of 31/12/2019	
Asset Category	Gross Amount	Impairment	Additions	Impairment Reversal	Impairment losses (Note 32)	Disposals	Transfers	Gross Amount	Impairment
Properties and Land	1 223 126	(120 389)	71 342	21 776	28 403	210 631	(6 765)	1 064 207	114 151

2018

(in thousands of CVE)	Balance as of 31/12/ 2017		Movement of the period					Balance as of 31/12/2018	
Asset Category	Gross Amount	Impairment	Additions	Impairment Reversal	Impairment losses (Note 32)	Disposals	Transfers	Gross Amount	Impairment
Properties and Land	1 448 991	(140 894)	237 625	52 672	32 166	411 777	(51 714)	1 223 126	(120 389)

The distribution of the properties received in repayment of the credit, by seniority, is reflected in the tables below:

2019

(in thousands of CVE)	< 1 YEAR	< 2,5 YEARS	< 5 YEARS	> = 5 YEARS	TOTAL
LAND	**0**	**3.272**	**209.480**	**86.211**	**298.963**
URBAN	0	3.272	209.480	86.211	**298.963**
RURAL	0	0	0	0	**0**
BUILDINGS UNDER CONSTRUCTION	**0**	**0**	**33.111**	**0**	**33.111**
COMMERCIAL	0	0	22.785	0	**22.785**
HOUSING	0	0	10.326	0	**10.326**
OTHERS	0	0	0	0	**0**
BUILDINGS CONSTRUCTED	**59.678**	**65.823**	**349.407**	**16.713**	**491.621**
COMMERCIAL	34.645	0	60.292	0	**94.938**
HOUSING	25.033	65.823	91.882	16.713	**199.451**
OTHERS	0	0	197.232	0	**197.232**
OTHERS	**0**	**0**	**240.513**	**0**	**240.513**
TOTAL	**59.678**	**69.095**	**832.510**	**102.923**	**1.064.207**

(in thousands of CVE)

Time elapsed since lieu of paymenrt/excution	< 1 YEAR	>=1 YEAR and 2,5 YEARS	>=2,5 YEARS < 5 YEARS	> = 5 YEARS	TOTAL
		2018			
LAND					
URBAN	11.441.566	15.242.480	222.397.974	60.973.754	**310.055.774**
RURAL					
BUILDINGS UNDER CONSTRUCTION					
COMMERCIAL					
HOUSING	0	10.326.254	22.784.880		**33.111.134**
OTHERS					**0**
BUILDINGS CONSTRUCTED					**0**
COMMERCIAL	114.697.395	0	41.529.357		**156.226.752**
HOUSING	71.935.164	8.310.334	128.736.595	16.712.672	**225.694.765**
OTHERS	0	127.108.539	370.928.791		**498.037.330**
OTHERS					**0**
TOTAL	**198.074.125**	**160.987.607**	**786.377.597**	**77.686.426**	**1.223.125.755**

For further details, see the Real Estate Risk note in the chapter “Overview of the main initiatives performed in 2019”.

Regarding the impairment, the total amount is 120.449 thousand CVE, and 114.151 thousand CVE refers to impairment recorded for properties held in the portfolio and 6.298 thousand CVE is intended to cover amounts recorded in Sundry debtors.

16. Deposit from Other Credit Institutions

The table below shows the breakdown of this caption as of 31 December 2019, with amounts under Deposit -Insurance companies corresponding to deposits of the two national insurers.

(in thousands of CVE)

	2019	2018	Change Amount	Change %
Foreign Banks			-	
Medium to Long Term Loans				
IFC	220 530	220 530	-	-
Domestic Banks				
Demand deposits	17 146	35 916	(18 770)	(52,26%)
Term deposits	6 025	6 025	-	0,00%
			-	
Insurance companies				
Demand deposits	48 699	53 495	(4 796)	(8,97%)
Term deposits	15 000	15 000	-	0,00%
			-	
Others	-	-	-	0,00%
			-	
Charges payable	828	616	212	34,47%
	308 229	331 582	(23 353)	(7,04%)

In March 2018, the Bank signed with International Financial Corporation (IFH) a credit line of 551.325 thousand CVE, of which 220.530 thousand CVE have been used by the end of 2019.

17. Customer Deposits

The breakdown of this caption is as follows:

	2019	2018	Change Amount	Change %
(in thousands of CVE)				
Securities sold with repurchase agreements:				
Treasury Bonds	962.125	669.008	293.117	43,81%
Charges payable	14.023	12.236	1.787	14,60%
Sub- total	976.148	681.244	294.904	43,29%
Demand deposits	8.952.770	6.957.369	1.995.401	28,68%
Term deposits	10.988.847	8.775.871	2.212.975	25,22%
Other payables	13.529	1.335	12.194	913,31%
Charges payable	247.591	252.230	(4.639)	(1,84%)
Sub- total	20.202.736	15.986.805	4.215.931	26,37%
Total	21.178.884	16.668.049	4.510.835	27,06%

Mentioning that the securities transferred with a repurchase agreement are assigned at their nominal value.

18. Income Tax

The Bank is subject to corporate income tax under tax legislation in force, which is the Corporate Income Tax Code (IRPC Code) (Law 82/VIII/2015, of 7 January).

As of 31 December 2019, the tax rate applicable was 22%, the Bank also being subject to a fire tax of 2% on the tax calculated, which leads to an aggregate tax rate of 22,44%.

For the tax estimate, the Bank considered the provisions of the IRPC Code, with the understanding of the Board of Directors that the criteria and assumptions adopted are in accordance with the legislation in force.

The reconciliation between the nominal and effective tax rates verified in the 2019 financial year can be demonstrated as follows:

(in thousands of CVE)	31/12/2019
Profit / (loss) before income tax	306 806
Income from Government Debt Securities placed on the secondary market	(15 883)
Dividends received	(13 086)
Donations	(94)
30% of costs related to vehicles	1 604
50% of costs related to representation	119
Depreciation / Amortization on revaluation of useful life	-
Depreciation / Amortization on revaluation of tangible assets	890
Depreciation / Amortization not tax deductible	175
Provisions / Impairments not tax deductible	68 365
Sole tax on assets subject to registration	2 913
Extraordinary losses	3 561
Autonomous taxation	0
Corporate income tax for the period	**355 369**
Income Tax (rate of 22%)	72 943
Income Tax (rate of 5%)	1 190
Total collected	**74 134**
Local Tax	1 483
Autonomous Taxation	796
Exemption for Retained earnings (20% of total collected)	(14 827)
Income Tax for the year	**61 585**
Fractional Payment	55 335
Withholding Tax	2 338
Total Income tax	**3 912**

As of 31 December 2019, the balance relating to income tax was 3.912 thousand CVE.

Under current legislation, Law no. 59 / VI / 2005, income from securities issued by the Treasury of Cape Verde that have been placed on the secondary market is exempt from taxation.

Pursuant to the General Tax Code approved by Law no. 47 / VIII / 2013 of 20 December, tax authorities have the possibility to review the Bank's tax situation for a period of five years, in result if which , due to different interpretations of tax legislation, possible corrections to the taxable income may occur.

Pursuant to article no. 42 of the IRPC Code, impairment losses associated with loan operations with specific and binding guarantees of the State and loan operations covered by rights over immovable property are not tax deductible.

In the opinion of the Bank's Board of Directors, it is not expected any correction to be significant for the financial statements.

19. Other Liabilities

The breakdown of this caption is as follows:

(in thousands of CVE)	2019	2018	Change Amount	Change %
Amounts due to Public Sector	29.073	37.771	(8.698)	(23,03%)
Liability operations to be regularize	7.313	5.166	2.147	41,57%
Other	179.307	128.049	51.258	40,03%
	215.693	170.986	44.707	26,15%

Regarding Other Liabilities, under the caption Others includes, among others, the (i) existence of amounts to be cleared on the first following business day (32.348 thousand CVE in 2019 and 16.832 thousand CVE in 2018); (ii) forecast for the productivity bonus for 2019 in the amount of 12.197 thousand CVE (10,000 thousand CVE in 2018); (iii) forecast for miscellaneous expenses of 9.432 thousand CVE (6.988 thousand CVE in 2018), lease liability under IFRS 16 in the amount of 24.044 thousand CVE, and (iv) deposit for open documentary credits in the amount of 5.166 thousand CVE (5.525 thousand CVE in 2018).

20. Share Capital

In 2019 the Bank's shareholder structure changed, with the transfer, by SEPI - Sociedade de Estudos e Promoção de Investimentos, SA, in favor of IMPAR - Companhia Caboverdiana e Seguros and to other national private investors, previously shareholders of SEPI, of the total shareholding position it held in the Bank, corresponding to 43,87% of the share capital (equivalent to 394.818 shares). With this change, IMPAR - Companhia Caboverdiana de Seguros, SARL, increased its qualified shareholding in the Bank, and this increase earned no objection from Banco de Cabo Verde.

As of 31 December 2019, the Bank's capital holders were as follows:

(in thousands of CVE)

Entities	2019 Amount	2019 %	2018 Amount	2018 %
Impar - Companhia Caboverdiana de Seguros, SARL	780 800	86,8%	465 182	51,7%
SEPI - Sociedade de Estudos e Promoção de Investimesntos, SA	-	0,0%	394 818	43,9%
Cruz Vermelha de Cabo Verde	40 000	4,4%	40 000	4,4%
Private Investors	79 200	8,8%	-	0,0%
	900 000	100,0%	900 000	100,0%

The share capital is fully subscribed and paid up and it is represented by 900.000 shares with a nominal value of 1.000 Cape Verdean Escudos each.

21. Revaluation Reserves

The breakdown of this caption is as follows:

2019

(in thousands of CVE)

	Balance as of 31.12.2018	Increases	Decreases	Use of tax	Balance as of 31.12.2019
Revaluation of financial assets measured at fair value through other comprehensive income	169 855	-	-	-	169 855
Deferred tax on revaluation of financial assets measured at fair value through other comprehensive income	-	-	-	-	-
Revaluation of Real State Property for own use	16 106	-	-	(890)	15 216
Deferred tax on revaluation of Real State Property for own use	(4 107)	-	-	200	(3 907)
Balance	**181 854**	**0**	**0**	(690)	**181 164**

2018

(in thousands of CVE)

	Balance as of 31.12.2017	Increases	Decreases	Use of tax	Balance as of 31.12.2018
Revaluation of financial assets measured at fair value through other comprehensive income	142.331	27.524	-	-	169.855
Deferred tax on revaluation of financial assets measured at fair value through other comprehensive income	(36.294)	-	36.294	-	-
Revaluation of Real State Property for own use	11.712	4.394	-	-	16.106
Deferred tax on revaluation of Real State Property for own use	(2.987)	(1.347)	-	227	(4.107)
Balance	**114.762**	**30.571**	**36.294**	227	**181.854**

Resulting from the State budget for 2018, which extends the application of Article no. 27 of the Tax Benefits Code to all resident and non-resident entities with a permanent establishment in Cape Verde, the gains and losses on financial assets at fair value through other income are no longer taxed, so that a future capital gain obtained from the sale of interest in SISP is not subject to IRPC, which is why deferred taxes on recognized capital gains and losses are not recognized.

22. Other Reserves and Retained Earnings

The breakdown of this caption is as follows:

(in thousands of CVE)			Change	
	2019	2018	Amount	%
Legal Reserve	124.693	103.974	20.719	19,93%
Other reserves and retained earnings	971.596	788.912	182.684	23,16%
	1.096.289	892.886	203.403	22,78%

Under the legislation in force in Cape Verde (Law no. 62/VIII/2014, of 23 April), a minimum of 10% of the annual net profit must go to the Legal reserve. This reserve is not distributable except in the event of liquidation of the Bank but may be used to increase capital or to cover losses, after the other reserves have been exhausted.

Out of the amount of 971.596 thousand CVE recorded under the caption Other Reserves and Retained Earnings, the amount of 205.522 thousand CVE refers to Retained Earnings in accordance to the article no. 30 of the Tax Benefits Code, for years of 2017 and 2018, with the amounts of 101.925 thousand CVE and 103.597 thousand CVE respectively .

23. Net Interest Income

The breakdown of this caption is as follows:

(in thousands of CVE)			Change	
	2019	2018	Amount	%
Interest and similar income				
Interest from deposits with banks	9.203	7.216	1.987	27,53%
Interest from loans and advances to banks	20.433	3.827	16.606	433,86%
Interest from loans and advances to customers	1.066.681	909.512	157.169	17,28%
Commissions from amortized cost	55.316	40.877	14.439	35,32%
	1.151.633	961.432	190.200	19,78%
Interest and similar expenses				
Interest from deposits with banks - Domestic	(706)	(2.006)	1.300	(64,81%)
Interest from deposits with banks - Foreign	(11.544)	(1.943)	(9.601)	494,01%
Interest from customer deposits	(361.194)	(298.301)	(62.893)	21,08%
Interest from securities sold - Treasury Bonds	(28.701)	(26.851)	(1.850)	6,89%
Interest from other banks	(917)	-	(917)	
	(403.062)	(329.101)	(73.961)	22,47%
Net interest income	748.571	632.331	116.240	18,38%

As previously mentioned, the increase in the Interest from loans and advances to customers in the total amount of 157.169 CVE is directly related to the increase in the loan's portfolio.

24. Dividend Income

This caption amounts to 13.086 thousand CVE (12.828 thousand CVE in 2018) and corresponds to the recognition of the dividends received, mostly related to dividends of the company SISP, in the amount of 10.836 thousand CVE (9.966 thousand CVE in 2018).

25. Fee and Commission Income

The breakdown of this caption is as follows:

The amount of 47.931 thousand CVE, on the caption "Sundry services" refers to commissions received for the provision of services related to foreign operations (payment orders sent and received), and foreign exchange operations performed at branches.

(in thousands of CVE)			Change	
	2019	2018	Amount	%
Commissions				
Sundry services	47.931	38.771	9.160	23,63%
Comission from WU	33.491	26.478	7.013	26,49%
ATM Services	24.116	20.695	3.422	16,53%
Guarantees and endorsements provided	13.296	8.687	4.609	53,06%
Card management	26.040	26.992	(952)	(3,53%)
Annual charges	11.012	9.711	1.301	13,40%
Fund transfers	4.403	5.547	(1.144)	(20,62%)
Purchase of bank checks	6.442	5.669	773	13,64%
Commissions on current account loan commitments	1.947	1.598	350	21,90%
Advances	4.566	5.995	(1.429)	(23,84%)
Documentary credits opened	3.650	1.229	2.421	196,96%
Collection and payment of taxes	5.344	4.461	883	19,80%
Stock exchange operations	1.040	1.000	40	4,03%
Sureties and indemnities	2.522	2.642	(120)	(4,53%)
Notes and endorsements	3.789	3.405	383	11,26%
Stanby letters of credit	34	-	34	100,00%
	189.624	162.878	26.746	16,42%

26. Fee and Commission Expenses

The breakdown of this caption is as follows:

(in thousands of CVE)			Change	
	2019	2018	Amount	%
Commissions				
Payment operations	(6 566)	(6 533)	(33)	0,51%
Issue of cars	(35 105)	(26 699)	(8 406)	31,49%
Commissions to WU	(11 835)	(9 855)	(1 980)	20,09%
Sundry services	(13 870)	(12 794)	(1 076)	8,41%
	(67 377)	(55 881)	(11 496)	20,57%

Of the amount of 13.870 thousand CVE related to the caption "Sundry services", the amount of 6.566 thousand CVE, corresponding to 47% refers to commissions paid to correspondent banks.

