

ANNUAL REPORT 2020

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In case of doubt or misinterpretation the Portuguese version shall prevail.**

Financial Highlights

	dec-2020	dec-2019	Var (abs)/p.p.	Var (%)
Income Statement Accounts				
Net interest income	838 371	748 571	89 800	12,0%
Complementar Net interest	125 718	178 078	(52 360)	(29,4%)
of which commissions	117 481	122 248	(4 767)	(3,9%)
Operating income	964 089	926 649	37 441	4,04%
Administrative Costs	474 219	445 832	28 387	6,37%
Operational Cash Flow	489 872	480 817	9 055	1,88%
Operating Results	438 230	434 092	4 138	0,95%
Impairment losses	(60 719)	(127 287)	66 568	(52,3%)
(of which: impairment losses on loans and advances)	(58 131)	(120 660)	62 529	(51,8%)
Profit / (loss) before income tax	377 511	306 806	70 706	23,05%
Net profit / (loss) for the period	294 533	278 480	16 053	5,8%
Assets and Own Funds				
Total Assets	26 176 201	24 170 321	2 005 879	8,3%
Total Equity	2 744 376	2 455 933	288 443	11,7%
Loans and advances to customers	16 301 126	15 589 187	711 939	4,6%
Debt Securities	2 811 919	1 532 404	1 279 515	83,5%
Loans and advances to customers (free from impairment)	14 828 572	14 175 173	653 399	4,6%
Loans and advances to customers (principal amount)	14 468 076	13 651 064	817 012	6,0%
Customer Accounts	21 807 500	21 178 884	628 616	3,0%
(of which: customer accounts from emigrants)	4 264 453	4 055 837	208 616	5,1%
Deposits from Banks	313 046	308 229	4 817	1,6%
Deposits from Central Banks	1 053 722	-	1 053 722	100,0%
Quality of Credit (Circular nº 195 from BCV)	8,28%	8,85%	(0,569)	
Loans and advances to customers / Total Liabilities	82,50%	79,70%	2,792	
Loans and advances excl. securities/Customers Deposit	74,8%	73,6%	1,143	
Loans and advances to customers (free from impairment)/Total Assets	56,6%	58,6%	(1,998)	
Costs with deposits	1,8%	1,9%	(0,127)	
Costs with risk	(0,3%)	(0,7%)	0,401	
Net Assets/Total Assets	46,2%	35,0%	11,216	
Net Assets/Short-term liabilities	68,4%	56,1%	12,285	
Yield				
ROA	1,1%	1,2%	(0,027)	
ROE	10,7%	11,3%	(0,607)	
Operating Income/Net Assets	3,7%	3,8%	(0,151)	
Solvency				
Solvency Ratio	17,6%	15,5%	2,106	
Tier I Ratio	17,3%	15,4%	1,929	
Efficiency				
Cost -to-income	54,5%	53,2%	1,390	
Staff Costs/Operating Income	27,4%	27,8%	(0,380)	
Complementar Net interest/Operating Income	13,0%	19,2%	(6,177)	
Other Information				
Number of Employees	162	154	8	5,2%

I. MANAGEMENT REPORT

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

The year 2020 was deeply marked by the pandemic caused by COVID-19 with a major impact on economic activity, on people's lives and businesses, with harmful effects on economic activity with the consequent reduction in world trade, the decrease in international financial flows and the increase in public indebtedness to cope with the economic crisis triggered by the serious health situation.

The Cape Verdean Economy was heavily penalized from the second half of March, with the epicenter in strategic sectors for the national economy, such as Tourism and Air Transportation, causing a historic drop of 14% of our GDP, situation that brought enormous challenges to all quarters of society.

It was in this context of challenges and uncertainties that the BCN developed its activity, having reacted promptly to the challenges of the crisis, with the adoption of a wide range of measures to adapt to the conjuncture and also by the response to combat the spread of Coronavirus within the institution, through the definition of firm measures to protect Employees, Customers and all those who interact with us. The Contingency Plan proved to be adequate and effective and, whenever necessary, was adjusted and as a result the Bank and its Business Units never stopped working, on the contrary continued to provide, with quality and efficiency, their services.

In addition to measures to adapt the physical presence in the facilities, the Bank also made investments in technology in order to provide employees with remote tools and working conditions while taking awareness actions to ensure that its clients choose to use the remote channels such as internet banking.

It is in this context of uncertainty and sharp contraction of economic activity, particularly in the sectors most directly affected by the crisis, such as Tourism, reflecting, above all, the restrictions imposed on mobility, that the BCN developed its activity, while continuing to maintain a strong financial position with **net profit** growing by about 6% from 278.480 million CVE in 2019 to 294.533 million CVE in 2020 in which, managed to maintain, in the midst of the economic crisis, a growth of 5% in the loans and advances portfolio and 3% in customer accounts.

In addition to the results achieved, BCN also had a solid prudential ratios that allow it to confidently address future uncertainties in the pandemic, presented a solid solvency position with a capital ratio of 17,6% (up from 15,5% in 2019), a low level of the 8,3% NPL ratio (up from 8,9% in 2019), a balanced financing structure with a deposit transformation ratio of 74,8% (73,6% in 2019), comfortable liquidity levels and a high degree of operational efficiency with an operational efficiency ratio by 54,5%.

In terms of credit activity, credit lines were made available, in partnership with the Government and the Bank of Cape Verde, in special conditions, aimed to stimulating and supporting the real economy, and BCN has positioned itself as the second Bank in the national market, in terms of market share, in financing through these lines, which shows our firm purpose of supporting the national business sector.

In a context of challenges and uncertainty, particular pressure has been placed on Governance and Internal Control systems particularly to monitoring and following the operational risks, information system risks, remote work, and credit risk associated with the pandemic context.

We cannot fail to express our special thanks to the Bank's Employees who, despite the circumstances, have remained steadfast in living up to the spirit of unity and self-help that characterizes us and thus honors the values that define us and identifies us as part of a Financial Group whose driving force is to help and positively impact all who interact with us.

A word of appreciation to our Clients and Shareholders, for the confidence without which it would not be possible to carry forward our mission and our commitment in this exceptional and atypical context. It is this confidence that also allows us to affirm that we are better prepared to face the challenges of the present with our eyes projected in the future that we believe will be better and safer.

Luís Vasconcelos Lopes
President of the Executive Commission

Paulo Jorge de Oliveira Lima
Chairman of Board of Directors

2. Corporate bodies as of 31 December 2020

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**

Eng.º Paulo Jorge Ferro Ribeiro de Oliveira Lima

- **Vice-Chairman**

Ambassador Luís de Matos Monteiro da Fonseca

- **Members:**

Dr. Luís Miguel Andrade Vasconcelos Lopes

Dr. Carlitos Marcos Lima Fortes

Dr. Marco António Rodrigues de Almeida Pereira

Dr. António Olavo de Oliveira Rocha

Dr. Raimundo Sousa Duarte Monteiro

Executive Commission

- **President**

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*

Dr. Jorge Paulo Monteiro**

*Until 24 February 2020

** As from 24 February 2020

3. Shareholder Structure

The Bank's Share Capital in the amount of 900 million CVE, as of 31 of December 2020, was distributed according to 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 operating incomes 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 through 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 2020

In 2020, the Bank followed up on the implementation of its 2018-2022 Strategic Plan, in the midst of an unfavorable international environment, trying to adapt the business plan to the uncertainties brought by the COVID-19 Pandemic and the new challenges both economically and operationally.

Among the relevant facts of the year, the following stand out:

- ❖ The Bank held its shareholders' general meeting on March 27th, 2020, with shareholders holding 100% of the share capital. It should be noted that, under the Bank's Contingency Plan and considering the health emergency situation, the shareholders met by telematic means. The following deliberations came out of the meeting:
 - The management report, the financial statements, and the proposal for the application of results for the year 2019 were approved;
 - The annual corporate governance report was approved in accordance with the Bank of Cape Verde Notice No. 7/2017.
- ❖ Adoption of a set of measures to protect and mitigate the effects of COVID-19, directed to both employees, customers, and society in general. Among these measures, the following stand out:
 - Implementation, for the first time in the bank's history, the teleworking regime, following the declaration in March of the COVID-19 pandemic and the entry into force of its Contingency Plan. Also in this context, the turnover of the Staff became a constant, especially for the front office staff;
 - The immediate availability of personal protective equipment to all employees who maintained the in-person work regime, as well as the adaptation of the bank's facilities of structures that allow the separation between employees and the public;
 - Implementation, in partnership with the Government of Cape Verde, of the moratoriums and credit lines to companies, in the context of measures to mitigate the negative effects of COVID-19 on Cape Verdean economic and business activity.
 - Regarding the credit lines, these are four lines, totaling four billion CVE, made available through commercial banks and with state guarantees ranging from 50% to 100% of the capital financed, operationalized through Pro-Garante and whose fundamental objective is to provide effective and timely liquidity to companies that have as a priority to protect workers, maintain jobs, and pay their remuneration, as well as maintain their productive capacity;
 - Launching of a new feature on the BCN website - Online Credit Application, which allows customers to request and obtain the response to their credit request without having to go to an agency;

- Donation of rapid tests to the Ministry of Health, in the amount of 1.3 million CVE;
- ❖ Launching at national level, an Integrated Institutional Campaign - Printed Media, Mass Media, Branding, Digital, Internal Communication - which aimed to (1) strengthen the Bank's position by strengthening and increasing the brand's notoriety; (2) increase the values of trust, solidity, relationship with the clients; (3) take on a new identity for the BCN, closer, more personalized, more modern and more competitive; (4) A line of communication that has longevity and that allows developments for various segments without losing the emotional appeal; and (5) strengthen indicators related to customer loyalty and attractiveness;
- ❖ Opening, in January, a new BUSINESS UNIT BCN Business, this time in Praia, thus concluding the strategy initiated in 2019 of the Bank to be present in the three main business centers of the country (Praia, Mindelo and Sal), in a differentiated way, relatively to its most strategic segment, the business;
- ❖ Reformulation of its organizational structure, with main emphasis on the Commercial Direction creating a regional sub-nucleus within the core of SMEs – Small and Medium Enterprises, in order to correspond to the current strategy of commercial performance of the Bank that elected The SME's clients as a differentiated and strategic segment;
- ❖ Incorporation of safety and innovation components in the Quality Office, consequently changing the name to The Office of Quality, Safety and Innovation, regarding of the process of adequacy of the organic structure of the Bank and special focus on the quality of the services provided and the establishment of a strict security system, to ensure the safety of people and goods;
- ❖ Promotion of the new Performance Evaluation and Management System approved in 2019, through awareness-raising actions performed with employees, with the objective of training all evaluators and evaluatees of the evaluation process, with tools necessary for the implementation of the new system.

6. Macroeconomic Framework

International environment

1. World economy evolution

The macro-economic policy of most countries in 2020 was developed with a strong focus on mitigating the effects of the health crisis caused by the pandemic of COVID-19.

The report of the first case of this disease first identified in the Chinese province of Wuhan happened on December 31st, 2019 and quickly spread to several countries and territories, having been declared a pandemic by the WHO - World Health Organization, in the on March 11th, 2020.

The COVID-19 pandemic has had a huge and profound impact on the world economy, the range, and consequences of which are still difficult to envision. It had a strong impact in terms of deaths and illnesses, left millions of people in poverty, caused an unprecedented drop in GDP, which extended to all advanced economies and a wide range of emerging and developing countries, in the first half of the year (a fall that only finds a parallel in the Great Depression of 1929) and may weaken economic activity for a prolonged period.

The sharp drop-in economic activity reflects the impact of the COVID-19 disease pandemic, more specifically the reduction in activity in industry, commerce, and services; the deterioration of the labor market and the greater instability of international financial markets.

Indeed, this COVID-19 pandemic crisis took on the characteristic of a negative shock to aggregate demand, which severely affects, simultaneously, private consumption and investment, contrary to what was observed in previous crises.

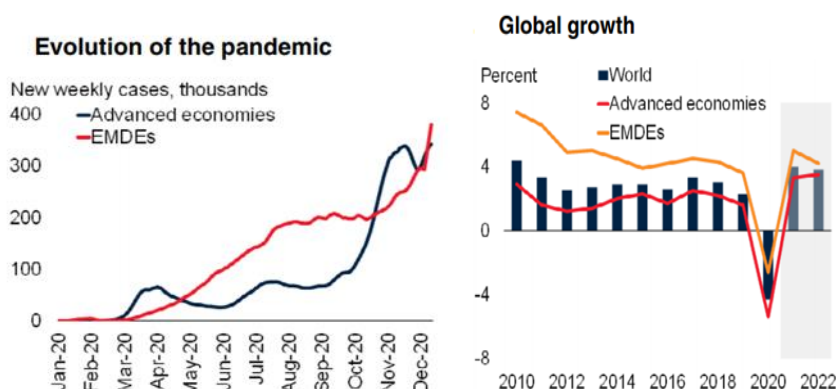
In addition to the impact of the public health crisis on household income and confidence (attenuated, to some extent, by savings, family support and social benefits), social detachment explains the strong contraction in private consumption.

In turn, the sharp drop in demand, some disruption in the supply of primary and intermediate goods (mainly affected at the time when the most restrictive measures were in place for the movement of people and the closure of activities considered non-essential) and uncertainty about earnings futures have determined the historical contraction of investments.

On the supply side, the services sector that was supporting the dynamics of the global economy before the crisis, is the most affected. According to World Trade Organization estimates, global trade fell by 7% to 9% in 2020 (11% in homologues term on the first half of the year), reflecting the weakening of demand for goods, the collapse of international tourism, and some relocation of production channels, on the one hand, related to the closure of borders and, on the other hand, aggravated by trade restrictions.

After the 9,4% drop in the first half of 2020 compared to the end of 2019, global economic activity recovered during the summer months. In the third quarter, world GDP grew above expectations (7,3% in a chain). The resurgence in the number of COVID-19 cases, particularly in advanced economies, has led to the reintroduction of containment measures, conditioning activity in the most affected sectors and the confidence of economic agents and causing a negative impact of these factors on activity in the fourth quarter.

The world economy contracted, therefore, 4,3% in 2020 (contrary to the 2,7% growth registered in 2019), contracting by 5,4% on advanced economies and, for the economies of the emerging and developing countries (EMDEs), a contraction of 2,6%.



Source: World Bank Group Flagship Report, Global Economic Prospects, January 2021.

The **USA economy** experienced in 2020, the strongest rate of contraction since World War II, as Covid-19 devastated service providers, such as, restaurants and airlines, leaving millions of Americans jobless and in poverty.

The recovery that was envisaged in the third quarter lost strength at the end of the year, considering the resurgence of coronavirus infections and the exhaustion of the government's nearly three trillion-dollar package of measures. The strong loss of strength after a historic expansion of 33,4% between July and September left GDP well below its level at the end of 2019.

The service sector suffered the biggest setback of the recession caused by the coronavirus, disproportionately impacting low-income workers, who tend to be women and minorities, thus leading to the so-called K-shaped recovery (a fast decline with a subsequent sharp division between winners and losers, in this case, the first being the workers with the best wages and the seconds being the workers with the lowest income).

The economy contracted by 3,6% in 2020, the worst performance since 1946. After a growth of 2,2% in 2019. Almost all sectors, with the exception of public administration and the real estate market, suffered a decline in production in 2020. A 3,9% drop in consumer spending was the biggest since 1932.

The labor market was characterized by a persistent weakness that led to an increase in poverty, with claims for unemployment benefits totaling well above the peaks recorded in the great recession of 2007-09. Only 56% of jobs lost in

March and April, were recovered and about 18.3 million Americans were receiving aid checks in early 2021.

In the third quarter of 2020, the United States Federal Reserve (Fed) announced a new strategy in the inflation targeting system which the goal is to try to arise the USA, again, to achieve one of the Fed's big goals, which is full employment.

With this new strategy, inflation may remain above the 2% target before the Fed decides to raise interest rates to contain it. As of December 31st, 2020, similarly to what has been happening in the last decade (in which American inflation has remained practically always below the target), the inflation rate stood at 1,36%.

In the **Eurozone**, due to the coronavirus pandemic, economic activity suffered a severe setback in the first half of 2020, followed by great growth in the third quarter with the gradual lifting of containment measures. However, the second wave of the pandemic that resulted in the introduction of new public health measures aimed at limiting the spread of the virus, has again compromised the recovery that was already being felt.

The European Central Bank's macroeconomic projections show a 7,3% decline in the eurozone economy in 2020 and that the pandemic will have a longer-than-expected effect.

The economic repercussions of the pandemic vary considerably from one Member State to another (and so do the prospects for recovery) and depend on the spread of the virus, the consistency of the public health measures adopted to contain the virus, the sectoral composition of economies national policies and the strength of national policy responses.

Regarding to the labor market, the loss of jobs and the rise in unemployment have severely compromised the incomes of many Europeans. The measures taken by the Member States, as well as initiatives at European Union level, have helped to mitigate the impact of the pandemic on labor markets. The unprecedented scope of the measures taken has led to a moderate increase in the unemployment rate in relation to the fall in economic activity.

Forecasts point to the unemployment rate in the euro area rising from 7,5% in 2019 to 8,3% in 2020.

Regarding the behavior of Inflation, the abrupt fall in energy prices caused the nominal inflation rates to fall to negative values. Underlying inflation, which includes all items, with the exception of energy prices and unprocessed food products, also suffered a substantial drop, caused by a lower demand for services, especially those related to tourism and industrial goods. The decrease in demand, the stagnation of the labor market and the appreciation of the Euro currency have consequently led to a fall in prices.

The Euro area inflation, as measured by the harmonized consumer price index, is expected to average 0,3% in 2020.

The **Chinese economy** is expected to be the only one among the major economies to grow in 2020. Despite the COVID-19 pandemic, China's GDP grew by 2,3% in 2020, when compared to the year 2019 (growth rate was 6,1%). However, the growth is the lowest recorded in more than 40 years.

The results achieved in 2020 were driven, above all, by the good results of the last quarter of the year, contrary to the expectations of economists, after a particularly difficult beginning of 2020 (considering that the first official case of the new coronavirus was registered in Wuhan, China), in order to contain the spread of the virus, Chinese government, shut down factories and stores, consequently, the level of economic activity fell 6,8% in the first quarter.

The Chinese government's strong containment measures allowed the country to contain the COVID-19 outbreak much faster than most countries and in the second quarter, with the coronavirus under control, the economy resumed and grew 3,2%. In the following quarter, the increase in the economy was consolidated and GDP growth was 4.9%. In the last three months of the year, GDP grew 6,5% compared to the same period in 2019. It should be noted, however, that the basis for China's economic recovery is not yet firm, considering the many uncertainties that still remain about the pandemic and the external environment.

The country's exports increased by 3,6% in 2020, despite the tariff war with the United States, driven by global demand for Chinese masks, other medical supplies and telework equipment.

The country's latest trade data shows that in December alone, exports increased by 18,1% compared to the same period last year (imports increased by 6,5%).

The **United Kingdom** economy, in addition to the uncertainties caused by the COVID-19 pandemic faced in 2020, other uncertainties, namely around Brexit, related to the transition period and the outcome of the negotiations between London and Brussels on the agreement post-Brexit trade.

If the consequences for Brexit were already being negotiated and weighed, the COVID-19 pandemic, like what happened in all world economies, arrived in the United Kingdom by surprise, as early as the beginning of 2020 (one month after being reported the first case in the world).

For several reasons, related, in particular, to **(i)** the characteristics of the population itself (already aging and with an ethnic diversity that, according to specialists, are segments of the population more vulnerable to serious diseases and, therefore, subject to higher mortality due to the coronavirus); **(ii)** the composition of the British economy - compared to its peers, a major part of the UK economy (about 13% of total production) is dedicated to activities that require close personal contact which was especially affected by the social distance measures to contain the spread of COVID-19; **(iii)** the theory, according to some experts, that there were many errors in the management of this pandemic, namely the slow implementation of an effective testing, screening and isolation program to detect new cases and prevent the spread of the virus, the British economy suffered profoundly the effects of the pandemic, having closed most of the second quarter of the year, when other European economies started their reopening earlier.

To combat the crisis generated by the pandemic, the government will have been indebted to 394 billion GBP, 19% of GDP, the largest budgetary debt in the country's history "in times of peace." The State's investment in fighting the coronavirus would have been 280 billion GBP- with aid for employment and the health sector.

The European Central Bank's projections suggest that the British economy should register in 2020, a bigger economic collapse than that of the Eurozone with the GDP dropping 11,3%.

In **Japan**, according to the predictions of the International Monetary Fund, the impact of the outbreak of the new coronavirus will cause a 5,3% contraction in GDP in 2020.

As the rest of the world, the coronavirus pandemic has had a major impact on travel in Japan, despite government efforts to boost domestic travel. The contribution of Tourism in the Japanese economy will thus register a strong contraction in 2020, with a decrease of 58% compared to the values reached in 2019.

The World Bank expects a 38,2% decrease in tourist revenues in this market in 2020, compared to the previous year. It should be noted that in 2020 the country was preparing to host a major international sport event and consequently receiving millions of foreign visitors, but it ended up reaching only 10% of the established goal.

The number of bankruptcies in the hotel industry in Japan in 2020 has risen considerably, with the tourism sector having lost millions of jobs (mainly temporary jobs). Japan's economy thus registered the first negative evolution in the unemployment rate in 11 years (since 2009, at the time of the international financial crisis). The unemployment rate increased to 2,8% in 2020 (2,4% in 2019).

The activity of **Emerging Market and Developing Economies (EMDEs)** fell 2,6% in 2020 as a result of the COVID-19 pandemic.

Excluding the recovery of China, the contraction of production in EMDEs in 2020 is estimated at 5%, reflecting recessions in more than 80% of EMDEs (a percentage higher than that seen during the global financial crisis, when activity decreased by about one third of the EMDEs).

The economies that suffered the worst declines were those that depend heavily on services and tourism (Cape Verde, Maldives, Montenegro, Caribbean, Seychelles), those with major domestic outbreaks (Argentina, India, Mexico, Peru), and those that faced sharp declines in exports of industrial commodities due to the drop in external demand (Ecuador, Oman).

Substantial macroeconomic support helped to smooth the decline in activity. The drop in investment was partially contained by cuts in interest rates and macro-prudential support measures, which provided liquidity and promoted loans, as well as by considerable fiscal packages.

The fall in private consumption was less severe in EMDEs that used the available fiscal policy margin to expand social safety nets and employment support. The resilience of remittances in some countries has also helped to cushion the cut to families.

Despite these mitigating factors, the increase in job losses has resulted in declines in job earnings between 10% and 15% in the EMDEs region.

In commodity exporters, the double shock of pandemic-related economic disruptions and falling commodity prices generated considerable setbacks for

activity in 2020. The recovery in industrial production in commodity-exporting countries has been unresponsive, with production levels remaining below pre-pandemic.

In several countries of so-called **LICs (Low Income Countries)**, the growing number of COVID-19 cases has forced governments to maintain some containment measures in place during the second half of 2020 (Ethiopia, Mozambique, Rwanda, Uganda). Overall, a 0,9% contraction of LICs production is expected in 2020.

The COVID-19 pandemic caused an unprecedented contraction in the **Portuguese economy** in the first half of 2020. The gradual lifting of containment measures from May and the strong support of public policies contributed to a fast recovery in the third quarter. The worsening of the health situation in Portugal in the fourth quarter required the implementation of additional measures to control the pandemic, interrupting the dynamics of economic recovery.

However, the containment measures introduced in the fourth quarter were more selective, thus avoiding widespread confinement such as that enacted between March and April, mitigating the impact on the economy.

The Portuguese economy is therefore expected to fall 8,1% in 2020, reflecting the reduction in domestic demand and exports, highlighting the negative contribution of service exports, in particular services related to tourism.

Employment is expected to decrease by 2,3%, which is a drop lower than what would be expected given the relationship between employment and activity observed in previous recessions. This attenuated reaction reflected the impact of measures to support companies, in particular, the simplified layoff regime and support for self-employed workers.

The unemployment rate increased from 6,5% in 2019 to 7,2% in 2020. In addition to measures to support employment and the practice of teleworking, the evolution of the unemployment rate was mitigated in the first half of the year by the increase in inactivity.

The COVID-19 pandemic had a significant effect on **African** economies due to the difficulty of implementing social isolation measures and keeping, even partially, the economy functioning, which is aggravated by the drop in oil prices. The health, economic and social impacts of the pandemic cost the continent billions of dollars in product losses in 2020, reducing agricultural productivity, weakening supply chains, limiting employment prospects (in a region where the vast majority of workers operates in informal jobs) and reducing remittances, with all these factors contributing to political and regulatory uncertainty.

The pandemic has brought more challenges to the economies of the African continent, considering that, in parallel to the economic recovery, they must build resilience to future shocks, namely, strengthening the health sector, fostering broad economic growth, developing new strategies for solving challenges structural problems, in a situation in which its external partners, having been affected by the pandemic, are concerned with their own internal needs.

For sub-Saharan Africa, the World Bank estimates a recession of 3,7% in 2020. The countries most affected by the pandemic were oil exporters, including Portuguese-speaking Angola and Equatorial Guinea, and those dependent on tourism, such as Cape Verde or São Tomé and Príncipe, in addition to countries with a high number of cases, including South Africa.

World trade

World trade, one of the main economic victims of the COVID-19 pandemic, suffered a record drop in 2020, having decreased by 9,5%.

Trade, despite playing a key role in responding to the pandemic, allowing countries to ensure access to food and vital medical supplies that guarantee livelihoods and preserve lives, naturally, because of the social isolation imposed by the pandemic, demand goods, as well as the movement of people between countries, were largely conditioned.

The indices related to automotive products, air freight, as well as maritime cargo transport registered the worst results since 2007.

Regarding to commodities, it is worth mentioning a certain volatility that characterized oil prices. Early in the year, investors' concerns about oil prices were geopolitical tensions in the Middle East that threatened to halt production and drive prices up (in early January, Brent's price had soared to 71.75 dollars). As the pandemic progressed, oil prices dropped sharply and, still in the second quarter of the year, the American reference index, WTI - West Texas Intermediate, was negative for the first time in history and Brent reached its lowest level of the year, USD 15.98 (price not seen for more than twenty years).

Since April, however, the trend has been upward, as a consequence of the agreement reached to reduce production by OPEC +, the gradual lifting of restrictions on non-essential activities and the approval of the first vaccines to prevent infection by the coronavirus. However, given the uncertainties regarding the evolution of the pandemic, fuel demand is not expected to recover quickly, as Governments plan to maintain border closures and travel restrictions until vaccines are widely available.

On average, oil prices stood at USD 41 / bb in 2020, a 34% drop from 2019, due to the COVID-19 pandemic that affected global consumption.

As far as other commodities are concerned, base metal prices were broadly stable in 2020. The sharp declines that occurred in the first half of the year were followed by a strong recovery in the second half due to increased demand from China.

In terms of agricultural products, prices rose by 4% in 2020, largely driven by a shortage of supply and demand greater than expected in edible oils, cereals, sugars, and dairy products.

