

# ANNUAL **REPORT** 2018



<b>I. MANAGEMENT REPORT .....</b>	<b>4</b>
1 MESSAGE TO THE SHAREHOLDERS .....	5
2 CORPORATE BODIES AS OF 31 DECEMBER 2018.....	7
3 SHAREHOLDER STRUCTURE .....	8
4 OUR MISSION, OUR VISION AND OUR VALUES .....	9
5 RELEVANT FACTS IN 2018 .....	10
6 MACROECONOMIC FRAMEWORK .....	11
7 BANKING ACTIVITY OVERVIEW.....	16
8 OVERVIEW OF THE MAIN INITIATIVES CARRIED OUT IN 2018.....	28
9 PROPOSAL FOR THE APPROPRIATION OF RESULTS.....	48
<b>II. FINANCIAL STATEMENTS.....</b>	<b>49</b>
<b>III. NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>56</b>
<b>IV. REPORT OF THE INDEPENDENT AUDITOR.....</b>	<b>1466</b>
<b>V. REPORT AND OPINION OF THE SUPERVISORY BOARD .....</b>	<b>1544</b>

This document is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version shall prevail.

## Financial Highlights

	dec-2018	dec-2017	Var (abs)/p.p.	Var (%)
<b>Income Statement Accounts</b>				
Net interest income	632.331	488.303	144.029	29,5%
Complementar Net interest	153.278	153.494	(216)	0%
of which commissions	106.998	106.636	361	0,3%
Operating income	785.609	641.796	143.813	22,4%
Administrative Costs	404.563	328.291	76.272	23,2%
Operational Cash Flow	381.046	313.505	67.541	21,5%
Operating Results	347.893	278.196	69.697	25,1%
Impairment losses	(87.797)	(20.954)	(66.843)	319,0%
(of which: impairment losses on loans and advances)	(49.936)	2.081	(52.017)	-2500,0%
Profit / (loss) before income tax	272.401	257.242	15.159	5,9%
Net profit / (loss) for the period	207.193	203.850	3.343	1,6%
<b>Assets and Own Funds</b>				
Total Assets	19.396.318	16.585.060	2.811.259	17,0%
Total Equity	2.181.934	1.918.939	262.995	13,7%
Loans and advances to customers	13.646.138	10.758.372	2.887.766	26,8%
Debt Securities	1.398.200	1.241.472	156.728	12,6%
Loans and advances to customers (free from impairment)	12.353.478	9.510.238	2.843.241	29,9%
Loans and advances to customers (principal amount)	11.886.110	9.173.477	2.712.633	29,6%
Customer Accounts	16.668.049	13.902.969	2.765.080	19,9%
(of which: customer accounts from emigrants)	3.397.770	3.115.931	281.839	9,0%
Deposits from Banks	331.582	544.733	(213.151)	-39,1%
Quality of Credit (Circular nº 150 from BCV)	6,30%	6,96%	(0,653)	
Loans and advances to customers / Total Liabilities	80,3%	74,5%	5,809	
Loans and advances to customers (free from impairment)/Total Assets	63,7%	57,3%	6,348	
Costs with deposits	2,0%	2,2%	(0,232)	
Costs with risk	-0,2%	0,0%	(0,194)	
<b>Yield</b>				
ROA	1,1%	1,2%	(0,161)	
ROE	9,5%	10,6%	(1,127)	
Operating Income/Total Assets	4,1%	3,9%	0,181	
<b>Solvency</b>				
Solvency Ratio	17,4%	20,1%	(2,679)	
Tier I Ratio	16,1%	19,0%	(2,814)	
<b>Efficiency</b>				
Cost -to-income	55,7%	56,7%	(0,937)	
Staff Costs/Operating Income	28,1%	26,5%	1,587	
Complementar Net interest/Operating Income	19,5%	23,9%	(4,406)	

## **I. MANAGEMENT REPORT**

## 1. MESSAGE TO THE SHAREHOLDERS

In 2018, the performance of BCN exceeded the interesting growth recorded in the Cape Verdean economy, which was supported by the Tourism and Real Estate sectors, as well as by the contribution of the favorable external environment and the growth dynamics of taxes net of subsidies, which mitigated the negative effects of the bad agricultural year due to the drought of the last two years.

In fact, we achieved a strong growth in Credit granted mainly to SMEs, a growth that was well above the system average, and managed to remain the most efficient Bank in the national financial system, with a cost-to-income ratio of 55,7% (56,7% in 2017) and a solvency in line with the market average.