27. Net Gains /(Losses) from Foreign Exchange Revaluation

The breakdown of this caption is as follows:

(in thousands of CVE)			Change	
	2019	2018	Amount	%
Gains on foreign exchange revaluation				
On foreign exchange transfers	85.701	41.780	43.921	105,12%
On foreign bank notes and coins	12.545	9.207	3.338	36,25%
	98.246	50.987	47.259	92,69%
Losses on foreign exchange revaluation				
On foreign exchange transfers	(67.503)	(22.370)	(45.132)	201,75%
On foreign bank notes and coins	(9.204)	(18.020)	8.816	(48,92%)
	(76.706)	(40.390)	(36.316)	89,91%
Net gains / (losses) from foreign exchange revaluation	21.540	10.597	10.943	103,26%

28. Net Gains/(Losses) on Disposal of Other Assets

In 2019, assets with associated net losses of 172 thousand CVE were recorded (gains of 474 thousand CVE in 2018), of which 1.144 thousand CVE related to the sale of properties.

29. Other Net Operating Gains /(Losses)

The gains and losses presented in this caption are as follows:

(in thousands of CVE)			Change	
	2019	2018	Amount	%
Other operating gains				
Reimbursement of expenses	3.278	3.737	(459)	(12,29%)
Loan, interest and expense recoveries	65	25.743	(25.678)	(99,75%)
Sundry gains related to prior years	425	650	(225)	(34,66%)
Sale of checks	1.771	1.591	180	11,32%
Other	10.821	7.633	3.188	41,77%
	16.360	39.355	(22.995)	(58,43%)
Other operating losses				
Losses related to prior years	(2.822)	(3.333)	510	(15,31%)
Quotations and donations	(634)	(1.604)	970	(60,47%)
Other operating expenses	(5.255)	(12.101)	6.845	(56,57%)
Other taxes and rates	(3.163)	(3.014)	(149)	4,93%
	(11.875)	(20.052)	8.177	(40,78%)
Other net operating gains / (losses)	4.486	19.303	(14.818)	(76,76%)

The caption Loan interest and expense recoveries refers to recoveries of loans written off against assets, which in 2019 were in an amount lower than in 2018 (- 25.678 thousand CVE).

Miscellaneous income includes basically fees for issuing bank statements in the amount of 5.034 thousand CVE (2.874 thousand CVE in 2018).

Of the amount of 5.255 thousand CVE in the caption Other operating costs, 2.500 thousand CVE refers to the Bank's contribution to the Deposits Guarantee Fund in respect of the year 2018.

30. Staff Costs

The breakdown of this caption is as follows:

(in thousands of CVE)	2019	2018	Change Amount	Change %
Remuneration of management and supervisory board	28.799	23.432	5.368	22,91%
Remuneration of staff	201.833	172.552	29.282	16,97%
	230.632	195.983	34.649	17,68%
Mandatory social charges	25.745	21.698	4.047	18,65%
Contractual indemnities	261	3.029	(2.768)	(91,40%)
Other staff costs	549	227	321	141,20%
	26.554	24.954	1.600	6,41%
	257.186	220.937	36.249	16,41%

31. General Administrative Costs

The breakdown of this caption is as follows:

(in thousands of CVE)	2019	2018	Change Amount	Change %
Specialized services	84.109	88.631	(4.523)	(5,10%)
Communication	14.894	11.997	2.898	24,15%
Rentals and hires	15.671	20.243	(4.572)	(22,58%)
Travelling and accomodation	7.539	7.529	10	0,13%
Consumable materials	9.329	6.686	2.643	39,53%
Advertising	13.660	16.539	(2.879)	(17,41%)
Water, gas and electricity	14.993	12.525	2.468	19,70%
Maintenance and repairs	3.329	4.892	(1.563)	(31,95%)
Insurance	10.160	1.748	8.413	481,40%
Fuel	1.503	1.800	(297)	(16,50%)
Transport	4.307	1.104	3.203	290,10%
Training	1.670	4.003	(2.333)	(58,28%)
Other	7.482	5.929	1.553	26,20%
	188.646	183.626	5.020	2,73%

The caption Specialized services amounting to 84.109 thousand CVE relate mainly to services provided by many consultants (13.605 thousand CVE), the utilization of SISP's Vinti4 network (23.593 thousand CVE), IT technical assistance services (32.362 thousand CVE), and Surveillance and Security Services (10.593 thousand CVE).

32. Impairment of Loans and Advances and Other Assets

Regarding to the movement of Impairment accounts, on 31 December 2019 and 31 December 2018, they had the following changes:

2019

(in thousands of CVE)

	Notes	Balance as of 31/12/2018	Additions	Reversals	Transfers	Balance as of 31/12/2019
Impairment of:						
Loans and advances to customers	9	1 292 660	533 190	(411 835)	-	1 414 014
Debt instruments	7	8 509	185	(880)	-	7 814
Other assets	15	126 687	28 403	(21 776)	(12 864)	120 449
Held-to-maturity investments	10	0	-	-	-	-
Tanglible assets	11	8 415	-	-	(1 050)	7 364
		1 436 270	**561 778**	**(434 491)**	**(13 915)**	**1 549 642**

2018

(in thousands of CVE)

	Notes	Balance as of 31/12/2017	Additions	Reversals	Transfers	Balance as of 31/12/2018
Impairment of:						
Loans and advances to customers	9	1 248 135	477 767	(433 242)	-	1 292 660
Debt instruments	7	-	17 402	(12 221)	3 329	8 509
Other assets	15	147 192	32 166		(52 672)	126 687
Held-to-maturity investments	10	3 329	-	-	(3 329)	-
Non-current assets held for sale	11	0	-	0	0	0
Tanglible assets	11	2 720	8 217	(2 523)		8 415
		1 401 376	**535 553**	**(447 987)**	**(52 672)**	**1 436 270**

The criteria and methodologies used to determine the impairment of loans and Advances to customers are described in the Note 36.2.

The accumulated impairment of foreclosed real estate amounted to 114.151 thousand CVE which corresponds around 10,7% of their gross carrying amount (9,8% in 2018).

33. Earnings Per Share

	2019	2018
Basic		
Net income for the period	278.480	207.193
Number of ordinary shares	900.000	900.000
. Basic (CVE)	**309**	**230**
. Diluted (CVE)	**309**	**230**

The diluted earnings per share is equal to the basic earnings per share, there being no dilution resulting from convertible instruments, options or warrants or common shares that are only issued after the specified conditions have been met.

34. Provisions and Contingent Liabilities

The movement in the provision caption on 31 December 2019 and 31 December 2018 was as shown in the tables below:

2019

(in thousands of CVE)

	Balance as of 31.12.2018	Additions	Use and regularizations	Reversals and recoveries	Balance as of 31.12.2019
Other provisions	7 675	-	-	-	7 675
	7 675	**-**	**-**	**-**	**7 675**

2018

(in thousands of CVE)

	Balance as of 31.12.2017	Additions	Use and regularizations	Reversals and recoveries	Balance as of 31.12.2018
Provisions for tax contingencies	12.305	-	-	12.305	-
Other provisions	7.725	-	(50)	-	7.675
	20.030	**-**	**(50)**	**12.305**	**7.675**

Regarding Other provisions, these represent present obligations resulting from past events where the future outflow of resources (litigation proceedings and other banking risks) is probable; in relation to litigation proceedings, the provision was made based on the legal cases and on an assessment of the probability of being sentenced based on the information provided by the legal counsel of the Bank accompanying the respective proceedings.

Contingent liabilities associated with banking activities are recorded as off-balance sheet items and have the following breakdown:

(in thousands of CVE)

	2019	2018	Change Amount	Change %
Guarantees provided (of which):				
Guarantees and endorsements	1.067.197	618.295	448.902	72,60%
	1.067.197	**618.295**	**448.902**	72,60%
Commitments to third parties:				
Revocable commitments	697.791	746.801	(49.010)	(6,56%)
	1.764.987	**1.365.096**	**399.891**	29,29%
Deposits and custody of securities:				
Dematerialized securities	(1.193.699)	(863.920)	(329.779)	38,17%
Collection of amounts	15.354	25.350	(9.996)	(39,43%)
	(1.178.345)	**(838.569)**	**(339.775)**	**40,52%**

In the CAPTION dematerialized securities, the amount of 962.125 thousand CVE refers to securities assigned to customers with a repurchase agreement (669.008 thousand CVE in 2018).

It should be noted that the balance of the guarantees provided is considered, for the purposes of determining the impairment under the current impairment model.

35. Operating Segments

The Bank has its businesses organized by the areas: Trading and Sales, Commercial Banking, Retail Banking, and Central Services.

In this context, and as required by IFRS 8, the disclosures by operating segments of the Bank, on 31 December 2019, correspond to the way the information is analyzed:

- Trading and sales – include the banking activity related to the management of its own securities portfolio, management of issued debt instruments, money market and foreign exchange operations, "Repo" operations and brokerage. Applications with banks and deposits with banks are included in this segment;

- Commercial banking – Includes credit and funding activities among large and small and medium-sized companies. This segment includes loans, current accounts, financing of investment projects, discount of bills, factoring, leasing of real estate leasing, and taking of syndicated loans, as well as loans and advance to the Public Sector;
- Retail banking - includes banking activity with individuals, individual entrepreneurs, and micro-enterprises. This segment includes consumer loans, mortgage loans and deposits taken from individuals; and

- Central Services Supporting the Business - back-office branches associated with operations execution, risk analysis and administrative services.

The reports used by Management are essentially based on accounting information, with no differences between the measurements of income, expenses, assets, and liabilities of reportable segments.

Management does not prepare any management information by geographic areas, given that all its activity is performed in Cape Verde.

With reference to 31 December 2019 and 2018, the information related to the Bank's operating segments used can be summarized as follows:

(In thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2019
Interest and similar income	163 905	255 771	731 957	-	1 151 633
Interest and similar expenses	(81 354)	(117 193)	(204 515)	-	(403 062)
Net interest income	82 551	138 578	527 442	-	748 571
Dividend income	13 086	-	-	-	13 086
Fee and commission income	28 804	42 652	118 169	-	189 624
Fee and commission expenses	(30 096)	(264)	(37 017)	-	(67 377)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	16 891	-	-	-	16 891
Net gain / (losses) from foreign exchange revaluation	21 540	-	-	-	21 540
Net gain / (losses) on disposal of other assets	-	-	-	(172)	(172)
Other net operating gains / (losses)	5 434	(103)	(845)	-	4 486
Operating income	138 209	180 863	607 748	(172)	926 649
Staff costs	6 767	17 660	115 451	117 308	257 186
General and administrative expenses	6 864	6 037	56 769	118 975	188 645
Depreciation and amortization	1 497	1 720	17 562	25 945	46 724
Provisions, net of reversals	-	-	-	-	-
Impairment losses of loans and advances, net of reversals and recoveries	-	-	120 660	-	120 660
Impairment losses of other assets, net of reversals and recoveries	-	-	-	6 627	6 627
Profit / (loss) before income tax	**123 081**	**155 446**	**297 307**	**(269 027)**	**306 806**
Income Tax					
Current tax	31 386	39 639	75 813	(103 171)	43 667
Deferred tax	-	-	-	(15 341)	(15 341)
Net profit for the period	**91 695**	**115 807**	**221 494**	**(150 516)**	**278 480**

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2018
Interest and similar income	136 835	213 528	611 069	-	961 432
Interest and similar expenses	(66 426)	(95 688)	(166 987)	-	(329 101)
Net interest income	70 410	117 840	444 082	-	632 331
Dividend income	12 828	-	-	-	12 828
Fee and commission income	24 741	36 636	101 502	-	162 878
Fee and commission expenses	(24 961)	(219)	(30 700)	-	(55 881)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	3 077	-	-	-	3 077
Net gain / (losses) from foreign exchange revaluation	10 597	-	-	-	10 597
Net gain / (losses) on disposal of other assets	-	-	-	474	474
Other net operating gains / (losses)	23 383	(442)	(3 638)	-	19 303
Operating income	120 075	153 815	511 245	474	785 609
Staff costs	5 813	15 171	99 178	100 774	220 937
General and administrative expenses	6 681	5 876	55 259	115 809	183 626
Depreciation and amortization	1 062	1 220	12 462	18 409	33 153
Provisions, net of reversals	-	-	-	(12 305)	(12 305)
Impairment losses of loans and advances, net of reversals and recoveries	-	-	49 936	-	49 936
Impairment losses of other assets, net of reversals and recoveries	-	-	-	37 860	37 860
Profit / (loss) before income tax	**106 518**	**131 547**	**294 410**	**(260 074)**	**272 401**
Income Tax					
Current tax	27 162	33 545	75 075	(48 770)	87 011
Deferred tax	-	-	-	(21 804)	(21 804)
Net profit for the period	**79 356**	**98 003**	**219 335**	**(189 500)**	**207 193**

As to the distribution of the Balance Sheet over the various segments, the situation in 2019 and 2018 is as follows:

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2019
ASSETS					
Cash and deposits with Central Banks	3 675 292	-	-	-	3 675 292
Deposits with Banks	878 575	-	-	-	878 575
Financial assets designated at fair value through profit or loss	50 804	-	-	-	50 804
Financial assets measured at fair value through other comprehensive income	179 855	-	-	-	179 855
Financial assets measured at amortized cost					
Debt securities	-	-	-	1 532 404	1 532 404
Loans and advances to banks	-	-	-	2 132 007	2 132 007
Loans and advances to customers	-	-	-	14 175 173	14 175 173
Other tangible assets	8 985	2 995	206 635	80 857	299 471
Other intangible assets	-	-	-	27 003	27 003
Tax Assets					
Current tax assets	-	-	-	16 531	16 531
Deferred tax assets	-	-	-	38 092	38 092
Other assets	407 782	174 766	291 282	291 282	1 165 113
Total Assets	**5 201 293**	**177 761**	**497 918**	**18 293 350**	**24 170 321**

Description					
LIABILITIES					
Financial liabilities measured at amortized cost					
Deposits from Banks	308 229	-	-	-	308 229
Customer Deposits	-	5 515 010	15 663 874	-	21 178 884
Provisions	-	-	-	7 675	7 675
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	3 907	-	-	-	3 907
Other liabilities	43 137	86 278	64 707	21 570	215 693
Total Liabilities	355 273	5 601 288	15 728 582	29 246	21 714 388
EQUITY					
Share Capital	179 385	165 012	546 882	8 722	900 000
Legal Reserve	-	-	-	124 693	124 693
Revaluation reserves	-	-	-	181 164	181 164
Other reserves and retained earnings	466 672	1 136 922	2 069 997	(2 701 995)	971 596
Net profit for the period	91 695	115 807	221 494	(150 516)	278 481
Total Equity	737 753	1 417 741	2 838 372	(2 537 931)	2 455 933
Total Liabilities + Equity	1 093 025	7 019 029	18 566 954	(2 508 685)	24 170 321

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2018
ASSETS					
Cash and deposits with Central Banks	2 429 820	-	-	-	2 429 820
Deposits with Banks	1 359 177	-	-	-	1 359 177
Financial assets designated at fair value through profit or loss	33 456	-	-	-	33 456
Financial assets measured at fair value through other comprehensive income	179 855	-	-	-	179 855
Financial assets measured at amortized cost					
Debt securities	-	-	-	1 389 691	1 389 691
Loans and advances to banks	-	-	-	106 124	106 124
Loans and advances to customers	-	-	-	12 353 478	12 353 478
Other tangible assets	6 948	2 316	159 799	62 530	231 593
Other intangible assets	-	-	-	7 667	7 667
Tax Assets					
Current tax assets	-	-	-	-	-
Deferred tax assets	-	-	-	22 751	22 751
Other assets	448 939	192 405	320 681	320 681	1 282 707
Total Assets	**4 458 195**	**194 721**	**480 481**	**14 262 922**	**19 396 318**

Description					
LIABILITIES					
Financial liabilities measured at amortized cost					
Deposits from Banks	331 582	-	-	-	331 582
Customer deposits	-	4 340 382	12 327 667	-	16 668 049
Provisions	-	-	-	7 675	7 675
Current tax liabilities	4 063	9 899	18 024	-	31 985
Deferred tax liabilities	4 107	-	-	-	4 107
Other liabilities	34 196	68 395	51 295	17 100	170 986
Total Liabilities	373 948	4 418 676	12 396 986	24 775	17 214 385
EQUITY					
Share Capital	179 385	165 012	546 882	8 722	900 000
Legal Reserve	-	-	-	103 974	103 974
Revaluation reserves	-	-	-	181 854	181 854
Other reserves and retained earnings	378 926	923 153	1 680 787	(2 193 953)	788 912
Net profit for the period	79 356	98 003	219 335	(189 500)	207 193
Total Equity	637 668	1 186 168	2 447 004	(2 088 903)	2 181 934
Total Liabilities + Equity	1 011 616	5 604 843	14 843 989	(2 064 128)	19 396 318

36. Financial Instrument Risks

36.1. Risk management policies

The strategies and policies guiding Global Risk Management, and for each of the main risks identified, are defined by the Board of Directors. Activity risk management is performed independently and with an appropriate segregation of duties.