It is also important to note that in terms of global trade, the signing, in November 2020, of the largest free trade agreement in the world, the RCEP - Regional Comprehensive Economic Partnership, which represents about 30% of global GDP. A treaty led by China, which succeeds in expanding its commercial

influence and reducing the effects of the tariffs imposed by the United States of America.

Financial Market

After a decade in which global debt had already risen to a record 230% of GDP by 2019, the debt burden increased in 2020, as companies faced a period of sharp sales reduction and Governments financed large packages stimulating the economy.

High levels of debt leave borrowers vulnerable to a sudden shift in investor risk appetite, particularly for borrowers at higher risk and EMDEs dependent on capital flows to finance large fiscal expenditures and external deficits.

Foreign Direct Investment (FDI) continued its downward trend and attached with a collapse in export earnings, led to significant currency depreciations and rising borrowing costs in some countries, especially commodity exporters.

The Euro, the currency to which the Cape Verdean Escudo is indexed, appreciated in nominal terms and against the dollar by 1,5% and 2,0% in 2020.

National context

Cape Verde, like most world economies, in 2020, its economy was marked by the global public health crisis caused by the pandemic of COVID-19, which resulted in the worst economic shock since national independence.

Effectively, the preventive measures and control of the spread of the virus, namely the restriction of activities considered non-essential and the prohibition of sports and recreational activities, implemented at the end of the first quarter and which lasted, as a general rule, the most restrictive, until May, have had profound impacts on global economic activity in general and that of Cape Verde's main partners in particular.

This impact is seen in the economic recession of these countries, namely, the Euro Area, as the country's main partner, the United Kingdom as the country's largest tourist market and the USA economy, another important economic partner in Cape Verde.

The economy, however, had a globally favorable performance in the first three months of the year, mainly driven by the dynamics of the construction, public administration, manufacturing, and transport sectors.

This performance, however, ceased to be verified as of the second quarter, as a result of the restrictive measures implemented by the declaration and successive renewals of the State of Emergency in the country.

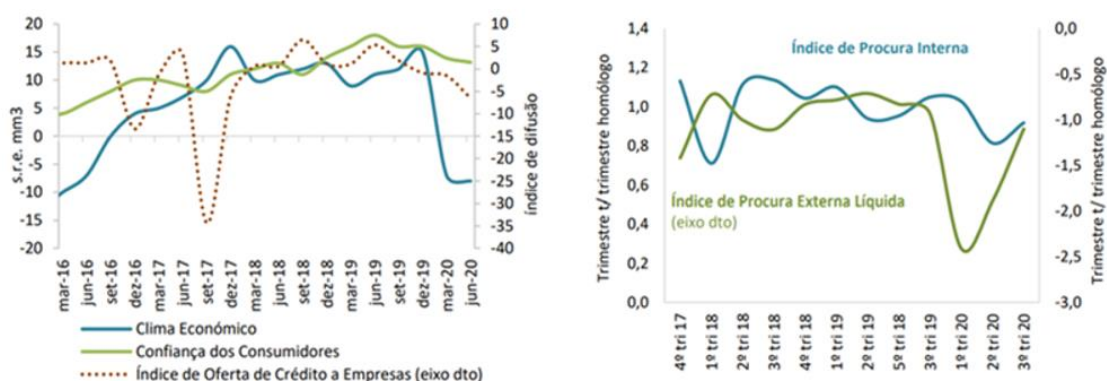
On the supply side, the impact was reflected in the fall in gross added value of all branches of activity, with the exception of public administration and agriculture.

On the demand side, exports of goods and services, private consumption and investment declined. Social distance (voluntary and involuntary), the interruption of recreational activities, the banning of travel, the decrease in income by the

population that lost, even temporarily, their job, some increase in precautionary savings and the repatriation of part of foreign community living in the country explains a historic drop in private consumption. Regarding to the fall in investments, the explanation is given, above all, by the interruption of non-essential activities.

However, the contraction of the product was mitigated **(i)** by the increase in public consumption (due to the implementation of discretionary policies to support the most vulnerable families and the strengthening of the health sector's structure and response conditions to the health crisis) and **(ii)** the reduction in imports (of goods, business, professional and technical services) and Cape Verdean travel (in business and leisure).

According to the Bank of Cape Verde estimates, in a context of continuous worsening of the economic climate indicator and a downward trend in the consumer confidence indicator, for the year 2020, the forecasts are for a contraction of the national economy with the evolution of GDP in the order of -14%.



Source: Instituto Nacional de Estatística, Banco Mundial, Banco de Cabo Verde. Cálculos do Banco de Cabo Verde.

Also reflecting the effects of the pandemic on aggregate demand, inflationary pressures moderated, and average annual **inflation** stood at 0,6%, thus registering a decrease of 0.2 p.p. compared to December 2019.

This evolution reflected, to a large extent, the transmission of international prices of energy raw materials to the national consumption basket, as well as the contractionary trend in demand, taking into account the reduction of inflation in the classes of food products and non-alcoholic beverages (dissipated the effects of some people rush to supermarkets which anticipated the implementation of restrictions determined by the State of Emergency in the country and in the supplier markets) and restaurants and hotels, as well as the deflation of the clothing and footwear class.

It should be noted, however, the contribution of the health class to the general level of consumer prices markedly higher than that of the other classes, due, to a large extent, to the increase in the prices of pharmaceutical products and the growth of product prices, medical devices, and equipment as well as services for outpatients.

Regarding to **external accounts** there are an aggravation that reflects the deterioration of the current account, mainly explained by the reduction in exports of travel, transportation, goods, as well as food and fuel in international

ports and airports. The ban on international flights during the second half of the year (except those considered essential) and the stoppage of activities considered non-fundamental during the period in which the State of Emergency was in force in the country and in the main trading partners explain the evolution, in year-on-year terms, the deficit in the balance of goods and services and the reduction in the surplus in the services balance, despite the registered contraction in imports of services.

The reduction in expatriate dividends, as well as the interest paid by banks on their foreign liabilities, together with the increase in remittances from emigrants, however, moderated the worsening of the current account.

It should be noted that, the delay in holding shareholders' meetings due to the restrictions imposed by the State of Emergency, the retention of profits considering the uncertainties in the resumption of business activity, the reduction of interest rates applied to emigrants' deposits and in other banks' external liabilities largely explain the year-on-year reduction in the primary income deficit.

Regarding the remittances from emigrants, in the second quarter of the year it fell (after having seen, in the first quarter, the fastest growth rate since 2015 - when emigrants sought to compensate for the loss of income of affected family members by the volcanic eruption) explained by the restrictions on circulation in the host countries, as well as by the suspension of the service of dispatch of small orders in the customs of Cape Verde during this period. It should be noted, however, that this reduction in emigrants' remittances was offset by the increase in official and unofficial donations (from individuals and non-profit institutions to support Cape Verdean families).

The capital account, contrary to the negative evolution trend that had been registered since the execution of the second compact Millennium Challenge Account, experienced a positive evolution of its balance in the first half of the year, driven mainly by official transfers in goods for hospital use and of civil protection.

The economy's financing needs (measured by the combined current and capital account balance) have, however, reached considerable levels of GDP, so budget support to the State of Cape Verde, in addition to financing the economy's needs, mitigates the decrease in the stock of the country's net international reserves which, according to the Bank of Cape Verde's forecasts, in 2020, will continue to guarantee more than six months of imports of goods and services.

The financial account deficit increased compared to the same period last year, so the disbursement of the IMF - International Monetary Fund credit facility to support Cape Verde in mitigating the effects of the pandemic was decisive for the net inflows of capital in the country.

In terms of the **monetary and financial situation**, the data point to the growth of the M2 monetary aggregate driven by the increase in the financing needs of the Government, as well as of Companies and Families, as shown by the growth of the credit stock of the central government and the private sector. It is also worth mentioning the negative contribution of foreign assets to monetary expense, considering the drop in the country's net international reserves.

The contraction of the country's availability of funds abroad reflected the decrease in net external assets of the central bank and commercial banks. In turn, the increase in central government deposits, supported by disbursements

of conventional and exceptional budget aid (to offset the impacts of COVID-19 on tax revenues and support the country in implementing measures to support families and businesses), explains the reduction of net credit to the general government (credit to the central government has increased).

The evolution of credit to the private sector fundamentally reflects the implementation of measures to mitigate the effects of the pandemic on the treasury of companies, as well as on the income of individual entrepreneurs and families, especially the moratoriums in the fulfillment of debt service.

The money supply was mainly driven by the growth in monetary liabilities and, in particular, demand deposits. The growth of quasi-monetary liabilities slowed down, with the drop in deposits in resident currencies and time deposits by emigrants in national currency.

The use of savings to partially offset the loss of income on the part of residents, on the one hand, and, on the other, the non-renewal of term and savings deposits by emigrants, for possible precautionary and operational reasons, justify the reduction of quasi-monetary liabilities.

Having the objective of mitigating the impact of the new coronavirus on the national economy, the Bank of Cape Verde (BCV) proceeded, in the beginning of the second quarter of 2020, to implement a set of measures to be in force in 2020 and that comprise an exceptional package monetary stimulus and prudential easing. The objective of the adopted package of measures was aimed not only at guaranteeing that banks will not lack liquidity, but also at ensuring that they will not be penalized in terms of capital, considering any difficulties in the normal fulfillment of obligations and payment of credits, on the part of the debtors of the banking system, in the adverse context of the coronavirus - Covid-19.

Therefore, monetary stimulus measures were adopted, such as the revision of the reference rates, the reduction in the rate of minimum reserve requirements and the availability of a credit line under special conditions so that, as a consequence, banks can also assign credits to interest rates lower.

In parallel with the monetary stimulus measures, prudential measures were adopted aimed at credit institutions, such as **(i)** the possibility of attributing, on the part of banks and at the request of customers (individuals and companies), moratoriums or a grace period in the payment of credits for a period of 3 (three) months, possibly renewable, depending on the situation assessment. During the referred moratorium or grace period, payment failures by affected customers with default situations will not be considered as non-performing loans (NPL-Non Performing Loans), having no effect on impairments, provisions and activity ratios **(ii)** the reduction of the solvency ratio by 2 percentage points until December 31st, 2021, going from 12% to 10%; and **(iii)** the suspension, in 2020 and 2021, of the deduction from own funds of the values of the assets received as a donation in the period from 2013 to 2016.

All these measures were taken by the BCV with a view also to preserve confidence in the markets and to give clear signals to the bank of the central bank's availability to provide funds in cases of stress or liquidity shortages and to reinforce the monetary policy stance towards greater credit stimulus economic growth.

Regarding the **Public Finances**, data from the Bank of Cape Verde pointed to a deterioration that was mainly due to the fall in tax revenues and the increase in

current investment expenses, explained by the effects of the reduction in aggregate demand and the imports in the collection of taxes (taxes on value added on the income of legal persons and on international transactions), as well as the implementation of measures to mitigate the economic and social impacts of the covid- 19 pandemic.

The growth in current investment expenses, in turn, reflected, to a large extent, on the one hand **(i)** the increase in spending on the acquisition of goods and services (to finance the lease of spaces for the isolation of those infected with COVID- 19, the rental of vehicles for civil protection, in addition to the purchase of medical supplies and medicines) and **(ii)** the increase in social benefits (expenses with solidarity and social inclusion income, as well as the payment of internships social inclusion projects, promotion and training for employability).

However, current operating expenses have also increased, spurred by the growth in personnel expenses (justified by the recruitment of new health professionals, the updated salary of national police staff and the implementation of the new military career statute).

In turn, spending on the acquisition of non-financial assets decreased, containing the expansion of the Government's financing needs.

7. Banking Activity Overview

Customer deposits

As of December 31st, 2020, customer deposits which constitute the Bank's main source of financing, amounted to 21.807 million CVE, reflecting an increase of 3,0% compared to the previous year (21.179 million CVE). The evolution of customer deposits highlights **(i)** the increase of 859 million CVE in demand deposits; **(ii)** the decrease of 592 million CVE in term deposits; and **(iii)** the growth of securities transferred with a repurchase agreement by 311 million CVE.

The growth in the customer deposits portfolio at BCN reflects the trend observed in 2020, from the use of savings to partially address the income losses on the part of residents and, on the other hand, the non-renewal of time deposits and savings on the part of emigrants, possibly for reasons of precaution.

(in thousands of CVE)						
Designation	2020		2019		Change	
	Amount	Mix	Amount	Mix	Abs	%
Demand deposits	9 812 213	44,99%	8 952 770	42,27%	859 443	9,6%
Emigrants	814 611	3,74%	510 508	2,41%	304 103	59,6%
Others	8 997 602	41,26%	8 442 262	39,86%	555 340	6,6%
Term deposits and Savings accounts	10 397 257	47,68%	10 988 847	51,89%	(591 590)	(5,38%)
Emigrants	3 357 922	15,40%	3 445 958	16,27%	(88 037)	(2,55%)
Others	7 039 335	32,28%	7 542 888	35,62%	(503 553)	(6,68%)
Other payables	27 132	0,12%	13 529	0,06%	13 603	100,5%
Charges payable	285 267	1,31%	247 591	1,17%	37 677	15,2%
Securities sold with repurchase agreements	1 272 658	5,84%	962 125	4,54%	310 533	32,3%
Charges payable	12 973	0,06%	14 023	0,07%	(1 050)	(7,49%)
Total	21 807 500	100,00%	21 178 884	100%	628 615	3,0%

The growth in deposits at the BCN (3,0%) was higher than the growth in the market (2,2%), reflecting the level of the market share, which rose from around 10,4% to 10,5%.

	2019	% Mix	2020	% Mix	Δ abs.	Δ %
BCN	21.179	10,4%	21.807	10,5%	629	3,0%
National Banking System*	204.124	100%	208.551	100%	4.427	2,2%

* Estimation for December 2020 based on data published by the BCV (Main Indicators of Banking System)

Regarding the emigrants funds, BCN recorded an increase of 5,5%, from 3.956 million CVE in 2019 to 4.173 million CVE in 2020, a growth above the market (which grew by 2,6%) consequently increasing in market share, in this segment, to 6,2% (6,1% in 2019).

In the structure of customer funding, the emigrant segment has a weight around 19%, which has remained almost unchanged since 2019 (a slight increase of 0,4 p.p.).

Loans and Advances Portfolio

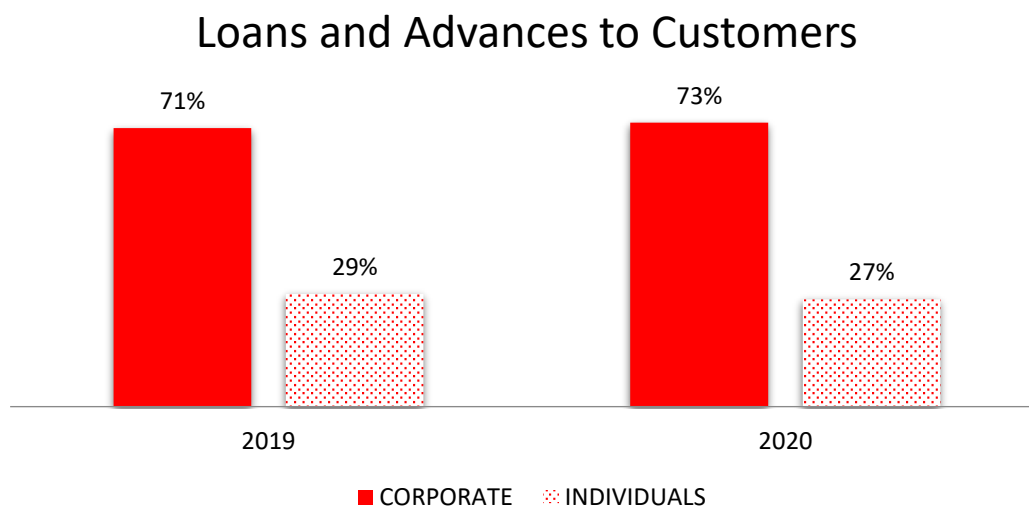
Untitled loans to customers (loans and advances to customers) on 31 December 2020 amounted to a gross amount of 16.301 million CVE, which represents an increase of 4,6%, (+712 million CVE) compared to homologous period of 2019 (15.589 million CVE).

Growing practically identical to the market average (4,7%), the BCN's credit market share did not change significantly in 2020, remaining close to 10%.

	2019	% Mix	2020	% Mix	Δ abs.	Δ %
BCN	15.589	9,9%	16.301	9,9%	712	4,6%
System*	157.174	100%	164.561	100%	7.387	4,7%

* Estimation for December 2020 based on data published by the BCV (Main Indicators of Banking System)

Regarding the composition of the portfolio by segments, Corporate and Individuals, there was an increase in the weight of the Corporate segment, which now represents 73% of the portfolio (71% in 2019). Conversely, the weight of Individuals dropped to 27% (29% in 2019), which reflects not only the business segmentation policy initiated in 2018 with a focus on the Small and Medium Enterprises (SMEs) segment, but also the availability of credit lines to companies, within the scope of measures to mitigate the effects of COVID-19.



In terms of concentration, the Bank's 20 largest exposures, spread over several sectors of economic activity such as energy, telecommunications, tourism,

electricity, and the public sector, represented, in 2020, a weight of around 34,7%, a reduction compared to the previous year (35,8%), which reflects the portfolio diversification strategy by the various sectors of economic activity.

Regarding the maturity of the portfolio, approximately 79,2% of the loans granted are for more than one year, when at the end of 2019 this percentage stood at 80,8%.

Regarding the sectoral distribution, compared to the previous year, there was an increase in the weight of the volume of credit granted to companies, with emphasis on **(1)** the reduction in the volume of credit granted to companies operating in the services sector in more than 215 million CVE with the consequent decrease in its weight in the structure of the Portfolio, which went from 23,6% in 2019 to 21,2% in 2020; **(2)** the increase in credit to companies operating in the tourism sector by more than 272 million CVE; **(3)** the 463 million CVE increase in the volume of credit granted to local authorities and **(4)** the 42 million CVE decrease in credit granted to companies whose activity is related to Real Estate Operations.

(in thousands of CVE)					Change	
	2020	%	2019	%	Abs	%
Commerce	1.759.049	10,79%	1.681.716	10,79%	77.333	4,60%
Construction and Public works	505.627	3,10%	450.071	2,89%	55.556	12,34%
Consumption	316.258	1,94%	274.368	1,76%	41.890	15,27%
Housing	2.787.111	17,10%	3.008.282	19,30%	(221.171)	(7,35%)
Industry	414.794	2,54%	387.956	2,49%	26.838	6,92%
Real State Operations	1.876.392	11,51%	1.918.090	12,30%	(41.698)	(2,17%)
Services	3.460.101	21,23%	3.675.490	23,58%	(215.389)	(5,86%)
Tourism	2.409.899	14,78%	2.138.365	13,72%	271.534	12,70%
Other Individuals	1.368.266	8,39%	1.208.438	7,75%	159.829	13,23%
Other Sector	261.585	1,60%	167.130	1,07%	94.455	56,52%
Public Sector	1.142.044	7,01%	679.282	4,36%	462.762	68,13%
Total	16.301.126	100,00%	15.589.187	100,01%	711.939	4,57%

Quality of the Loans and Advances Portfolio¹

Under the terms of Circular Series "A" n. 195 / DSF / 2018 of December 21st, 2018 of Bank of Cape Verde, on December 31st, 2020, the volume of non-performing loans went from 8,9% to 8,3%, a decrease of 0,6 p.p. to which contributed to the Corporate segment whose portfolio overdue decreased in all sectors of activity, with the exception of Industry. It should be noted that the portfolio overdue in the Individual segment increased by 12,7% (56 million CVE).

(in thousands of CVE)

Designation	2020		2019		Change	
	Amount	%	Amount	%	Abs.	%
CORPORATE	815.842	62,25%	898.218	67,17%	(82.376)	(9,17%)
INDIVIDUALS	494.717	37,75%	438.951	32,83%	55.766	12,70%
TOTAL	1.310.559	100,00%	1.337.169	100,00%	(26.610)	(1,99%)

It should be noted that, if we include credit operations, which under the terms of the regulator, article 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 ratio of non-performing loans, calculated in accordance with the provisions of Circular Series "A" No. 195 / DSF / 2018 of December 21st, 2018, would be 9,3% (10,6% in 2019).

Regarding the distribution of non-performing loans², due to the delay, it appears that the largest volume, around 78%, corresponding to 1.019 million CVE (76% in 2019, corresponding to 1.015 million CVE), it is verified in operations with a delay of more than 1 (one) year and which are under litigation phase.

(in thousands of CVE)

			Change	
	2020	2019	Abs.	%
Past due Loans and interest - 90 to 180 days	37 467	126 485	(89 018)	(70,38%)
Past due Loans and interest - 180 days to 1 year	254 510	195 380	59 130	30,26%
Past due Loans and interest - 1 to 3 years	341 194	370 993	(29 799)	(8,03%)
Past due Loans and interest > 3 years	677 388	644 310	33 078	5,13%
Total	1 310 559	1 337 169	(26 610)	(1,99%)

¹ The total amount of non-performing loans is calculated in accordance with Circular Series "A" no 195 / DSF / 2018 of December 21st, 2018, according to which "a customer is in default when presenting overdue of loans and advances 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 the client's exposures must be considered overdue" whenever exposures overdue 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 of loans and advances portfolio, for the purposes of this report, does not consider a set of transactions already identified and 100% provisioned that await to be written off as soon as the necessary clarifications regarding the issue of tax relevance of the slaughtered as regards competition for the tax base are obtained from the Tax Authority. The amount in question for 2020 is 472.9 million CVE (478 million CVE in 2019).

²The amounts presented do not include past due loans less than 90 days in the amount of 49.6 million CVE (123 million CVE in 2019) and 100% provisioned loans and advances that await to be written off in the amount of 472.9 million CVE (478 million CVE in 2019).

In terms of the distribution of past due Loans and interest by activity sector, it is worth highlighting **(1)** the weight of past due loans in the “Real Estate Operations” sector, with the largest weight among the various sectors, 24,8% (24,4% % in 2019); **(2)** followed by the weight of past due loans in the “Housing” sector, whose weight increased from 17,7% in 2019 to 22,5% in 2020; **(3)** the 5,2 p.p. increase in the overdue weight in the “Industry” sector.

(in thousands of CVE)

	2020	%	2019	%	Change	
					Abs	%
Commerce	100.489	7,67%	182.233	13,63%	(81.744)	(44,86%)
Construction and Public works	48.460	3,70%	79.006	5,91%	(30.545)	(38,66%)
Consumption	23.952	1,83%	22.838	1,71%	1.114	4,88%
Housing	294.304	22,46%	236.695	17,70%	57.609	24,34%
Industry	70.889	5,41%	3.186	0,24%	67.703	2124,90%
Real State Operations	325.001	24,80%	326.651	24,43%	(1.650)	(0,51%)
Services	145.011	11,06%	149.132	11,15%	(4.122)	(2,76%)
Tourism	125.740	9,59%	157.733	11,80%	(31.993)	(20,28%)
Other Individuals	176.461	13,46%	179.418	13,42%	(2.957)	(1,65%)
Other Sector	252	0,02%	277	0,02%	(25)	(8,95%)
Public Sector	0	0,00%	0	0,00%	0	0,00%
Total	1.310.559	100,00%	1.337.169	100,00%	(26.610)	(1,99%)

At the end of 2020, impairments / provisions covered 76,3% of the volume of non-performing loans (70,0% in the previous year), an increase explained both by the increase in the volume of credit impairments and by the decrease in the overdue loan portfolio.

The loan portfolio credit quality indicator calculated on December 31st, 2020, registered a favorable behavior in compared to 2019 (slight decrease of 0,6 p.p.), having changed from 8,9% in 2019 to 8,3% in 2020. This behavior more favorable in terms of the quality of the loan portfolio is justified, on the one hand, by the stabilization of non-performing credit levels and, on the other hand, by the overall increase in the loan portfolio.

The total amount of renegotiated of loans and advances (values in stock) at the end of 2020 was 1.707 million CVE, more 475 million CVE than in 2019, an increase of 38,6%. It should be noted that the increase in the volume of renegotiated loans is explained by the request for a moratorium on the part of some clients whose activity was particularly influenced by the pandemic crisis, however, did not meet all the conditions to be included in the scope of the public moratorium.

(in thousands of CVE)

Designation	2020		2019		Change			
					Balance		Impairment	
	Balance	Impairment	Balance	Impairment	Abs.	%	Abs.	%
Reestructured loans	1.707.344	253.415	1.232.237	196.900	475.107	38,6%	56.515	28,7%

Distribution Channels and Payment Means

Banco Caboverdiano de Negócios, SA, maintained its **distribution network**, with a strong presence on the island of Santiago (8 Business Units) and an extended coverage of the entire national territory, with a presence on all other inhabited islands in the country. The distribution network consists of a total of 17 (seventeen) units and 1 (one) Private Banking unit and 3 (three) BCN Business units, which represents approximately 17% of the national banking system (same as the previous year) in terms of the physical distribution network.

Regarding the **ATM** network, BCN has a national geographic coverage with 32 ATMs distributed across all islands (30 ATMs in the previous year), which represents about 16% of the total ATMs's of the system in 2020, composed of a total of 199 machines (204 in 2019).

At the **POS** level, at the end of 2020, BCN had 1.252 automatic payment terminals, which represents an increase of about 20,3% (+211) compared to the previous year (1.041 in 2019). The weight of the BCN's total POS at the system level went from 13,0% to 14,4% (at the system level there was an increase of +608 POS, from 8.080 POS in 2019 to 8.688 in 2020).

BCN was responsible, as a Support Bank (meaning that a Bank that ATMs and POSs served as the basis of performing transactions), for 14,5% of the number of transactions³ (12,6% in 2019) being the fourth Vinti4 Network Support Bank.

Of the total of 266.512 **active cards** at the system level in 2020 (268.251 in 2019), the BCN accounts for 18.686 cards (16.233 in 2019), which represents 7% of the total active cards in the national banking system (6% in the previous year).

In 2020, there is also an increase in new contracts and in the use of internet banking services, with a progressive transfer of transactional activity from branches to this channel, mainly regarding intra-bank transfers and interbank transfers, considering the COVID-19 pandemic and the consequent contingency measures adopted by the bank.