All of this generated a net income of around 207,2 million CVE compared with the 203,9 million CVE in 2017, in a context of strengthening the level of impairment/provisions associated with loan operations and real estate held in portfolio.

The relevance of this growth is reinforced by the progressive consolidation of the process of profound changes occurring in the Bank's manner of operating, which we want to be simpler, closer to customers and stakeholders, based on the values of *Morabeza*, Commitment, Sustainability and Simplicity, in a true spirit of *Djunta mon* which has become the soul of our 100% Cape-Verdean matrix Bank.

In fact, it was with this spirit of *Djunta mon* and with the will to materialize the firm purpose of being a Cape-Verdean Bank for Cape-Verdeans and one of reference for Cape-Verdean companies, that in March 2018, the Bank, after a long process of due diligence carried out by International Financial Corporation (IFC), a World Bank institution, promotor of the private sector, signed a credit line agreement worth 5,0 million EUR and another relating to a trade finance line in the amount of 2,0 million EUR, both intended for the financing of national SMEs.

This will has led to the restructuring of the commercial area with the creation of a specific Nucleus for SMEs, which in addition to the normal banking services, also offers specific services and advice, both in financial and non-financial aspects.

This new manner of operating of the Bank, allied with the strong commercial activity, was reflected in its results and main indicators, translating into improvements in market shares, both in terms of credit granted and the level of deposits taken, with robust growths of 27% and 20%, respectively.

In terms of quality, BCN continues to present a ratio below the market average, maintaining a level of overdue credit covered by impairment in excess of 100%.

Total Net Assets increased by 17% and Shareholders' Equity by 14%, affirming the good performance of the Bank in 2018.

In line with the importance placed by the IMPAR Group on Human Resources, BCN completed the salary equality program in 2018, which promoted internal corrections and adjustments regarding the remuneration of the functions for which tasks, profile, professional experience and level of responsibility are similar, gradually increasing the Bank's competitiveness with the banking sector.

Still considering the Employees, in 2018, for the first time in the Banks' history, Management carried out a satisfaction and organizational climate survey at BCN, which results will allow to implement improvements in order to turn BCN into a reference institution to work.

With the conviction that we are on the right track and with the reforms that have been implemented since the shareholder structure change in March 2017, the Bank now has better conditions to grow and to continue implementing its strategy, which includes the continuous improvement of the quality of services rendered to its Customers, and the shareholders have reaffirmed, through the non-distribution of dividends, the strong focus on the reinforcement of the shareholders' equity of BCN, thus enhancing, even more, the growth of the Bank's activity.

The Board of Directors could not end this message without a word of recognition for the decisive contribution of all those who made possible the performance achieved, mainly to the shareholders for reinforcing the Bank's capital, to the Customers, the reason for our existence, for the preference and trust placed on us and to the Supervisory Authority, for its fundamental role in the effective functioning of the financial market.

Ultimately, the Board of Directors addresses a very special thanks to all the Employees who have contributed to the results achieved and who with competence and dedication are helping to make us the best National Bank.

The Chairman of the Board of Directors,

Luís Vasconcelos Lopes

## 2. CORPORATE BODIES AS AT 31 DECEMBER 2018

### General Meeting Board

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

### Board of Directors

- **Chairman:**  
Luís Miguel Andrade Vasconcelos Lopes
- **Vice-Chairman**  
Luís de Matos Monteiro da Fonseca
- **Members:**  
Pedro Mendes Barros  
Paulo Jorge Ferro Ribeiro de Oliveira Lima  
Carlitos Marcos Lima Fortes  
Marco António Rodrigues de Almeida Pereira  
António Olavo de Oliveira Rocha

### Executive Commission

- **President**  
Pedro Mendes Barros\*  
Paulo Jorge Ferro Ribeiro de Oliveira Lima\*\*
- **Executive Directors**  
Carlitos Marcos Lima Fortes  
Marco António Rodrigues de Almeida Pereira

### Supervisory Board

- **Chairman**  
José Maria Ramos Cunha
- **Vice-Chairman**  
Rui Oliveira Silva
- **Member**  
António Pedro Monteiro Delgado

\* Until 4 April 2018

\*\* As from 4 April 2018

### 3. SHAREHOLDER STRUCTURE

The share capital of 900 million CVE, as of 31 December 2018, was distributed as per the shareholder structure presented in the table below:

Shareholders	No. Shares	Amount (CVE)	Percentage
IMPAR, SEGUROS	465.182	465.182.000	51.69%
SEPI	394.818	394.818.000	43.87%
Cruz Vermelha de Cabo Verde	40.000	40.000.000	4.44%
	<b>900.000</b>	<b>900.000.000</b>	<b>100%</b>



## 4. OUR MISSION, OUR VISION AND OUR VALUES

### MISSION

Our mission is to **IMPROVE** the lives of people who interact with BCN, providing Banking Products and Services, integrated with Insurance, idealized for the reality of the Country and the Diaspora, **CREATE** growth opportunities for 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 it the ambition of the Bank coming to be recognized as the **BEST BANK** of the Cape Verdean financial system, **trustworthy and leader in quality of services** provided to customers, through excellence and innovation in the distribution of financial products and services.

### VALUES

Our **VALUES**, 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 characterize the Cape Verdean people which is their spirit of inter-help, commonly designated "DJUNTA-MOM", the **"Umbrella" Value of BCN**.

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

## 5. RELEVANT FACTS IN 2018

Year 2018 was a year of consolidation of reforms and strategy that the Bank has been implementing since the change of the shareholder structure, which took place in March 2017, being the most noteworthy the following facts:

- Continuation of the Bank's rebranding plan, with the visual and corporate image change;
- Approval of the Strategic Plan, 2018 – 2022, prepared with technical assistance of International Finance Corporation (IFC);
- Changing the organizational structure, mainly focused on the Commercial Department, which is now organized by business segments (Corporate/Institutional, Small and Medium Enterprises (SMEs) and Individuals), materializing one of the focal points of its Strategic Plan;
- Approval of its Marketing Plan for the period 2018-2019;
- Completion of the salary equality process, begun in 2017, aimed at promoting internal corrections and adjustments in respect of remuneration in functions with a view to increasing the competitiveness of BCN in the banking sector's remuneration framework;
- Conclusion of the negotiation process with International Finance Corporation (IFC), which culminated in signing two contracts: one relating to a credit line of five million euros and the other to a trade finance line in the amount of two million euros, intended to finance national SMEs;
- Signing with the Cape Verde government, of the Protocolo Ecosistema de Financiamento à Economia (Economy-Financing Ecosystem Protocol), in which the parties undertake to make efforts to coordinate and complement their activities for the development of the ecosystem for financing of the national economy, through various mechanisms to support national entrepreneurs. This is essentially a credit risk-sharing mechanism created by the Government to promote the increase of credit to the national business sector;
- Opening a new Branch in Porto Novo city, retaking the activity in that part of the Island of Santo Antão, after its closure in 2014;
- Signing of a Professional Internship Protocol with the Instituto de Emprego e de Formação Profissional (Employment and Vocational Training Institute) which aims to accept on an internship regime new graduates or technical professionals with vocational training under the professional internship program in business PEPE;
- Launching of the Program "Mão Amiga", an initiative resulting from signing of the protocol with Cruz Vermelha de Cabo Verde (Red Cross of Cape Verde) and which consists of a campaign to raise the awareness of our customers and to raise donations through the bank account of this institution domiciled at BCN, for kindergartens and old-age nursing homes of Cruz Vermelha de Cabo Verde.



consumption, with the good performance in private investment offsetting the decline in public spending and investment. Imported goods continued to grow at a faster pace than exported goods, with a positive impact on trade balance, in a context of a decline in international reserves with the outflow of capital and an increase in the sovereign debt spread.

At **Eurozone**, economic activity was weaker than expected due to the slowing down of net exports, reflecting the Euro appreciation, decrease in domestic demand and the contraction of the industrial production index, mainly in the last quarter of the year. Thus, World Bank estimates point to a growth of 1,9% (2,4% in 2017), with the unemployment rate continuing to decline to pre-global financial crisis levels and the inflation rate remaining extremely low. During the year of 2018, the ECB maintained negative interest rates and the financial system continued to record an increase in activity despite the exposure of some European banks to the financial stress of some emerging countries.

The **United Kingdom** economy, still affected by the uncertainties surrounding Brexit with an impact on the confidence of economic agents, continues to perform poorly despite the relative dynamics of private consumption. For this economy, the World Bank estimates a growth of 1,3% (1,7% in 2017), with the unemployment rate approaching 4,1%, with the reduction of unemployment putting some upward pressure on salaries.