The management and control of risks, indispensable to the compliance with these policies, are developed by the various bodies, being based on the identification and analysis of the Bank's exposure to the various risks (credit, market, liquidity, operational, real estate and foreign exchange risk). Monitoring of these risks is performed in a continuously manner, allowing the adoption of preventive and corrective measures, whenever necessary.

The Bank promotes collective awareness of the nature and dimension of the inherent risks, seeking, however, the adoption of strategies to maximize results in view of the risks and the established exposure limits.

The Bank has over the past few years, developed a set of actions aimed at obtaining a complete and timely risk information system, supported by specific information technologies for the management of the various risks of the activities performed.

36.2. Credit Risk

Credit risk is the possibility of negative impacts on results or equity, due to the inability of a counterpart to meet its financial commitments to the Bank.

As in previous years, the Bank adopted a selective credit policy, continuing to use strict criteria and perfecting its internal risk analysis models, both in the retail segment and in the corporate segment.

Credit risk management and monitoring were performed in accordance with the principles and rules for granting credit defined in the Bank's General Credit Regulation, specific credit regulations, overdue loan regulations and the rules established by the regulatory authority.

Credit risk management was based mainly on the monitoring and follow-up of the Loans Portfolio, mainly regarding its quality and concentration aspect (in terms of sectors and major risks). In this context, the Bank continued to use the SIC (Commercial Information System) computer tool, which benefited from updates throughout the year. The SIC tool provides, on a daily basis, the position of all Customers and / or loan operations, which allows the commercial network, in particular, to recognize, in a timely manner, warning signs and thus take the necessary preventive measures in sense of mitigating the risk of default.

Due to their material impact, large exposures are subject to special surveillance in order to anticipate possible situations of non-compliance and to take measures regarding the minimization of an eventual impact, either by reducing responsibilities or by reinforcing guarantees.

In addition to daily control, monthly monitoring is performed through the monitoring and control of exposures through the preparation of a monthly credit report with the main quality indicators.

Credit risk is the most relevant risk in the Bank's activity and is associated with losses and the degree of uncertainty of a customer / counterpart to meet its obligations and, as such, is essentially present in loans and guarantees provided. Given the nature of banking activity, credit risk is of high importance, given its materiality, despite its links with other risks.

During 2019, despite the objective of increasing the loan portfolio, the Bank maintained prudent and conservative criteria regarding the granting and monitoring of the loan portfolio, having privileged financing new operations with levels of risk that it considered adequate according to their risk.

Still regarding the credit granting policy, formalized in specific norms, the Bank continued the process of consolidating the analysis procedures, requiring that all loan processes, whether for corporate or private entities, be analyzed by organic departments independent of the structure commercial role, that's to say the Credit Office, and the Risk Management Office, for certain levels of materiality (aggregate exposure greater than 1% of the Bank's Own Funds), as a way of complementing the identification of possible situations which may jeopardize the refund of the amounts requested.

The decision-making process continued to be ensured by different levels, clearly defined, and ranked by internal Credit Regulation Norm according to the type, amount and nature of the operations.

Regarding the loan portfolio monitoring / follow-up process, it continued to be performed on a continuous basis and covers in order to preserve its quality and guarantee its diversification, either by sector of activity or by credit segment, or per currency.

Ultimately, credit risk materializes in impairment losses, which are the best loss estimates at a given reference date. In this regard, the model developed by the Bank under IFRS 9, allows to estimate the expected losses (impairment) according to the loan quality of the lessee.

On the other hand, and in terms of credit control, we continued to focus on:

- a continuous and permanent monitoring of the loan portfolio, in order to maintain a strict control of its risk, through the monthly report, aiming to ensure taking of measures both on potential defaults and on resolution default situations focusing on relevant operations;

- To reinforce the rigor of the credit analysis and approval criteria for the various segments, aiming at the quality of the portfolio;

- In preserving the quality of the portfolio, observing the periods of default of the overdue loans, providing debt restructuring solutions that allow customers to adjust their charges payable according to the binomial repayment capacity / current and future income;

- In the identification of credit operations at risk, under the terms defined by the rules of the Central Bank in this matter.

Credit risk assessment

In the analysis of loan operations, the Bank continued to use, in generalized manner the auxiliary rating models for companies and Scoring for private individuals, thus providing greater objectivity, speed and security in credit decisions, along with the reduction in the costs associated with the decision-making process.

Still in terms of the credit risk assessment, several tools were developed to support the risk analysis, thus allowing the different players of the credit decision processes to have clear and precise information with a view to a correct and safe decision making.

Loan collateral management policies

The value and nature of the collateral and the level of coverage required depend on the outcome of the counterpart's credit risk assessment.

The Bank has internal procedures for the acceptance of certain types of collateral with specific valuation criteria. However, there are certain types of collateral that, by their nature, are associated with a specific type of loan or advance granted, such as:

• In medium-/long-term loans to Individuals, such as housing loans, the collateral usually takes the form of a real guarantee, namely the mortgage of the property. In short-term loans or advances, Individuals are usually only required to provide personal guarantees.

• In the case of Company loans, revolving loans, personal guarantees are requested from shareholders/quota-holders, and in some cases, collateral is required, such as property mortgages or the pledge of deposits or securities. These situations differ according to the risk attributed to the customer and the period of the loan granted to Companies. Whenever there is any increase in credit risk, the customers are required to provide additional collateral.

• In the case of loans granted to companies belonging to economic groups, it is common practice to mitigate credit risk with collateral provided by the Group's parent company.

At the time of its granting, all the mortgage and/or pledge of assets collateral must be valued by an independent entity requested by the Bank. The valuations may also be performed by technicians who form part of the organic structure of the Bank or of the financial group which it integrates, that are independent of the process of analysis, decision, and recovery of the loan.

Collateral management is developed in a continuous manner, thus promoting the maintenance of the coverage, by the collateral of the loans granted. The real guarantees are mandatorily revalued in the following situations:

1. For mortgages: three months after the first default, if more than one year after the last valuation;

2. For non-mortgage loans: three months after the first default, if more than six months after the last valuation;

3. For collateral associated with the processes transferred to the Credit Recovery Nucleus (CRN) regardless of the loan situation, (non-performing, indications of default, situations of complaints by third parties, etc.), these should be immediately valued for mortgage guarantees not more than one year after the last valuation has elapsed and for nonmortgage guarantees not more than six months has elapsed.

In the case of guarantees relating to real estate, and for operations of not less than ten million Cape Verdean Escudos, the Bank may use market indices to assign a certain value to the property, using the comparison method.

On an annual basis, the Bank performs individual and case-by-case analyses of all loan operations related to Significant Customers based on the following criteria:

1. Customers with liabilities in excess of 100.000.000 CVE

2. Customers with a significant increase in impairment or in default with liabilities in excess of 25.000.000 CVE

Collaterals that are due following customers default are executed and transferred to the Bank's possession are in general sold for the total or partial fulfillment of the debt. In the event of a commercial interest in a particular asset, the bank retains it in your property for your use.

The Bank considers the collateral transfer in lieu of/ litigation as the standard reference method for assessment of the future recoverability of loan subject to a case-by-case analysis. Only in exceptional and duly substantiated cases does the Bank resort to methods of project cash-flows or business cash-flows.

The application of the project cash flow method is subject to the following parameters:

- The value to consider is the PVT ("Probable Value of the Transaction"), in the current state of the asset;

- In case of the valuation of the same asset in successive years, the values obtained in the valuations are compared. If the most recent valuation corresponds to an appreciation compared with the previous valuation, it is mitigated by using the average value of the two valuations, whereas, on the contrary, in case of a devaluation, only the most recent valuation value is used, with the devaluation being incorporated in full and immediately in the calculation;

- If the valuation of the asset has been made based on the comparative or cost method, the following minimum cash-in time intervals must be applied: 4 years for land or projects under development (<50% of completion) and 3 years for more advanced projects (>50% completion);

- If the valuation is based on the income method, the above does not apply;

- The interest rate to be applied will be the Effective annual global rate and, only when it is not available, the initial nominal fixed rate of the loan agreement (NAR) will be applied;

- When valuations are considered inadequate, haircut factors, as referred to in the Real Estate Risk note in the Chapter “Overview of the main initiatives performed in 2018” of the Management Report, are applied.

The application of the transfer in lieu of/litigation method is subject to the following parameters:

- The value to consider is the PVT ("Probable Value of the Transaction"), in the current state of the asset;

- In case of the valuation of the same asset in successive years, the values obtained in the valuations are compared. If the most recent valuation corresponds to an appreciation compared with the previous valuation, it is mitigated by using the average value of the two valuations, whereas, on the contrary, in case of a devaluation, only the most recent valuation value is used, with the devaluation being incorporated in full and immediately in the calculation;

- The number of years to be applied in the discounting of the resulting cash flows obeys the following table, which considers the legal deadlines in Cape Verde and to which must be added 1 to 2 years for the sale;

SITUATION		
A	1	In case of foreclosure (immediate agreement) and subsequent sale of constructed property: 1 year
B	2	In case of foreclosure (immediate agreement) and subsequent sale of property under constructed (<50%) and land: 2 years
C	4	In case of a normal legal enforcement (3 years) with sale of constructed property: 4 year
D	5	In case of a normal legal enforcement (4 years) with sale of constructed property: 5 year
E	5	In case of a normal legal enforcement (3 years) and subsequent sale of property under constructed (<50%) and land: 5 years
F	6	In case of a complex legal enforcement (4 years) and subsequent sale of property under constructed (<50%) and land: 6 years.

- The interest rate to be applied will be the Effective annual global rate and, only when it is not available, the initial nominal fixed rate of the loan agreement (NAR) will be applied;

- When valuations are considered inadequate, haircut factors are applied to same as mentioned above;

- If the recovery costs were not considered in the valuation, 3% should be considered for the cost of real estate intermediation (applied on the PVT, with disbursement at the time of sale) and 2% for the maintenance of buildings (applied on the PVT, in the period between the delivery of the asset to the Bank and its sale – 1 to 2 years, according to the time methodology defined in the table above).

NOTE: For collateral other than real estate, namely securities, the recoverable amount is derived from the PVT discounted for the period foreseen up to the date of the sale. For quoted securities, the PVT is the current market value. For unlisted securities, a financial valuation will be made, based on the asset and market circumstances. For other assets, namely equipment, machinery, vehicles, etc. ..., the PVT must reflect a valuation made by an external expert, taking care to ensure that the Bank has safeguarded the possibility of obtaining ownership and possession.

As of 31 December 2019, and 2018, the fair value of the real guarantees received by type of customer (individuals, companies, public and institutional sector), has the following breakdown:

	(in thousands of CVE)				(in thousands of CVE)			
	2019				2018			
Segment	Exposure (1)	Fair value of collateral (2)			Exposure (1)	Fair value of collateral (2)		
		Mortgage	Pledge	Total		Mortgage	Pledge	Total
Corporate								
Loans (balance amount)								
Due	9.189.549	5.203.662	63.868	5.267.530	7.784.397	3.965.182	102.581	4.067.764
Past due	1.229.269	661.604	0	661.604	1.170.943	682.874		682.874
Loans (off-balance)								
Due	1.705.114	395.380	14.797	410.177	1.272.363	156.675	25.907	182.582
Individuals								
Loans (balance amount)								
Due	3.906.100	3.118.479	149.136	3.267.614	3.701.544	2.900.787	156.287	3.057.074
Past due	584.987	348.725	0	348.725	547.265	345.114	875	345.989
Loans (off-balance)								
Due	41.404	0	5.000	5.000	107.286		5.000	5.000
Public Sector and Institutional								
Loans (balance amount)								
Due	679.279	0	0	0	441.984			
Past due	3	0	0	0	3			
Loans (off-balance)								
Due	44.066	0	0	0	45.521			
Total	17.379.772	9.727.851	232.800	9.960.651	15.071.309	8.050.633	290.650	8.341.283

Note:
(1) Includes principal, accrued and past due interest and income receivable.
(2) Guarantees received: fair value of collateral received limited to the amount of the associated operations.

The amount of the guarantees must be limited to 100% of the amount of the exposure.

Considering the fair value by segment, the situation is as summarized in the table below:

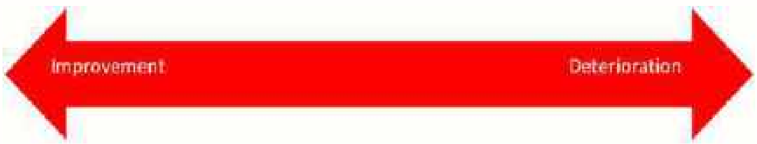
	Corporate with GRH				Corporate without GRH				Individuals Housing			
	Real Estate Properties		Other collaterals*		Real Estate Properties		Other collaterals*		Real State Properties		Other collaterals*	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
0,5 M CVE	0	0	0	0	0	0	1	0	2	0	0	0
>= 0,5 M CVE e < 1 M CVE	1	1	0	0	0	0	4	3	2	1	1	1
>= 1 M CVE e < 5 M CVE	14	39	0	0	0	0	77	204	133	459	3	7
>= 5 M CVE e < 10 M CVE	34	244	0	0	0	0	16	95	195	1 406	1	7
>= 10 M CVE e < 20 M CVE	31	425	0	0	0	0	6	79	111	1 408	0	0
>= 20 M CVE e < 50 M CVE	43	1 323	0	0	0	0	4	89	26	717	0	0
>= 50 M CVE	55	9 889	0	0	0	0	0	0	10	753	0	0
Total	**178**	**11 920**	**0**	**0**	**0**	**0**	**108**	**471**	**479**	**4 745**	**5**	**14**

Assessment of impairment

Since 2018, the Bank's impairment model has been based on IFRS 9, expected losses (Expected Credit Loss - ECL). This new approach ECL aims to facilitate recognizing of losses associated with loans granted by the Banks, which for this purpose started to incorporate a broader set of loan information.