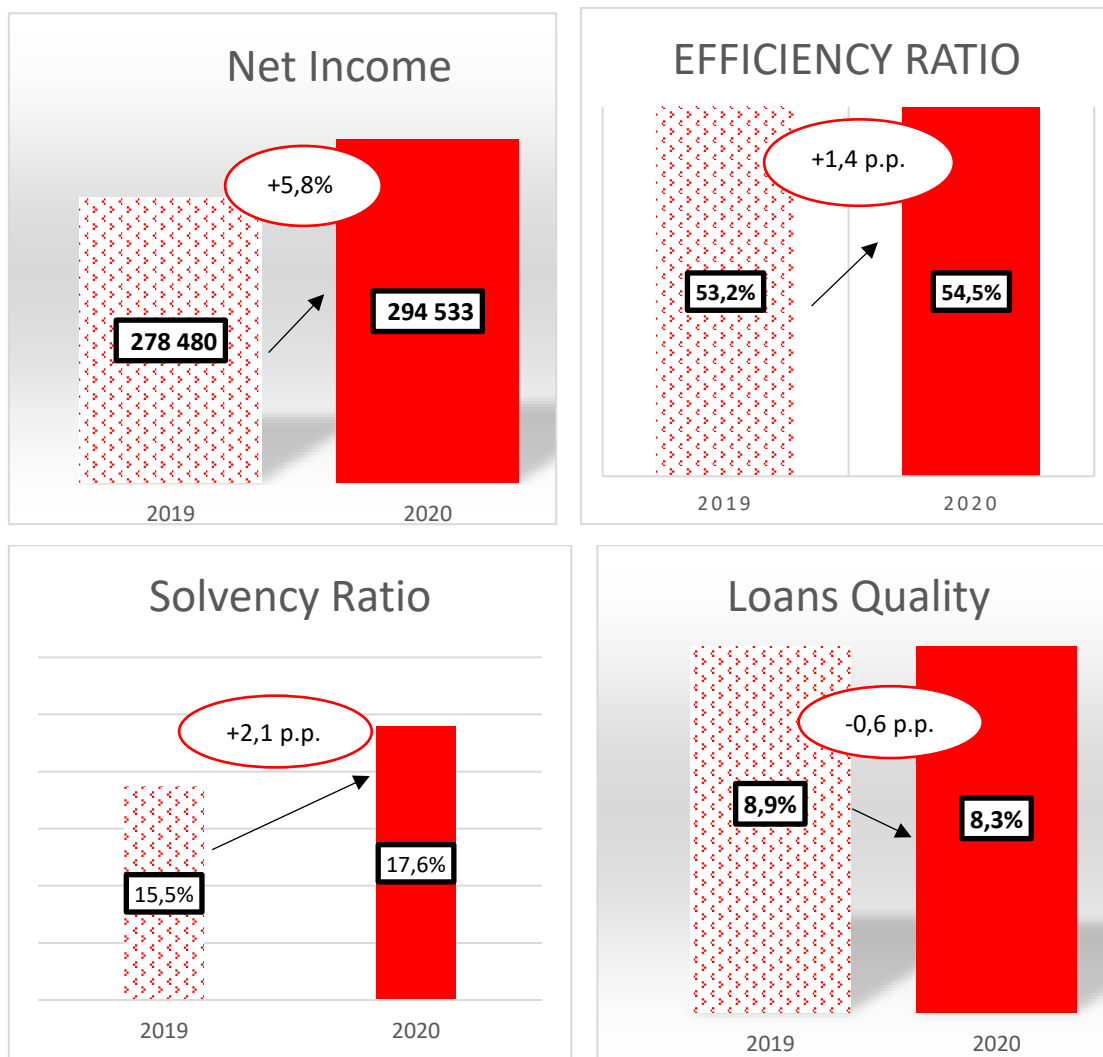
³ According to data from SISP – Sociedade Interbancária de Sistemas de Pagamento's Performance Evaluation Report of December 2020

Analysis of the Economic-Financial Situation

The year of 2020 was an atypical year for the world. The first reported case of the virus that became known by COVID-19 and which would cause a pandemic even in the first quarter of the year and trigger a global economic crisis with all the resulting consequences, appeared on December 31st, 2019.

No economy was indifferent to this pandemic and Cape Verde was no exception. The priority, for most countries in the world, during the year, was to control the spread of COVID-19 and the measures went through the restriction in the circulation of people.

The Cape Verdean economy, which depends to a large extent on tourism, was strongly affected by this international situation that resulted in the worst economic shock since national independence. It was in this business environment that the results of the BCN referring to the last financial year amounted to 294.5 million CVE, that is, a growth of 5,8% compared to 2019.



The BCN's financial statements for the year 2020, produced in accordance with the International Financial Reporting Standards (IFRS), with the exception provided for in Bank of Cape Verde's Notice 4/2006, and the changes introduced by Notice no. 6/2007 on regulatory provisions, show a Net Profit for the year of 294.5 million CVE (278.5 million CVE in the previous year) based on the growth of its commercial activity, despite the unfavorable economic context in which it developed its activity during the year 2020.

The Balance Sheet registered an increase of 8,3%, amounting to 26.176 million CVE (+2.006 million CVE than in the previous year), with Loans and Advances to customers and Customer Deposits continuing to have a significant weight in the composition of the same 56,7 % (58,6% in 2019) and 83,3% (87,6% in 2019), respectively.

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

- *Net interest income* (NII) reached 838.4 million CVE, 12,0% more than in the same period of the previous year (748.6 million CVE), supported by the loans and advances activity, whose interest received increased 7,4 %;
- *Operating Income* went from 926.6 million CVE to 964.1 million CVE influenced by the growth of the Net interest income, considering that the Supplementary Margin (SM) experienced a negative variation;
- *Operating expenses* increased by approximately 6,8% to 525.9 million CVE (492.6 million CVE in 2019) reflecting an increase in both Staff Expenses (+ 2,6%), General Administrative Expenses (+ 11,5%) and Depreciation for the Year (+ 10,5%);
- The *net operating* reached 438.2 million CVE, 1,0% more than in the same period of the previous year (434.1 million CVE), considering the evolution of both the Operating Income and the operating expenses;
- The *structure cost* as a percentage of the product of activity (cost-to-income ratio) increased compared to the same period in 2019, from 53,2% to 54,5%, maintaining the Bank, however, with a high level of efficiency operational;
- *Net impairments losses* of loans and advances totaled 58.1 million CVE (120.7 million CVE in 2019);
- The *impairment* related to other assets was 2.6 million CVE, which was 61,0% lower than the previous year;
- The Net profit of 294.5 million CVE represents a positive variation of 5,8% compared to the value reached in 2019 (278.5 million CVE) and is explained by the performance of the activity which was reflected in a growth in the conditioned operating income, particularly, due to the unfavorable evolution of the Supplementary Margin;
- In terms of *liquidity*, the Bank maintains a comfortable liquidity position with the transformation ratio of Total Funds to Credit (excluding securities) standing at 74,8%, 1,2 p.p. more than the previous year (73,6%) and liability coverage ratios, for all periods, always above the regulatory limit.

- The solvency ratio increased to 17,6%, 2,1 p.p. more than in the previous year (15,5%) and 5,6 p.p. more than the regulatory minimum of 12%⁴. This evolution is explained, mainly, by the evolution occurred in the Eligible Equity Funds (variation of 13,9%), since the total of the weighted assets practically maintained the levels of 2019 (a variation of 0,3%). The Tier I ratio was 17,3% (15,4% in 2019).

Balance Sheet Evolution

Asset

At the end of 2020, the BCN's Net Assets amounted to 26.176 million CVE, representing an increase, compared to 2019, of about 8,3%, with emphasis on the reduction of the weight of the Loans and advances without securities portfolio in Total Assets which went from 58,6% to 56,7%.

The balances of funding, at the Central Bank and at other banks Institutions, decreased by 33,0%, from 4.554 million CVE to 3.051 million CVE in 2020. On the other hand, there was an increase of 1.434 million CVE in deposit in other banks, and CVE 1.279 million in the item Public Debt Securities.

Liability

Total Liabilities increased by 7,9% compared to 2019, from 21.714 million CVE to 23.432 million CVE in 2020, with customers deposits representing 93,1% of total Liabilities (97, 5% in 2019).

It should be noted that customers deposits (including interest payable) experienced an overall increase of 3,0% (+629 million CVE) with Demand Deposits increasing by approximately 9,6% (+859 million CVE) and Term Deposits decreased by 4,9% (-554 million CVE). The Securities sold with repurchase agreement increased by 31,7% (+309 million CVE).

(in thousands of CVE)

	2020	% Mix	2019	% Mix	Change	
					Amount	%
Securities sold with repurchase agreements	1.285.631	5,9%	976.148	4,6%	309.483	31,7%
Demand deposits	9.812.213	45,0%	8.952.770	42,3%	859.443	9,6%
Term deposits	10.682.524	49,0%	11.236.437	53,1%	(553.913)	(4,9%)
Other payables	27.132	0,1%	13.529	0,1%	13.603	100,5%
	21.807.499	100,0%	21.178.884	100,0%	628.615	3,0%

⁴ In March 2020, the BCV, as one of the measures of monetary and prudential policy, decided to temporarily lower the regulatory limit of the Solvency Ratio to 10% so that, considering this limit, the deviation changes to 7,5 p.p.

The Bank's total funding increased by 7,9% over the previous year, from 21.487 million CVE to 23.174 million CVE. The Deposit from banks increased, in total, by 1,6% (+ 4.8 million CVE) considering the increase in the deposit portfolio to the order of National Financial Institutions, as well as the decrease in the outstanding capital with IFC, considering the repayments that occurred in 2020, under the credit line contracted with that institution.

It is also worth mentioning the item "Deposits from central banks", which had an increase of 100% compared to 2019, in the amount of 1.054 million CVE, considering that the use of the financing line with the BCV, through the Long-Term Financing Monetary Operation, within the scope of the monetary policy implemented as a measure to mitigate the effects of COVID-19 on the national economy. It should be noted that this line is used exclusively to finance, under special conditions, companies, and families, in order to boost economic activity.

(in thousands of CVE)

	2020	% Mix	2019	% Mix	Change	
					Amount	%
Deposits from Central banks	1.053.722	4,5%	0	0%	1.053.722	100%
Deposits from banks	313.046	1,4%	308.229	1,4%	4.817	1,6%
Customer Deposits	21.807.499	94,1%	21.178.884	98,6%	628.615	3,0%
Total Funding	23.174.268	100,0%	21.487.113	100,0%	1.687.155	7,9%

Shareholders' Equity

As on 31 December 2020, the Bank presented a Shareholders equity totaled of 2.744 million CVE, which represents a variation of 11,7% compared to the same period of the previous year (2.456 million CVE), this variation being explained by the net results of the year and for the non-distribution of dividends related to the previous year.

Evolution of the Income Statement

Net interest Income

In 2020, the net interest income amounted to 838.4 million CVE, which represents an increase of 12,0% (+ 89.8 million CVE), generated by the increase in interest and similar income by approximately 6,4% (+74.0 million CVE). In terms of interest charges, there was a decrease of 3,9% (-15.8 million CVE) taking into account, on the one hand, the decrease in charges with the credit line with IFC and, on the other hand, the decrease in similar charges with customer deposits, as, in addition to the decrease in the remunerated customers deposits portfolio, in 2020, in the first quarter, the Bank revised the interest rates on term deposits, thus leading to a decrease in average passive rates.

Supplementary Margin

Compared to the previous year, the Supplementary Margin decreased by 29,4%, from 178.1 million CVE in 2019 to 125.7 million CVE in 2020.

Analyzing in more detail the main components of the Supplementary Margin, it can be seen **(1)** a decrease in **"Fee and commissions income"**, -9,3% (-17.7 million CVE), reflecting the immediate effect of the pandemic of the COVID-19 in revenues from banking services, especially with regard to transactional commissions, which started to decrease, in year-on-year terms, from the second quarter and which experienced a negative global variation, in 2020. It should be noted that the other components of "Fee and commissions income", credit commissions and means of payment commissions, also decreased; **(2)** a decrease of **"Fee and commissions expenses"** of approximately 19,2% (-12,9 million CVE), mainly related to the costs associated with the sale of international debit cards, and the relationship with banks correspondents in foreign operations, also reflecting the effect of the pandemic on banking activity; **(3)** a reduction in **"Other net operating gains/(losses)"**, -21.9 million CVE, mainly as a result of an agreement between the bank and a client that resulted in the forgiveness of the respective debt; and **(4)** a decrease in **"Net gains/(losses) from foreign exchange revaluation"** by more 19.3 million CVE, -89.4% compared to 2019, mainly explained by exchange rate fluctuations, essentially of the USD and the Bank's position into this currency.

Operating Income

The Operating Income was 964.1 million CVE (926.6 million CVE in 2019), which corresponds to an increase of 4,0% compared to the same period in 2019, influenced by the performance of its two components, the Net interest Income, and the Supplementary Margin.

Operating expenses

The Operating expenses (Staff costs, General administrative expenses and Depreciation and amortization) saw a global increase of 6,8% in 2020, (+33.3 million CVE), from 492.6 million CVE in 2019 to 525.8 million CVE in 2020.

The Staff costs were 263.9 million CVE, which represents an increase of 2,6% compared to the previous year (257.2 million CVE). This increase is related both to the increase in the number of employees, which went from 154 in 2019 to 162 in 2020, consequently increasing in the wage base and mandatory social charges and to the salary adjustment made in 2020.

General administrative expenses showed an increase of 11,5% compared to the same period of the previous year, standing at 210.3 million CVE (+21.7 million CVE). This increase is mainly explained by the increase in security and surveillance services, insurance, communication, and various technical assistance services, as well as the purchase of hygiene and cleaning materials.

Depreciation and Amortization for the year was 51.6 million CVE, an increase of 10,5% (+4.9 million CVE) compared to the previous year.

Operating cash flow stood at 489.9 million CVE, which means an increase of 1,9% compared to the previous year (480.8 million CVE), as a result of the increase in the product of activity, notwithstanding the increase in operating costs.

The cost-to-income ratio, measured by the relationship between Operating expenses, including depreciation and amortization, and Operating income, stood at 54,5%, an increase of around 1,4 p.p. compared to the previous year, influenced by a higher increase of operating expenses in relation to Operating income.

The Impairment of loans and advances, net reversals and recoveries stood at 58.1 million CVE, having the same result, essentially, from the reinforcement of the minimum regulatory provisions, reflecting the application of Bank of Cape Verde's Notice 4/2006, relating to the Classification of Loans and Provisions, combined with the fulfillment of the provisions contained in the Circular Letter Series "A ", no. 179 / DSE / 2013 of the Bank of Cape Verde regarding the registration of minimum regulatory provisions.

The Impairment of other assets, net of reversals and recoveries, which includes the impairment recorded for real estate recorded on the balance sheet and received in lieu of payment of loans and advances stood at 2.6 million CVE in 2020, considering the change in the fair value of some real estate held in portfolio, based on the amount at which they were previously recorded.

Net Profit for the Period

The net profit for the period for the financial year 2020, calculated in accordance with the International Financial Reporting Standards, within the scope of the provisions of Notice no. 2/2007, of the Bank of Cape Verde, of 25th February, with the exception provided for in Notice no. 4 / 2006 and the changes introduced by Notice 7/2007, reached 294.5 million CVE, higher than the result achieved in 2019 (278.5 million CVE), essentially due to the evolution of the Bank's activity.

Main Prudential Indicators and Ratios

The BCN ended the fiscal year 2020 meeting all prudential limits imposed by the local Regulator, Bank of Cape Verde, emphasizing on the solvency ratio of 17,6% (15,5% in 2019), 5,6 p.p. above the prudential limit of 12%⁵. This increase in the

⁵ In March 2020, the BCV, as one of the measures of monetary and prudential policy, decided to temporarily lower the regulatory limit of the Solvency Ratio to 10% so that, considering this limit, the deviation changes to 7,5 p.p.

Solvency Ratio is explained, above all, by the evolution that occurred in the Eligible Equity Funds.

The returns on assets (ROA) and equity (ROE) stood at 1,1% (1,2% in 2019) and 10,7% (11,3% in 2019) respectively.

In terms of the cost-to-income ratio, there was an increase of 1,4 p.p. from 53,2% in 2019 to 54,5% in 2020, with the Bank continuing to maintain a high degree of operational efficiency.

The level of commercial transformation increased by 1,2 p.p. in 2020, from 73,6% to 74,8%, as a result of greater growth in the loans and advances portfolio compared to the customers fund's portfolio.

8. Overview of main initiatives performed in 2020

Commercial Actions

The Commercial Department's mission is to develop and manage the Bank's client portfolio, through the execution and implementation of the strategic plan, aiming at the growth and sustainability of the Bank's business.

In order to adapt the Commercial Department to the Bank's current commercial performance strategy, in 2020, there was a change in the organizational structure of the Commercial Department which included the creation, within the nucleus of SMEs - Small and Medium Enterprises, of regional centers: Regional Nucleus SME Barlavento 1 which includes the islands of Santo Antão, São Vicente and São Nicolau; Regional Nucleus SME Barlavento 2, composed by the islands of Sal and Boavista and the Regional Nucleus SME Sotavento that contains the islands of Maio, Santiago, Fogo and Brava.

In 2020, the plan to expand and remodel the bank's branch network also continued with the opening of a new commercial space in the city of Praia, BCN Business Praia, which, in addition to a Unit exclusively dedicated to SMEs, welcomes the entire structure of the Commercial Department. In turn, in Boavista, the bank started to have its Unit established in a new space that contains all the necessary and adequate conditions for the implementation of its new strategic vision.

In addition to the three regional centers and a network composed of 21 Business Units with which the BCN worked in 2020, being present in all the islands, four centers are also part of the Commercial Department, namely, Corporate, Individuals, Small and Medium Enterprises and Marketing and Sales Support, with the following responsibilities:

- Corporate - planning and execution of the business plan for the large corporate and institutional segment. In addition to managing the customer's portfolio that is belong to the target segment, it also prospects new clients;
- Small and Medium Enterprises - responsible for planning and executing the business plan for the small and medium enterprises segment, as well as prospecting for new customers belonging to the target segment. The

Nucleus supervises, controls, and supports the daily activity of client managers in the Business Unit segments, ensuring the maximization and profitability of sales;

- Individuals - development and maintenance of commercial relationships with private customers, focusing on commercial and sales management at branches, protocol banking (WPB), bancassurance, cross-selling and synergies with the other branches. The Nucleus also ensures, with the support areas, the operationality and security of the branches and other distribution channels (ATM, POS, e-Banking, Call Center, etc.);
- Marketing and Sales Support - planning and execution of the marketing and sales action plan, incorporating the needs of Individuals, Corporate and Small and Medium-sized enterprises, regarding the branding and business communication, product management and development, sales support, results control, development of new channels and e-solutions, MIS (Management Information System) management, CRM (Customer Relationship Management) management and Customer Support management.

During 2020, the Commercial Department remained focused on performing activities that made it possible to meet the objectives set out in its Strategic Plan, developing a set of commercial and marketing initiatives, with emphasis on the following:

Communication & Image

The particularity of the year 2020, due to the COVID-19 pandemic, also conditioned the commercial and marketing strategy initially defined in the Commercial Department's business plan.

The pandemic scenario in which we lived during practically the whole of 2020, led to the redefinition of the commercial strategy, with a greater focus on the actions of dissemination and implementation of measures to mitigate the negative effects of the disease as well as to support the national economy. Thus, a set of measures were performed, with emphasis on the following:

- Communication campaigns to encourage the use of digital channels, as well as products and services associated with these channels, namely internet banking, ATM, POS, debit cards from the national network (Vinti4) and the international network, in order to rationalize travel to branches;
- Communication actions to publicize the COVID-19 Credit Lines as well as the Family Support Measures, created as measures to mitigate the effects of the coronavirus on the national economy;
- Commercial campaigns to promote two credit products (Auto and Consumption), with the objective of fostering the acquisition of new customers, the loyalty of the existing customer base and the granting of new credits. During the period of these campaigns, different conditions were attributed to these products, which resulted in satisfactory results in relation to the degrees of achievement of the objectives;

- Survey addressed to companies on the impact of COVID-19 on their business.

Despite the pandemic having conditioned commercial and marketing action, 2020 was the year chosen for the implementation of a set of marketing actions with the aim of strengthening the Bank's notoriety and communicating its new positioning in the national banking panorama.

Under the slogan "As mãos unem" (the hands join), the Institutional multi-media campaign at national wide was launched in August. In addition to traditional media, the campaign was broadcast on social networks, with great acceptance among followers of the Bank's pages.

At the same time, a new website was made available with a more modern and user-friendly layout, as a tool that incorporates innovative features, such as the online credit application, which allows customers to request and obtain a response to their credit request without having to go to a BCN agency.

Also, within the scope of the "As mãos unem" (The hands join) campaign and with the objective of creating a solid and trustworthy corporate image, especially in the pandemic times in which we live, a dress code was established for Fridays, in which all bank employees work equipped with an institutional polo.

Products, Services & Price

List of new services, products and features were made available throughout 2020 in order to provide greater comfort, security, efficiency, and rapidity to our customers' banking experience, in addition to, in some cases, fostering financial inclusion.

Special emphasis goes to the following products and services:

- Cartão na Hora, a temporary debit card delivered to the customer at the time of opening an account and FADART - Art Development Support Fund, a credit product aimed at artisans for the purpose of financing the purchase of equipment and raw materials for the production of his works. Two products conceived at the end of 2019 and which became available to the target segments in 2020;
- Service of notification of transactions by SMS and / or e-mail, in partnership with SISP - Sociedade Interbancária de Sistema de Pagamentos. It is a service in which customers receive OTP codes whenever they make an online transaction within the Vinti4 network and, in the case of Mastercard cards, whenever they make payments on sites associated with the Mastercard network.

This initiative reinforces the card's existing security system, giving customers greater peace of mind when making transactions in digital environments.

At the Pricing level, in 2020, the rates for fundraising products were revised in order to adapt the prices charged by BCN to market conditions, while maintaining the competitiveness of our passive rates compared to our competitors.

Commercial Protocols, Social Responsibility & Sponsorships

Regarding the social responsibility, in 2020, the BCN promoted a set of partnerships that were formalized through established protocols, of which the following stand out:

- Protocol with the Cape Verdean Olympic Committee, within the scope of the participation of the Cape Verdean delegation in the Tokyo Olympic Games;
- Protocol with the Business Incubation Association for the materialization of the "Startup Challenge" contest, the largest national competition for business ideas;
- Protocol with ACLCC - Cape Verdean Association for the Fight against Cancer, which aims to support the association in carrying out its mission;
- Sponsorship of the Associação Cultural Mindelact to perform the Mindealcct Festival;
- Sponsorship of the National Center for Art and Design, for the holding of URDI - National Handicraft Fair.

Distribution Channels

Continuing the commercial strategy of differentiated physical presence in relation to the SME's segment in the three main business centers in the country (Praia, Mindelo and Santa Maria), in 2020 the third BCN Business was inaugurated, this time, in Praia.

These business units reflect the new concept of bank unit implemented by BCN since 2019 and are intended exclusively for the business class. In addition to allowing banking operations to be made, BCN Business, places a specialized team at the disposal of customers, which makes it possible to obtain personalized service and access to a set of financial solutions adjusted to their needs.

Activity Risk Management and Control

The Bank is subject to different risks in the context of the development of 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 and online risk levels with what was previously defined by the Board of Directors, the body responsible for the definition of policies for the main activity risks, such policies being subject of sporadic, 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, in a logic of prudence and with the ultimate aim of safeguarding the institution's sustainability and solvency.

At the level of the internal organization and in line with the provisions of Notice no. 4/2017 of the Central Bank of Cape Verde on the Internal Control System, the

Bank is endowed with the Risk Management Office, which is transversal to the entire organizational structure from the bank. Nevertheless, the function is performed in an independent and centralized manner in the Risk Management Office (GGR), an organ of the Bank's organizational structure, with direct dependence on the Board of Directors, through the Director of the portfolio, who has no direct responsibilities on the Commercial Department, thus guaranteeing its independence from this body.

Main activities developed in 2020

The year 2020 was atypical, with challenges in all areas, brought by the pandemic context of SARS-CoV-2. Nevertheless, throughout the year, the progress achieved in terms of the best risk management practices underlying the bank's activity was comprehensive, always bearing in mind the principle of prudence, with particular emphasis on the following:

- Consolidation of the risk management infrastructure, namely a digital platform called the Risk Management System (SGR), as an integrated management tool and reference for the main risk to which the Bank is exposed, namely credit risk, and to monitor some Key Performance Indicators (KPY's) keys for the Bank's normal functioning.
- Analysis of performance indicators;
- Stress test for the main activity risks considering different scenarios and magnitudes of shocks;
- Regular reporting to the Management Bodies of the Bank's situation regarding the main risks of the activity;
- Consolidation of the requirements for compliance with the IFRS 9 standard, regarding the impairment model with the calibration of the calculation tool in use based on 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 in credit quality since the initial recognition. Thus, three risk states or stages were considered, namely:
 - (i) Stage 3: Exposures for which there is objective evidence of impaired credit, in accordance with the Bank's definition of default;
 - (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) Stage1: 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.
- **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 (DP), 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 its 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.

During the year 2020, in a pandemic context that affected the entire context of operations, the Bank reinforced its prudence regarding the criteria underlying the granting of new loans and advances operations and the monitoring of the loans and advances portfolio, having privileged the financing new operations with a risk level that was considered adequate according to the exposure of the risk itself.

It should be noted that, in terms of the credit analysis process, the scoring continued to be used as an aid to analysis and decision, which was revised in 2020, in order to align the bank's risk appetite with the challenges brought by the adverse context of the pandemic.

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 CVE (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 CVE (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.

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

- 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 Areas

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 and on litigation phase under the management of the Legal Advisory Office.

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, litigation proceedings are recommended, in order to the realization of foreclosure operations with donation of assets, as opposed to litigation, knowing for being costly and a slow-paced process.

Nevertheless, the bank's performance has been mainly in prevention, identifying operations with signs of default, in order to find solutions for a more efficient and timely resolution of the processes followed by the recovery areas.

At the end of 2020, despite the adverse scenario resulting from the COVID-19 pandemic, the loans and advances portfolio under the management of the two areas decreased by 6%, due to the recovery of some overdue operations, both in terms of pre-litigation, as in litigation.

It should be noted that the operations under NSC management accounted for 41% of the portfolio affecting Credit Recovery Areas, while legal collection processes had a weight of 59%.

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 2020, 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 Bank of Cape Verde.

As of 31 December 2020, 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 45% (54% in the previous year) and 5% (+2 p.p. than 2019), 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 exchange risk management is executed by the Financial and International Department in consultation with the GGR.

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 Bank of Cape 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 74,8% (73,6% in 2019).

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.

Also, in terms of liquidity management, with a fortnightly periodicity, the Bank investigates the existence of potential gaps, considering the potential commitments assumed. Additionally, and on a monthly basis, the degrees of coverage for the different terms are monitored, on the basis of which management measures are taken that are deemed appropriate.

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.

Relatively to this type of risks, the Bank, throughout 2020, performed a comprehensive review of all processes underlying its operational activity, prioritizing, whenever applicable, the improvement of them with control measures, always bearing in mind the principles of segregation of functions, access control, definition of responsibilities and respective levels of authorization, definition of processes, centralized processing of the main 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 likelihood of negative impacts, both on capital and results, arising from a negative perception both by customers and by suppliers and the general 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 risks 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.

Given its intrinsic risk and its weight in the balance sheet, the bank has devoted special attention to the real estate portfolio received in credit reimbursement, particularly with regard to the marketing strategy, for which the following guiding policies are defined:

- All real estate held by the Bank, with exception of those that are for its own service, are 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;
- Policy of periodic interventions in real estate in order to guarantee the maintenance and optimization of their commercial value;
- The Bank has a specific product to finance the sale of its real estate, with attractive conditions in relation to the fee, commissions, and term;

On the other hand, the Bank has been guided by a conservative approach, with the timely recognition of the potential losses arising from these assets, with the practice of obtaining annual assessments made by independent appraisers certified by the Cape Verde Order of Engineers and / or with the Cape Verde Securities Market Audit Office, to support the aforementioned losses.