For **Japan**, the World Bank estimates a growth of 0,8% in 2018 (1,9% in 2017), reflecting contractions in the first and third quarter due to bad weather and natural disaster. The job market remains robust with the unemployment rate reaching 2,4%. The Bank of Japan has kept its interest rate policy unchanged and has continued to repurchase public debt in order to stabilize long-term bond yields at around zero.

The World Bank estimates an increase of 4,2% in the **Emerging Markets and Developing Economies (EMDEs)** in 2018 (4,3% in 2017). This growth, below the projections, reflects, in part, the effect of the financial stress on some economies with high budget deficits and high exposure to capital market volatility and external financing. Domestic demand in these countries was moderate and there was a decline in flows, with commodity-exporting countries losing their strength, reflecting the loss of investor confidence, particularly in those economies most exposed to external vulnerabilities and experiencing fragile domestic conditions, such as Angola, Nigeria, Argentina and South Africa, with the situation having been aggravated by the reduction in the price of oil and other commodities.

Still within the EMDEs, the group of countries denominated **LICs (Low Income Countries)**, despite the less favorable external environment, grew by 5,6% (5,1% in 2017). Such growth was largely supported by agricultural production, services, consumption and public investment. Nevertheless, poverty reduction remains weak, with more than 40% of these countries population living in extreme poverty.

For the **Portuguese economy**, Banco de Portugal (BdP) estimates a gross domestic product (GDP) growth of 2,1% in 2018, reflecting a reduction in net exports. Notwithstanding this reduction, exports, mainly tourism, continue to sustain the growth of the Portuguese economy, which also positively affects the other components, namely private and public investment, in a scenario of the maintenance of the weight of private consumption. The unemployment rate has continued its decreasing trajectory, albeit more moderately than in recent years. Consumer prices were 1,4% in 2018, reflecting internal inflationary pressures originating in staff costs.

At **African continent**, the African Development Bank (ADB), in its annual document "Economic Perspectives in Africa 2019", estimated a growth of 3,5% for the year of 2018, equal to the previous year. Growth on the African continent differs by regions with East Africa having a 5,7% rate, followed by North Africa with 4,9%, West Africa with 3,3%, Central Africa with 2,2% and Southern Africa with 1,2%. Regarding the latter, despite gradually recovering, it still maintains a growth below the average of the other regions of the continent, despite increased commodity prices and higher agricultural production.

However it should be noted that the growth observed is insufficient to address the structural challenges and the problem of budget deficits and debt vulnerability faced by most African countries, countries which are also dominated by informality, low productivity and an inability to create skilled jobs.

### **World Trade**

World trade slowed down in 2018, despite the growth observed, having been influenced by rising tariffs on USA imports, particularly on those from China, and the respective retaliatory measures taken by the targeted countries. This increase in protectionism coupled with the United Kingdom's exit from the European Union greatly influenced the level of investor confidence with the postponement of investments and the inherent consequences. The oils' price showed some volatility during 2018, with the upward trend in the first months of 2018 declining at the end of the year as a result of the economic growth in the USA and the downward revision of world economic growth. In terms of other commodities, prices of metals and agricultural raw-materials also declined in the last quarter of the year, driven by the increase in supply.

### **Financial Markets**

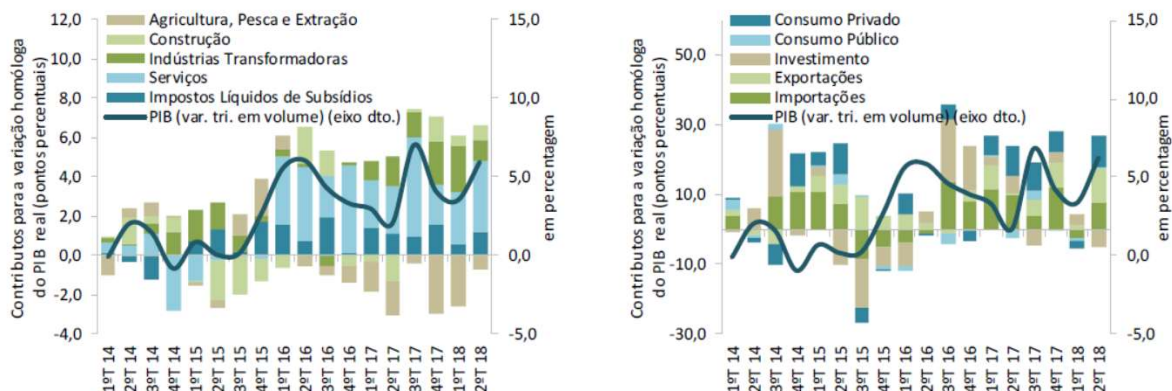
Globally, economic and financial conditions have been very volatile, influenced by trade tensions, the downward revision of global growth and the normalization of USA monetary policy, as well as uncertainties regarding the agreement for the United Kingdom's exit from the European Union, with consequences at the level of economic agents' confidence and financial assets' quotations. In the Eurozone, the economic and financial conditions remained accommodative, with the ECB reiterating its intention to terminate the net purchases of the widened purchase program at the end of 2018, with an effect on the increase in interest rates, EURIBOR, for all periods.