Expect Credit Loss (ECL) Method

Quality of credit



Stage 1 Performing	**Stage 2** Underperforming	**Stage 3** Non-performing
12-month	Lifetime	Lifetime
Low Risk	**Medium Risk**	**Higher Risk**
On gross carrying amount	On gross carrying amount	On net carrying amount

The Bank recognizes as a cost, the expected loss on a financial asset measured at amortized cost or at fair value through other comprehensive income. Such loss is measured at an amount equal to the expected loss over its lifetime, if the credit risk associated with this financial asset has increased significantly since the initial recognition.

Credit risk assessment is performed both on an individual and collective basis, based on reasonable and sustainable information, including forward-looking approaches.

The expected credit losses are measured based on the current value of the difference between the contractual cash flows and the cash flows that the entity expects to receive, including cash flows from the sale of collateral, for the cases of the Particular_Habitação(Housing) and Empresas (Corporate) segments .

Collective analysis

The Bank determines the expected credit loss from each operation considering the deterioration in credit risk that has occurred since its initial recognition. For this purpose, it established as a principle the segmentation of the portfolio in three stages (stages), defining as aspects of calculations the aspects represented in the graph below.

Stages of impairment

The impairment to be recognized varies according to the credit risk (which will determine the migration between the different stages), and this must consider the date of origination of the financial asset / credit.

Regarding the definition of the transition criteria between stages, they are essentially based on qualitative indicators and in order to ensure consistency and stability in the transitions between stages, minimum periods of permanence in stages 2 and 3 (quarantine status) were introduced, before the respective returns stages 1 and 2, respectively.

Stage 1 – Normal Situation

As from the moment the Bank recognizes a financial instrument, it must also recognize the expected loss at 12 months. Accordingly, all performing loan operations, that is, that do not present a significant increase in credit risk, are included in Stage 1, and the expected losses of the loans in this stage are those that result from a default event that may occur within 12 months after the reporting date.

Stage 2- Significant increase in credit risk

IFRS 9 introduced the concept of a significant increase in credit risk, as from the origination, which allows for the identification and determination of impairment on operations that present an intermediate state, between No Default and Default. In other words, if credit risk increases significantly and this risk is not considered to be low, an expected credit loss for this asset is recognized on a lifetime perspective (throughout the life of the operation).

The allocation of a given operation/customer to Stage 2 requires determining whether this operation/loan has experienced a significant increase in credit risk since its initial recognition. Thus, under paragraph 5.5.9 of the Standard, the significant increase in credit risk is defined as a "significant change in the risk of default over the expected life of the financial instrument". However, there is little guidance on what quantifies such significant change.

The Bank has adopted several classification criteria of a given operation/customer in Stage 2 and has considered as belonging to Stage 2, all operations/customers that have presented stage 2 or stage 3 criteria in the 3 months prior to the stage allocation date. Once on stage 2, the operation will have a minimum period of stay (quarantine) of 3 months. If during the quarantine period the operation begins to reveal characteristics typical of stage 2, the quarantine period is reinitiated as of the date on which such evidence is established.

Stage 3 - Default

Given that IFRS 9 does not provide an objective definition of default but does, however, assume a rebuttable assumption that the default occurs at the time an exposure is more than 90 days past due, the Bank did not contest such assumption, which is consistent with the definition used in the Bank's current credit risk management policies.

The definition of default used is based on best market practices, namely as regards the introduction of additional criteria for classification in stage 3, such as the existence of multiple restructurings and amounts of principal written down from the asset, and the definition of differentiated quarantine periods taking into account the different entry criteria.

In addition, in the classification of stage 3 and for the segments indicated in the table below, the Bank took materiality criteria as indicated there in consideration. For situations in which an entity has multiple operations, the most negative stage prevails as long as it meets the materiality criteria. In a first approach, for the individuals, the analysis is carried out from an operation perspective while for companies the analysis is carried out from an exposure per customer perspective.

Individual Analysis

Regarding the definition of criteria for the selection of exposures whose impairment is analyzed on an individual basis, Customers with Significant Exposure, the Bank considers the following criteria:

1. Customers with liabilities over 100.000.000 CVE and in normal condition (stage 1);

2. Customers with a significant increase in credit risk or in a default situation with liabilities higher than CVE 25.000.000 (stage 2 or 3).

For customers subject to a case-by-case analysis, the Bank analyzes the ECL in order to assigning a final value that best reflects the expected loss. The methodology used consists of assigning a floor, whenever the individual analysis results in a null ECL. For these cases, the final ECL to be considered will be the one that would result in case the operation was on Stage 1 if it were analyzed collectively.

For the calculation of the ECL of these operations, the Bank considers the collateral transfer in lieu of/ legal proceedings as the standard reference method for assessing the future recoverability of the credit subject to individual analysis. In addition, the Bank adopts a set of benchmark criteria that allows it to quantify impairment losses associated with significant loan operations, which have no collateral.

For both private customers and companies, the Bank has identified a set of operations that it considers having a low or zero probability of recovery. These operations are identified in the Core system with a specific nature - nature 48 -, and for the purposes of calculating the ECL, they are grouped in segments Corporate Pre-written off and Individuals Pre-written-off , assigning them an ECL of 100% of the total exposure.

The same treatment is given to legal expenses, that is, these cases are also associated with an impairment rate of 100%.

ECL Public Sector Operations

For the public sector and regarding to credit operations associated with Cape Verde State bonds (direct liabilities represented by Treasury Bonds, etc.), the assumption of low credit risk is assumed, associating them with a zero ECL. This is justified for the following reasons:

• History of full compliance by the State of Cape Verde for liabilities with financial securities issued;

• There is no deterioration in the risk level of the securities issued;

• Non-deterioration of the sovereign rating;

• Faculty of the Treasury to renew / refinance the securities issued;

• Issues are denominated in local currency;

• The entire current regulatory framework points to a zero risk from the State;

• Obligation for banks to hold government bonds in a percentage equal to more than 5% of total deposits; and

• Non-tax deductibility of provisions made on government bonds.

For the purpose of validating these assumptions, a test is performed annually, which consists of answering a questionnaire related to the aspects mentioned above.

Regarding to other public sector entities, namely Câmara Municipal (Municipal Chambers) and for operations guaranteed by a specific guarantee of the State of Cape Verde, ECL is given by:

$$\mathbf{ECL_t = EAD_t \times PD_t \times LGD_t,}$$

The value of the PD and LGD considered is that attributed to the country risk by the rating company Moody's.

Reversal and write-offs

The write-off has a regulatory framework in BCV Notice no. 4/2006, more specifically in its article 11, according to which "the operation classified as Class E risk must be written off from the assets, with the corresponding debt in provision, and reported in an off-balance sheet account, after six months -shorter period not allowed - being classified in that class

.

An operation that is capable of being written off must meet a set of requirements, namely, if:

a) It is past due, fully provisioned and the total amount is impaired. If the operation has no provisions and 100% impairment, it will be necessary to carry out the reinforcement, until the amount of the asset to be written off is reached (which constitutes a loss in the income statement):

b) The necessary and adequate collection efforts have been developed;

c) Recovery expectations are reduced or zero;

However, in recent years, the Bank has not performed write-offs (write-off of assets), despite having on the balance sheet a set of operations in conditions to be written off, under the terms of Notice no. 4/2006 of the BCV, they are not fiscally accepted, the Bank is awaiting clarification from the Tax Administration on this matter. It should be noted that the write-off policy has direct implications for calculating the credit quality ratio. When written off, the recovered amount is recorded in a specific account – Loan, interest, and expenses recoveries, being a positive component for the determination of the operation income.

In terms of reversals, the Bank stipulates that the impairment of a customer analyzed on a case-by-case basis can only be reversed after an event occurring after the initial recognition of such loss, such as the reinforcement of guarantees, regularization of debt service, etc. In the context of collective analysis, the reversal results from the application of the developed model, which may result from the improvement of the risk parameters of the portfolio or the reduction of exposure, among other factors.

Maximum exposure to credit risk

As at 31 December 2019 and 2018, the maximum exposure to credit risk by type of financial instrument is as shown in the table below.

	(in thousands of CVE)				(in thousands of CVE)			
	2019				2018			
Description	Gross exposure (1)	Collaterals received (2)	Provisions and impairment	Effective exposure (3)	Gross exposure (1)	Collaterals received (2)	Provisions and impairment	Effective exposure (3)
Assets								
Financial assets designated at fair value through profit or loss	50.804	-	-	50.804	33.456	-	-	33.456
Financial assets designated at fair value through other comprehensive income	179.855	-	-	179.855	179.855	-	-	179.855
Financial assets measured at amortized cost								
Loans and advances to banks	2.132.007			2.132.007	106.124			106.124
Loans and advances to customers	15.589.187	9.545.474	1.047.966	4.995.747	13.646.138	8.153.700	1.292.660	4.199.778
Debt Securities	1.540.218	-	7.814	1.532.404	1.398.200	-	8.509	1.389.691
Off-Balance								
Guarantees and endorsements	1.090.197	415.177	4.527	670.493	641.295	187.582	430	453.283
Revocable commitments*	700.388	-	-	700.388	783.876	-	0	783.876
Total	21.282.656	9.960.651	1.060.307	10.261.698	16.788.943	8.341.283	1.301.599	7.146.062

Notes:

(1) Gross exposure: book value before provisions and impairment.

(2) Guarantees received: fair value of collateral received limited to the amount of the associated operations.

(3) Effective exposure: gross exposure net of collateral received and provisions and impairment.

***For presentation purposes, only impairments associated with guarantees and endsorments were considered off-balance sheet**

As of 31 December of 2019, the total amount of loan loss provisions recognized in the Bank's financial statements amounts to 1.414.014 thousand CVE (1.292.660 thousand CVE on 31 of December 2018). Below we present the detail of the impairment and provisions recorded in the financial statements at the balance sheet date.

(in thousands of CVE)

Provisions vs Impairments Analysis	31/12/2019	31/12/2018
Internal Impairment Model	1.052.493	910.685
Minimum Regulatory Provisions (Notice no. 4/2006)	1.414.014	1.292.660
Differential between impairment and regulatory provisions	**361.521**	**381.975**

Residual maturity term

As at 31 December 2019 and 2018, credit risk by type of financial instrument has the following breakdown by residual maturity term:

(in thousand of CVE)

Description	2019								
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Total
Assets									
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0	50 804	50 804
Financial assets at fair value thorugh ohter comprehensive income	0	0	0	0	0	0	0	179 855	179 855
Financial assets measured at amortized cost									
Loans and advances to banks	67 000	1 382 742	572 000	110 265	0	0	0	0	2 132 007
Loans and advances to customers	2 131 606	1 241 173	1 174 427	1 276 152	1 154 554	2 429 255	2 534 753	3 647 267	15 589 187
Debt securities	3 285	0		0	168 350	444 245	737 493	186 845	1 540 218
Other assets (if applicable)									0
Off-balance									
Guarantees and endorsements	16 814	116 297	141 741	316 726	200 284	275 811	22 524	0	1 090 197
Commitments to thrid parties	35 277	67 565	169 955	324 801	102 789	0	0	0	700 388
Total	2 253 982	2 807 777	2 058 124	2 027 944	1 625 977	3 149 311	3 294 770	4 064 771	21 282 656

(in thousand of CVE)

Description	2018								
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Total
Assets									
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0	33 456	33 456
Financial assets at fair value thorugh ohter comprehensive income	0	0	0	0	0	0	0	179 855	179 855
Financial assets measured at amortized cost									
Loans and advances to banks	19 266	30 938	0	55 919	0	0	0	0	106 124
Loans and advances to customers	2 327 863	727 356	734 291	691 681	847 451	1 585 954	3 284 508	3 447 034	13 646 138
Debt securities	3 435	0	226 976	0	62 696	360 453	744 640	0	1 398 200
Other assets (if applicable)									
Off-balance									
Guarantees and endorsements	46 520	134 861	18 148	128 200	189 316	23 240	101 011	0	641 296
Commitments to thrid parties	229 459	75 885	258 230	183 227	0	0	0	1 875	748 676
Total	2 626 543	969 040	1 237 645	1 059 027	1 099 463	1 969 647	4 130 160	3 662 220	16 753 744

Quality of loans and advances to customers

The following schedules evidence the quality of the Bank's loans and advances portfolio, as at 31 December 2019, compared with the same period of the previous year, based on Circular no. 197 of 21/12/2018 of Banco de Cabo Verde.

Exposure and impairment by segment

As at 31 December 2019 and 2018, the exposure and impairment constituted (individual or collective analysis) by segment is reflected in the table below.

(in thousands of CVE)	Exposure as of 31/12/2019								Impairment as of 31/12/2019			
Segment	Total Exposure*	**Low credit risk exposure *(Stage 1)***	Of which healed	Of which restructured	**Significant credit risk exposure *(Stage 2)***	Of which restructured	**Default exposure *(Stage 3)***	Of which restructured	Total Impairment	**Low credit risk exposure *(Stage 1)***	**Significant credit risk exposure *(Stage 2)***	**Default exposure *(Stage 3)***
Judicial Expenses	17.402	0	0	0	0	0	17.402	1.271	17.402	0	0	17.402
Corporate with GRH	6.583.278	4.175.310	0	0	1.413.134	759.470	994.835	344.539	221.037	33.168	74.008	113.861
Corporate without GRH	4.513.664	4.307.617			83.860	7.986	122.188	72.227	138.517	34.104	2.976	101.437
Pre-Drowned Corporate	331.244	0	0	0	0	0	331.244	2.083	331.244	0	0	331.244
Individuals Rent Consumption	1.168.246	940.053	0	0	84.482	6.854	143.711	27.761	78.698	2.768	3.874	72.057
Individuals Housing	3.021.210	2.293.504	0	0	363.982	6.653	363.725	3.259	77.122	1.904	7.346	67.872
Pre-Drowned Individuals	146.764	0	0	0	0	0	146.764	0	146.764	0	0	146.764
Individuals Revolving	186.737	116.725	0	0	6.115	61	63.897	74	25.068	940	764	23.365
Public sector	1.412.600	1.349.110	0	0	63.455	0	35	0	16.640	15.865	748	27
Impairment adjustments (1)									361.521			361.521
Total	**17.381.146**	**13.182.318**	**0**	**0**	**2.015.027**	**781.023**	**2.183.801**	**451.213**	**1.414.014**	**88.748**	**89.716**	**1.235.550**

* Includes off-balance-sheet amounts

(1) As a result of BCV Circular Series "A", no. 179 / DE / 2013, according to which the minimum of impairments to be recorded shall correspond to the full application of the notice of provisions.