Likewise, properties received as credit reimbursements are mandatorily appraised on the date of their initial recognition. 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 98% of the real estate held in the portfolio were subject to appraisal by independent experts / appraisers less than a year ago.

Time elapsed since the last valuation	< 1 year	>= 1 year and < 2 years	>= 2 years	Total
Quantity	45	1	-	46
%	98%	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 valuation⁶, 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%	60%

All valuation reports are subject to internal analysis, regarding their comparison with number of previous years, as well as the real estate 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 2020, foreclosed⁷ real estate in the amount of 29.216 thousand CVE was received, showing a reduction in the order of 51% compared to the previous year, in which real estate in the amount of 59.678 thousand CVE were received. It should be noted that, during the year 2020, infrastructure works were performed on land lots held in portfolio for a total amount of 37.491 thousand CVE.

⁶ As defined in the criteria of Annex III to Series "A" Circular No. 201 / DSF / 2018 of 26 December 2018, from Bank of Cape Verde

⁷ 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 31/12/2020 the amount, net impairment was 1.008 million CVE (950 million CVE in 2019).

Foreclosed real estate distribution, according to the time elapsed since its recording, shows that 2,6% (corresponding to 29.216 thousand CVE) of the real estate registered on the balance sheet was received less than a year, and 38% of the real estate in the portfolio were received less than 5 years ago.

However, it should be noted that 59,4% of the real estate (corresponding to 668.744 thousand CVE) have been in the portfolio for more than 5 years.

In accordance with BCV Notice no. 07/2015 and Circular Letter no. 188 / DSF / 2017, the bank deducts from Own Funds the percentage of this amount, which on 12/31/2020 was 86.398 thousand CVE (58.357 thousand CVE in 2019). It should be noted that in 2020, following the health crisis and its adverse effects on the economy with potential impacts on banks, BCV, through Notice no. 2/2020, adopted as one of the temporary measures, the extension, in more than 2 years, from the deduction period to Own Funds for properties received in credit reimbursement from 2013 to 2016.

(in thousands of CVE)
Gross amounts before impairment

	> 1 YEAR	< 2,5 YEARS	< 5 YEARS	> = 5 YEARS	TOTAL
LAND	0	1 952	51 523	277 059	330 534
URBAN	0	1 952	51 523	277 059	330 534
RURAL	0	0	0	0	0
BUILDINGS UNDER CONSTRUCTION	0	0	10 326	22 785	33 111
COMMERCIAL	0	0	0	22 785	22 785
HOUSING	0	0	10 326	0	10 326
OTHERS	0	0	0	0	0
BUILDINGS CONSTRUCTED	29 216	104 311	258 922	128 387	520 836
COMMERCIAL	29 216	34 645	0	60 292	124 153
HOUSING	0	69 666	61 690	68 095	199 451
OTHERS	0	0	197 232	0	197 232
OTHERS	0	0	0	240 513	240 513
TOTAL	29 216	106 264	320 771	668 744	1 124 994

As of 31 December 2020, the Bank had around 46 properties in its portfolio, including land, residential, commercial, and other buildings, the fair value of which is reflected in the table below.

(in thousands of CVE)
Gross amounts before impairment

	No. PROPERTIES	FAIR VALUE	ACCOUNT VALUE
LAND	11	404.300	330.534
URBAN	11	404.300	330.534
RURAL	0	0	0
BUILDINGS UNDER CONSTRUCTION	2	32.500	33.111
COMMERCIAL	1	25.000	22.785
HOUSING	1	7.500	10.326
OTHERS	0	0	0
BUILDINGS CONSTRUCTED	31	546.763	520.836
COMMERCIAL	5	119.000	124.153
HOUSING	24	194.763	199.451
OTHERS	2	233.000	197.232
OTHERS	2	219.389	240.513
TOTAL	46	1.202.953	1.124.994

Nevertheless, the Bank has been adopting strategies for the disposal of these assets, having, during the year 2020, disposed of 3 (three) real estates for a global value slightly lower than the respective net value, having obtained a loss of 175 thousand CVE, lower than that recorded in 2019 (1.144 thousand CVE),

recognized in the income statements as "Results from the sale of other assets" (Note 29). It should be noted that the number of real estate sold was lower than that registered in the same period last year, justified by the current situation conditioned by the new Coronavirus.

(in thousands of CVE)

Years	Gross amount	Accumulated Impairment	Net amount	Sales amount	Intermediation Cost	Gains / (losses) on sale of Real State
2020	7.075	-	7.075	7.228	328	(175)
2019	220.601	9.970	210.631	211.936	2.450	(1.144)

Compliance Function

The Bank has an independent, permanent and effective Compliance function, responsible for controlling compliance with the obligations and duties to which it is subject, under the terms of the applicable national Laws and Regulations, the institution's statutory rules and the rules of ethics and conduct approved by the Board of Directors, in order to minimize the Bank's risks incurring legal or regulatory sanctions, and financial losses or reputational penalties arising from verified non-compliances.

Among the various responsibilities, we highlight the monitoring and evaluation of internal control procedures in terms of preventing money laundering and terrorist financing (AML /CFT).

The Compliance function is exercised by the Compliance Office, a 2nd level body of the Bank's structure, which reports administratively to the Executive Committee, through the Director of the Department and, on a permanent basis, to the Board of Directors. The Compliance Office has its own statute, an exclusively dedicated staff, and an adequate framework in the Bank's organizational structure.

Within the scope of the internal control system, the Compliance function is part of the Bank's 2nd line of defense, responsible for safeguarding and effective control of non-compliance and reputational risks, including the identification of deficiencies / non-compliance, monitoring of the implementation of measures corrective actions, as well as reporting the occurrences to the Bank's Board of Directors.

Also in this area, in line with the best internal governance practices, the Bank has implemented a set of comprehensive committees in relation to the main areas of business, internal control and business support, including the Internal Control Committee in which the Compliance Office, the other control areas (Audit and Risk), the Customer Ombudsman Office, the members of the Executive Committee and, upon invitation, the members of the Supervisory Board or others participate.

This Committee has as an indicative agenda the assessment of the internal audit reports, the reports of the impact of normative measures on the Bank's activity (Compliance), the statistical reports on complaints and the reports on the monitoring of the implementation of corrective measures for the deficiencies identified in the internal control, among other matters.

It should be noted that in 2020, the Board of Directors decided to formally set up an Internal Control Monitoring Committee, responsible for guaranteeing the Board of Directors and the Supervisory Board all relevant and necessary information for the exercise of their legal and regulatory obligations / powers in relation to the Internal Control System, namely with regard to its monitoring and assessment of adequacy and effectiveness, among other matters within its competence. This Committee includes, in addition to the members of the Board of Directors and Supervisory Board, the functions of the internal control, Risk, Compliance and Internal Audit system, as well as the Bank's financial area.

The Compliance function is also responsible for managing situations of conflict of interest, within the scope of the Policy for the Prevention and Management of Conflicts of Interest, approved by the Bank's Board of Directors.

The indicators of the activities performed by the Compliance Office are brought to the attention of the Board of Directors on a quarterly basis.

In 2020, the Office was involved in the development of tools to support its activity, as well as in the adaptation of the internal policies and procedures necessary for the effective fulfillment of the provisions contained in Notices nº3 / 2017 - Opening of bank deposit accounts, nº4 / 2017 - Internal Control System and nº5/2017 - Notice on the conditions, mechanisms and procedures necessary for the effective fulfillment of the preventive duties of money laundering and terrorism financing, published by the Bank of Cape Verde in 2017.

Money Laundering Prevention and Terrorism Financing (AML/ CFT)

The activity developed by the Bank respects the principles and preventive duties of money laundering and terrorist financing established in the National Laws and Regulations, as well as internationally accepted practices.

The Compliance Office is the unit of the Bank's structure that is dedicated to the theme, with a staff specially trained to detect atypical situations that should be the object of communication to the competent authorities in this matter.

In 2020, the area of prevention of money laundering and terrorist financing was involved in the implementation of new technological tools that will reinforce the system currently implemented in terms of efficiency and effectiveness, as well as in risk assessment work, in the training of relevant employees, in terms of AML / CFT, in the review of AML / CFT policies and procedures, among other activities foreseen in the objectives of the year 2020.

Banking Operations and Services

The health crisis that marked the year of 2020, directly and indirectly influenced the way banking operations and services are processed, forcing the review and adjustments of certain practices and procedures whose execution and control are in charge of the Operations Department which is an organ of the first degree of the bank's structure.

Most of the processes started to be treated digitally, substantially reducing the consumption of stationery materials, ensuring the same rigor, in accordance with the rules and procedures in force.

Also in 2020, activities and initiatives defined by the guidelines were continued, with a focus on mitigating operational risks and processing operations in a timely manner. It should be noted, therefore, the implementation of measures leading to improvement in the processes in the Operations Department, mainly in terms of response capacity, including in remote situations, always considering the binomial simplification / security of operations.

In line with previous years, the Operations Department continued to monitor the development and implementation of various types of projects, with emphasis on: **(i)** the contribution to the review of the bank's operational processes **(ii)** collaboration in the operationalization of new products made available to customers by the Bank through its branch network, namely the Vinti4 network debit card, the "Na Hora" card.

Information systems

The management of the Bank's information system is the responsibility of the Department of Informatics and Technologies (DIT), whose main mission is to ensure the correct operation of computer systems and the proper functioning of communications networks, as well as the security and integrity of data, also ensuring the design and development of computer systems in accordance with the Bank's needs in order to enhance banking activity and the quality of services provided, in line with its Strategic Plan.

At the beginning of 2020, the Board's focus was on renovating the infrastructure park with domain migration projects, beginning the construction of the Data Center, and implementing the Service Desk service for the Group. Unfortunately, with the global pandemic, there was a need to refocus and redirect efforts to ensure that the current infrastructure could support the new reality of remote work (Telework) and the relocation of employees within the bank's structures, ensuring maximum recommended distance.

Even with these challenges, it was still possible to add some process and functional improvements to the current park, in order to adapt, more and more, the infrastructure to the challenges of a modern and dynamic bank as is the case of BCN.

The highlights of the activities performed are centered on the contingency measures that were adopted during the year 2020. There were interventions for the improvement of the logical infrastructures of the branches and the headquarters, and the consolidation of improvements in the new environment for the provision of external and internal services (started in 2019). Centralized management of the computers of BCN users was also implemented, giving a considerable improvement in the process of managing updates and preventing failures.

Also in the course of 2020, a series of activities were performed in the areas of core banking, development, systems, communication, and security, which aimed to improve the existing conditions and services or activities that required a change of environment.

Internal Audit Function

The internal audit function is in charge of the Internal Audit Office whose main mission is to assist the Bank in pursuing its objectives, verifying through a systematic and disciplined approach, with rigor and competence, that the controls established are adequate to comply with ethical principles and standards of conduct defined in the Bank's internal regulations.

The internal audit function, as an integral part of the monitoring process of the internal control system, seeks to ensure compliance with the internal rules and compliance with the legal provisions that regulate banking activity, namely the requirements set out in Notice no. 04/2017 of the Bank of Cape Verde.

In this sense, it periodically assesses whether the policies, methods and procedures are adequate, ensuring that they are effectively implemented, reporting the facts and situations that constitute deviations from what is determined and out of alignment with the rules and procedures established for internal control.

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 accordance with the principles of internal audit recognized and accepted at international level.

All the Bank's organic processes and units are assessed, including the risk management function and the compliance function.

The audit plan for the year 2020 considered the standards of Notice 4/2017 and international best practices in audit matters. It was based on the risk assessment of the institution's activities, systems, and processes, in order to allow the focus on the assessment of the adequacy and effectiveness of the internal control system in the areas of greatest risk (credit risk, operational and Compliance). With this objective in mind, for the preparation of the audit plan, contributions were requested from the management body, from the management staff and considering the recommendations of the external auditors.

In the audits of Business Units, the main areas audited in 2020 were those considered to be at greatest risk, namely: treasury, internal security means, verification of cash documents, files, transfers, debit card, payment of checks, deposits over the long term, account opening processes, verification of credit processes, price compliance, chargebacks, check incidents and, also, compliance with internal and regulatory provisions on money laundering and terrorist financing.

The Internal Audit Office, through its work actions, which in 2020 was largely remote, due to the pandemic context, followed up on the activity plan approved by the Executive Committee, which covered the Bank's various functional areas, with the deficiencies identified deserved the attention of the bodies involved, thus contributing to the strengthening of the established internal control.

In total, audit work was performed covering all of the Bank's Business Units, some Central Services, and various processes, as shown in the table below:

Type of Audit	Performed in 2020
In progress_ Business Units	2
Remote_ Business Units	3

Evaluation_ Business Units	3
Evaluation_ Central Units	1
Remote Lawsuits	13
Total Audits	22

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

Designation
Retail Banking
Mortgage loans
Commercial Banking
Loans
Own Portfolio
Securities Portfolio
Others
Deposits, Transfers, Debit cards, Checks, Opening accounts, Remote banking service
General Functions
Management
Control Functions: Compliance
External reporting
Legal advisory office

For each audit action and investigations, reports were prepared and analyzed by the Internal Control Committee, made up of the members of the Executive Committee, the head of the Internal Audit Office, the Head of the Compliance Office, and the Director of the audited area. All recommendations were subsequently monitored, with a view to monitoring the implementation of corrective measures approved by the Internal Control Committee.

The Internal Audit Office also performed the following activities:

- ✓ Preparation of the report to the Board of Directors and the BCN's Fiscal Council on audit issues, with a summary of the main deficiencies detected in the control actions;
- ✓ Preparation of a summary of the most critical aspects of each Business Unit;
- ✓ Elaboration of the follow-up actions of the occurrences identified in the scope of the work performed.

Considering the size and nature of the activities performed by the BCN, its internal audit function is endowed with a solid, coherent, and consistent organizational model, which incorporates the regulatory requirements, guidelines and best internal audit practices, recognized and accepted at national and international level 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 the BCN to its Customers and the general public, the Office

of the Ombudsman of the Customer, reflects an integrated concept in the internal management of the issues that give rise to complaints and customer suggestions, aiming at a complete answer to the questions asked.

The Ombudsman of the Customer acts with total and full exemption and functional autonomy.

Our clientele's confidence and satisfaction levels can be increased, if the **Client Ombudsman's** requests are promptly and efficiently dealt with, helping to maintain and implement the BCN's reputation.

The Customer Ombudsman is responsible for handling complaints, it will have to respond to the complaining Customer within a maximum period of 10 working days, following receipt of the complaint, which translates into a greater demand for speed of response, which also implies greater speed by the rest of the Bank's services with regard to cooperation and responding to the Ombudsman's requests.

During the year 2020, all complaints were dealt with through the Bank of Cape Verde (BCV) Extranet platform and by email (during the State of Emergency period).

Thus, 20 complaints were forwarded and resolved by the Ombudsman of the Customer, which were submitted either directly to the BCN, through a letter and Complaints Book and through the BCV.

There are various reasons for complaints, with the following distribution:

- Miscellaneous - 3
- Term deposit - 1
- Credit - 3
- Card - 6
- Service - 7

The means used to present the complaints were as follows:

- Complaint book - 7
- Directly to BCV - 12
- Letter addressed to the agency - 1

The complaints were all analyzed and resolved, within the legal deadline set for response and resolution, that is, 10 working days.

The efficient handling of complaints received allowed the correction of anomalies, adapting the bank's performance to the expectations of its customers and the general public and guaranteeing the provision of a quality service.

Quality, Safety, and Innovation

The year 2020 marks the beginning of the Bank's Quality Office, whose mission was reinforced with the incorporation of the Innovation and Safety components.

The Quality, Safety, and Innovation Office has the mission of promoting and managing the Bank's Quality and Innovation Management System, through the monitoring, design and implementation of solutions aimed at obtaining,

improving, and simplifying of processes, circuits and procedures, always seeking to satisfy the needs of customers (internal and external), in a timely manner and with quality and optimization of resources.

The Office also has the mission of coordinating and monitoring integrated Security, implemented in terms of the transport of valuables, people, buildings, cybersecurity, and other assets of the bank.

Therefore, within the scope of its statutory attributions, Quality, Safety, and Innovation Office has developed a set of initiatives, with emphasis on the following:

Contingency plan

The year 2020 was marked by the pandemic of COVID 19. The Bank, through Quality, Safety, and Innovation Office, aware of its obligations, namely the protection, safety, and health of its employees, as well as its social duties towards all those who interact with it, took the necessary measures, and varied in nature, with a view not only to protect employees, but also to ensure business continuity.

The Quality, Safety, and Innovation Office, within the scope of its attributions, was at the forefront in the elaboration, implementation, monitoring and updating of the Contingency Plan, according to the evolution of the epidemiological framework of COVID-19.

It systematized a set of actions and procedures to be implemented in the context of the pandemic by COVID-19, with the objective of guiding, recommending, and implementing measures for the prevention and control of the disease; provide an operational response that minimizes the spread of the virus within the bank and ensure minimum banking services, in the event of a possible spread of the virus within the bank.

Project management

Within the scope of its duties, Quality, Safety, and Innovation Office was focused on pursuing the Bank's strategic objectives and its policy of making innovative products and services available to the Cape Verdean market that have a positive impact on people's lives. Thus, all projects developed by BCN in 2020 and which are part of its portfolio of ongoing projects, had the coordination of Quality, Safety, and Innovation Office.

Policy for reviewing and updating internal procedures

Within the scope of the policy of identifying and mapping internal processes, aiming at their simplification and standardization, Quality, Safety, and Innovation Office was involved in mapping and simplifying the processes for opening an account and terminating the use of checks.

Safety

In order to better project investment needs in terms of physical security and identification of weaknesses that deserve attention from top management

structures and possible implementation of immediate corrective measures, the office, in conjunction with other areas of the bank, analyzed the current situation and prepared an action plan with a set of recommendations / corrective measures in order to minimize the risk associated with the safety of people and property.

In terms of security, the bank started, in 2020, a project for the management of information systems security that has the support of an external entity. The objective is to adopt the best practices, recognized and accepted at national and international level, in matters of information security.

Social Report and Human Resources

The Human Resources Department is the organ of the BCN's organic structure whose mission is to develop the necessary conditions for the implementation of an adequate working environment conducive to the growth and satisfaction of Employees, promoting sustainable relations with all Bank Stakeholders, incorporating, in all circumstances, the BCN Values.

In 2020, as part of the process of adapting the Bank's organic structure, in view of the need to face the new objectives established by the Board of Directors and, in addition, in order to ensure an effective implementation of measures and resource management processes human resources, with a special focus on the creation of endogenous capacities, thus enhancing the synergies between banking and insurance activities, reaching the Administrative and Human Resources Department gave way to the Human Resources Department with autonomy BCN's Human Resources management.

The year 2020, having been an atypical year in which measures of social distance due to the pandemic of COVID-19 were imposed, practically, throughout the year, all the initiatives planned to be developed by Human Resources Department within the scope of its activity plan, were compromised. However, among the activities that were performed, the following stand out:

Training

The training process aims to develop and provide employees with the knowledge necessary for the development of new professional skills, in the perspective of training and updating in accordance with the strategic guidelines of the BCN.

According to the 2018-2022 strategic plan, the BCN continued to invest in the training and development of its employees.

"Developing and motivating people" is one of BCN's strategic axes, so investment in training is of great importance and plays a central role in the company's human capital, both personally and collectively.

An annual survey of training needs is performed across the board and the annual training plan is drawn up. However, due to the conditions imposed by COVID-19, it was not possible to fully implement the training plan for 2020.

However, a total of 12 training actions (in-person and online) were performed, 10 specific training and 2 regulatory training, corresponding to training in Western Union's Anti-Fraud Policy, Money Laundering Prevention and Terrorism Financing.

PERFORMANCE EVALUATION AND MANAGEMENT SYSTEM

Performance evaluation is a people management tool that analyzes the performance of each professional within their role in the company.

The BCN aims to develop a culture of remuneration for performance with the implementation of the performance evaluation and management system, being one of the strategic guidelines for the year 2021 with regard to the objectives of the Human Resources Department.

Thus, in 2020, the Bank concluded the performance evaluation and management system review process having performed several awareness sessions with all employees, with the aim of not only making them aware of the new system, but also ensuring that all employees, appraisers and appraised, are involved with the new performance evaluation and management system and are able to use this tool.

Characterization of the permanent staff

At the end of 2020, the bank had a total of 162 Employees (154 in 2019), of which 155 were active (152 in 2019) and 7 were inactive due to the exercise of public office, leave without retribution and evacuation.

Were admitted 11 (eleven) new Employees and 3 (three) departures occurred.

Year 2019	Admission in 2020	Leavers in 2020	Total Year 2020
154	11	3	162

Admissions more than offset the leavers, with a 5,2% growth in the number of BCN Employees in 2020.

Of the 162 permanent employees, 57,4% maintained a permanent relationship with the Bank and the remainder had fixed-term contracts.

Gender Distribution

Analyzing the number of employees by gender, 74% corresponds to female employees and 26% to male employees. Compared to the previous year, there was a decrease of 1 p.p. of male Employees.

Distribution by age

The average age of BCN Employees in 2020 was 37 years (1 year more than the 2019 average), with the majority of Employees concentrated in the age group between 31 and 37 years.

Distribution by Academic Qualification

With regard to the distribution of staff by educational qualifications, the majority of Employees have higher education.

Distribution by Organic Unit

In 2020, the predominance of distribution per Organic Unit in the commercial area continued, with 63% of Employees (60% in 2019), while 37% (40% in 2019) of Employees was in Central Services.

Distribution by Geographic Areas

The highest concentration of Employees is found on the island of Santiago with a total of 61% of Employees, followed by the island of São Vicente with 13% of Employees.

9. Proposal for the application of Results

Whereas:

- i) In financial year of 2020, Banco Caboverdiano de Negócios, SA, generated in its accounts a net profit of 294.532.706 CVE (two hundred and ninety-four million, five hundred and thirty-two thousand, seven hundred and six Cape Verdean escudos);
- ii) The Bank's shareholders, adopting a prudent position and with a view to strengthening the Bank's Equity Capital, as a way to enhance their activity, decided not to distribute dividends for the 2018-2022 horizon;
- 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 23rd April, proposes that the Net profit for financial year of 2020 should be distributed as follows:

(in thousands of CVE)

	Percentage (%)	Amount
Legal reserve	10%	29.453.271
Other reserves and retained earnings	50%	147.266.353
Retained earnings	38%	111.903.082
Profit Sharing	2%	5.910.000
TOTAL	100%	294.532.706

II. Financial Statement

Balance Sheet as of 31 December 2020 and 2019

(in thousands of CVE)					
Description	Notes	2020			2019 Net book value
		Amounts before provisions, impairment and amortization	Provisions, impairment and amortization	Net book value	
Assets					
Cash and deposits with Central Banks	4	2 348 897	-	2 348 897	3 675 292
Deposits with Banks	5	702 144	-	702 144	878 575
Financial assets designated at fair value through profit or loss	6	54 742	-	54 742	50 804
Financial assets measured at fair value through other comprehensive income	7	179 855	-	179 855	179 855
Financial assets measured at amortized cost					
Debt securities	10 & 33	2 819 324	7 405	2 811 919	1 532 404
Loans and advances to banks	8	3 565 752	-	3 565 752	2 132 007
Loans and advances to customers	9, 33 & 37	16 301 126	1 472 554	14 828 572	14 175 173
Other tangible assets	11, 33	812 012	539 739	272 273	299 471
Other intangible assets	12	169 928	142 671	27 257	27 003
Tax Assets					
Current tax assets	14	-	-	-	16 531
Deferred tax assets	13	49 751	-	49 751	38 092
Other assets	15, 33	1 458 076	123 037	1 335 039	1 165 113
Total Assets		28 461 607	2 285 406	26 176 201	24 170 321
Description	Notes			2020	2019
LIABILITIES					
Deposits from Central banks	16			1 053 722	-
Financial liabilities measured at amortized cost					
Deposits from Banks	17			313 046	308 229
Customer deposits	18			21 807 500	21 178 884
Provisions	35			7 675	7 675
Current tax liabilities	14			32 996	-
Deferred tax liabilities	13			3 707	3 907
Other liabilities	20			213 179	215 693
Total Liabilities				23 431 825	21 714 388
EQUITY					
Share Capital	21			900 000	900 000
Revaluation reserves	22			180 474	181 164
Legal reserve	23			152 541	124 693
Other reserves and retained earnings	23			1 216 828	971 596
Net profit for the period				294 533	278 480
Total Equity				2 744 376	2 455 933
Total Liabilities + Equity				26 176 201	24 170 321

Financial and International Department

The Board of Directors

Income Statement for the financial ended as of 31 December 2020 and 2019

(in thousands of CVE)			
Description	Notes	2020	2019
Interest and similar income	24	1.225.649	1.151.633
Interest and similar expenses	24	(387.278)	(403.062)
Net interest income		838.371	748.571
Dividend income	25	16.323	13.086
Fee and commission income	26	171.951	189.624
Fee and commission expenses	27	(54.470)	(67.377)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	6	7.015	16.891
Net gain / (losses) from foreign exchange revaluation	28	2.288	21.540
Net gain / (losses) on disposal of other assets	29	-	(172)
Other net operating gains / (losses)	30	(17.389)	4.486
Operating income		964.089	926.649
Staff costs	31	263.910	257.186
General and administrative expenses	32	210.309	188.645
Depreciation and amortization	11 & 12	51.641	46.724
Provisions, net of reversals	35	-	-
Impairment losses of loans and advances, net of reversals and recoveries	33	58.131	120.660
Impairment losses of other assets, net of reversals and recoveries	33	2.588	6.627
Profit / (loss) before income tax		377.511	306.806
Income Tax		82.978	28.326
Current tax	14 & 19	94.637	43.667
Deferred tax	13	(11.659)	(15.341)
Net profit for the period		294.533	278.480
Earnings by share	34		
. Basic (CVE)		327	309
. Diluted (CVE)		327	309

Statement of comprehensive income for the financial years ended as of 31 of December 2020 and 2019

(in thousands of CVE)

	2020	2019
Net income for the period	294.533	278.480
OTHER COMPREHENSIVE (EXPENSE) / INCOME		
ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:		
Changes in fair value from equity instruments measured at fair value thorough other comprehensive income	-	-
Tax associated with elements that will not subsequently be reclassified	-	-
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:		
Debt securities at fair value through other comprehensive income		
Gains or (losses) from capital allocated	(890)	(890)
Transferred to profit or loss		
Deferred tax liability associated with fair value adjustment of other elements	200	200
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>293.843</u>	<u>277.790</u>

Financial and International Department

The Board of Directors

Statement of alterations in equity as of 31 December 2020 and 2019

(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 2018		900 000	103 974	970 766	207 193	2 181 933
Appropriation of net income from the year of 2018		-	20 719	181 794	(207 193)	(4 680)
Use of revaluation reserves		-	-	890	-	890
Comprehensive income of 2019		-	-	(690)	278 480	277 790
Balances at 31 of december of 2019		900 000	124 693	1 152 760	278 480	2 455 933
Appropriation of net income of the previous year of 2019		-	27 848	244 342	(278 480)	(6 290)
Use of revaluation reserves		-	-	890	-	890
Comprehensive income of 2020		-	-	(690)	294 533	293 843
Balances at 31 of december of 2020		900 000	152 541	1 397 302	294 533	2 744 376

Financial and International Department

The Board of Directors

Statement of cash flow as of 31 December of 2020 and 2019

(in thousands of CVE)			
Accounts	Notes	2020	2019
Operating Activities			
Operating Results			
Net profit for the period		294.533	278.480
Impairment charges for the period	33	60.719	127.287
Depreciation and amortization for the period	11 & 12	51.641	46.724
Allocation for income taxes for the period	19	94.637	43.667
Deferred taxes	13	(11.658)	(15.341)
Provisions	35	-	-
Dividends		(6.290)	(4.680)
Change in Operating Assets and Liabilities:			
(Increase) / Decrease in Financial Assets designated at Fair Value through profit or loss	6	(3.938)	(17.348)
(Increase) / Decrease in Financial Assets designated at Fair Value through comprehensive income	7	-	-
(Increase) / Decrease in Loans and advances to banks	8	(1.433.745)	(2.025.883)
(Increase) / Decrease in Held-to-maturity investments	10, 33	(1.279.106)	(142.019)
(Increase) / Decrease in Loans and advances to customers	9, 33 & 37	(714.526)	(1.949.677)
Increase in Other Assets	15, 33	(40.796)	20.224
Increase / (Decrease) in Deposits from banks	17	4.817	(23.353)
Increase / (Decrease) in Customer Deposits	18	628.615	4.510.835
Increase / (Decrease) in Deposits from Central Bank	16	1.053.722	-
Increase / (Decrease) in Other Liabilities		(176.754)	49.894
<i>Cash Flow from Operating Activities (1)</i>		(1.478.129)	898.810
Investing Activities			
Purchase of Other Tangible Assets	11, 33	(20.057)	(115.745)
Disposals of Other Tangible Assets	11, 33	(592)	5.266
Purchase of Other Intangible Assets	12	(4.048)	(23.459)
Disposals of Other Intangible Assets	12	-	-
Others		-	-
<i>Cash Flow from Investing Activities (2)</i>		(24.698)	(133.938)
Financing Activity			
Increase in Share Capital		-	-
Change in Reserves and Retained earnings	22, 23	-	-
<i>Cash Flow from Financing Activities (3)</i>		-	-
<i>Change in cash and cash equivalents (4)=(1)+(2)+(3)</i>		(1.502.827)	764.871
<i>Effect of foreign exchange differences</i>			
		(1.502.827)	764.871
Change in cash and cash equivalents			
Cash and Cash equivalents at the beginning of the period		4.553.867	3.788.997
Cash and Cash equivalents at the end of the period		3.051.040	4.553.867
		(1.502.827)	764.871
Balance sheet amounts of cash and cash equivalents:			
Cash and deposits with Central Banks	4	2.348.897	3.675.292
Deposits with Banks	5	702.144	878.575
		3.051.040	4.553.867

III. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

BCN – Banco Caboverdiano de Negócios, SA (hereinafter designated as BCN or Bank), having its 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 31 of December of 2020

1. Impact of the adoption of new standards, changes to the standards that became effective for the annual periods that started on January 1st, 2020:

- a) **IFRS 3** (amendment), 'Business definition'. This amendment constitutes a revision to the definition of business for the purpose of accounting for business combinations. The new definition requires an acquisition to include 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 - stage 1'. These changes are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the benchmark reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: **i)** risk components; **ii)** 'highly credible' 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 result in the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement.
- c) **IAS 1 and IAS 8** (amendment), 'Material definition'. 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.
- d) **Conceptual structure**, 'Changes in the reference to other IFRSs'. As a result of the publication of the new Conceptual Framework, the IASB introduced changes to 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.

2. Published standards (new and amended), the application of which is mandatory for annual periods beginning on or after 1 January 2021, already endorsed by the European Union:

a) IFRS 16 (amendment), "Leases - Income subsidies related to COVID-19" (effective for annual periods beginning on or after 1 June 2020). This amendment introduces a practical expedient for tenants (but not for lessors), which exempts them from assessing whether the bonuses awarded by lessors within the scope of COVID-19, qualify as "modifications" when three criteria are cumulatively met: **i)** the change in lease payments results in a revised lease fee that is substantially equal to, or less than, the fee immediately prior to the change; **ii)** any reduction in lease payments only affects payments due on or until June 30, 2021; and **iii)** there are no significant changes to other lease terms and conditions. Renters who choose to apply this exemption, account for the change in rental payments, as rental variable rentals in the period (s) in which the event or condition that triggers the payment reduction occurs. This change is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or other equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies the change for the first time.

b) IFRS 4 (amendment), 'Insurance contracts - deferral of application of IFRS 9' (effective for annual periods beginning on or after 1 June 2021). This change refers to the temporary accounting consequences that result from the difference between the date of entry into force of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts. In particular, the amendment made to IFRS 4 postpones until 2023 the expiry date of the temporary exemption from the application of IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17.

3. Published standards (new and amended), the application of which is mandatory for annual periods beginning on or after 1 January 2021, but which the European Union has not yet endorsed:

a) IAS 1 (amendment), 'Presentation of financial statements - classification of liabilities' (effective for annual periods beginning on or after 1 January 2023). This change is still subject to endorsement by the European Union. This amendment seeks to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists but should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as non-compliance of a "covenant". This amendment also includes a new definition of the "settlement" of a liability. This change is retrospectively applicable.

- b) IAS 16** (amendment) 'Income earned before commissioning' (effective for annual periods beginning on or after 1 January 2022). This change is still subject to endorsement by the European Union. Change in the accounting treatment given to the consideration obtained from the sale of products that result from the production in test phase of the tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. This change has a retrospective application, without restating comparisons.
- c) IAS 37** (amendment) 'Onerous contracts - costs of complying with a contract' (effective for annual periods beginning on or after 1 January 2022). This change is still subject to endorsement by the European Union. This amendment specifies that when assessing whether a contract is costly or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labor and materials and the allocation of other expenses directly, can be considered. related to the allocation of depreciation expenses of tangible assets used to carry out the contract. This change should be applied to contracts that, at the beginning of the first annual reporting period to which the change is applied, still include contractual obligations to be satisfied, with no need to re-express the comparison.
- d) Improvements to the 2018 - 2020 standards** (to be applied to financial years beginning on or after 1 January 2022). These changes are still subject to endorsement by the European Union. This improvement cycle changes the following standards: IFRS 1, IFRS 9, IFRS 16 and IAS 41.

IFRS 1, 'Subsidiary as a first-time adopter of IFRS'. This improvement clarifies that, when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements, the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the statements consolidated financial statements, based on the parent company's transition date to IFRS.

IFRS 9, 'Derecognition of liabilities - costs incurred to be included in the 10% variation test'. This improvement clarifies that in the scope of the derecognition tests performed on renegotiated liabilities, the borrower must determine the net amount between fees paid and fees received considering only the fees paid or received between the borrower and the financier, including fees paid or received, by any one of the entities on behalf of the other.

IFRS 16, 'Leasing incentives'. This improvement refers to the amendment to Illustrative Example 13 that accompanies IFRS 16, to eliminate inconsistency in the accounting treatment of lease incentives, attributed by the lessor.

IAS 41, 'Taxation and measurement of fair value'. This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the principles of IFRS 13 - 'Fair value'.

- e) **IFRS 3** (amendment) 'References to the Conceptual Framework' (effective for annual periods beginning on or after 1 June 2022). This change is still subject to endorsement by the European Union. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, with no changes being made to the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be adopted regarding liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus included in a business combination. This amendment is for prospective application.

- f) **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** (amendments) 'Reform of reference interest rates - phase 2' (effective for annual periods beginning on or after 1 January 2021). This change is still subject to endorsement by the European Union. These changes address issues that arise during the reform of a reference interest rate, including the replacement of a reference interest rate with another alternative, allowing for the adoption of exemptions such as: **i)** changes in the coverage designation and documentation; **ii)** amounts accumulated in the cash flow hedge reserve; **iii)** retrospective assessment of the effectiveness of a hedging relationship under IAS 39; **iv)** changes in coverage ratios for groups of items; **v)** presumption that an alternative reference rate, designated as a risk component not specified by contract, is separately identifiable and qualifies as a hedged risk; and **vi)** updating the effective interest rate, without recognizing gain or loss, for financial instruments measured at amortized cost with changes in contractual cash flows as a result of the IBOR reform, including leases that are indexed to an IBOR.

- g) **IFRS 17** (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). 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 liabilities, which are reassessed at each reporting date. The current measurement can be performed by applying the complete model ("building block approach") or simplified ("premium allocation approach"). The complete model is based on discounted cash flow scenarios weighted by the probability of occurrence and adjusted for risk, and a contractual service margin, which represents the estimated future profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin unless it becomes negative. IFRS 17 is retrospectively applied with some exemptions as of the transition date.

- h) **IFRS 17** (amendment), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This change is still subject to endorsement by the European Union. This amendment includes specific changes in eight areas of IFRS 17, such as: **i)** scope; **ii)** level of aggregation of insurance contracts; **iii)** recognition; **iv)** measurement; **v)** modification and derecognition; **vi)** presentation of the Statement of Financial Position; **vii)** recognition and measurement of the Income Statement; and **viii)** disclosures. This amendment also includes clarifications, which aim to

simplify some of the requirements of this standard and streamline its implementation.

Summary of new standards

Description	Amendments	Effective date
1. New standards, changes to standards and effective interpretations on 1 January 2020		
IFRS 3- Concentration of Business Activity	Alteration of the definition of Business	1 January 2020
IFRS 9, IAS 39 and IFRS 7- Reform of reference interest rates - stage 1	Introduction of exemptions to hedge accounting, so that the reform of reference interest rates does not affect hedge accounting	1 January 2020
IAS 1 - Presentation of the financial statements; IAS 8 - Accounting policies, changes in accounting estimates and 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	Change to some IFRS regarding cross-references and clarifications on the application of the new definitions of assets / liabilities and expenses / income	1 January 2020
2. Rules (new and amended) that become effective on or after 1 January 2021, already endorsed by the EU		
IFRS 16 - Income subsidies related to COVID-19	Application of exemption in accounting for bonuses attributed by landlords related to COVID-19, such as modifications	1 June 2020
IFRS 4 - deferral of the application of IFRS 9	End of the deferral of the beginning of the application of IFRS 9 for entities with insurance activity, postponed to 1 January 1 2023	1 January 2021
3. Rules (new and amended) that become effective on or after 1 January 2021, not yet endorsed by the EU		
IAS 1 - Presentation of financial statements - Classification of liabilities	Classification of a liability as current or non-current, depending on the right that an entity has to defer its payment. New definition of "settlement" of a liability	1 January 2023
IAS 16 - Income obtained prior to entry into operation	Prohibition of deducting the income obtained from the sale of items produced during the testing phase, at the cost of acquisition of tangible assets	1 January 2022

Description	Amendments	Effective date
IAS 37 - Onerous contracts - costs of complying with a contract	Clarification on the nature of the expenditures to be considered in determining whether a contract has become costly	1 January 2022
Improvement Cycle 2018 - 2020	Specific changes to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
IFRS 3 - References to the conceptual framework	Conceptual Framework and clarification on the registration of provisions and contingent liabilities within the scope of a concentration of business activities	1 January 2022
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Reference interest rate reform - phase 2	Additional exemptions related to the impacts of the reform of the reference interest rates ("IBOR"), and especially the replacement of a reference interest rate by another alternative in the financial instruments traded	1 January 2021
IFRS 17 - Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics	1 January 2023
IFRS 17 - Insurance contracts (amendments)	Inclusion of changes to IFRS 17 in areas such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income Statement; and viii) disclosures	1 January 2023

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

3. Basis of Presentation and Accounting Policies

3.1. Basis of Presentation of Accounts

BCN's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued and adopted by the International Accounting Standards Board (IASB), within the scope of the provisions of Notice no. 2/2007, of the Bank of Cape Verde, as of 25 February, with the exception provided for in Notice no. 4/2006 and the changes introduced by Notice no. 6/2007.

The Financial Statements, approved by the Board of Directors as of 19 of March 2021, were prepared on a historical cost basis, except for the revaluation of properties and financial instruments valued at fair value.

The main accounting policies used by the BCN are presented in the following notes.

3.2. Comparative Information

The Bank did not make changes in accounting policies, so, in general, the amounts presented are comparable, in relevant aspects, with those of the previous year.

3.3. Use of estimates in the preparation of financial statements

The preparation of the financial statements requires the preparation of estimates and the adoption of assumptions by the Bank's Management, which affect the value of assets and liabilities, revenues, and costs, as well as the contingent liabilities disclosed. In preparing these estimates, Management used its judgment, as well as the information available on the date of preparation of the financial statements. Consequently, future values actually realized may differ from the estimates made.

The most significant use of estimates and assumptions by management is 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 fair 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 a portfolio can be traded is considered to be fair value. Financial assets are initially

recognized at their fair value plus transaction costs, except in the case of financial assets and liabilities at fair value through profit or loss, in which case these transaction costs are directly recognized in profit or loss.

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 carried out 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 - Measurement at Fair Value. It should be noted that in 2020 there were no significant changes in the evaluation methodologies compared to the previous year.

Impairment losses on loans and advances to customers

Loans from customers with impaired exposures (Stage 3) and whose total liabilities are considered to be of a 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, susceptible to alter the amounts of impairment. In addition, a collective impairment analysis is also carried out by credit segments with similar characteristics and risks and certain associated impairment losses.

Own service real estate

The fair value of properties for own use, classified in Other Tangible Assets, is determined based on assessments made by independent experts. These assessments are based on estimates of performance and maintenance or replacement costs, as well as comparable market values.

Deferred taxes

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

Evaluation of real estate assets

The property appraisal service is provided by independent appraisers, registered with the General Audit of the Securities Markets or members of the Cape Verde Engineers Association, with qualifications and recognized professional competence and experience, appropriate to the performance of the respective functions.

The evaluation procedures presuppose the collection of rigorous information, either from updated documentation, or in an inspection of the property 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 development cash flows, updated at the valuation date at rates that incorporate the risk of the projects.

The replacement cost method also has a direct use in the valuation 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 recorded under the caption Other Assets (Note 15) and Other Tangible Assets when it comes to properties for own use (Note 11).

Provisions

The description of the nature of these obligations is described in Note 35.

3.4. Foreign Currency Transactions

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 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 to be collected on other banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of money 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 January 1st, 2018, the Bank adopted IFRS 9 - Financial instruments, replacing IAS 39 - Financial instruments: recognition and measurement. IFRS 9 introduced a new approach for the recognition of financial instruments, based on the characteristics of 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

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

- i. Financial assets at amortized cost, composed by Debt Securities, Loans and advances to Customers and Investments in Credit Institutions;
- 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 valuation of these instruments is carried out considering the following aspects:

- The Bank's business model for the management of the financial asset;
- 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 the way in which management focuses on receiving contractual interest or 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 trading and financial assets valued at fair value are measured at fair value through profit or loss as 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 interest⁸, the Bank 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 cash flows so that they do not comply with 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 also:

- 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, cumulatively, the following conditions are observed **(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.

In this category it includes Investments in Credit Institutions, Loans and advances to customers and Debt Securities managed based on a business model whose objective is the receipt of their contractual cash flows.

Initial recognition and subsequent measurement

Investments in Credit Institutions and Loans and advances to Customers are recognized on the date on which the funds are made available to the counterparty 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 under the heading "Interest and similar income" and the gains or losses generated at the time of its recognition are recorded under the heading "Gains / losses on the derecognition of financial assets and liabilities at amortized cost".

II. Financial assets at fair value through other comprehensive income

Classification

⁸ 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 given period of time and for other risks and costs associated with the activity (e.g. liquidity risk and administrative costs), as well as a profit margin.

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.

As regards 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 or loss

Classification

Financial instruments are classified in this category whenever, due to the business model or the 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 heading 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 the income statement. The periodification of interest and premium is recognized in the

"interest and similar income" account and dividends, when received, 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 to receive 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 credit operation will result in the derecognition of that operation and in the recognition of a new operation whenever such a change causes a substantially different change from the initial conditions of the operation. 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. Classification, recognition and initial measurement and subsequent measurement of financial liabilities

Regarding the measurement of financial liabilities, IFRS 9 did not introduce significant changes in relation 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 to other financial liabilities, consisting of central bank deposits, deposits from other credit institutions, customer deposits, they are initially valued at fair value, net of transaction costs directly associated and subsequently valued at amortized cost, using the effective rate method. 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 life 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 items.

3.6.1.5. Impairment losses on financial instruments

3.6.1.5.1. Financial instruments subject to the recognition of impairment losses

The IFRS 9 introduces the concept of expected credit losses and replaces IAS 39, whose concept of impairment is based on incurred losses. Thus, with IFRS 9, institutions do nothing more than 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 or loss and equity instruments measured at fair value through equity.

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 amounts receivable, 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 balance sheet value of these financial assets against the income item "Impairment of financial assets at amortized cost".

In accordance with IFRS 9, exposures must be assessed considering changes in credit risk that have occurred since their initial recognition, that is, entities that hold financial instruments must recognize, upon initial recognition, an expected loss associated with those financial instruments.

Expected credit losses should be measured based on the current value of the difference between the contractual cash flows and the cash flows the entity expects to receive, including cash flows from the sale of collateral and the sale of credits in default.

The measurement of expected credit losses should reflect:

- ✓ An objective amount determined by evaluating a set of possible outcomes weighted by the respective probabilities;
- ✓ Temporal value of money;

- ✓ Reasonably sustainable information that is available at the reporting date, without undue cost or effort, about past events, current conditions, and forecasts of future economic conditions.

Specifically, with regard to the recognition / calculation of Impairment losses on financial instruments and more specifically on the credit portfolio, the new Standard IRFS 9 is based on the following fundamental principles:

- ✓ Model based on expected losses (Expected Credit Loss - ECL);
- ✓ Early detection of situations of significant increase in credit risk (Stage 2);
- ✓ Calculation of expected loss over the lifetime of 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 losses in relation to a financial asset measured at amortized cost. Such a loss should be measured at an amount equal to the expected losses over its lifetime, if the credit risk associated with this financial asset has increased significantly since initial recognition (Stage 2).

Credit risk assessment should be carried out on an individual as well as a collective basis, based on reasonable and sustainable information, including forward-looking approaches.

Whenever, in a subsequent period, there is a decrease in the amount of the estimated impairment loss, the previously recognized amount is reversed by adjusting the impairment loss account.

The amount of the reversal is recognized directly in the income statement under the same heading.

3.6.1.5.3. Debt instruments at fair value through other comprehensive income

Impairment losses for debt instruments at fair value through other comprehensive income are recognized in the income statement, under the heading "impairment of financial assets at fair value through other comprehensive income". Note that the balance sheet value of these assets is not reduced.

3.7. Non-current assets held for sale

Non-current assets are classified as held for sale whenever it is determined that their balance sheet value will be recovered through sale. This condition only occurs when the sale is highly credible, and the asset is available for immediate sale in its current state. The sale operation should take place up to a maximum period of one year after being classified under this item. An extension of the period during which the sale is required to close does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and the commitment is maintained selling the asset.

The assets recorded in this category are subject to periodic evaluations carried out by independent appraisers that give rise to the recording of impairment

losses, whenever the value resulting from these evaluations, net of costs to be incurred with the sale, is lower than the value for which they are accounted for.

3.8. Other tangible assets

The caption Other tangible assets include real estate for own use, vehicles, and other equipment.

The real estate used by the BCN in the development of its activities are classified as real estate for its own service. Own service real estates are valued at fair value, determined based on expert evaluations, less subsequent amortization, and impairment losses.

The Bank's own-service real estates are valued with the necessary regularity, so that the book values do not differ significantly from their fair value on the balance sheet date, using, as a reference, a three-year period between revaluations.

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 their expected useful lives, as follows (in years):

Real estate 10 - 33

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 there is no expectation of future economic benefits from its use or sale. On the date of derecognition, the gain or loss calculated by the difference between the net sale value and the net book value is recognized in the income statement under "Other operating income".

3.9. Other Intangible Assets

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

3.10. Leases (IFRS 16)

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

This standard has established new requirements regarding the scope, 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.

Lease definition

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

The 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 according to the lease term of each contract and to impairment tests);

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

- fixed payments, less leasing incentives to be received;

- 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 according to 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 enforceability, particular clauses of the contracts are considered, as well as the legislation in force in relation to 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 lease payments;
- the carrying amount is remeasured to reflect any revaluations or changes to 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 call 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 these payments, the lease liability is remeasured, discounting the 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 that lease change is not accounted for as a separate lease, the lease liability is remeasured, discounting revised lease payments using a revised discount rate.

Assets under right of use are depreciated / amortized from the date of entry into force until the end of the useful life 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, effective until the end of the useful life of the underlying asset. Depreciation / amortization begins on the date the lease takes effect.

With the adoption of the standard, there were changes in the Bank's financial statements, namely:

- in the income statement:

- I. recording in Net Interest Income 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.

- in the balance:

- 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 optics

In accordance with IFRS 16, lessors will continue to classify leases as financial or operational, without implying any significant changes compared to what is defined in IAS 17.

The Bank presents the assets under right of use in the item "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 tax legislation in force. 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 believes that the criteria and assumptions adopted are in accordance with the legislation in force.

Current tax is calculated based on the taxable profit 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 that are expected to be in force on the date of the reversal of temporary 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 credible that there will be future taxable profits that allow their use.

Income taxes are recorded against income for the year, except in situations where the events that originated them were reflected in a specific equity item, namely, with regard to the valuation of assets available for sale and own properties serviced. In this case, the tax effect associated with the valuations is also reflected against equity, not affecting the income for the year.

3.12. Provisions and Contingent Liabilities

A provision is set up when there is a present obligation (legal or constructive) resulting from past events where the future expenditure of resources is likely, 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 expenditure of resources is not credible, 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 the Capital item when approved by the shareholders. Dividends for 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 credible that the 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 value of the financial asset or liability. When calculating the effective interest rate, 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 for providing a wide 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 carrying out a certain significant act.

Commissions charged for services provided during a specified period are recognized over the duration of the service. Commissions related to the performance of a significant act are recognized when 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 "Income from services and commissions", during the term of the same.

4. Cash and Deposits with Central Banks

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Cash				
National currency				
Bank notes	196.785	193.019	3.765	1,95%
Coins	1.865	1.062	803	75,65%
ATMs	162.392	161.583	809	0,50%
Foreign bank notes and coins	398.998	183.421	215.577	117,53%
Deposits with BCV				
Bank of Cape Verde - NC	1.588.856	3.136.207	(1.547.351)	(49,34%)
	<u>2.348.897</u>	<u>3.675.292</u>	<u>(1.326.397)</u>	<u>(36,09%)</u>

The caption "National Currency" refers to cash in treasuries in the Business units and in the General Treasury.

The caption "ATMs" shows the balance of the automatic teller machines from network Vinti4 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 the Bank of Cape Verde, to satisfy the minimum cash requirements. According to the provisions of Bank of Cape Verde these funds must correspond to 10%⁹ of the average effective liabilities in local and foreign currency, with the Bank being

⁹ In March of 2020, as a monetary policy stimulus measure to face the adverse effects of the COVID-19 pandemic, the BCV temporarily changed the rate from 13% to 10%

obliged to keep the equivalent of 20% of this average with BCV daily. In 2019 and 2020, these deposits were not remunerated.

5. Deposits with Banks

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Foreign deposits	640 289	833 410	(193 122)	(23,17%)
Domestic deposits	22 817	22 859	(42)	(0,18%)
Checks to collect - Domestic	32 898	22 143	10 755	48,57%
Checks to collect - Foreign	6 140	163	5 977	3662,11%
	702 144	878 575	(176 432)	(20,08%)

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)		
	2020	2019
Banco de Investimento Global, SA	96.205	193.323
Banco Santander Totta	467.670	550.048
Post finance-frança	2.631	18.739
Banco Privado Atlântico Europa	73.783	71.301
	640.289	833.410

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 in checks drawn on other banks as of 31 December 2020. 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)

		2020		2019	Change	
Security	Quantity	Book value	Quotation	Book value	Amount	%
<u>Equity instruments</u>						
Enacol	2.381	10.976	4.610	9.110	1.867	20,49%
Sociedade Caboverdiana Tabacos	1.498	7.490	5.000	7.490	-	0,00%
VISA	1.848	36.276	218,73	34.204	2.072	6,06%
		54.742		50.804	3.938	7,75%

As of 31 December 2020, 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 and liabilities at fair value through profit and loss". As of 31 December 2020, the amount of income from assets and liabilities measured at fair value through profit or loss amounted to 7.015 thousand CVE (16.891 thousand CVE in 2019), the difference of 3.938 thousand CVE is related to exchange variations on the price of these assets that occurred throughout the year.

7. Financial Assets at Fair Value through Other Comprehensive Income

(in thousands of CVE)

		Fair value		Change	
Security	Quantity	2020	2019	Amount	%
Equity instruments					
SISP	10 000	179 855	179 855	-	0,00%
		179 855	179 855	-	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.

It should be noted that, for the financial year 2020, considering the recent date of the last valuation, the Bank did not carry out an assessment of its participation in SISP, however, validating the maintenance of the assumptions of the last valuation that supports the current accounting record, notwithstanding the negative effects on the activity of SISP resulting from the COVID-19 pandemic, especially in terms of the international acquire service. It should be noted, however, that the Bank understood that, given the atypical situation resulting from the pandemic, this would not be the most opportune time to update the SISP assessment.

For more details, see Note 22 - Revaluation reserves.

8. Loans and Advances- Credit Institutions

The breakdown of its caption is as follows:

	(in thousands of CVE)			
	2020	2019	Change	
			Amount	%
Domestic Banks	3.519.078	1.975.150	1.543.928	78,17%
Foreign Banks	47.599	162.354	(114.756)	(70,68%)
Interest Deferral	(924)	(5.497)	4.573	(83,19%)
	<u>3.565.752</u>	<u>2.132.007</u>	<u>1.433.745</u>	<u>67,25%</u>

Of the amount of 47.599 thousand CVE, registered in Foreign Banks in 2020, 29.638 thousand CVE, corresponds to a security deposit in US dollars for guarantee to VISA and 17.961 thousand CVE to an application in USD placed with Banco Atlântico Europa.

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

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Performing Loans and Advances				
Loans	7.426.309	9.499.957	(2.073.648)	(21,83%)
Guaranteed current accounts	6.653.365	3.991.480	2.661.885	66,69%
Overdrafts demand deposits	113.347	75.647	37.700	50%
Financial leasing	35.695	42.117	(6.423)	(15,25%)
Sub-total	14.228.716	13.609.202	619.514	4,55%
Non-Performing Loans and Advances				
Principal	1.814.706	1.919.567	(104.861)	(5,46%)
Past due interest	18.344	18.557	(212)	(1,14%)
Sub-total	1.833.050	1.938.123	(105.073)	(5,42%)
Interest receivable	272.062	83.039	189.023	227,63%
Deferred commissions and other income	(32.702)	(41.176)	8.474	(20,58%)
Accumulate Impairment	(1.472.554)	(1.414.014)	(58.540)	4,14%
	14.828.572	14.175.173	653.399	4,61%

The credit risk management policies and the impairment assessment methodologies are described in notes 37.1 and 37.2.