Details of exposures and impairment constituted by segment in function of the delays

(in thousands of CVE)

Segment	Exposure as of 31/12/2019*	Exposure as of 31/12/2019: Low credit risk exposure (Stage 1)	Significant credit risk exposure (Stage 2)	Sub-total	Default exposure (Stage 3): Days delay <= 90 days	Default exposure (Stage 3): Days delay > 90 days	Impairment as of 31/12/2019	Impairment as of 31/12/2019: Stage 1	Stage 2	Stage 3: Days delay <= 90 days	Stage 3: Days delay > 90 days
Judicial Expenses	17.402	-	-	-	-	17.402	17.402	-	-	-	17.402
Corporate with GRH	6.583.278	4.175.310	1.413.134	5.588.443	211.859	782.976	221.037	33.168	74.008	53.869	59.991
Corporate without GTH	4.513.664	4.307.617	83.860	4.391.477	14.307	107.381	138.517	34.104	2.976	6.293	95.144
Pre-Drowned Corporate	331.244	-	-	-	-	331.244	331.244	-	-	-	331.244
Individuals Rent Consumption	1.168.246	940.053	84.482	1.024.535	15.118	128.594	78.698	2.268	3.874	3.737	68.820
Individuals Housing	3.021.210	2.293.504	363.982	2.657.486	127.423	236.302	77.122	1.904	7.346	15.136	52.736
Pre-Drowned Individuals	146.764	-	-	-	-	146.764	146.764	-	-	-	146.764
Individuals Revolving	186.797	116.725	6.115	122.840	44.352	18.945	25.068	940	764	13.432	9.933
Public sector	1.412.600	1.349.110	63.455	1.412.565	-	35	16.690	15.865	798	-	27
Impairment adjustments (1)							361.521	-	-		361.521
Total	17.381.146	13.182.318	2.015.027	15.197.345	414.158	1.769.643	1.414.014	88.748	89.716	92.468	1.143.082

* Includes off-balance-sheet amounts

(1) As a result of BCV Circular Series "A", no. 179 / DE / 2013, according to which the minimum of impairments to be recorded shall correspond to the full application of the notice of provisions.

Loan portfolio by segment and by year of production

The table below reflects the Bank's Loan portfolio by segment and by year of production

(in thousands of CVE)

Production year	Judicial Expenses			Corporate with GRH			Corporate without GRH		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2009 and before	0	0	0	11	396.714	35.076	766	101.498	49.195
2010	0	0	0	9	104.052	8.686	45	542	34
2011	0	0	0	10	130.919	636	29	21.568	21.371
2012	68	12.040	12.040	6	120.154	402	22	765	230
2013	18	1.841	1.841	15	730.516	12.090	21	6.175	44
2014	14	926	926	4	135.790	14.452	30	16.370	4.133
2015	12	1.025	1.025	17	258.155	19.808	22	51.713	592
2016	11	402	402	11	224.605	2.341	52	141.204	3.621
2017	3	118	118	16	274.065	2.428	57	696.836	26.388
2018	2	15	15	31	1.241.257	58.998	108	1.685.140	37.303
2019	4	995	995	96	2.971.617	56.262	164	1.773.841	53.615
Total	**132**	**17.402**	**17.402**	**223**	**6.583.178**	**221.037**	**796**	**4.513.664**	**198.517***

Production year	Pre-Drowned Corporate			Individuals Rest Consumption			Individuals Housing			Pre-Drowned Individuals		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2009 and before	0	0	0	25	47.411	11.364	189	452.011	13.716	0	0	0
2010	0	0	0	38	52.064	5.817	32	171.468	7.609	0	0	0
2011	0	0	0	35	15.442	4.367	37	241.504	2.770	0	0	0
2012	0	0	0	58	50.504	4.389	17	130.076	4.533	0	0	0
2013	0	0	0	56	100.104	1.704	61	475.611	28.875	0	0	0
2014	19	23.508	23.508	48	46.496	5.702	29	170.092	1.988	206	43.358	43.358
2015	52	12.484	12.484	54	50.752	20.058	36	201.161	2.903	335	10.519	10.519
2016	13	271.959	271.959	72	66.759	12.847	42	289.910	10.648	51	81.750	81.750
2017	2	1.337	1.337	109	100.201	3.797	32	158.750	2.276	5	5.520	5.520
2018	0	0	0	259	218.258	3.847	59	308.066	1.507	0	0	0
2019	7	21.955	21.955	474	376.272	2.907	63	372.415	308	34	5.617	5.617
Total	**93**	**331.244**	**331.244**	**1.228**	**1.068.246**	**76.698**	**535**	**3.021.110**	**77.122**	**631**	**146.764**	**146.764**

Production year	Individuals Revolving			Public sector			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2009 and before	3.156	28.086	6.311	1	12	5	3.579	1.041.640	115.648
2010	583	1.384	309	0	0	0	807	329.504	22.455
2011	863	1.535	333	0	0	0	974	438.969	31.477
2012	494	505	185	2	2	1	687	314.176	21.819
2013	411	5.766	331	1	51.495	745	593	1.436.478	46.634
2014	507	626	410	1	2.887	34	948	440.051	94.510
2015	517	3.452	671	2	11	11	1.052	594.377	68.797
2016	541	1.102	771	4	127.174	1.510	780	1.205.578	385.948
2017	725	55.279	14.188	2	414.495	4.788	949	1.736.305	60.780
2018	595	28.434	698	8	484.627	5.124	1.111	3.917.640	97.498
2019	196	64.735	848	8	379.937	4.410	996	5.986.396	106.852
Total	**8.728**	**186.737**	**25.068**	**29**	**1.411.600**	**16.640**	**12.406**	**17.381.146**	**1.052.498**

Note: Amounts considered do not include the amount of the adjustment resulting from BCV Circular Series "A", nº 179/DSE/2013, according to which the minimum of impairments to be registered shall correspond to the full application of the notice on provisions.

Loan portfolio and impairment assessed individually and collectively by segment and sector

The tables below reflect the Bank's loan portfolio and the impairment assessed (individual and collective) as at 31 December 2019, by segment and sector of activity.

(in thousands of CVE)

	Judicial Expenses		Corporate with GRH		Corporate without GRH		Pre-Drowned Corporate		Individuals Rent Consumption		Individuals Housing		Pre-Drowned Individuals		Individuals *Revolving*		Public sector	
Analysis	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	17.402	17.402	2.144.125	51.657	1.163.199	43.986	61.789	61.789	1.128.992	78.569	2.901.028	72.860	118.149	118.149	125.934	8.240	170.531	2.036
Collective	0	0	4.439.153	169.380	3.350.465	94.531	269.456	269.456	39.255	129	120.182	4.262	28.615	28.615	60.804	16.828	1.242.069	14.604
Total	**17.402**	**17.402**	**6.583.278**	**221.037**	**4.513.664**	**138.517**	**331.244**	**331.244**	**1.168.246**	**78.698**	**3.021.210**	**77.122**	**146.764**	**146.764**	**186.737**	**25.068**	**1.412.600**	**16.640**

Note: Amounts considered do not include the amount of the adjustment resulting from BCV Circular Series "A", nº 179 / DSE / 2013, according to which the minimum of impairments to be registered shall correspond to the full application of the notice on provisions

<u>Type of Impairment</u>

As of 31 December 2019, and 2018, the type of impairment constituted (individual or collective analysis) by type of customer (individuals, companies, Public sector and institutional) may be summarized as follows:

(in thousands of CVE)

Segment	2019				2018			
	Exposure (1)	Impairment			Exposure (1)	Impairment		
		Individual	Colective	Total		Individual	Colective	Total
Corporate								
Loans (asset)								
Due	9 189 549	176 978	31 327	208 305	7 784 397	129 577	47 570	177 147
Past due	1 229 269	361 466	132 547	494 013	1 170 943	304 292	137 889	442 180
Loans (off-balance sheet)								
Due	1 705 114	2 586	1 664	4 251	1 272 363	135	282	417
Individuals								
Loans (asset)								
Due	3 906 100	17 592	27 612	45 203	3 701 544	9 720	33 459	43 179
Past due	584 987	32 243	259 724	291 967	547 265	29 013	219 326	248 339
Loans (off-balance sheet)								
Due	41 404	0	276	276	107 286		13	13
Public and institucionals sector								
Loans (asset)								
Due	679 279	6 940	1 534	8 475	441 984	5 073	912	5 984
Past due	3	0	3	3	3		3	3
Loans (off-balance sheet)								
Due	44 066	0	0	0	45 521			0
Impairment adjustments (2)		361 521		361 521		375 396		375 396
Total	17 379 772	959 326	454 688	1 414 014	15 071 309	853 206	439 453	1 292 660

(1) Includes principal, accrued interest, past due and income receivable

(2) As a result of BCV Series "A" Circular 179 / DSE / 2013, according to which the minimum of impairments to be recorded shall correspond to the full application of the notice of provisions.

The fair value of the collateral associated with the loan operations, by stage of impairment, as at 31 December 2019, is reflected in the table below:

(in thousands of CVE)

Segment / Ratio	Number	Low credit risk exposure (Stage 1)	Significant credit risk exposure (Stage 2)	Default exposure (Stage 3)	Impairment
Corporate with GRH	224	3.537.085	1.306.803	968.742	221.037
No collateral associate	49	0	0	191.949	3.359
> 150%	21	1.236.616	458.681	155.011	75.400
< =150% e >125%	44	1.029.337	183.425	100.080	42.995
< = 125% e > 100%	16	345.432	335.733	0	24.088
< = 100%	94	925.701	328.964	521.702	75.194
Corporate without GRH	804	3.386.875	76.114	116.639	138.517
No collateral associate	696	3.042.216	67.879	88.734	120.603
> 150%	11	101.095	0	20.000	11.841
< =150% e >125%	32	127.902	5.953	2.276	3.714
< = 125% e > 100%	22	50.939	2.283	1.394	859
< = 100%	43	64.723	0	4.234	1.500
Individuals Housing	535	2.280.669	363.982	363.725	77.122
No collateral associate	52	81.966	142.244	51.067	7.375
> 150%	26	120.617	12.433	23.483	1.836
< =150% e >125%	193	1.076.288	93.971	86.937	16.672
< = 125% e > 100%	59	296.697	13.284	41.651	6.464
< = 100%	205	705.101	102.050	160.587	44.776
Total	**1.563**	**9.204.629**	**1.746.899**	**1.449.106**	**436.676**

Restructured loans and advances

The Bank continuously monitors its loans portfolio in order to detect situations of potential customer default. When justified and appropriate, the loans are subject to restructuring, and new conditions are negotiated that are better suited to the financial capacities of the customers.

The Risk Management Office (RMO) is responsible for the monthly identification of operations that are candidates for marking as a restructured of loans and advances due to financial difficulties. This identification is made based on the digital platform, Risk Management System (RMS), which, after importing all the relevant information, triggers an automatic process that consists of the identification of all operations with changes in the respective loans contracts, as a way of translating the stipulated on no. 3 of the Annex to Circular Series "A", no. 196 of 21-12-2018 of BCV (all operations opened in the reference month are considered as candidates, as well as operations with a rate reduction or extended terms).

The operations identified as having some modification in the respective of loan's contracts criteria, are applied to the customers holding these operations or to any group to which these customers belong, listed on, no. 2 of the Annex to Circular Series "A", no. 196 of 21/12/2018 of BCV, namely:

- Customers with 4 (four) defaults registered with the Credit Risk Center of Banco de Cabo Verde in the last 12 months;
- Customers on the list of check users who are at risk;
- Use of renewable loan operations, namely current and overdraft accounts, at least 95% of the limit initially authorized by the institution over a consecutive minimum period of 12 months;
- Has delivered an asset in lieu of payment; and

- With some qualitative impact identified.

Additionally, other criteria are applied according to n. 4 of the Annex to Circular Series "A", no. 196 of 21/12/2018 of the BCV, which allows the classification of an operation / customers as restructured due to financial difficulties, namely:

- The transaction with contract modification was classified as credit at risk before the change;
- The customer has a loan operation classified as credit at risk;
- The credit transaction has been fully or partially due for more than 30 days, at least once during the three months prior to the modification to the terms and conditions of the credit agreement.

The Bank at least will maintain on the class of risk the loan's operation that is subject to restructuration, and a possible reclassification to a lower class of risk only occurs after 1 (one) year after a restructuring without any defaults, and there is a partial amortization or the reinforcement of guarantees.

As of 31 December 2019, and 2018, restructured loans have the following breakdown by type of customer:

(in thousands of CVE)

Segment	2019				2018			
	Total		Of Witch restructured (1)		Total		Of Witch restructured (1)	
	Exposure (2)	Impairment	Exposure (2)	Impairment	Exposure (2)	Impairment	Exposure (2)	Impairment
Corporate								
Loans (asset)								
Due	9 189 549	208 305	902 355	100 113	7 784 397	177 147	42 219	24 573
Past due	1 229 269	494 013	285 068	73 703	1 170 943	442 180	190 441	6 327
Loans (off-balance sheet)								
Due	1 705 114	4 251	0	0	1 272 363	417	0	0
Individuals								
Loans (asset)								
Due	3 906 100	45 203	19 345	1 531	3 701 544	43 179	52 815	6 043
Past due	584 987	291 967	25 413	21 553	547 265	248 339	21 008	13 589
Loans (off-balance sheet)								
Due								
Public and institucionals sector	41 404	276	0	0	107 286	13	0	0
Loans (asset)								
Due	679 279	8 475	0	0	441 984	5 984	0	0
Past due	3	3	0	0	3	3	0	0
Loans (off-balance sheet)								
Due	44 066	0	0	0	45 521	0	0	0
Impairment adjustments (3)		361 521				375 396		
Total	17 379 772	1 414 014	1 232 181	196 900	15 071 309	1 292 660	306 483	50 532

(1) Restructured: Restructured operations in accordance with Circular Letter no. 196 of 21.12.2018 of the Bank of Cape Verde.
(2) Includes principal, accrued interest, past due and income receivable
(3) As a result of BCV Series "A" Circular 179 / DSE / 2013, according to which the minimum of impairments to be recorded shall correspond to the full application of the notice of provisions.

In terms of the flows of restructured loans, these presented the following movements in 2019 and 2018:

(in thousands of CVE)	2019	2018
Balance at the beginning of the period	306.483	288.525
Loans restructured in the period	991.074	60.551
Accrued interest on the restructured portfolio		
Settelemnt of restructured loans (partial or total)	(1.179)	(20.684)
Unmarked Loans	(64.141)	(21.909)
Loans written off from assets		
Other		
Balance at the end of the period	1.232.237	306.483

It should be noted that, as previously mentioned, the increase is explained by the change in the identification and classification form of loans introduced by Circular Series "A" 196 of 12.28.2018 and which revoked Technical Instruction no. 176 of 25 April of 2013.

Regarding the reason for the restructuring, the situation is reflected in the table below:

(in thousands of CVE)

Restructuring Measure	Performing loans (stage 2)			Loans in default (stage 3)			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
Term extension	11	441.263	27.483	10	8.221	5.454	21	449.485	32.937
Grace period	7	308.760	28.625	3	25.517	110	10	334.277	28.735
Interest Rate Reduction	1	23.051	1.071	0	0	0	1	23.051	1.071
Capitalization of interest	5	7.949	200	52	417.475	133.957	57	425.424	134.157
Forgiveness of interest and capital	0	0	0	0	0	0	0	0	0
Total	**24**	**781.023**	**57.379**	**65**	**451.213**	**139.522**	**89**	**1.232.237**	**196.900**

36.3. Liquidity risk

Liquidity risk, defined as the probability of negative impacts on results or equity arising from the institution's inability to have liquid funds to meet its financial obligations, as they mature, is managed centrally.