As of 31 December 2020, the amount of impairments recognized in the balance sheet amounts to 1.472.554 thousand CVE (1.414.014 thousand CVE in 2019), 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 from the Bank of Cape Verde, and which include additional provisions determined by the regulator, due to the fact that said Notice is the minimum reference of provisions to be recognized by banks, following the guidelines of Bank of Cape Verde.

10. Financial Assets at Amortized Cost – Debt Securities

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Government debt securities	2.446.734	1.149.087	1.297.647	112,93%
Other debt securities	352.559	378.944	(26.385)	(6,96%)
Accrued interest	20.031	12.187	7.844	64%
Accumulated impairment	(7.405)	(7.814)	409	(5,24%)
	2.811.919	1.532.404	1.279.515	83,50%

Government bonds correspond to Cape Verde's 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 2020 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.

It should be noted that the securities in the portfolio on 31 December 2020:

- the amount of 6.000 thousand CVE (3.750 thousand CVE in 2019) 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 27th 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 for an irrevocable commitment to make the payment at any time the Deposit Guarantee Fund requests it;
- the amount of 1.272.658 thousand CVE was assigned to customers with a repurchase agreement (962.125 thousand CVE in 2019). More details in Note 18;
- the amount of 1.050.000 was assigned as collateral in the access to medium and long-term financing in the Financing Market Operations within the scope of the monetary stimulus measures to mitigate the impact of COVID-19, carried out by the Central Bank.

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 NewCo¹⁰:

¹⁰ The previous issuer was TACV, however, on 22 October 2020, the Cape Verde Stock Exchange, after observing all legal procedures including an agreement with the bondholders, issued a statement regarding the change of the issuing entity to NewCo. Likewise, the interest rate was reduced to 5,5% (previously 6%) under the agreed terms.

(in thousands of CVE)

	Gross Amount		Change	
	2020	2019	Amount	%
Sogei	3.329	3.329	-	0,00%
IFH Imobiliária	55.000	66.000	(11.000)	(16,67%)
ASA	125.000	125.000	-	0,0%
NewCo	169.231	184.615	(15.385)	(8,33%)
	<u>352.559</u>	<u>378.944</u>	<u>(26.385)</u>	<u>(6,96%)</u>
Impairment	<u>(7.405)</u>	<u>(7.814)</u>	<u>(5.180)</u>	<u>(5,24%)</u>
Total	<u>345.155</u>	<u>371.130</u>	<u>(31.565)</u>	<u>(7,00%)</u>

In 2020, 15.385 thousand CVE from NewCo's obligations were settled.

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 2020, IFH amortized the equivalent of 10% of the capital (11.000 thousand CVE).

The Bank also holds 125.000 ASA's bonds, and 3.329 Sogei's bonds in its portfolio.

As of 31 December 2020, and 2019, an impairment amount of 7.405 thousand CVE and 7.814 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 NewCo 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 Moddy's rating agency'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 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	-	-	-	-	0	-
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
Evolution:						
Acquisitions - In progress	3.795	-	-	534	3.474	7.803
Acquisitions - In use	22.702	-	3.194	13.268	(14.011)	25.153
Revaluations	-	-	-	-	-	-
Transfers + (in progress to use)	(984)	-	-	-	(46)	(1.030)
Transfers - (in progress to use)	(21.419)	-	(745)	(10.930)	(6.535)	(39.630)
Regularizations	-	-	-	8	(5)	4
Depreciation	(15.886)	(3.592)	(9.034)	(4.211)	(15.123)	(47.847)
Disposals / Write-offs - Gross amount	-	-	(249)	(20)	(320)	(589)
Disposals / Write-offs - Acc. Depreciat.	-	-	249	20	320	589
31 December 2020	176.250	10.461	15.776	20.978	48.808	272.273
. Gross amount	341.487	25.672	137.544	85.333	211.515	801.552
. Accumulated depreciation	(161.668)	(15.211)	(124.426)	(64.889)	(166.181)	(532.375)
Impairment	(7.364)	-	-	-	-	(7.364)
. In progress (gross amount)	3.795	-	2.657	534	3.474	10.460

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 2018	7.667
. Gross amount	142.420
. Accumulated depreciation	(134.753)
<u><i>Evolution:</i></u>	
Acquisitions	23.459
Amortization	(4.123)
Regularizations	-
31 December 2019	27.003
. Gross amount	165.880
. Accumulated depreciation	(138.877)
<u><i>Evolution:</i></u>	
Acquisitions	4.048
Amortization	(3.794)
Regularizations	-
31 December 2020	27.257
. Gross amount	169.928
. Accumulated depreciation	(142.671)

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

2020

(in thousands of CVE)	2019	Increase during 2020	Use during 2020	Annulment during 2020	2020
Deferred tax assets	38 092	11 659	-	-	49 751
Deferred tax liabilities	3 907	-	200	-	3 707
Revaluation of tangible assets (note 22)	3 907	-	200	-	3 707

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 tangible assets (note 22)	4 107	-	200	-	3 907

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 and Liabilities

2020

(in thousands of CVE)

	2019	Increase during 2020	Use during 2020	Settlement during 2020	2020
Current tax liabilities	-	94 637	(57 729)	(3 912)	32 996

2019

(in thousands of CVE)

	2018	Increase during 2019	Use during 2019	2019
Current tax assets	-	92.183	75.652	16.531

The use during the year of 2020, in the amount of 57.729 thousand CVE, refers to payments on account on interest received from obligations of IFH, ASA and NewCo in the amount of 2.103 thousand CVE; to fractional payments made during 2020 in the amount of 39.095 thousand CVE and also to the value of the current tax asset of the year 2019 in the amount of 16.531 thousand CVE.

15. Other Assets

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Stationery	6.136	6.175	(39)	(0,64%)
Sundry Debtors	8.747	9.579	(832)	(8,69%)
Active Operations to Regularize:				
Compensation from Western Union and RedeVinti4	459	20.093	(19.635)	(97,72%)
Accrued Income	-	-	-	0,00%
Others	1.395.688	1.201.787	193.901	16%
Prepayments	47.046	47.927	(881)	(1,84%)
Sub-total	1.458.076	1.285.562	172.514	13%
Accumulate impairment	(123.037)	(120.449)	(2.588)	2%
	1.335.039	1.165.113	169.926	15%

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 2020 and 2019 is as reflected on the table below:

2020

(in thousands of CVE)			Movement of the period						
Asset Category	Balance as of 31/12/ 2019		Additions	Impairment Reversal	Impairment losses (Note 32)	Disposals	Transfers	Balance as of 31/12/2020	
	Gross Amount	Impairment						Gross Amount	Impairment
Properties and Land	1.064.207	(114.151)	67.687	2.360	4.948	6.900	-	1.124.994	(116.739)

2019

(in thousands of CVE)		Movement of the period							
Asset Category	Balance as of 31/12/2018		Additions	Impairment Reversal	Impairment losses (Note 32)	Disposals	Transfers	Balance as of 31/12/2019	
	Gross Amount	Impairment						Gross Amount	Impairment
Properties and Land	1 223 126	(120 389)	71 342	21 776	28 403	210 601	(6 765)	1 064 207	(114 151)

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

2020 (in thousands of CVE)					
	< 1 YEAR	>= 1 YEAR and < 2,5 YEARS	>=2,5 YEARS and < 5 YEARS	>= 5 YEARS	TOTAL
LAND	0	1 952	51 523	277 059	330 534
URBAN	0	1 952	51 523	277 059	330 534
RURAL	0	0	0	0	0
BUILDINGS UNDER CONSTRUCTION	0	0	10 326	22 785	33 111
COMMERCIAL	0	0	0	22 785	22 785
HOUSING	0	0	10 326	0	10 326
OTHERS	0	0	0	0	0
BUILDINGS CONSTRUCTED	0	104 311	61 690	128 387	294 388
COMMERCIAL	0	26 297	0	60 292	86 590
HOUSING	0	78 014	61 690	68 095	207 799
OTHERS	0	0	0	0	0
OTHERS	29 216	0	197 232	240 513	466 961
TOTAL	29 216	106 264	320 771	668 744	1 124 994

2019
(in thousands of CVE)

	< 1 YEAR	>= 1 YEAR and < 2,5 YEARS	>= 2,5 YEARS and < 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	152 174	16 713	294 388
COMMERCIAL	26 297	0	60 292	0	86 590
HOUSING	33 381	65 823	91 882	16 713	207 799
OTHERS	0	0	0	0	0
OTHERS	0	0	437 745	0	437 745
TOTAL	59 678	69 095	832 510	102 923	1 064 207

For further details, see the Real Estate Risk note in the chapter "Overview of the main initiatives performed in 2020" from the management report.

Regarding the impairment, the total amount is 122.037 thousand CVE, and 116.739 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. Deposits from Central Banks

As of 31 December 2020, the bank had BCV deposits on balance the amount of 1.053.722 thousand CVE. This refers to the balance referring to the use of OMF - Long-Term Monetary Operation lines made available to commercial banks under special conditions to finance companies directly affected by the Covid - 19 pandemic. These funds are 100% covered by Cape Verdean government bonds (Treasury Bonds).

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Medium - Long Term Loan				
Bank of Cape Verde	1.050.000	-	1.050.000	100%
Charges payable	3.722	-	3.722	100%
	<u>1.053.722</u>	<u>-</u>	<u>1.053.722</u>	<u>100%</u>

17. Deposit from Other Credit Institutions

The table below shows the breakdown of this caption as of 31 December 2020

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Foreign Banks			-	
Medium to Long Term Loans				
IFC	147.020	220.530	(73.510)	(33,33%)
Domestic Banks				
Demand deposits	59.127	17.146	41.981	245%
Term deposits	6.314	6.025	289	4,80%
Insurance companies				
Demand deposits	85.115	48.699	36.416	75%
Term deposits	15.000	15.000	-	0,00%
Others	-	-	-	0,00%
Charges payable	470	828	(359)	(43,30%)
	313.046	308.229	4.817	2%

18. Customer Deposits and other loans

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Securities sold with repurchase agreements:				
Treasury Bonds	1 272 658	962 125	310 533	32,28%
Charges payable	12 973	14 023	(1 050)	(7,49%)
Sub- total	1 285 631	976 148	309 483	31,70%
Demand deposits	9 812 213	8 952 770	859 443	9,60%
Term deposits	10 397 257	10 988 847	(591 590)	(5,38%)
Other payables	27 132	13 529	13 603	100,55%
Charges payable	285 267	247 591	37 677	15%
Sub- total	20 521 869	20 202 736	319 133	1,58%
Total	21 807 500	21 178 884	628 615	2,97%

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

19. 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 January 7th).

As of 31 December 2020, 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 2020 financial year can be demonstrated as follows:

	31/12/2020
(in thousands of CVE)	
Profit / (loss) before income tax	377.511
Income from Government Debt Securities placed on the secondary market	(12.069)
Dividends received	(16.323)
Donations	(468)
COVID 19 Expenses -Year of 2020	(998)
30% of costs related to vehicles	1.654
50% of costs related to representation	18
Depreciation / Amortization on revaluation of useful life	0
Depreciation / Amortization on revaluation of tangible assets	890
Depreciation / Amortization not tax deductible	175
Provisions / Impairments not tax deductible	51.954
Insurance not tax deductible	10.095
Sole tax on assets subject to registration	2.353
Extraordinary losses	20.707
Corporate income tax for the period	435.500
Income Tax (rate of 22%)	83.355
Income through other Tax (rate of 5%)	2.831
Total collected	86.185
Local Tax	1.724
Autonomous Taxation	628
Exemption for Retained earnings (20% of total collected)	(17.237)
Income Tax for the year	71.300
Fractional Payment	39.095
Withholding Tax	2.103
Total Income tax	30.102

As of 31 December 2020, the balance relating to income tax was 30.102 thousand CVE.

Pursuant to the General Tax Code approved by Law no. 47 / VIII / 2013 of 20th December, tax authorities have the possibility to review the Bank's tax situation for a period of five years, in result of 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. Pursuant to paragraph j of paragraph 29 of the IRPC code, sickness, and personal accident insurance premiums, as well as life insurance expenses that are not required by law or taxed under IRPS, are not accepted for tax purposes.

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

20. Other Liabilities

The breakdown of this caption is as follows:

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Amounts due to Public Sector	27.991	29.073	(1.082)	(3,72%)
Liability operations to be regularize	20.148	7.313	12.835	175,52%
Other	165.040	179.307	(14.267)	(7,96%)
	213.179	215.693	(2.514)	(1,17%)

Regarding Other Liabilities, under the caption Others includes, among others, the **(i)** existence of amounts to be cleared on the first following business day 5.734 thousand CVE (32.348 thousand CVE in 2019); **(ii)** forecast for the productivity bonus for 2020 in the amount of 13.365 thousand CVE (12.197 thousand CVE in 2019); **(iii)** forecast for miscellaneous expenses of 9.008 thousand CVE (9.432 thousand CVE in 2019), lease liability under IFRS 16 in the amount of 18.227 thousand CVE (24.044 thousand CVE in 2019), and **(iv)** deposit for open documentary credits in the amount of 7.824 thousand CVE (7.140 thousand CVE in 2019).

21. Share Capital

As of 31 December 2020, the Bank's capital holders were as follows:

(in thousands of CVE)

Entities	2020		2019	
	Amount	%	Amount	%
Impar - Companhia Caboverdiana de Seguros, SARL	780.800	86,8%	780.800	86,8%
SEPI - Sociedade de Estudos e Promoção de Investimentos, SA	-	0,0%	-	0,0%
Cruz Vermelha de Cabo Verde	40.000	4,4%	40.000	4,4%
Private Investors	79.200	8,8%	79.200	8,8%
	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.

22. Revaluation Reserves

The breakdown of this caption is as follows:

2020

(in thousands of CVE)	Balance as of 31.12.2019	Increases	Decreases	Use of tax	Balance as of 31.12.2020
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	15.216	-	(890)	-	14.326
Deferred tax on revaluation of Real State Property for own use	(3.907)	-	-	200	(3.707)
Balance	181.164	-	(890)	200	180.474

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	(890)	200	181.164

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.

23. Other Reserves and Retained Earnings

The breakdown of this caption is as follows:

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Legal Reserve	152.541	124.693	27.848	22,33%
Other reserves and retained earnings	1.216.828	971.596	245.231	25,24%
	<u>1.369.369</u>	<u>1.096.290</u>	<u>273.079</u>	<u>24,91%</u>

Under the legislation in force in Cape Verde (Law no. 62/VIII/2014, of 23rd 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 1.216.828 thousand CVE recorded under the caption Other Reserves and Retained Earnings, the amount of 344.762 thousand CVE refers to Retained Earnings in accordance with the article no. 30 of the Tax Benefits Code.

24. Net Interest Income

The breakdown of this caption is as follows:

(in thousands of CVE)	2020	2019	Change	
			Amount	%
Interest and similar income				
Interest from deposits with banks	-	9.203	(9.203)	(100,00%)
Interest from loans and advances to banks	29.798	20.433	9.365	45,83%
Interest from loans and advances to customers	1.145.199	1.066.681	78.518	7,36%
Commissions from amortized cost	50.652	55.316	(4.664)	(8,43%)
	<u>1.225.649</u>	<u>1.151.633</u>	<u>74.016</u>	<u>6,43%</u>
Interest and similar expenses				
Interest from deposits with Central Banks	(3.722)	-	(3.722)	0%
Interest from deposits with banks - Domestic	(584)	(706)	122	(17,30%)
Interest from deposits with banks - Foreign	(10.437)	(11.544)	1.107	(9,59%)
Interest from customer deposits	(340.622)	(361.194)	20.573	(5,70%)
Interest from securities sold - Treasury Bonds	(30.983)	(28.701)	(2.282)	7,95%
Interest from other deposits	(930)	(917)	(14)	1,48%
	<u>(387.278)</u>	<u>(403.062)</u>	<u>15.784</u>	<u>(3,92%)</u>
Net interest income	<u>838.371</u>	<u>748.571</u>	<u>89.800</u>	<u>12,00%</u>

As previously mentioned, the increase in the Interest from loans and advances to customers in the total amount of 78.518 CVE is directly related to the increase in the loan's portfolio. As regards to cash in the banks, by 2020 the bank no longer had paid demand deposit accounts.

25. Dividend Income

This caption amounts to 16.323 thousand CVE (13.086 thousand CVE in 2019) and corresponds to the recognition of the dividends received, mostly related to dividends of the company SISP, in the amount of 12.412 thousand CVE (10.836 thousand CVE in 2019).

26. Fee and Commission Income

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2020	2019	Change	
			Amount	%
Commissions				
Sundry services	39.278	47.931	(8.653)	(18,05%)
Comission from WU	36.503	33.491	3.012	8,99%
ATM Services	21.957	24.116	(2.159)	(8,95%)
Guarantees and endorsements provided	14.782	13.296	1.486	11,17%
Card management	16.590	26.040	(9.450)	(36,29%)
Annual charges	13.323	11.012	2.311	20,98%
Fund transfers	3.414	4.403	(990)	(22,47%)
Purchase of bank checks	6.308	6.442	(134)	(2,07%)
Commissions on current account loan commitments	786	1.947	(1.161)	(59,64%)
Advances	3.193	4.566	(1.373)	(30,08%)
Documentary credits opened	2.349	3.650	(1.301)	(35,65%)
Collection and payment of taxes	5.832	5.344	488	9,12%
Stock exchange operations	904	1.040	(136)	(13,11%)
Sureties and indemnities	1.048	2.522	(1.474)	(58,44%)
Notes and endorsements	5.590	3.789	1.801	47,53%
Stanby letters of credit	96	34	62	179,15%
	171.951	189.624	(17.673)	(9,32%)

The amount of 39.278 thousand CVE on the caption "Sundry services" refers to commissions received in the provision of services related to operations abroad (payment orders sent and received, documentary remittances), with Insurance, purchase, and sale of foreign currency, issuing statements, among others. Noteworthy are the commissions received from operations abroad and insurance services, which together account for 76,2%.

Mention should be made of the reduction in transaction fees (-8,653 thousand CVE) and in fees related to means of payment (-9,450 thousand CVE), directly related to the effects of the pandemic on national and international banking operations (in this case, by the use of debit cards abroad, considering travel restrictions).

27. Fee and Commission Expenses

The breakdown of this caption is as follows:

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Commissions				
Payment operations	(6.592)	(6.566)	(26)	0,40%
Issue of cards	(32.584)	(35.105)	2.521	(7,18%)
Commissions to WU	(11.894)	(11.835)	(59)	0,50%
Sundry services	(3.400)	(13.870)	10.470	(75,48%)
	<u>(54.470)</u>	<u>(67.377)</u>	<u>12.906</u>	<u>(19,16%)</u>

The amount of 3.400 thousand CVE, related to the item "Sundry services", refers to commissions paid to third parties, namely, within the scope of the relationship with the corresponding banks; services related to means of payment (cards and ATMs) and participation in the capital market as a stock exchange operator. Mention should be made of the reduction of 10.470 thousand CVE at the level of these commissions for the reasons already mentioned, which are related to the reduction in transactional activity due to the pandemic.

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

The breakdown of this caption is as follows:

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Gains on foreign exchange revaluation				
On foreign exchange transfers	153.735	85.701	68.034	79,39%
On foreign bank notes and coins	23.313	12.545	10.768	85,84%
	<u>177.049</u>	<u>98.246</u>	<u>78.802</u>	<u>80,21%</u>
Losses on foreign exchange revaluation				
On foreign exchange transfers	(148.712)	(67.503)	(81.209)	120,31%
On foreign bank notes and coins	(26.048)	(9.204)	(16.844)	183%
	<u>(174.760)</u>	<u>(76.706)</u>	<u>(98.054)</u>	<u>127,83%</u>
Net gains / (losses) from foreign exchange revaluation	<u>2.288</u>	<u>21.540</u>	<u>(19.251)</u>	<u>89,38%</u>

The reduction in the exchange rate revaluation result of 19.251 thousand CVE is directly related to exchange rate fluctuations, particularly in the USD currency, and the bank's greater exposure to this currency.

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

In 2020, the bank did not record losses on disposal of assets, in contrast to the previous year, whose associated net losses were 172 thousand CVE.

30. Other Net Operating Gains /(Losses)

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

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Other operating gains				
Reimbursement of expenses	4.070	3.278	792	24%
Loan, interest and expense recoveries	75	65	10	16%
Sundry gains related to prior years	413	425	(12)	(2,78%)
Sale of checks	1.557	1.771	(215)	(12,12%)
Other	6.184	10.821	(4.637)	(42,85%)
	<u>12.299</u>	<u>16.360</u>	<u>(4.061)</u>	<u>(24,82%)</u>
Other operating losses				
Losses related to prior years	(4.110)	(2.822)	(1.288)	46%
Quotations and donations	(1.831)	(634)	(1.197)	189%
Other operating expenses	(21.114)	(5.255)	(15.859)	302%
Other taxes and rates	(2.633)	(3.163)	530	(16,75%)
	<u>(29.688)</u>	<u>(11.874)</u>	<u>(17.814)</u>	<u>150%</u>
Other net operating gains / (losses)	<u>(17.389)</u>	<u>4.486</u>	<u>(21.875)</u>	<u>(487,62%)</u>

Miscellaneous income is recorded in the "Others" caption, including commissions for issuing bank statements.

In the item "Other operating costs", 74% of the amount recorded (15.607 thousand CVE) refers to the forgiveness of a customer's debt, following litigation proceedings.

31. Staff Costs

The breakdown of this caption is as follows:

(in thousands of CVE)					
	2020	2019	Change		
			Amount	%	
Remuneration of management and supervisory board	28.720	28.799	(79)	(0,28%)	
Remuneration of staff	208.052	201.833	6.218	3,08%	
	236.772	230.632	6.139	2,66%	
Mandatory social charges	26.986	25.745	1.241	4,82%	
Contractual indemnities	-	261	(261)	(100,00%)	
Other staff costs	152	549	(396)	(72,24%)	
	27.138	26.554	584	2,20%	
	263.910	257.186	6.724	2,61%	

32. General Administrative Costs

The breakdown of this caption is as follows:

(in thousands of CVE)					
	2020	2019	Change		
			Amount	%	
Specialized services	95 992	84 109	11 884	14,1%	
Communication	18 054	14 894	3 160	21,22%	
Rentals and hires	23 058	15 671	7 387	47%	
Travelling and accomodation	2 085	7 539	(5 453)	(72,34%)	
Consumable materials	6 251	9 329	(3 078)	(32,99%)	
Advertising	14 589	13 660	930	7%	
Water, gas and electricity	14 031	14 993	(962)	(6,42%)	
Maintenance and repairs	4 006	3 329	676	20%	
Insurance	14 779	10 160	4 619	45,46%	
Fuel	1 287	1 503	(216)	(14,40%)	
Transport	4 608	4 307	302	7,01%	
Training	645	1 670	(1 025)	(61,37%)	
Other	10 922	7 482	3 441	45,99%	
	210 309	188 645	21 663	11,48%	

The caption Specialized services amounting to 95.992 thousand CVE relate mainly to services provided by many consultants (13.786 thousand CVE), the utilization of SISP's Vinti4 network (25.000 thousand CVE), IT technical assistance services (34.579 thousand CVE) and Surveillance and Security Services (13.759 thousand CVE).

33. Impairment of Loans and Advances and Other Assets

Regarding to the movement of Impairment accounts, on 31 December 2020 and 31 December 2019, they had the following changes:

2020

(in thousands of CVE)

	Notes	Balance as of 31/12/2019	Additions	Reversals	Transfers	Balance as of 31/12/2020
Impairment of:						
Loans and advances to customers	9	1.414.014	430.663	(372.122)	-	1.472.555
Debt instruments	10	7.814	100	(510)	-	7.405
Other assets	15	120.449	4.948	(2.360)	-	123.037
Tangible assets	11	7.364	-	-	-	7.364
		1.549.642	435.711	(374.992)	-	1.610.361

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	10	8.509	185	(880)	-	7.814
Other assets	15	126.687	28.403	(21.776)	(12.864)	120.449
Tangible assets	11	8.415	-	-	(1.050)	7.364
		1.436.270	561.778	(434.491)	(13.915)	1.549.642

The criteria and methodologies used to determine the impairment of loans and Advances to customers are described in the Note 37.2.

The accumulated impairment of foreclosed real estate amounted to 116.739 thousand CVE which corresponds around 10,4% of their gross carrying amount (10,7% in 2019).

34. Earnings Per Share

	2020	2019
Basic		
Net income for the period	294.533	278.480
Number of ordinary shares	900.000	900.000
. Basic (CVE)	327	309
. Diluted (CVE)	327	309

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.

35. Provisions and Contingent Liabilities

The movement in the provision caption on 31 December 2020 and 31 December 2019 was as shown in the tables below:

2020

(in thousands of CVE)

	Balance as of 31.12.2019	Additions	Use and regularizations	Reversals and recoveries	Balance as of 31.12.2020
Other provisions	7.625	-	-	-	7.675
	<u>7.625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7.675</u>

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
	<u>7.675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7.675</u>

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. It should be noted that for 2020 the Bank made an analysis of the processes in progress and concluded by maintaining the provisions currently registered.

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

(in thousands of CVE)

	2020	2019	Change	
			Amount	%
Guarantees provided (of which):				
Guarantees and endorsements	945.780	1.067.197	(121.417)	(11,38%)
	<u>945.780</u>	<u>1.067.197</u>	<u>(121.417)</u>	<u>(11,38%)</u>
Commitments to third parties:				
Revocable commitments	695.480	697.791	(2.311)	(0,33%)
	<u>1.641.259</u>	<u>1.764.988</u>	<u>(123.729)</u>	<u>(7,01%)</u>
Deposits and custody of securities:				
Dematerialized securities	(1.586.700)	(1.193.699)	(393.001)	32,92%
Collection of amounts	28.196	15.354	12.842	83,64%
	<u>(1.558.504)</u>	<u>(1.178.345)</u>	<u>(380.159)</u>	<u>32,26%</u>

In the caption dematerialized securities, the amount of 1.272.658 thousand CVE refers to securities assigned to customers with a repurchase agreement (962.125 thousand CVE in 2019).

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.

36. 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 2020, 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 2020 and 2019, 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 31/12/2020
Interest and similar income	174.440	272.209	779.000	-	1.225.649
Interest and similar expenses	(78.169)	(112.603)	(196.506)	-	(387.278)
<i>Net interest income</i>	<i>96.271</i>	<i>159.606</i>	<i>582.494</i>	<i>-</i>	<i>838.371</i>
Dividend income	16.323	-	-	-	16.323
Fee and commission income	26.119	38.677	107.156	-	171.951
Fee and commission expenses	(24.330)	(214)	(29.926)	-	(54.470)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	7.015	-	-	-	7.015
Net gain / (losses) from foreign exchange revaluation	2.288	-	-	-	2.288
Net gain / (losses) on disposal of other assets	-	-	-	-	-
Other net operating gains / (losses)	(21.064)	398	3.277	-	(17.389)
<i>Operating income</i>	<i>102.622</i>	<i>198.467</i>	<i>663.000</i>	<i>-</i>	<i>964.089</i>
Staff costs	6.944	18.122	118.469	120.375	263.910
General and administrative expenses	7.653	6.730	63.288	132.637	210.309
Depreciation and amortization	1.655	1.901	19.410	28.675	51.641
Provisions, net of reversals	-	-	-	-	-
Impairment losses of loans and advances, net of reversals and recoveries	-	-	58.131	-	58.131
Impairment losses of other assets, net of reversals and recoveries	-	-	-	2.588	2.588
Gains or losses on derecognition of non-financial assets, fair value	-	-	-	-	-
<i>Profit / (loss) before income tax</i>	<i>86.370</i>	<i>171.714</i>	<i>403.702</i>	<i>(284.275)</i>	<i>377.511</i>
Income Tax					
Current tax	19.381	38.533	90.591	(53.868)	94.637
Deferred tax	-	-	-	(11.659)	(11.659)
<i>Net profit for the period</i>	<i>66.989</i>	<i>133.181</i>	<i>313.111</i>	<i>(218.748)</i>	<i>294.533</i>

(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)
<i>Net interest income</i>	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
<i>Operating income</i>	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
Impairment losses of other assets	-	-	-	-	-
<i>Profit / (loss) before income tax</i>	123.081	155.446	297.307	(269.027)	306.806
Income Tax					
Current tax	-	-	-	43.667	43.667
Deferred tax	-	-	-	(15.341)	(15.341)
<i>Net profit for the period</i>	123.081	155.446	297.307	(297.353)	278.480

As to the distribution of the Balance Sheet over the various segments, the situation in 2020 and 2019 is as follows:

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2020
ASSETS					
Cash and deposits with Central Banks	2.348.897	-	-	-	2.348.897
Deposits with Banks	702.144	-	-	-	702.144
Financial assets designated at fair value through profit or loss	54.742	-	-	-	54.742
Financial assets measured at fair value through other comprehensive income	179.855	-	-	-	179.855
Financial assets measured at amortized cost					
Debt securities	-	-	-	2.811.919	2.811.919
Loans and advances to banks	-	-	-	3.565.752	3.565.752
Loans and advances to customers	-	-	-	14.828.572	14.828.572
Other tangible assets	8.169	2.723	187.867	73.514	272.273
Other intangible assets	-	-	-	27.257	27.257
Tax Assets					
Current tax assets	-	-	-	-	-
Deferred tax assets	-	-	-	49.751	49.751
Other assets	467.255	200.255	333.765	333.765	1.335.039
Total Assets	3.761.061	202.977	521.632	21.690.530	26.176.201

Description					
LIABILITIES					
Financial liabilities measured at amortized cost					
Deposits from Central Banks	-	-	-	1.053.722	1.053.722
Deposits from Banks	313.046	-	-	-	313.046
Customer Deposits	-	5.678.702	16.128.798	-	21.807.500
Provisions	-	-	-	7.675	7.675
Current tax liabilities	4.191	10.212	18.593	-	32.996
Deferred tax liabilities	3.707	-	-	-	3.707
Other liabilities	42.635	85.272	63.953	21.319	213.179
		-	-	-	-
Total Liabilities	363.579	5.774.185	16.211.344	1.082.716	23.431.825
EQUITY					
Share Capital	179.385	165.012	546.882	8.721	900.000
Legal Reserve	-	-	-	152.541	152.541
Revaluation reserves	-	-	-	180.474	180.474
Other reserves and retained earnings	584.460	1.423.882	2.592.466	(3.383.980)	1.216.829
Net profit for the period	66.989	133.181	313.111	(218.748)	294.533
Total Equity	830.834	1.722.075	3.452.458	(3.260.992)	2.744.376
Total Liabilities + Equity	1.194.414	7.496.260	19.663.802	(2.178.277)	26.176.201

(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	18.293.351	24.170.321
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	123.081	155.446	297.307	(297.353)	278.481
Total Equity	769.138	1.457.380	2.914.186	(2.684.769)	2.455.933
Total Liabilities + Equity	1.124.411	7.058.667	18.642.768	(2.655.523)	24.170.321

37. Financial Instrument Risks

37.1 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.

37.2. 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 2020, 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 in a particularly adverse context, resulting from the COVID-19 pandemic.

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 Corporate 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 Corporates. 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 have passed after the last valuation;
2. For non-mortgage loans: three months after the first default, if more than six months have passed after the last valuation;
3. For collateral associated with the processes transferred to the Credit Recovery Nucleus 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 non-mortgage 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 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 2020" 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 complex 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 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 2020, and 2019, 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)			
Segment	2020				2019			
	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	9.541.346	5.408.704	83.927	5.492.631	9.189.549	5.203.662	63.868	5.267.530
Past due	1.146.101	615.266	0	615.266	1.229.269	661.604	0	661.604
Loans (off-balance)								
Due	1.727.849	307.790	18.973	326.763	1.705.114	395.380	14.797	410.177
Individuals								
Loans (balance amount)								
Due	3.785.941	3.098.683	141.432	3.240.115	3.906.100	3.118.479	149.136	3.267.614
Past due	685.694	351.946	0	351.946	584.987	348.725	0	348.725
Loans (off-balance)								
Due	48.443	0	5.000	5.000	41.404	0	5.000	5.000
Public Sector and Institutional								
Loans (balance amount)								
Due	1.142.041	0	0	0	679.279	0	0	0
Past due	3	0	0	0	3	0	0	0
Loans (off-balance)								
Due	8.773	0	0	0	44.066	0	0	0
Total	18.086.191	9.782.390	249.332	10.031.722	17.379.772	9.727.851	232.800	9.960.651

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.

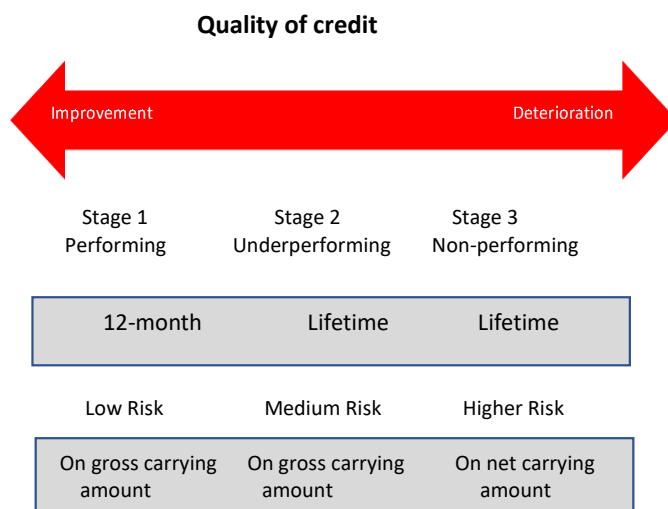
Considering the fair value by segment, the situation is as summarized in the table below:

Fair value	Corporate with GRH				Corporate without GRH				Individuals Housing			
	Real Estate Properties		Other collaterals*		Real Estate Properties		Other collaterals*		Real Estate Properties		Other collaterals*	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
0,5 MCVE	1	0	0	0	0	0	4	1	2	0	0	0
>=0,5 MCVE and <1 M€	2	2	0	0	0	0	6	4	3	2	2	1
>=1 MCVE and <5 M€	16	45	0	0	0	0	97	254	128	449	3	9
>=5 MCVE and <10 M€	32	228	0	0	0	0	20	129	196	1.409	0	0
>=10 MCVE and <20 M€	33	472	0	0	0	0	7	89	108	1.383	0	0
>=20 MCVE and <50 M€	48	1.458	0	0	0	0	4	89	25	718	0	0
>=50 MCVE	56	10.246	0	0	0	0	0	0	7	489	0	0
Total	188	12.451	0	0	0	0	138	566	469	4.452	5	10

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



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.

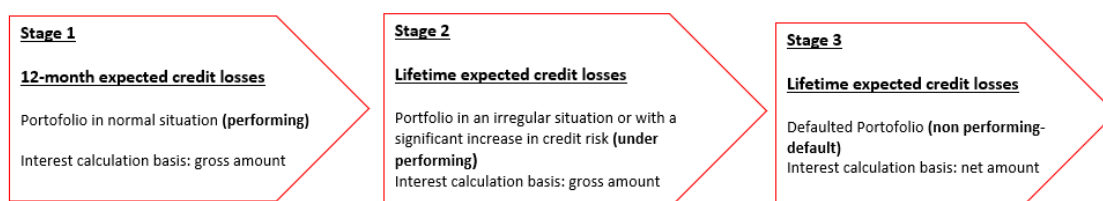
Credit risk assessment is performed both on an individual and collective basis, based on reasonable and sustainable information, including forward-looking approaches.

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, defining as principle 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 to 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 considering 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 and 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:

$$ECL_t = EAD_t \times PD_t \times LGD_t,$$

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 of 31 December 2020, and 2019, the maximum exposure to credit risk by type of financial instrument is as shown in the table below.

Description	(in thousands of CVE)				(in thousands of CVE)			
	2020				2019			
	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	54.742	-	-	54.742	50.804	-	-	50.804
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	3.565.752			3.565.752	2.132.007			2.132.007
Loans and advances to customers	16.301.126	9.699.959	1.468.036	5.133.131	15.589.187	9.545.474	1.409.487	4.634.226
Debt Securities	2.819.410	-	7.405	2.812.005	1.540.218	-	7.814	1.532.404
Off-Balance								
Guarantees and endorsements	968.780	331.763	4.518	632.499	1.090.197	415.177	4.527	670.493
Revocable commitments*	816.285	-	-	816.285	700.388	-	0	700.388
Total	24.705.950	10.031.722	1.479.959	13.194.270	21.282.656	9.960.651	1.421.828	9.900.177

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 sureties were considered off-balance sheet.

As of 31 December of 2020, the total amount of loan loss provisions recognized in the Bank's financial statements amounts to 1.472.554 thousand CVE (1.414.014 thousand CVE on 31 of December 2019). 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	31/12/2020	31/12/2019
Internal Impairment Model	1.208.432	1.052.493
Minimum Regulatory Provisions (Notice no. 4/2006)	1.472.554	1.414.014
Differential between impairment and regulatory provisions	(264.122)	(361.521)

Residual maturity term

As of 31 December 2020, and 2019, credit risk by type of financial instrument has the following breakdown by residual maturity term:

Description	(in thousand of CVE)							
	2020							
	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
Assets								
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0	54.742
Financial assets at fair value through other comprehensive income	0	0	0	0	0	0	0	179.855
Financial assets measured at amortized cost								
Loans and advances to banks	1.718.039	1.223.713	624.000	0	0	0	0	3.565.752
Loans and advances to customers	3.636.659	820.395	516.423	3.709.532	1.037.806	1.829.928	2.212.096	16.301.126
Debt securities	3.329	0		62.546	331.664	468.658	1.782.038	2.819.324
Other assets (if applicable)								0
Off-balance								
Guarantees and endorsements	44.209	227.401	114.528	118.599	155.959	284.190	23.893	968.780
Commitments to third parties	291.121	67.007	46.776	358.558	52.823	0	0	816.285
Total	5.693.356	2.338.517	1.301.727	4.249.235	1.578.252	2.582.777	4.018.027	24.705.864

(in thousand of CVE)

Description	2019								Total
	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	
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 through other 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 third 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

Quality of loans and advances to customers

The following schedules evidence the quality of the Bank's loans and advances portfolio, as of 31 December 2020, compared with the same period of the previous year, based on Circular no. 197 of 21/12/2018 of Bank of Cape Verde.

Exposure and impairment by segment

As of 31 December 2020, the exposure and impairment constituted (individual or collective analysis) by segment is reflected in the table below.

(in thousands of CVE)

Segment	Exposure as of 31/12/2020								Impairment as of 31/12/2020			
	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	17.649	0	0	0	0	0	17.649	1.367	17.649	0	0	17.649
Corporate with GRH	6.862.887	4.731.829	0	0	801.835	705.926	1.329.223	746.257	315.139	51.193	72.694	191.252
Corporate without GRH	4.706.377	4.515.362			120.829	91.927	70.185	12.474	111.127	44.775	7.234	59.118
Pre-Drowned Corporate	330.270	0	0	0	0	0	330.270	2.083	330.270	0	0	330.270
Individuals Rent Consumption	1.068.837	840.744	0	0	37.913	4.532	190.180	67.812	101.005	2.965	1.752	96.289
Individuals Housing	2.814.681	2.257.779	0	0	176.253	9.730	380.649	12.447	108.197	2.118	4.607	101.472
Pre-Drowned Individuals	142.646	0	0	0	0	0	142.646	0	142.646	0	0	142.646
Individuals Revolving	484.249	331.582	0	0	57.850	26.880	94.816	25.909	63.286	3.538	15.338	44.410
Public sector	1.658.594	1.658.557	0	0	0	0	37	0	19.113	19.084	0	29
Impairment adjustments (1)									264.122			264.122
Total	18.086.191	14.335.854	0	0	1.194.681	838.995	2.555.656	868.349	1.472.554	123.672	101.624	1.247.258

* Includes off-balance-sheet amounts

(1) As a result of BCV Circular Series "A", no. 179 / DSE / 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 31/12/2020						Impairment as of 31/12/2020				
	Exposure as of 31/12/2020*	Low credit risk exposure (Stage 1)	Significant credit risk exposure (Stage 2)	Sub-total	Default exposure (Stage 3)		Impairment as of 31/12/2020	Stage 1	Stage 2	Stage 3	
					Days delay <= 90 days	Days delay > 90 days				Days delay <= 90 days	Days delay > 90 days
Judicial Expenses	17.649	0	-	-	0	17.649	17.649	0	0	0	17.649
Corporate with GRH	6.862.887	4.731.829	801.835	5.533.664	582.732	746.491	315.139	51.193	72.694	45.155	146.097
Corporate without GRH	4.706.377	4.515.362	120.829	4.636.192	9.054	61.131	111.127	44.775	7.234	2.713	56.405
Pre-Drowned Corporate	330.270	0	0	0	0	330.270	330.270	0	-	0	330.270
Individuals Rent Consumption	1.068.837	840.744	37.913	878.657	68.486	121.693	101.005	2.965	1.752	27.493	68.796
Individuals Housing	2.814.681	2.257.779	176.253	2.434.032	90.125	290.524	108.197	2.118	4.607	18.605	82.868
Pre-Drowned Individuals	142.646	0	0	0	0	142.646	142.646	0	0	0	142.646
Individuals Revolving	484.249	331.582	57.850	389.433	25.814	69.002	63.286	3.538	15.338	14.963	29.447
Public sector	1.658.594	1.658.557	0	1.658.557	0	37	19.113	19.084	0	0	29
Impairment adjustments (1)							264.122	0	0		264.122
Total	18.086.191	14.335.854	1.194.681	15.530.535	776.212	1.779.444	1.472.554	123.672	101.624	108.928	1.138.330

* Includes off-balance-sheet amounts

(1) As a result of BCV Circular Series "A", no. 179 / DSE / 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

31/12/2020

(in thousands of CVE)

Production year	Judicial Expenses			Corporate with GRH			Corporate without GRH			Pre-Drowned Corporate			Individuals Rent Consumption			Individuals Housing			Pre-Drowned Individuals			Individuals Revolving			Public sector			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	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	8	315.884	38.880	263	70.104	7.689	0	0	0	17	26.218	19.201	94	382.904	19.416	0	0	0	3.188	29.645	8.108	4	20.034	224	3.574	844.789	93.518
2010	0	0	0	6	85.493	13.731	44	449	47	0	0	0	17	49.447	5.273	29	145.431	8.366	0	0	0	691	1.426	462	0	0	0	787	282.246	27.880
2011	0	0	0	6	87.983	377	29	17.310	517	0	0	0	33	10.392	4.409	27	173.984	2.620	0	0	0	865	1.412	466	0	0	0	960	291.081	8.389
2012	68	12.173	12.173	4	76.530	408	19	232	230	0	0	0	46	18.459	2.762	20	86.128	2.890	0	0	0	432	577	239	2	3	1	591	194.102	18.703
2013	16	1.730	1.730	4	222.411	45.132	21	17.336	12.405	0	0	0	42	78.543	2.389	46	331.946	33.436	0	0	0	413	5.524	605	0	0	0	542	657.492	95.698
2014	13	933	933	3	33.123	4.937	31	4.711	4.057	19	23.508	23.508	42	39.428	6.628	24	122.963	5.891	202	42.888	42.888	586	952	628	1	2.352	27	921	270.859	89.498
2015	10	1.027	1.027	7	165.353	19.798	18	26.890	458	52	12.484	12.484	30	38.563	21.309	30	164.578	11.860	346	10.469	10.469	507	3.479	878	2	11	11	1.002	422.855	78.295
2016	10	547	547	5	92.024	3.249	30	66.476	745	13	270.985	270.985	51	38.832	10.531	37	218.559	15.016	46	78.452	78.452	550	1.259	1.032	3	34.143	403	745	801.278	380.961
2017	4	120	120	8	220.010	3.713	43	390.560	29.595	2	1.337	1.337	67	60.658	5.987	29	169.289	4.125	3	5.230	5.230	652	53.751	16.101	1	260.791	3.030	809	1.161.747	69.238
2018	2	15	15	20	882.909	78.568	99	610.403	13.389	0	0	0	171	128.137	4.835	48	226.163	2.077	0	0	0	833	4.910	1.141	5	364.353	4.205	1.178	2.216.889	104.230
2019	4	961	961	56	1.419.898	11.955	155	1.072.594	12.324	7	21.955	21.955	350	205.850	8.503	45	260.320	251	33	5.606	5.606	760	39.483	2.322	3	215.268	2.480	1.413	3.241.936	66.358
2020	3	142	142	107	3.261.267	94.390	213	2.429.312	29.671	0	0	0	435	374.310	9.177	83	532.415	2.251	0	0	0	173	341.831	31.303	15	761.640	8.732	1.029	7.700.916	175.666
Total	130	17.649	17.649	234	6.862.887	315.139	965	4.706.377	111.127	93	330.270	330.270	1.301	1.068.837	101.005	512	2.814.681	108.197	630	142.646	142.646	9.650	484.249	63.286	36	1.658.594	19.113	13.551	18.086.191	1.208.432

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 of 31 December 2020, by segment and sector of activity.

(in thousands of CVE)

31/12/2020 Analysis	Judicial Expenses		Corporate with GRH		Corporate without GRH		Pre-Drowned Corporate		Individuals Rent Consumption		Individuals Housing		Pre-Drowned Individuals		Individuals Revolving		Public sector	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	17.549	17.549	2.097.105	62.084	1.441.802	76.278	61.789	61.789	1.030.005	100.873	2.785.425	108.174	114.031	114.031	420.310	43.847	196.378	2.263
Collective	100	100	4.765.782	253.055	3.264.575	34.849	268.482	268.482	38.832	132	29.256	23	28.615	28.615	63.939	19.438	1.462.216	16.850
Total	17.649	17.649	6.862.887	315.139	4.706.377	111.127	330.270	330.270	1.068.837	101.005	2.814.681	108.197	142.646	142.646	484.249	63.286	1.658.594	19.113

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

Type of Impairment

As of 31 December 2020, and 2019, the type of impairment constituted (individual or collective analysis) by type of customer (individuals, companies, Public sector and institutional) may be summarized as follows:

Segment	2020				2019			
	Exposure (1)	Impairment			Exposure (1)	Impairment		
		Individual	Collective	Total		Individual	Collective	Total
Corporate								
Loans (asset)								
Due	9.541.346	187.177	38.269	225.446	9.189.549	176.978	31.327	208.305
Past due	1.146.101	372.063	168.775	540.838	1.229.269	361.466	132.547	494.013
Loans (off-balance sheet)								
Due	1.727.849	2.776	1.372	4.148	1.705.114	2.586	1.664	4.251
Individuals								
Loans (asset)								
Due	3.785.941	0	85.597	85.597	3.906.100	17.592	27.612	45.203
Past due	685.694	48.208	290.618	338.826	584.987	32.243	259.724	291.967
Loans (off-balance sheet)								
Due	48.443	0	370	370	41.404	0	276	276
Public and institutional sector								
Loans (asset)								
Due	1.142.041	11.319	1.884	13.203	679.279	6.940	1.534	8.475
Past due	3	0	3	3	3		3	3
Loans (off-balance sheet)								
Due	8.773	0	0		44.066		0	0
Impairment adjustments (2)		264.122		264.122		361.521		361.521
Total	18.086.191	885.666	586.889	1.472.554	17.379.772	959.326	454.688	1.414.014

(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

The fair value of the collateral associated with the loan operations, by stage of impairment, as of 31 December 2020, 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	228	4 030 030	792 205	1 231 108	315 135
No collateral associate	44	4 289	0	180 479	30 739
>150%	34	1 757 191	522 029	76 762	122 744
<=150% and >125%	37	811 370	14 496	91 617	43 811
<=125% and >100%	22	457 083	46 270	356 577	43 199
<=100%	91	1 000 096	209 410	525 673	74 642
Corporate without GRH	985	3 599 123	118 859	70 185	111 066
No collateral associate	848	3 204 762	81 374	40 014	76 746
>150%	23	129 239	8 447	20 223	22 030
<=150% and >125%	31	130 040	17 581	2 281	6 297
<=125% and >100%	30	66 471	5 873	3 649	3 645
<=100%	53	68 612	5 584	4 018	2 347
Individuals Housing	519	2 230 209	176 253	380 649	108 197
No collateral associate	45	85 562	49 250	109 947	14 481
>150%	28	160 912	4 067	15 149	4 021
<=150% and >125%	165	844 550	68 108	93 158	30 545
<=125% and >100%	65	337 566	7 781	35 781	9 842
<=100%	216	761 619	47 047	126 614	49 309
Total	1 732	9 859 363	1 087 317	1 681 942	534 398

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 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, 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 Bank of Cape Verde (BCV) 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 2020, and 2019, restructured loans have the following breakdown by type of customer:

(in thousands of CVE)

Segment	2020				2019			
	Total		Of which restructured (1)		Total		Of which restructured (1)	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate								
Loans (asset)								
Due	9.541.346	225.446	1.287.102	121.808	9.189.549	208.305	902.355	100.113
Past due	1.146.101	540.838	272.834	75.503	1.229.269	494.013	285.068	73.703
Loans (off-balance sheet)								
Due	1.727.849	4.148	0	0	1.705.114	4.251	0	0
Individuals								
Loans (asset)								
Due	3.785.941	85.597	123.520	33.167	3.906.100	45.203	19.345	1.531
Past due	685.694	338.826	23.887	22.938	584.987	291.967	25.413	21.553
Loans (off-balance sheet)								
Due	48.443	370	0	0	41.404	276	0	0
Public and institutionals sector								
Loans (asset)								
Due	1.142.041	13.203	0	0	679.279	8.475	0	0
Past due	3	3	0	0	3	3	0	0
Loans (off-balance sheet)								
Due	8.773	0	0	0	44.066	0	0	0
Impairment adjustments (2)		264.122				361.521		
Total	18.086.191	1.472.554	1.707.344	253.415	17.379.772	1.414.014	1.232.181	196.900

Notes:

(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 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

In terms of the flows of restructured loans, these presented the following movements in 2020 and 2019:

(in thousands of CVE)	2020	2019
Balance at the beginning of the period	1.232.237	306.483
Loans restructured in the period	581.749	991.074
Accrued interest on the restructured portfolio		
Settlement of restructured loans (partial or total)	(1.946)	(1.179)
Unmarked Loans	(104.696)	(64.141)
Loans written off from assets		
Other		
Balance at the end of the period	1.707.344	1.232.237

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	15	292.432	10.793	12	173.013	35.916	27	465.445	46.708
Grace period	23	526.170	67.331	25	431.795	62.346	48	957.965	129.678
Interest Rate Reduction	1	18.938	5.184	0	0	0	1	18.938	5.184
Capitalization of interest	2	1.456	35	60	260.907	71.303	62	262.363	71.338
Forgiveness of interest and capital	0	0	0	4	2.633	508	4	2.633	508
Total	41	838.995	83.342	101	868.349	170.073	142	1.707.344	253.415

37.3. 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 funding 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 Bank of Cape 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 Bank of Cape 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)

2020										
	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	-	-	-	-	-	-	-	-	2.348.897	2.348.897
Deposits with Banks	-	-	-	-	-	-	-	-	702.144	702.144
Financial assets measured at amortized cost										
Loans and advances to banks	1.718.039	1.223.713	624.000	-	-	-	-	-	-	3.565.752
Debt securities (gross amount)	-	-	-	62.546	331.664	468.658	1.782.038	171.089	3.329	2.819.324
Loans and advances to customers (gross amount)	1.803.609	820.395	516.423	3.709.532	1.037.806	1.829.928	2.211.999	2.538.383	1.833.050	16.301.126
	3.521.648	2.044.108	1.140.423	3.772.078	1.369.470	2.298.586	3.994.037	2.709.473	4.887.419	25.737.242
Liabilities										
Financial liabilities measured at amortized cost										
Deposits from Banks	-	15.022	-	-	6.404	147.378	-	-	144.242	313.046
Deposits from Central Banks	-	-	-	-	1.053.722	-	-	-	-	1.053.722
Customer deposits	1.548.696	1.294.222	2.751.081	3.778.270	2.585.116	7.750	2.981	-	9.839.384	21.807.500
Subordinated debt	-	-	-	-	-	-	-	-	-	-
	1.548.696	1.309.244	2.751.081	3.778.270	3.645.242	155.128	2.981	-	9.983.626	23.174.268
2020 differential	1.972.952	734.865	(1.610.658)	(6.192)	(2.275.772)	2.143.458	3.991.056	2.709.473	(5.096.207)	2.562.974
2020 Accumulated gap repricing	1.972.952	2.707.816	1.097.159	1.090.967	(1.184.805)	958.653	4.949.709	7.659.181		
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
Subordinated debt	-	-	-	-	-	-	-	-	-	-
	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

37.4. 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.

37.5. 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 2020, and 2019, 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 2020 and 2019, 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 2020 and 2019.

(in thousands of CVE)

	-200bp	-100bp	-50bp	50bp	100bp	200bp
Impact in 2020	27.353	13.676	6.838	(6.838)	(13.676)	(27.353)
Impact in 2019	26.761	13.380	6.690	(6.690)	(13.380)	(26.761)

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, it is not susceptible to change over the lifetime of the loan.

The repricing gap by residual maturity term is shown in the table below:

2020								
	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)	1.972.952	2.707.816	1.097.159	1.090.967	(1.184.805)	958.653	4.949.709	7.659.181

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

Note:

1) Gap Accumulated: Value of the asset less the value of the liability

37.6. 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 Bank of Cape 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 of 31 December 2020, and 2019, the Bank's balance sheet presented the following breakdown by currency.