The monitoring of the liquidity levels necessary according to the amounts and timings of the commitments assumed and the funds in the portfolio is performed through the identification of liquidity gaps.

The policies for obtaining funding, both from customers and from the financial market, have guaranteed the stability of resources, maintaining both the liquidity gap and the cumulative gap within the limits defined for the various periods analyzed.

In view of the volatility of the financial markets, the current liquidity situation has been closely monitored not only through the indicators present in the provisions issued by Banco de Cabo Verde, but also through internal indicators aimed at an efficient and dynamic management.

The public debt securities portfolio is an alternative to the application of the Bank's liquidity, be it in Banco de Cabo Verde securities or in securities of the State of Cape Verde. Public debt securities, in turn, can be passed on to the secondary market.

The contractual residual amounts of the main financial instruments have the breakdown presented in the following table, which was prepared according to the following assumptions:

- Deposit from credit institutions, and Customer Deposits related to Demand deposits were considered as having an indeterminate term;
- The balances of Cash and Deposits with Central Banks and Deposits with banks were considered as having an indeterminate term;
- In the caption Loans and advances to customers, the legal expenses and operations with resolved contracts (under litigation) were considered as having an indeterminate term;
- For the remaining captions, the distribution by the different maturity periods was considered according to the respective residual maturity periods;
- For the purposes of this analysis, the unearned interest on the Bank's main financial instruments was considered.

(in thousands of CVE)

2019	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Undetermined	Total
Assets										
Cash and deposits with Central Banks	-	-	-	-	-	-	-	-	3 675 292	**3 675 292**
Deposits with Banks	-	-	-	-	-	-	-	-	878 575	**878 575**
Financial assets measured at amortized cost										
Loans and advances to banks	67 000	1 382 742	572 000	110 265	-	-	-	-	-	**2 132 007**
Debt securities (gross amount)	-	-	-	-	168 350	444 245	737 493	186 845	3 285	**1 540 218**
Loans and advances to customers (gross amount)	193 483	1 241 173	1 174 427	1 276 152	1 154 554	2 429 255	2 534 753	3 647 267	1 938 123	**15 589 187**
	260 483	**2 623 915**	**1 746 427**	**1 386 417**	**1 322 904**	**2 873 500**	**3 272 246**	**3 834 112**	**6 495 276**	**23 815 280**
Liabilities										
Financial liabilities measured at amortized cost										
Deposits from Banks	-	15 017	6 320	-	-	221 146	-	-	65 845	**308 329**
Customer deposits	799 918	1 221 469	1 988 875	2 962 176	5 237 678	2 000	-	-	8 966 768	**21 178 884**
	799 918	**1 236 486**	**1 995 195**	**2 962 176**	**5 237 678**	**223 146**	**-**	**-**	**9 032 613**	**21 487 213**
2019 differential	**(539 435)**	**1 387 429**	**(248 768)**	**(1 575 759)**	**(3 914 774)**	**2 650 354**	**3 272 246**	**3 834 112**	**(2 537 337)**	**2 328 067**

2018	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Undetermined	Total
Assets										
Cash and deposits with Central Banks	-	-	-	-	-	-	-	-	2 429 820	**2 429 820**
Deposits with Banks	-	-	-	-	-	-	-	-	1 359 177	**1 359 177**
Financial assets measured at amortized cost										
Loans and advances to banks	19 266	30 938	-	55 919	-	-	-	-	-	**106 124**
Debt securities (gross amount)	-	-	226 976	-	62 696	360 453	744 640	-	3 435	**1 398 200**
Loans and advances to customers (gross amount)	567 834	727 356	734 291	691 681	847 451	1 585 954	3 284 508	3 447 034	1 760 028	**13 646 138**
	587 101	**758 294**	**961 267**	**747 600**	**910 147**	**1 946 407**	**4 029 148**	**3 447 034**	**5 552 460**	**18 939 458**
Liabilities										
Financial liabilities measured at amortized cost										
Deposits from Banks	-	15 027	-	-	6 140	221 004	-	-	89 411	**331 582**
Customer deposits	1 422 283	968 076	1 744 446	2 380 025	3 186 940	2 000	-	-	6 964 279	**16 668 049**
	1 422 283	**983 103**	**1 744 446**	**2 380 025**	**3 193 079**	**223 004**	**-**	**-**	**7 053 689**	**16 999 631**
2018 differential	**(835 183)**	**(224 810)**	**(783 179)**	**(1 632 425)**	**(2 282 932)**	**1 723 402**	**4 029 148**	**3 447 034**	**(1 501 229)**	**1 939 827**

36.4. Market risk

Market or price risk is defined as the probability of negative impacts on results or equity due to unfavorable movements in the market price of the trading portfolio instruments, caused, namely, by fluctuations in interest rates, exchange rates, share quotations or commodity prices.

The Bank's policy in this area is characterized by prudence and systematization, by the reviewing and adjusting of the activity limits in the respective markets by the management bodies, with the intervention being guided, in this respect, by operation and control rules duly regulated by the internal regulations and by the supervisory rules, following international good practice.

36.5. Interest rate risk

Interest rate risk consists of the probability of negative impacts on results or equity due to adverse movements in interest rates.

Most of the contracted loan operations are at fixed rates, which implies the existence of interest rate risk, but which is minimized by natural hedging through liability operations.

Thus, regarding the procedures to cover this risk we highlight some aspects that the Bank has implemented:

- the base for active fixed rate coverage is made through deposits and there is no national index that can be used as a "reference" for the assets or liabilities;
- loan agreements provide for the possibility of changing interest rates under certain circumstances, which is accepted legally;
- the Bank maintains a loan portfolio at fixed rate throughout the loan's lifetime;
- an increase in the credit lines in Euro, namely through the contracting with international institutions with the possibility of obtaining long-term liabilities (over 5 years).

Interest rate sensitivity analyses are performed periodically, measuring the impact under different scenarios, both in the net interest income and in own funds, in accordance with the supervisory body's rules. The Bank does not present a significant concentration level of market risks.

As of 31 December 2019 and 2018, the impact on the fair value of financial instruments sensitive to interest rate risk (corresponding only to the effect on net interest income), of parallel movements in the benchmark interest rate curves of 50, 100 and 200 basis points (bps), respectively, can be demonstrated by the table presented below. In the determination of the impacts presented in the table below, it was considered that interest rate sensitive assets and liabilities in the balance sheet on the reference dates of the calculation would remain stable throughout financial years 2019 and 2018, respectively, being renewed, whenever applicable, considering the market conditions prevailing on those renewal dates and the average spread of the active operations on 31 December 2019 and 2018.

(in thousands of CVE)

	-200bp	-100bp	-50bp	50bp	100bp	200bp
Impact in 2019	97.308	48.654	24.327	(24.327)	(48.654)	(97.308)
Impact in 2018	68.821	34.411	17.205	(17.205)	(34.411)	(68.821)

The impact (corresponding only to the effect on net interest income) of a 50, 100 and 200 bps shift in the reference interest rate curves of sensitive assets and liabilities corresponds to the scenarios used internally by the management bodies in the follow-up and monitoring of the interest rate risk exposure.

The Bank does not present financial instruments with indexed interest rates in a significant amount.

It should be noted that (1) the information contained in the table above corresponds to a static scenario, not taking into account changes in the strategy and interest rate risk management policies that the Bank may adopt as a consequence of changes in interest rates of reference; and (2) most of the sensitive assets considered are fixed-rate loans granted, i.e. not susceptible to change over the lifetime of the loan.

The repricing gap by residual maturity term is shown in the table below:

Gap repricing

	2019							
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years
Accumulated Gap (1)	(539 435)	847 994	599 226	(976 533)	(4 891 308)	(2 240 954)	1 031 292	4 865 404

	2018							
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years
Accumulated Gap (1)	(835 183)	(1 059 992)	(1 843 171)	(3 475 596)	(5 758 528)	(4 035 126)	(5 977)	3 441 056

Note:
1) Gap Accumulated: Value of the asset less the value of the liability

36.6. Exchange rate risk

Exchange rate risk consists of the probability of negative impacts on results or equity due to adverse movements in exchange rates.

The Bank continuously controls and evaluates the risk of its operations. The foreign exchange exposure limits, as well as open positions, are monitored regularly.

The existence of a fixed parity between the Cape Verdean Escudo and the Euro (CVE 110.265 to the Euro), resulting from the convertibility agreement existing between Cape Verde and Portugal, explains the fact that the Euro is not considered for the open foreign exchange positions in the current regulations of Banco de Cabo Verde.

The Bank maintains a neutral position in US Dollars (matching), and has practically no position in other currencies, which only occasionally occur and only in small retail transactions.

As at 31 December 2019 and 2018, the Bank's balance sheet presented the following breakdown by currency.

(in thousands of CVE)

2019					
	CVE	EUR	USD	Others	Total
Assets					
Cash and deposits with Central Banks	3 491 872	142 140	37 152	4 128	3 675 292
Deposits with Banks	22 206	342 352	482 182	31 835	878 575
Financial assets at fair value through profit or loss	16 600	-	34 204	-	50 804
Financial assets at fair value through other comprehensive income	179 855	-	-	-	179 855
Financial assets measured at amortized cost					-
Debt securities	1 532 404	-	-	-	1 532 404
Loans and advances to banks	1 969 653	110 265	52 089	-	2 132 007
Loans and advances to customers	13 913 634	257 842	-	3 697	14 175 173
Other tangible assets	299 471	-	-	-	299 471
Other intangible assets	27 003	-	-	-	27 003
Current tax assets	16 531	-	-	-	16 531
Deferred tax assets	38 092	-	-	-	38 092
Other assets	1 165 113	-	-	-	1 165 113
	22 672 433	**852 600**	**605 627**	**39 661**	**24 170 321**
Liabilities					
Financial liabilities measured at amortized cost					
Deposits from Banks	79 984	221 288	6 956	-	308 229
Customer Deposits	20 375 122	468 027	334 196	1 538	21 178 884
Provisions	7 675	-	-	-	7 675
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	3 907	-	-	-	3 907
Other liabilities	215 470	223	-	-	215 693
	20 682 159	**689 539**	**341 152**	**1 538**	**21 714 388**
Equity	**1 990 274**	**163 061**	**264 475**	**38 123**	**2 455 933**

(in thousands of CVE)

2018	CVE	EUR	USD	Others	Total
Assets					
Cash and deposits with Central Banks	1 958 765	446 590	20 494	3 971	2 429 820
Deposits with Banks	29 244	1 178 051	142 927	8 955	1 359 177
Financial assets at fair value through profit or loss	9 994	-	23 462	-	33 456
Financial assets at fair value through other comprehensive income	179 855	-	-	-	179 855
Financial assets measured at amortized cost					
Debt securities	1 389 691	-	-	-	1 389 691
Loans and advances to banks	-	55 919	50 204	-	106 124
Loans and advances to customers	12 076 893	272 671	22	3 892	12 353 478
Other tangible assets	231 593	-	-	-	231 593
Other intangible assets	7 667	-	-	-	7 667
Current tax assets	-	-	-	-	-
Deferred tax assets	22 751	-	-	-	22 751
Other assets	1 282 707	-	-	-	1 282 707
	17 189 160	**1 953 231**	**237 110**	**16 817**	**19 396 318**
Liabilities					
Financial liabilities measured at amortized cost					
Deposits from Banks	103 569	221 257	6 756	-	331 582
Customer Deposits	15 787 693	530 115	348 671	1 571	16 668 049
Provisions	7 675	-	-	-	7 675
Current tax liabilities	31 985	-	-	-	31 985
Deferred tax liabilities	4 107	-	-	-	4 107
Other liabilities	170 768	217	-	-	170 986
	16 105 798	**751 589**	**355 427**	**1 571**	**17 214 384**
Equity	**1 083 362**	**1 201 642**	**(118 317)**	**15 247**	**2 181 934**

36.7. Operational Risk

Operational risk consists of the risk of losses incurred due to inadequate or deficient procedures, by staff or internal systems or to external events, including legal risks. The Bank has a strategy, team, relationship model and working tools appropriate for operational risk management and for compliance with the best management practices in this field.

The Bank has been working towards building up its database, containing a detailed record of events likely to cause losses. For this purpose, training/awareness actions on Operational Risk in the Bank are being promoted and reinforced, in order to raise awareness about the subject of the entire structure.

In addition, the Bank continued to seek to minimize operational risk through the development and implementation of automation, thereby reinforcing its ability to control intrinsic risk in key processes, namely loan granting and account opening.

37. IFRS 16 Application- Leasing

As mentioned on Note 3.2. Basis of presentation the Bank adopted IFRS 16 on 1 January 2019. This standard establishes new requirements in terms of classification, recognition, and measurement of leases from the lessee's perspective, maintaining the principle for the lessor's perspective in the sense that leases continue to be considered financial or operational.

Thus, from the lessee's perspective, the standard defines a single accounting model for lease contracts, which results in the recognition of an asset under right of use and a lease liability associated with lease agreements, except for contracts of less than 12 (twelve) months and the contracts that focus on reduced value assets, in which the lessee may choose not to recognize.

The Bank chose not to apply this standard to lease agreements with a term of less than 1 (one) year, except for one case in which, despite the duration of the contract being annual. It should be noted that, in addition to the duration of the contract, the Bank ha in consideration the degree of materiality of the economic loss associated with a possible end of the lease, related to the works performed and which are still to be amortized.

Regarding the transition, the Bank performed a survey of all existing contracts, with real estate lease agreements for its activity being applicable. Under the terms recommended by IFRS 16, the standard was applied retrospectively with the transition impacts recognized on 1 January 2019. Thus, the comparative information was not restated.

For the application of the standard, the following assumptions were considered:

- Lease / lease term: the term of every Bank's lease contracts was evaluated, although despite most of the duration being 1 year, the clause regarding the non-renewal option was considered to determine its classification by the lessee;
- Degree of materiality of the economic loss associated with a possible termination of the lease, related to the works performed and which are still to be amortized;
- Incremental rate: given that it is not possible to easily determine the interest rate implicit in the lease, it was assumed that payments to the lessee are discounted according to the Banco de Cabo Verde current liquidity-providing facilities (FPC) rate at 3%;
- Non-application of the standard to lease contracts with a term of 12 months or less and with an economic loss below the defined materiality level.

From the work performed, it was concluded that only two lease agreements are likely to fall within the possibility of IFRS 16.