(in thousands of CVE)

	2020				
	CVE	EUR	USD	Others	Total
Assets					
Cash and deposits with Central Banks	1.949.899	344.589	50.339	4.070	2.348.897
Deposits with Banks	32.961	563.947	91.704	13.532	702.144
Financial assets at fair value through profit or loss	18.466	-	36.276	-	54.742
Financial assets at fair value through other comprehensive income	179.855	-	-	-	179.855
Financial assets measured at amortized cost					-
Debt securities	2.811.919	-	-	-	2.811.919
Loans and advances to banks	3.518.154	-	47.599	-	3.565.752
Loans and advances to customers	14.595.915	232.657	-	-	14.828.571
Other tangible assets	272.273	-	-	-	272.273
Other intangible assets	27.257	-	-	-	27.257
Current tax assets	-	-	-	-	-
Deferred tax assets	49.751	-	-	-	49.751
Other assets	1.335.039	-	-	-	1.335.039
	24.791.489	1.141.192	225.917	17.603	26.176.200
Liabilities					
Deposits from Central Banks	1.053.722	-	-	-	1.053.722
Financial liabilities measured at amortized cost					
Deposits from Banks	158.727	147.631	6.688	-	313.046
Customer Deposits	21.048.117	667.825	90.703	855	21.807.500
Provisions	7.675	-	-	-	7.675
Pending legal issues and tax litigation					
Commitments and guarantees granted	-	-	-	-	-
Other provisions	-	-	-	-	-
Current tax liabilities	32.996	-	-	-	32.996
Deferred tax liabilities	3.707	-	-	-	3.707
Other liabilities	212.962	217	-	-	213.179
	22.517.906	815.673	97.391	855	23.431.825
Equity	2.273.583	325.519	128.526	16.748	2.744.376

(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

37.7. 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.

38. Capital Management

The objectives of Capital management in the Bank are guided by the following general principles:

- Comply with regulatory requirements established by Bank of Cape Verde;
- Generate an adequate profitability for the Bank, with the creation of value for the shareholders, providing 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 Own Funds 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 12¹¹%, 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 ($\geq 10\%$ 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 December 19th, of Bank of Cape 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 February 25th, 2008, of Bank of Cape 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.

¹¹ In March 2020, the BCV, as one of the monetary and prudential policy measures, decided to temporarily lower the regulatory limit of the Solvency Ratio to 10%

The following table summarizes the composition of the Bank's Regulatory Capital at the end of 2020 and 2019:

(in thousands of CVE)

	dez/20	dez/19	Var Abs	Var %
Own Base Funds	2 536 645	2 247 767	288 879	12,9%
Share Capital	900 000	900 000	0	0,0%
Legal Reserve	152 541	124 693	27 848	22,3%
Net income	294 533	278 480	16 053	5,8%
Other Reserves and Retained Earnings	1 216 828	971 596	245 231	25,2%
Intangible Assets	27 257	27 003	254	0,9%
Provisions Insufficiency	-	-	-	0,0%
Complementary Own Funds	169 855	181 164	(11 309)	(6,2%)
Revaluation Reserves	169 855	181 164	(11 309)	(6,2%)
Subordinated Loan	-	-	-	0,0%
Equity before deductions	2 706 500	2 428 930	277 569	11,4%
Higher Risk Concentration	42 971	108 372	(65 401)	
Property, plant and equipment received on repayment of own cr	86 398	58 357	28 042	
Total Eligible Equity	2 577 131	2 262 202	314 929	13,9%
Total Weighted Assets	14 663 165	14 623 723	39 442	0,3%
Solvency Ratio	17,6%	15,5%	2,1%	
Tier I Ratio	17,3%	15,4%	2%	

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 Bank of Cape 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 Bank of Cape 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, Bank of Cape 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 thereafter¹²;
- 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.

¹² It should be noted that, in 2020, following the health crisis and its adverse effects on the economy with potential impacts on banks, BCV, through Notice no. 2/2020, adopted as one of the temporary measures, the extension, in more of 2 years, from the deduction period to Own Funds for properties received in credit reimbursement from 2013 to 2016.

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 Bank of Cape 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 17,6% (15,5% in 2019). The Tier I ratio stood at 17,2% (15,4% in 2019).

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 2020 and 2019 and the respective valuation methods:

(in thousands of CVE)

Description	Valuation techniques							
	Market value or quotation Level 1		Market analysis Level 2		Other Level 3		Total	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Assets								
Financial assets held for negotiation	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	54.742	50.804	-	-	-	-	54.742	50.804
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	54.742	50.804	-	-	-	-	54.742	50.804
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. This evidence, 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	31/12/2019	Total (Losses/Gains)	Change in Revaluation Reserves	Acquisitions	Disposals	Reclassification	Other	Impairment	Transfers between levels	31/12/2020
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	31/12/2020		31/12/2019		Difference	
	Book Value	Fair Value	Book Value	Fair Value	31/12/2020	31/12/2019
<u>Assets</u>						
Deposits with Banks and Loans and Advances to banks	4.267.896	4.267.896	3.010.582	3.010.582	-	-
Loans and advances and other receivable amounts	14.828.571	14.828.571	14.175.173	14.175.173	-	-
Debt instruments	2.811.919	2.811.919	1.532.404	1.532.404	-	-
<u>Liabilities</u>						
Deposits from Banks	313.046	313.046	308.229	308.229	-	-
Customer Deposits	21.807.499	21.807.499	21.178.884	21.178.884	-	-

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. Impact of the COVID-19 pandemic

Framework

The year 2020 was marked by the spread of the disease COVID -19, caused by the SARS-Cov-2 virus, with the World Health Organization (WHO) declaring a pandemic in March 2020. The impacts of the pandemic reached an unprecedented dimension to several levels with the implementation of severe preventive and combat measures, imposing mandatory confinement measures that had serious impacts on economic activity.

The coronavirus outbreak (COVID-19) represents one of the most profound crises that humanity has gone through, which led some analysts to compare this process with the Great Depression of 1929, despite the fact that the origin of the two crises were radically different factors.

In this sense, the International Monetary Fund (IMF) estimated a negative impact on world GDP of approximately 4,3% in 2020, reflecting, above all, the harmful

consequences of the health crisis on global economic activity. The crisis caused a sharp drop in trade and significant fluctuations in exchange rates. The outlook remains highly uncertain, considering the high risk of new contagion waves, inversion of capital flows and a further decline in international trade.

The interruption of economic activity and its impact on value chains as a result of the social distance measures that countries were forced to apply in order to mitigate or reduce the contagion curve of COVID-19 and, at the same time, make health systems sustainable, had devastating effects on the performance of economies, a situation that mainly affects poor or developing countries, with the pandemic increasing pre-existing crises (economic, financial, social, and political).

Internally, the COVID-19 pandemic brought very negative consequences, given the predominance of the tourism sector, one of the sectors most affected by this pandemic, in the national economy.

In this context, Cape Verde, in line with the best international practices, has taken a set of measures aimed at protecting companies, jobs and income, in addition to social protection measures for informal workers and families, having simultaneously adopted, progressively, measures for the recovery, stabilization and acceleration of economic growth.

Measures to increase corporate liquidity

Credit Moratorium

The Government of Cape Verde, through Decree Law No. 38/2020 of March 31st (and its subsequent amendments), instituted a credit moratorium before Banks in order to support families and companies in a context of sharp drop in income caused by the pandemic. This public moratorium came to establish exceptional measures to protect the credits of beneficiary entities in the context of the pandemic COVID-19, allowing the deferral of the fulfillment of responsibilities, which are not in default (overdue less than 90 days) on the date of receipt declaration of adherence to the moratorium. The moratorium term initially 6 months, starting in March, was first extended to December 2020 and later to September 30th, 2021.

Until December 31st, 2020, the Bank granted a total of 293 moratoriums in the global amount of 4.672.469 thousand CVE, distributed among different sectors of economic activity, with the highlight being that around 27% of applications for adherence to the public moratorium were made by companies operating in the Tourism sector.

(in thousands of CVE)

Economic Sector	Portfolio	%	Number of operations
Commerce	403.567	9%	25
Construction and Public works	91.914	2%	5
Industry	150.711	3%	6
Real State Operations	915.636	20%	8
Other Sector	41.975	1%	4
Services	800.343	17%	30
Tourism	1.254.833	27%	25
Public Sector	356.650	8%	6
Housing	319.856	7%	42
Consumption	4.003	0%	5
Other Individuals	332.981	7%	137
Total	4.672.469	100.00%	293

Analyzing the distribution by segments, Corporates, and Individuals, we have that 86% of the applications for participation of the moratorium were made by Corporates and 14% by Individuals.

(in thousands of CVE)

	Amount	%	Quantity	%
CORPORATE	4.015.629	86%	109	37%
INDIVIDUALS	656.840	14%	184	63,0%
TOTAL	4.672.469	100%	293	100%

Financing lines

In parallel to the moratorium, the government of Cape Verde, in partnership with commercial banks and BCV, created credit lines to support the economy in order to protect employment and support companies. These lines are guaranteed by the State of Cape Verde, through Pro Garante, in up to 100% of the outstanding capital and are intended for the entire business universe regardless of the size of the companies.

Under these lines, loans were granted to 32 corporates, operating in various sectors of economic activity, for a total of 447.308 thousand CVE.

(in thousands of CVE)

Economic Sector	Number of Debtors	Gross Amount	%	%Public guarantee received
Commerce	5	129.742	29%	50%
	7	36.350	8%	80%
	1	20.000	4%	0%
Construction and Public works	1	22.280	5%	50%
Industry	3	14.224	3%	80%
Other Sector	1	9.818	2%	50%
	1	675	0%	80%
Services	5	25.442	6%	80%
Tourism	3	100.000	22%	50%
	1	40.000	9%	60%
	4	48.777	11%	80,0%
TOTAL	32	447.308	100%	

Distribution by Maturity is as shown in the table below, with 60% having a maturity of less than 3.5 years.

(in thousands of CVE)

Level of maturity	Gross Amount	%Mix	Number of Debtors
<=3,5 years	270.085	60,4%	18
<=5 years	86.928	19,4%	4
<=7 years	90.295	20,2%	10
TOTAL	447.308	100%	32

Monetary policy measures

Due to its nature and its impacts on the economy, this health crisis caused by the COVID-19 pandemic, naturally, also affected the financial system, so, in a context of significant increase in risk and uncertainty, resulting from possible difficulties for customers in fulfilling its credit obligations, the BCV adopted a set of monetary stimulus measures with the aim, not only of guaranteeing that banks will not lack liquidity, but also of guaranteeing that they will not be penalized in terms of capital.

Thus, among the package of monetary stimulus measures adopted by the BCV, the following stand out:

Monetary Policy Measures

1. The reduction in the director fee from 1,5% to 0,25%;
2. The decrease in the rate of standing liquidity-providing facilities by 250 basis points, that is, from 3% to 0,5%;
3. The provision of a credit line to banks, through the Long-Term Monetary Operation, with special financing conditions, at an interest rate of 0,75%, with a value of up to 45 million CVE, in depending on the public debt held by each bank, with a maturity equal to or greater than the term of the credit granted;
4. The reduction in the rate of permanent liquidity-absorbing facilities by 5 basis points, from 0,1% to 0,05%, with a view to redirecting bank resources towards credit to the economy;
5. The reduction in the ratio of Minimum Cash Availabilities by 300 basis points, from 13% to 10%; and
6. The reduction in the rediscount rate by 450 basis points, from 5,5% to 1%.

Prudential measures

In parallel to the monetary policy measures, the BCV adopted a set of prudential measures of an exceptional and temporary nature aimed at Financial Institutions:

1. The reduction of the solvency ratio by 2 percentage points until December 31st, 2021, from 12% to 10%;
2. Suspension, in 2020 and 2021, of the deduction from Own Funds of the values of the assets received in payment, in the period from 2013 to 2016, within the scope of the credit recovery processes;

Adoption of new procedures and criteria for accounting estimates in the context of the COVID-19 pandemic

In the context of the pandemic crisis, Bank of Cape Verde issued specific guidelines in relation to IFRS 9 - Financial instruments, namely with regard to the treatment of restructured credits. In this sense, during the moratorium period, default situations on the part of customers are not considered as non-performing credit (NPL-Non-Performing Loans), having no effect on impairments, provisions, and activity ratios.

IFRS 9 - Impacts of the COVID-19 pandemic

With the economic impacts of the pandemic, the credit risks faced by banks around the world have increased significantly, forcing banks to report additional impairments associated with their loan portfolio through the calibration of the respective impairment models, in order to capture with reasonable security, the foreseeable effects of the pandemic on its loans and advances portfolio.

Not an exception, BCN was also obliged to reflect in its accounts the effects of the deterioration of economic activity in its impairment model in order to capture this effect on its loans and advances portfolio.

For the determination of the impact, the information contained in a study published in April 2020 by Moody's regarding the impact of the pandemic was used, under the title IFRS 9 Challenges in View of COVID-19: Impact on Provisions and Associated Regulatory Guidance in which, among other aspects and based on market information until March 2020, Moody's quantified, in terms of ECL growth, the impact of COVID-19 in the sectors most affected by the crisis.

The calculation of the impact for the BCN was performed, as follows, respectively, for Corporates and Individuals.

Corporates

Based on the table of impacts by sector of economic activity in the aforementioned study, the Bank proceeded to increase the ECLs of its credit portfolio for Companies, as follows: after calculating the ECL of the loans and advances portfolio using its current calculation model and according to the economic activity sector of each client / entity that makes up its portfolio, in a "forward looking" perspective, it used the loss factors estimated by Moody's to increase the ECL associated with its loans and advances portfolio.

The correspondence between the sector of economic activity in use at the Bank and that given by Moody's was made by approximation. For cases in which such correspondence was not guaranteed with reasonable security, the simple average of the sectoral loss rates indicated by Moody's was applied as a loss factor.

Individuals

With regard to clients / private entities, a Top-down approach was used, using as a single loss factor the rate that results from the weighted average of the loss factors applied to the company segment by the respective Exposure at default (EAD), with some exceptions.

With this methodological approach, it is the Bank's understanding to have captured, with reasonable certainty, the possible negative impacts of COVID-19 on its portfolio. Depending on the evolution of the market and in particular of its loans and advances portfolio, the bank will assess, in due time, the additional consideration of other criteria.

In terms of impact on the ECL calculated for December 2020, the results are as shown in the table below:

Segments	EAD	ECL_Final_Model	ECL_Final_COVID19_Impact	COVID19_Impact	COVID19_Impact %
Judicial Expenses	17.649.296	17.649.296	17.649.295	-1	0%
Corporate with GRH	6.593.360.768	243.174.663	315.138.769	71.964.106	29,6%
Pre-Drowned Corporate	330.270.478	330.270.480	330.270.478	-2	0%
Corporate without GRH	4.445.989.428	99.752.251	111.126.919	11.374.668	11,4%
Individuals Rent Consumption	1.076.569.332	90.478.230	101.004.963	10.526.733	11,6%
Individuals Housing	2.857.762.961	81.110.023	108.233.195	27.123.172	33,4%
Pre-Drowned Individuals	142.645.919	142.645.922	142.645.910	-12	0%
Individuals Revolving	476.323.977	54.768.842	63.285.599	8.516.757	15,6%
Public sector	1.662.205.794	19.112.780	19.112.780	0	0%
TOTAL	17.602.777.954	1.078.962.487	1.208.467.909	129.505.422	12,0%

41. 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 Lúcia Gonçalves M Oliveira Lima

Frederico Omar Evora Fortes

Henrique Maximiano Evora Fortes

Maria Fernanda Benroz Lima Fonseca

Rosália 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)

	<u>Key management personnel</u>		<u>Shareholders</u>		<u>Family of key management personnel</u>	
	2020	2019	2020	2019	2020	2019
<u>Assets</u>						
Deposits with Banks	-	-	-	-	-	-
Loans and advances to customers (*)	3.217	3.546	-	-	-	-
Other assets	-	-	-	-	-	-
	<u>3.217</u>	<u>3.546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Liabilities</u>						
Deposits from Banks	-	-	(557.521)	(351.604)	-	-
Customer Deposits	(27.177)	(22.541)	(103.924)	(107.689)	(32.498)	(27.528)
Other liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
	<u>(27.177)</u>	<u>(22.541)</u>	<u>(661.445)</u>	<u>(459.292)</u>	<u>(32.498)</u>	<u>(27.528)</u>
<u>Income Statement</u>						
<u>Expenses</u>						
Interest expense and similar charges and commissions	-	-	-	-	-	-
Commissions paid	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Income</u>						
Interest and similar income and commissions	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

* 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 Bank of Cape Verde, with the exception for certain operations provided on the no. 4 of the same article.

42. 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 2020, 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 2020 (which shows total assets of CVE 26.176.201 thousand and a total shareholders' equity of CVE 2.744.376 thousand, including a net profit of CVE 294.533 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 2020, 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 Banco de Cabo 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.

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Matriculada na Conservatória dos Registos Comercial e Automóvel da Praia sob o nº 282682902/420191217

NIF: 282 682 902, Capital Social: CVE 1.500.000

Inscrita na lista da OPACC sob o nº 6

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, 33, 37.1 and 37.2 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 2020, the gross amount of loans and advances to customers amounts to CVE 16.301.126 thousand and the respective impairment losses as at that date amount to CVE 1.472.554 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 Banco de Cabo 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 process is summarized 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 (stages 1, 2 and 3), and an individual analysis of impairment quantification. In this last case, the analysis is performed for the exposures classified in stage 3, being the impairment amount determined through a

The audit procedures developed included the identification, understanding and evaluation of the policies and procedures established by the Bank for the purpose of measuring impairment losses for the loan portfolio granted to customers, as well as the key controls related to approval, recording and monitoring credit risk, the granting of moratoriums and state guarantees in the specific context of the COVID-19 pandemic, and the timely identification, measurement and recording of impairment losses.

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.

On a sampling basis, we analysed a set of Bank clients 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) formulate 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 31 December 2020, the procedures carried out consisted of: (i) reviewing documentation associated with the loans and advances granting process; (ii) verifying the correspondence of financial plans used to determine

<p>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.</p> <ul style="list-style-type: none"> 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, and, in order to be representative of the current economic context and simultaneously incorporate a perspective of future economic developments, they also use available prospective information about a set of macroeconomic variables. <p>The specific context motivated by the COVID-19 pandemic led to an increase of the complexity in identifying significant increases in credit risk and default indicators, taking into account the various support measures granted to families and companies, namely the launching of support lines for the economy and the possibility granted to families and companies of adhering to the temporary suspension of payment of loan instalments (moratoriums). In these circumstances, the internal impairment analysis models developed by the Bank were adapted to incorporate new criteria and other judgments such as (i) the consideration of temporary flexibility measures to avoid aggravating the stage and / or marking as restructured operations with moratoriums approved, in line with the supervisor's guidelines on this matter, and (ii) the updating of macroeconomic scenarios for the purpose of determining the estimated loss, due to the potential economic effects of the COVID-19 pandemic.</p> <p>Considering what is referred above, 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</p>	<p>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 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.</p> <p>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 materially relevant discrepancies.</p> <p>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, as well as, the available prospective information and its update due to the estimated economic effects of the COVID-19 pandemic; (vi) critical analysis of the main assumptions and sources of information used to estimate 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) recalculation of the Expected Credit Loss (ECL) for the loans and advances to customers portfolio as at 31 December 2020.</p> <p>Additionally, the audit procedures over the amount of the regulatory provisions defined by Banco de Cabo Verde, and booked on the financial statements as of 31 December 2020 included (i) the verification of the</p>
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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 calculated at each time.

provisions recorded for a number of loans operations granted by the Bank, with reference to 31 December 2020, following the guidelines contained in Notice no. 4/2006 of Banco de Cabo 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 2020.

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 assets received as recovery of loans and advances

Measurement and disclosures related to the valuation of real estate assets received in recovery of loans and advances presented in notes 3.3, 15 and 33 of the Bank's financial statements

As at 31 December 2020, the net amount of real estate assets received in recovery of loans and advances, presented in the Other asset's account, is CVE 1.008.255 thousand.

According to the policies in force at the Bank, the real estate assets are subject to periodic valuations, carried out by expert appraisers registered in the Auditoria Geral do Mercado de Valores Mobiliários ("AGMVM") of Banco de Cabo Verde, which includes a set of assumptions, and which give rise to the recording of impairment losses, whenever the value determined by such valuations, net of costs of sales, is lower than their book value.

Due the significant expression of these assets on the Bank's balance sheet, and considering their valuation require the application of a set of assumptions and judgements by the Board of Directors for the determination of both the recognition moment and the amount of the corresponding impairment losses, this was a key audit matter for the purposes of our audit.

The audit procedures undertaken included the identification and understanding of the key controls established by the Bank to identify the real estate assets with signs of impairment, to determine the corresponding amounts of impairment losses and to ensure the corresponding accounting balance in an appropriate and timely manner.

For a sample of real estate assets, we analysed their valuation and, when applicable, the corresponding impairment losses recorded resulting from the appraisals 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 valuation of the selected assets. Whenever necessary, we held meetings with the Bank to understand and challenge the judgements and assumptions used on the appraisal's preparation, in order to assess the existence of any materially relevant divergences. We evaluated the competence, capacity and objectivity of the expert appraisers hired by the Bank, including the confirmation of their registration in the AGMVM.

For a sample of real estate assets sold during the year of 2020, 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 assets 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 Banco de Cabo 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.

29 March 2021

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

Report and Opinion of the Supervisory Board on the Report and Financial Statements for the year ended in December 2020

Dear shareholders,

Pursuant to the Commercial Companies Code, the Regulations of the Bank of Cape Verde, the statutes, fulfilling the mandate that Your Excellencies conferred on us and in the performance of our legal and statutory functions, as a Supervisory Board, we present the report on the supervisory activity performed and issue an opinion on the Management Report and Financial Statements presented by the Board of Directors of BCN- Banco Caboverdiano de Negócios, SA ("Bank") for the year ended in December 31st, 2020.

1. About the activities performed by the Supervisory Board

During the fiscal year, the Supervisory Board met on several occasions in 2020, having monitored, with the frequency and extent that we consider appropriate under the circumstances, the Bank's activity and developed many activities in compliance with the competences that are legally assigned to it, namely:

1.1 Verified the regularity of the bookkeeping and respective documentation, and the process of preparation and disclosure of financial information, having participated in several monitoring committee meetings with the Board of Directors, Executive Commission, and various Structural Units of the Bank;

1.2. Monthly meetings were held with the members of the Board of Directors and with those responsible for the Units in charge of the implementation and management of mechanism of the Bank's Internal Control, namely with the Risk and Compliance units, in order to verify the effectiveness of the internal control system, as far as the controls are relevant for the control of the Bank's activity and the presentation of the financial statements, the risk management system and the internal audit, and we also monitor compliance with the law and the statutes;

1.3. Analyzed the report on the internal control systems in 2019, analyzed and issued an opinion on the adequacy and effectiveness of the internal control system under the terms established in paragraph a) n°3 article 24 of Notice n°4/2017 of the Bank of Cape Verde. It also monitored the progress of the Internal Control System and followed-up the maps of deficiencies Internal Control System and the evolution of plans to mitigate risks and evaluated the Independent Auditor's memorandum of opinion on the review of the internal control system underlying the process of preparation and disclosure of the Bank's financial information;

Report and Opinion of the Supervisory Board on the Report and Financial Statements for the year ended in December 2020

1.4. Also, aware of the primary role of the internal audit of supervising the risk management of the controls and governance processes, the Supervisory Board became aware of, analyzed, and issued its opinion on the Internal Audit Plan of Banco Caboverdiano de Negócios, thus providing due compliance to the provisions of Notice 4/2017 of September 7th of BCV;

1.5. The Board also took awareness of the Corporate Governance Report of Banco Caboverdiano de Negócios for the year 2019, analyzed and issued the opinion which it considers necessary pursuant to the provisions of article 2 of Notice no. 7/2017 of Bank of Cape Verde;

1.6. Finally, the Supervisory Board monitored and evaluated the process of preparation and disclosure of financial information and held meetings with PricewaterhouseCoopers Cabo Verde- Sociedade de Auditores Certificados, Lda to assess the status of the audit work and analyzed the Audit report, issued by PricewaterhouseCoopers Cape Verde, which presents two relevant audit matters, with which we agree, relating to:

i. Impairment losses in Credit granted to customers, given its significant expression, as well as the associated credit impairment losses due to the complexity and subjectivity of the assumptions and judgments of this estimate, which requires processing of data that are not always directly available; the specific context motivated by the covid- 19 pandemic led to increased complexity in identifying increased credit risk and default indicators, considering a set of support measures granted to families and companies with possibilities in adhering to the "moratorium"-facility of temporarily suspend payment of installments.

Indeed, the uncertainty as to the real extent and impact of the pandemic deserves special attention and monitoring.

Report and Opinion of the Supervisory Board on the Report and Financial Statements for the year ended in December 2020

ii. Appreciation of properties received in credit reimbursement

In accordance with the Bank's policies in force, properties are subject to periodic valuation, performed by expert appraisers and incorporate a set of assumptions that originates a record of impairment losses whenever the value resulting from such valuation is lower than its value and, given the expression of these assets in the balance sheet, the relevance of this matter was considered.

2. Opinion of the Supervisory Board

Within the scope of our duties, the Supervisory Board analyzed the Bank's Financial Statements for the year ended in December 31st, 2020, which includes the balance sheet, the statement of comprehensive income, the statement of Changes in equity and the statement of cash flows as well as the notes attached to the financial statements, the Supervisory Board considered it relevant to mention the following facts:

2.1. The audit of the accounts for the year ended in December 31st , 2020, by PricewaterhouseCoopers Cabo Verde- Sociedade de Auditores Certificados, Lda concluded that the financial statements (Balance Sheet, Income Statement, Comprehensive Income Statement, Statement of Changes in Equity, the Cash Flow Statement) and the corresponding attachment, present the Bank's financial position in a true and appropriate way, in all materially relevant aspects, which allows an adequate understanding of the Bank's financial situation, of its results, of comprehensive income, of changes in equity and of cash flows;

2.2 The accounting policies and valuation criteria adopted are in accordance with the International Financial Reporting Standards and are adequate, in order to ensure that they lead to a correct presentation of the Bank's assets and results;

2.3 The board also examined the management report presented by the bank's Board of Directors, which clarifies the evolution of the Bank's business and situation, highlighting the most significant aspects;

2.4. The proposed application of results does not disregard the applicable legal and statutory provisions;

2.5. Notwithstanding the constraints and restrictions imposed by the Covid-19 crisis, the Bank knew how to adopt measures adjusted to the pandemic situation and reacted to the challenges of the crisis and it is worth recognizing the effort that the Board of Directors continues to develop in the exercise of its functions, namely in compliance with accounting, administrative, financial, and internal control procedures.

In these terms, considering the information received from the Board of Directors and Services and the conclusions contained in the Audit Report, we are of the opinion that:

- i. The management report must be approved
- ii. The Financial statements must be approved

iii. The proposal for application of results must be approved.

Finally, we would like to express our gratitude to the Board of Directors and all the bank's employees with whom we contacted, for the valuable collaboration received.

Praia, March 16th, 2021

The Supervisory Board

President	Vice Chairman	Member
Dr. José Maria Ramos Cunha Monteiro	Dr. Rui Oliveira Silva	Dr. Jorge Paulo Gomes

(This is a translation, not to be signed)



BANCO CABOVERDIANO
DE NEGÓCIOS