The adoption of the standard implied the following changes on Bank's financial statements:

- Net Interest Income: the interest and similar costs will increase by recording the interest implicit on the lease;
- General Administrative Expenses: Rents and Leases section will have a decrease corresponding to the rental value of the identified property, given that only the cost of renting properties competes for this item;
- Amortization: increase by recording the depreciation cost of assets under right of use;
- Other tangible assets: for the recognition of assets under right of use;
- Other liabilities: at the value of the lease liabilities;

The reconciliation between the balance sheet values at 31 December 2018 and the balance sheet balances at 1 January 2019, in accordance with IFRS 16, is reflected on the following map:

(in thousands of CVE)

Description	IAS 17 31 december 2018	Imapct of IFRS 16	IFRS16 1 January 2019
Assets			
Cash and deposits with Central Banks	2.429.820	-	2.429.820
Deposits with Banks	1.359.177	-	1.359.177
Financial assets designated at fair value through profit or loss	33.456	-	33.456
Financial assets measured at fair value through other comprehensive income	179.855	-	179.855
Financial assets measured at amortized cost			
Debt securities	1.389.691	-	1.389.691
Loans and advances to banks	106.124	-	106.124
Loans and advances to customers	12.353.478	-	12.353.478
Other tangible assets	231.593	30.560	262.152
Other intangible assets	7.667	-	7.667
Tax Assets			
Current tax assets	-	-	-
Deferred tax assets	22.751	-	22.751
Other assets	1.282.707	-	1.282.707
Total Assets	19.396.318	30.560	19.426.878

Description			
LIABILITIES			
Financial liabilities measured at amortized cost			
Deposits from Banks	331.582		331.582
Customer deposits	16.668.049		16.668.049
Provisions	7.675		7.675
Current tax liabilities	31.985		31.985
Deferred tax liabilities	4.107		4.107
Other liabilities	170.986	30.560	201.545
Total Liabilities	*17.214.385*		17.244.944
EQUITY			
Share Capital	900.000		900.000
Revaluation reserves	181.854		181.854
Legal reserve	103.974		103.974
Other reserves and retained earnings	788.912		788.912
Net profit for the period	207.193		207.193
Total Equity	*2.181.934*		2.181.934
Total Liabilities + Equity	*19.396.318*	30.560	19.426.878

38. Capital Management

The objectives of Capital management in the Bank are guided by the following general principles:

- Comply with regulatory requirements established by Banco de Cabo Verde;
- Generate an adequate profitability for the Bank, with the creation of value for the shareholders, providing same with remuneration on the capital invested
- Support the development of the operations that the Bank is legally authorized to practice, maintaining a solid capital structure, capable of responding to the growth of the activity and it is appropriate for the risk profile of the institution; and
- Safeguard the Institution's reputation, by preserving the integrity of the operations practiced during its activity.

In order to achieve the objectives described, the Bank plans its capital needs in the short and medium term, in order to financing its activity, mainly using self-financing and the raising of other external funds. This planning is performed based on the internal growth estimates of the balance sheet operations.

The activity of the Banks in Cape Verde is regulated by Law no. 62 / VIII / 2014, of 23 April, which assumes a primary role in prudential regulation. The mentioned Law, and complementary legal instruments, contemplate several areas of regulation with influence on the management of Capital, of which the following stand out:

- Mandatory minimum Share Capital of CVE 800 million for banks with a general authorization;

- Determining that the Shareholders' Equity can never be lower than the Minimum Share Capital and that at least 10% of the net profit generated in each financial year shall be allocated to the Legal Reserve, up to the limit of the Share Capital or to the sum of the free reserves constituted and the retained earnings, if higher;

- Financial institutions must also create special reserves intended to strengthen the net equity or to cover losses that the profit and loss account is unable to;

- The application of preventive instruments, such as the requirement that the Solvency Ratio cannot be lower than 12%, which, in practice, corresponds to Credit Institutions being required to set aside certain Capital amounts to cope with unexpected losses that may occur;

- The imposition of limits on the concentration of risks based to customer or group of customers, by introducing percentages indexed to the amount of Own Funds, which in individual terms are set at 20% for the Group itself and at 25% for the rest. This measure provides for a diversification of portfolios, given the risk of contamination that may exist in a given group, in the event of default by one or more entities belonging to that Group;

- Limits on shareholdings in other companies - other than the banks, para-banking institutions, auxiliary services companies, pension fund management companies, management companies holding only capital shareholdings in the above companies and companies of the insurance sector, which shall not exceed, if considered individually, 15% of Own Funds of the shareholding institution and 60% of those Funds, if all the qualifying shareholdings (≥ 10% of the share capital or voting rights of the investee) are considered collectively.

Most prudential requirements and limits are based on the concept of Own Funds, which correspond to the minimum regulatory capital imposed by the regulator. Its regular and compulsory calculation is regulated in the national legislation through the publication of Notice no. 3/2007, of 19 December, of Banco de Cabo Verde. The quotient of Own Funds value by the amount corresponding to the weighted risk exposures constitutes the solvency ratio, regulated by Notice no. 4/2007, of 25 February 2008, of Banco de Cabo Verde, the value of which must be, at least, equal to 12%.

In order to analyze and respond to compliance with the legal requirements imposed by Banking Supervision, the Bank has mechanisms for articulation between the various internal departments, especially with the Financial and Risk Management area.

The following table summarizes the composition of the Bank's Regulatory Capital at the end of 2019 and 2018:

(in thousands of CVE)

	dez/19	dez/18	Var Abs	Var %
Own Base Funds	**2 247 767**	**1 992 413**	**255 354**	**12,80%**
Share Capital	900 000	900 000	0	0,0%
Legal Reserve	124 693	103 974	20 719	19,9%
Net income	278 480	207 193	71 286	34,4%
Other Reserves and Retained Earnings	971 596	788 912	182 684	23,2%
Intangible Assets	27 003	7 667	19 336	252,2%
Provisions Insufficiency	-	-	-	0,0%
Complementary Own Funds	**181 164**	**181 854**	**(690)**	**(0,4%)**
Revaluation Reserves	185 164	181 854	(690)	(0,4%)
Subordinated Loan	-	-	-	0,0%
Equity before deductions	**2 428 930**	**2 174 267**	**254 664**	**11,7%**
Higher Risk Concentration	108 372	0	108 372	
Property, plant and equipment received on repayment of own credit	58 357	28 824	29 533	
Total Eligible Equity	**2 262 202**	**2 145 443**	**116 759**	**5,4%**
Total Weighted Assets	**14 623 723**	**12 345 950**	**2 277 772**	**18,4%**
Solvency Ratio	**15,5%**	**17,4%**	**(1,9%)**	
Tier I Ratio	**15,4%**	**16,1%**	**(1%)**	

As seen in the previous table, the final value of Own Funds is the sum of three large aggregates, and the amounts considered present some differences in relation to the values on the balance sheet, reflecting the application of prudential filters by the regulator.

Hence:

(i) Base Own Funds: Correspond to the Capital of greater stability of the Bank. The main components and amounts considered in Own Funds are:

- the Share capital, the Reserves (except Revaluation reserves) and Retained earnings correspond, basically to the book values;

- the Net profit for the period, which is included in Own Funds net of taxes and dividends to be distributed to the shareholders and only if it has been certified by an External Auditor; and

- the deductions from the Base Own Funds, which correspond to several captions that the regulator considered necessary to introduce, from a prudential perspective, as a correction factor.

(ii) Complementary Own Funds: These comprise Subordinated liabilities subject to approval by Banco de Cabo Verde.

The amount of these Complementary Own Funds may not exceed those related to the Basis Own Funds and their breakdown is as follows:

- Subordinated debt, with a maturity of more than 5 years, considered up to the limit of 50% of Base Own Funds, and which conditions are approved by BCV; and

- Positive Revaluation reserves if realized under the terms of the Law and authorized by Banco de Cabo Verde.

(iii) Deductions from Own Funds: This is a group of deductions that result from impositions of the regulator, namely:

- In cases where the Bank has a shareholding of more than 10% of the share capital of the Bank, the total amount of such shareholding shall be deducted; in the case of a shareholding below that percentage, it shall be deducted only in the proportion exceeding 10% of the own funds of the credit institutions holding it;
- Possible exceeding of the limits established for Large Risks which, in the case of the individual prudential elements, correspond to 20% of Own Funds for exposures to the Group itself and 25% for exposures to other Groups;

- The net carrying amount of non-financial assets received in reimbursement of own loan granted, calculated at the annual rate of 20%, as from the date two years have elapsed following the date on which the non-financial assets concerned were received. In the meantime, Banco de Cabo Verde, through Notice no. 7/2015 established a transitory provision for foreclosed real estate received between 2013 and 2016 in that, for these cases, the deduction from Own funds should start in 2018, being 45% in that year and 55% in 2019, and so forth thereafter;

- Surpluses that may occur in qualifying shareholdings (equal to or greater than 10%) in companies other than Financial or Insurance companies, and which amounts exceed, individually, 15% of Own Funds or 60% , in the case of the aggregate amount of this type of shareholdings.

In terms of Capital Requirements, weighted assets are ranked into 4 risk factors (0%, 20%, 50% and 100%), according to the nature of each asset and each counterpart, as well as any guarantees that may exist.

A similar treatment is adopted for the off-balance sheet positions associated with the guarantees provided and other potential commitments assumed.

In 2008, operational risk was also introduced, giving the Institutions the need to calculate additional own fund requirements for its coverage, based on 15% of the average Operating income (when positive) of the last three years.

Regarding the reporting periods, institutions shall calculate their own funds at least at the end of each month and inform Banco de Cabo Verde by the tenth day of the following month, of the composition of their own funds and of the respective solvency ratio.

As in the previous year, the Bank had a very comfortable position regarding the capital ratio 15,5% (17,4% in 2018). The Tier I ratio stood at 15% (16,1% in 2018).

39. Fair Value of Financial Instruments

The fair value of financial instruments is estimated whenever possible, using quotations in active markets. A market is considered active and liquid, when equally knowledgeable counterparties operate and where transactions are performed on a regular basis. For financial instruments in which there is no active market, due to lack of liquidity or absence of regular transactions, valuation methods and techniques are used to estimate fair value. Financial instruments were classified by levels in accordance with the hierarchy provided for in IFRS 13 - Measurement at Fair Value.

Financial instruments recorded in the balance sheet at fair value

The following tables present an analysis of the categories of financial instruments recognized at fair value in the financial statements with reference to as 31 December 2019 and 2018 and the respective valuation methods:

(in thousands of CVE)

Description	Valuation techniques: Market value or quotation Level 1 31/12/2019	31/12/2018	Market analysis Level 2 31/12/2019	31/12/2018	Other Level 3 31/12/2019	31/12/2018	Total 31/12/2019	31/12/2018
Assets								
Financial assets held for negotiation	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	50.804	33.456	-	-	-	-	50.804	33.456
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	50.804	33.456	-	-	-	-	50.804	33.456
Derivatives	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	179.855	179.855	179.855	179.855
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	179.855	179.855	179.855	179.855
Derivatives	-	-	-	-	-	-	-	-
Liabilities								
Financial liabilities held for negotiation	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Overdraft Positions	-	-	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-

In the building of the table above the following assumptions were applied:

- Market values or quotation (Level 1): this column includes financial instruments valued based on active market quotations which, it is understood, provide the most reliable indication of fair value;

- Market analysis (Level 2): This column includes financial instruments that are not directly quoted in an active market and are directly or indirectly observable. These evidences include prices quoted for similar elements in an active market, prices quoted for identical or similar elements in a non-active market or other data validated by the market.

- Others (Level 3): this column includes financial instruments that are valued using variables that are not observable in the market. At this level, valuation techniques are used based on available information, including the discounted cash flow approach.

The reconciliation between opening and closing balances at Level 3 is as follows:

(in thousands of CVE)

Description	31/12/2018	Total (Losses/Gains)	Change in Revaluation Reserves	Acquisitions	Disposals	Reclassification	Other	Impairment	Transfers between levels	31/12/2019
Financial Assets at fair value through other comprehensive income										
Equity Instruments	179.855	-		-	-	-	-	-	-	179.855

Financial instruments at amortized cost

The following table presents a comparative analysis between the balance sheet value and the fair value of the categories of financial instruments that are recognized at cost or amortized cost.

(in thousands of CVE)

Description	31/12/2019 Book Value	31/12/2019 Fair Value	31/12/2018 Book Value	31/12/2018 Fair Value	Difference 31/12/2019	Difference 31/12/2018
Assets						
Deposits with Banks and Loans and Advances to banks	3.010.582	3.010.582	1.465.301	1.465.301	-	-
Loans and advances and other receivable amounts	14.175.173	14.175.173	12.353.478	12.353.478	-	-
Debt instruments	1.532.404	1.532.404	1.389.691	1.389.691	-	-
Liabilities						
Deposits from Banks	308.229	308.229	331.582	331.582	-	-
Customer Deposits	21.178.884	21.178.884	16.668.049	16.668.049	-	-

The Bank does not have yet mechanisms to estimate the fair value at amortized cost, so it assumes that the best estimate of the fair value of these instruments is the balance sheet value. However, in the future, the Bank will develop valuation mechanisms or techniques that will be based on the market conditions applicable to similar transactions, namely the value of respective discounted cash flows based on the interest rates considered appropriate.

40. Balance and Transaction With Related Entities

In the normal course of its financial activity, the Bank performs transactions with related parties. These include loans and advances and applications with banks, deposits, guarantees and other banking operations and services.

The related parties of BCN are the following:

Key management personnel

Paulo Jorge Ferro Ribeiro Oliveira Lima
Luís Matos Monteiro Fonseca
Luís Miguel Andrade Vasconcelos Lopes
Carlitos Marcos Lima Fortes
Marco António Rodrigues Almeida Pereira
António Olavo de Oliveira Rocha
Raimundo Sousa Duarte Monteiro

Close family of key management personnel

Adriano Oliveira Lima
Augusto Vasconcelos Lopes
Carlota Monteiro Vasconcelos Lopes
Elisete Lígia Gonçalves M Oliveira Lima
Frederico Omar Evora Fortes
Henrique Maximiano Evora Fortes
Maria Fernanda Benroz Lima Fonseca
Rosalia Grola Andrade Vasconcelos Lopes
Sandra Monteiro Neves Vasconcelos Lopes
Vanda Sofia Pires Evora

Shareholders:

IMPAR – Companhia Caboverdiana de Seguros, SARL
Cruz Vermelha de Cabo Verde

Other entities

IMOPAR Imobiliária e Participações, S.A.

The balance of the transactions with related parties recorded in the balance sheet and respective expenses and income in the financial year are as follows:

(in thousands of CVE)

	Key management personnel		Shareholdes		Family of key management personnel	
	2019	2018	2019	2018	2019	2018
Assets						
Deposits with Banks	-	-	-	-	-	-
Loans and advances to customers (*)	3.546	4.220	-	-	-	-
Other assets	-	-	-	-	-	-
	3.546	**4.220**	**-**	**-**	**-**	**-**
Liabilities						
Deposits from Banks	-	-	(351.604)	(215.441)	-	-
Customer Deposits	(22.541)	(20.907)	(107.689)	(21.942)	(27.528)	(25.836)
Other liabilities					-	-
Subordinated debt	-	-			-	-
	(22.541)	**(20.907)**	**(459.292)**	**(237.383)**	**(27.528)**	**(25.836)**
Income Statement						
Expenses						
Interest expense and similar charges and commissions	-	-		-	-	-
Commissions paid	-	-		-		
	-	-	-	-	-	-
Income						
Interest and similar income and commissions	-	-		-	-	-
	-	-	-	-	-	-

* Loans and advances to customers include the amount net of impairment

In order to eliminate or minimize the risk of potentially situations that will generate conflicts of interest, the BCN fully complies with the rules and guidelines related to this subject, issued by the Regulatory entity. Transactions, other than loans, with related entities are analyzed according to the criteria applicable to similar operations and are performed under normal market conditions. These operations are subject to approval by the Board of Directors. The granting of loans and advances to members of the Bank's governing bodies, or to family members or entities close to them is prohibited by the provision of paragraph 16 of Notice 3/2014 of Banco de Cabo Verde, with the exception for certain operations provided for in no. 4 of the same article.

41. Subsequent Events

At the date of approval of these financial statements by the Bank's Board of Directors, there was no event subsequent to 31 December 2019, the reference date of said financial statements, which required adjustments or changes in the values of assets and liabilities, pursuant to IAS 10 - Events after the reporting date.

IV. REPORT OF THE INDEPENDENT AUDITOR

Independent Auditor's Report

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail)

Opinion

We have audited the financial statements of Banco Caboverdiano de Negócios, S.A. ("the Bank"), which comprise the balance sheet as at 31 December 2019 (which shows total assets of CVE 24.170.321 thousand and a total shareholders' equity of CVE 2.455.933 thousand, including a net profit of CVE 278.480 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Banco Caboverdiano de Negócios, S.A. as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) in force, with the exception foreseen in Notice no. 4/2006 of the Bank of Cape Verde and the changes introduced by its Notice no. 6/2007, related to the constitution of credit regulatory provisions.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section.

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

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Institute of Statutory Auditors and Certified Accountants ("Ordem Profissional de Auditores e Contabilistas Certificados") that are relevant to our audit of the financial statements in Cape Verde. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers Cabo Verde – Sociedade de Auditores Certificados, Lda. pertence à rede de entidades que são membros da PricewaterhouseCoopers International Limited, cada uma das quais é uma entidade legal autónoma e independente.

Key Audit Matter	*Summary of the Audit Approach*
Impairment losses of loans and advances to customers *Measurement and disclosures related to impairment losses of loans and advances to customers presented in notes 3.3, 3.6, 9, 32, 36.1 and 36.2 of the Bank's financial statements* The significant expression of the loans and advances to customers' captions, classified as financial assets at amortized cost, as well as of the associated impairment losses, which calculation requires the application of a set of complex assumptions and judgments by the Management of the Bank regarding both the identification of clients with significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that this constituted a key audit matter for the purposes of our audit. As at 31 December 2019, the gross amount of loans and advances to customers ascends to CVE 15.589.187 thousand and the respective impairment losses as at that date amount to CVE 1.414.014 thousand. The amount of these impairment losses includes the adjustment to the minimum amount of credit regulatory provisions determined in accordance with Notice no. 4/2006 of the Bank of Cape Verde and the changes introduced by its Notice no. 6/2007, and the amount of additional provisions determined by the regulator. Impairment losses on loans and advances to customers are determined by the Bank on an individual basis, through a case-by-case analysis of a significant component of the total loans and advances portfolio, and for the remaining portfolio, the impairment is calculated on a collective basis. This calculation is carried out as follows: • The Bank undertakes a process of individual analysis, that includes an individual staging analysis, for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities and the observation of indicators of default criteria in order to corroborate the indicative allocation of automatic stage, and an individual analysis of impairment quantification. In this last case, the analysis is performed only for the exposures classified in stage 3, where the impairment	The audit procedures developed included the identification, understanding and evaluation of the key controls established by the Bank with respect to the approval, recording and monitoring of credit risk granted to customers as well as key controls underlying the timely identification, recording and correct measurement of impairment losses. For a representative sample of the loans and advances to customers portfolio as at 31 December 2019 that are relevant due to the high exposure or selected through professional judgment of the auditor pertaining to the individual analysis perimeter of the Bank, based on the criteria defined in internal regulations, the procedures carried out consisted of: (i) reviewing the conclusions and results obtained by the Bank in the individual analysis of the stage and the amount of impairment; (ii) obtaining our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assessing how the impairment losses were timely identified, measured and recognized by the Management of the Bank. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that complied with the criteria defined by the Bank in its methodology. Therefore, for a sample of exposures classified in stages 2 and 3, representative of the credit population subject to individual analysis by the Bank on December 31, 2019, the procedures carried out consisted of: (i) reviewing documentation associated with the loans and advances granting process; (ii) verifying the adequacy of the cash flows (financial plans) used to determine impairment with those reflected in the contractual support; (iii) analysing the contractual support and the most relevant collaterals and confirm their registration in favour of the Bank; (iv) analysing the valuations of collaterals that were available; (v) examining the criteria for determining a significant increase in credit risk (stage 2) and in an impairment situation (stage 3) on an individual basis; (vi) analysing the discounted cash flows underlying the impairment calculation; (vii) assessing the

amount is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its liabilities – going approach; or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is anticipated as being through the foreclosure/execution and/or sale of those collaterals, less the costs inherent to its recovery and sale – gone approach.

- For the exposures not covered by the individual analysis, the Bank applies a collective analysis model to calculate the impairment losses, in light of the requirements of IFRS 9, namely the classification of exposures by different stages according to the evolution of its credit risk since the date of its concession, and not in credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries.

In this context, changes in the assumptions or methodologies used by the Bank in the analysis and quantification of impairment losses on loans and advances to customers, as well as different recovery strategies, may condition the estimate of the recovery flows and the timing of their receipt and may have impacts in the amount of impairment losses at each time.

evolution of exposures; and (viii) understanding the Bank's vision regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits.

Whenever we find the need to revise some of the assumptions used by the Management of the Bank, we recomputed the estimated amount of impairment and compare the results obtained with those calculated by the Bank, in order to assess the existence of any discrepancies.

For the portfolio which impairment is calculated using the collective analysis model, we undertook a specific set of procedures with the objective of evaluating how the assumptions considered by Management, for impairment model purposes contemplate all the risk variables by comparison with the historical performance and recovery of the loans and advances to customers portfolio of the Bank. In that context, the procedures undertaken were: (i) review of the methodology documentation for the development and validation of the models; (ii) analysis of the risk parameters and their results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in staging classification, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recomputation of the Expected Credit Loss (ECL) for the loans and advances to customers portfolio as at 31 December 2019.

Additionally, the audit procedures applied to the amount of the regulatory provisions required by the Bank of Cape Verde, and registered in the financial statements as of 31 December 2019 included (i) the verification of the provisions recorded for a number of loans operations granted by the Bank, with reference to 31 December 2019, following the guidelines contained in Notice no. 4/2006 of the Bank of Cape Verde, with the changes introduced by its Notice no. 6/2007 and (ii) the validation of the adequacy of the provision quantification process of the loans and advances to customers portfolio as at 31 December 2019.

Our auditing procedures also included a review of the disclosures related to the loans and advances to customers, as well as impairment losses, contained in the explanatory notes, considering the applicable accounting standards.

Valuation of real estate properties received as recovery of loans and advances

Measurement and disclosures related to the valuation of real estate properties received in recovery of loans and advances presented in notes 3.3, 3.7, 15 and 32 of the Bank's financial statements

As at 31 December 2019, the net amount of real estate properties received in recovery of loans and advances, presented in the Other asset's account, is CVE 950.056 thousand.

According to the policies in force at the Bank, the real estate properties are subject to periodic valuations, carried out by expert appraisers registered in the Auditor-General of the Securities Market ("AGMVM") of the Bank of Cape Verde. Whenever the value determined by such valuations is lower than the book value of the real estate properties analysed, impairment losses are recorded.

Due the significant expression of real estate properties received as recovery of loans and advances in the balance sheet in the caption "Other assets", these constituted a key matter for the purposes of our audit, as they require the application of a set of assumptions and judgements by the Management as regards their valuation and the determination of both the recognition moment and the amount of the corresponding impairment losses.

The audit procedures undertaken included the identification and understanding of the key controls established by the Bank to ensure an adequate valuation of the real estate properties received in recovery of loans and advances, to determine the corresponding amounts of impairment losses and to ensure the appropriate accounting balance in an appropriate and timely manner. Our procedures also included performing test of details.

For a sample of real estate properties in the Bank's portfolio we analysed the correspondent valuation and, if applicable, the impairment losses recorded based on the valuations made by the independent expert appraisers. This analysis also included an assessment of the reasonableness of the methodology applied and the assumptions used by the expert appraisers in determining the appraisal value of the selected properties. Whenever necessary, we held meetings to understand and challenge the judgements and assumptions adopted in the valuation attributed to the real estate properties under analysis.

We evaluated the competence, capacity and objectivity of the expert evaluators hired by the Bank, including confirming their registration in the AGMVM. For a sample of real estate properties sold during the year of 2019, we compared the sale value with the last valuation obtained, in order to assess the reasonableness of the valuations previously obtained by the Bank.

Our auditing procedures also included a review of the disclosures related to the real estate properties received as recovery of loans and advances contained in the explanatory notes, considering the applicable accounting standards.

Other information – management report

Management is responsible for the preparation of the management report. The other information comprises the management report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the information included in the management report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS) in force, with the exception foreseen in Notice no. 4/2006 of the Bank of Cape Verde and the changes introduced by its Notice no. 6/2007, related to the constitution of credit regulatory provisions, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

f) communicate with those charged with governance regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13 March 2020

PricewaterhouseCoopers Cabo Verde
- Sociedade de Auditores Certificados, Lda.
represented by:

Armando José Carvalho Ferreira Rodrigues, Certified Auditor

(This is a translation, not to be signed)

V. REPORT AND OPINION OF THE SUPERVISORY BOARD

RELATÓRIO E PARECER DO CONSELHO FISCAL SOBRE O RELATÓRIO E AS DEMONSTRAÇÕES FINANCEIRAS

SOBRE O EXERCÍCIO FINDO EM 31 DE DEZEMBRO DE 2019

Senhores Acionistas,

No cumprimento do mandato que V. Excias. nos conferiram e no desempenho das nossas funções legais e estatutárias, como Conselho Fiscal, apresentamos o relatório sobre a atividade fiscalizadora desenvolvida e damos parecer sobre o Relatório de Gestão e as demonstrações financeiras apresentados pelo Conselho de Administração do BCN – Banco Caboverdiano de Negócios, S.A. ("Banco") relativamente ao exercício findo em 31 de dezembro de 2019.

1. Sobre a atividade desenvolvida pelo Conselho Fiscal

No decurso do exercício o Conselho Fiscal reuniu em diversas ocasiões em 2019, tendo acompanhado, com a periodicidade e a extensão que julgamos adequada às circunstâncias, a atividade do Banco, e, desenvolvido várias atividades no cumprimento das competências que lhe estão legalmente atribuídas, nomeadamente:

- verificou a regularidade da escrituração contabilística e da respetiva documentação e o processo de preparação e divulgação da informação financeira tendo participado em cinco reuniões de comité de acompanhamento com o Conselho de Administração, Comissão Executiva e diversas Unidades de Estruturas do banco.
- Realizou cinco reuniões com a Conselho de Administração e com os responsáveis das Unidades encarregues da implementação e gestão de mecanismos de Controlo Interno do Banco, nomeadamente, com as Unidades de Risco e Compliance visando a verificação da eficácia do sistema de controlo interno, na medida em que os controlos sejam relevantes para o controlo da atividade do Banco e apresentação das demonstrações financeiras, do sistema de gestão de risco e da auditoria interna e vigiámos também pela observância da lei e dos estatutos;
- O Conselho tomou conhecimento do Relatório sobre o Sistema de Controlo Interno 2018, analisou e emitiu parecer sobre a adequação e a eficácia do Sistema de Controlo Interno nos termos do previsto na alinea a) do nº3 do artigo 24º do Aviso nº 4/2017 do Banco de Cabo Verde. Acompanhou também o progresso do Sistema de Controlo Interno e procedeu ao follow-up dos mapas de deficiências do Sistema de Controlo Interno e a evolução dos planos para a mitigação dos riscos.
- O Conselho tomou conhecimento do Relatório de Governo Societário do Banco Caboverdiano de Negócio relativo ao exercício de 2018 analisou e emitiu parecer nos termos do disposto no artigo 2º nº 2 do Aviso n. 7/2017 do Banco de Cabo Verde.

- O Conselho Fiscal analisou e emitiu parecer sobre o conteúdo da Política de Prevenção, Identificação e Gestão de Conflitos de Interesses apresentada pelo Conselho de Administração.
- Em 2019 com a aprovação do novo Código das Sociedades Comerciais o Conselho Fiscal procedeu a reavaliação do Regulamento do Conselho Fiscal ora em vigor de modo a garantir a sua adequação formal e material considerando os novos normativos legais societários e garantir a sua maior operacionalidade prática. O Conselho procedeu a adequação e algumas alterações e aprovou um novo regulamento de Funcionamento do Conselho Fiscal do Banco Caboverdiano de Negócios.
- O Conselho Fiscal avaliou o processo de preparação e divulgação da informação financeira e teve duas reuniões com a *Pricewaterhouse Coopers& Associados – Sociedade de Revisores Oficiais de Contas, Lda* para avaliação dos status dos trabalhos de auditoria.
- O Conselho acompanhou os trabalhos desenvolvidos pela *Pricewaterhouse Coopers& Associados – Sociedade de Revisores Oficiais de Contas*, Lda e apreciou o Relatório de Auditoria, e o parecer em anexo, emitida sem reservas e no qual constam as matérias relevantes, com as quais concordamos.

2. Parecer do Conselho Fiscal

No âmbito das nossas funções o Conselho Fiscal analisou as Demonstrações Financeiras do Banco referentes ao exercício findo em 31 de dezembro de 2019 que inclui o balanço, a demostração do rendimento integral, a demonstração de alteração do capital próprio e a demonstração de fluxos de caixa bem como as notas anexas às demonstrações financeiras, o Conselho Fiscal entendendo ser relevante mencionar os seguintes factos:

- a auditoria às contas efetuada ao exercício findo em 31 de dezembro de 2019, pela *PricewaterhouseCoopers& Associados – Sociedade de Revisores Oficiais de Contas, Lda.*, concluiu que as demonstrações financeiras (Balanço, a Demonstração de resultados, a Demonstração do rendimento integral, a Demonstração de alterações no capital próprio, a Demonstração de fluxos de caixa) e o correspondente Anexo, apresentam de forma verdadeira e apropriada a posição financeira do Banco, em todos os aspetos materialmente relevantes, o que permitem uma adequada compreensão da situação financeira do Banco, dos seus resultados, do rendimento integral, das alterações do capital próprio e dos fluxos de caixa;
- as políticas contabilísticas e os critérios valorimétricos adotados, estão conformes com as Normas de Relato Financeiro Internacionais e são adequados, por forma a assegurar que os mesmos conduzem a uma correta apresentação do património e dos resultados do Banco;

- O Conselho procedeu também à apreciação do Relatório de gestão apresentado pelo Conselho de Administração do banco que é suficientemente esclarecedor da evolução dos negócios e da situação do Banco evidenciando os aspetos mais significativos;

- a proposta de aplicação de resultados não contraria as disposições legais e estatutárias aplicáveis; e
- o reconhecimento do esforço que o Conselho de Administração continua a desenvolver no exercício das suas funções, nomeadamente no cumprimento dos procedimentos contabilísticos, administrativos, financeiros e de controlo interno.

Nestes termos, tendo em consideração as informações recebidas do Conselho de Administração e Serviços e as conclusões constantes do Relatório de Auditoria, somos do parecer que:

i) seja aprovado o relatório de gestão;

ii) sejam aprovadas as demonstrações financeiras; e

iii) seja aprovada a proposta de aplicação de resultados.

3. Finalmente, desejamos expressar o nosso agradecimento ao Conselho de Administração e a todos os colaboradores do Banco com quem contactámos, pela valiosa colaboração recebida.

Praia, 13 de março de 2020

O Conselho Fiscal

Presidente	Vice-Presidente	O Vogal
Dr. José Maria Ramos Cunha	Dr. Rui Oliveira Silva	Dr. Jorge Paulo Gomes Monteiro

BCN

BANCO CABOVERDIANO
DE NEGÓCIOS