In the bond market, there was an increase in USA and UK government bond yields, and in the Eurozone, the rates showed volatility associated essentially with the political uncertainty in Italy. In terms of exchange rate developments, the trend was for currency appreciation of advanced economies, especially the USD and for currency depreciation of emerging economies, with the exception of the Chinese currency.

In terms of inflation, a reduction in the inflation rate, both in the Eurozone and in the USA, influenced by the restraint in raw-material prices was observed.

## National Context

For the Cape-Verdean economy, Banco de Cabo Verde (BCV) (Central Bank of Cape Verde) estimated a growth of 4,5% (4,0% in 2017), with the contribution to that performance coming from, besides the relatively favorable external environment, the growth dynamic in (i) taxes (net of subsidies), (ii) electricity and water, (iii) manufacturing, (iv) tourism and (v) real estate, despite the negative effects of the bad agricultural year due to the drought of 2017 and also the reduction of private consumption and public expenditure.



Source: Banco de Cabo Verde, Relatório da Política Monetária (Monetary Policy Report), October 2018

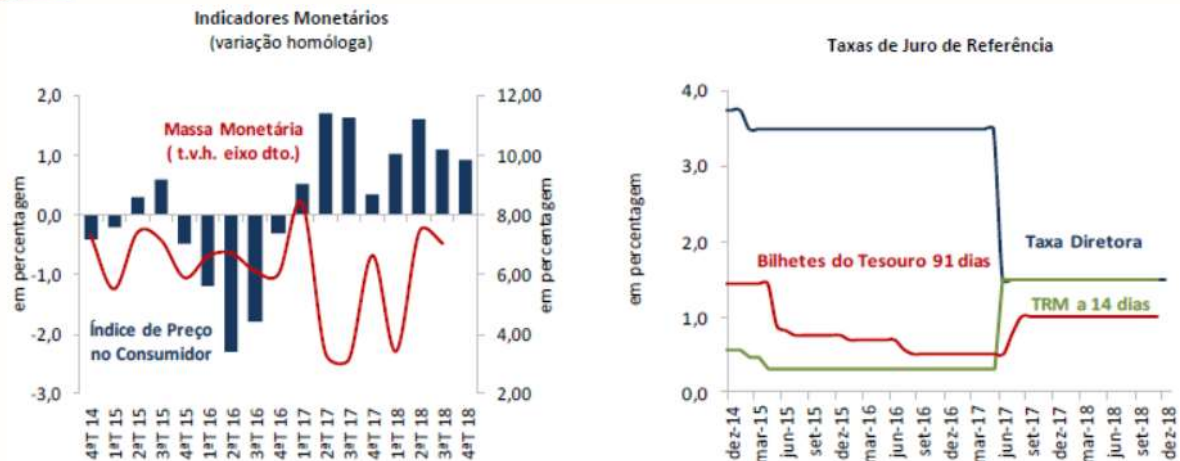
Average annual **inflation** stands at 1,3%, 0,5 p.p. over the figure registered in the homologous period of the previous year, reflecting essentially the increase in imported inflation, associated with food and energy product prices, with the latter, in turn, influencing the increase in prices of fuel, water, electricity and public urban passenger transport.

The behavior of consumer prices reflected essentially the inflation of the energy component and that of unprocessed food of the Consumer Price Index (CPI), consequence of the increase in oil prices on the international markets and the decrease in local production of fresh produce, due to the bad agricultural year.

In the **external accounts**, BCV data points to an increase in exports of goods and services, remittances from emigrants, tourism and the reduction of imports of services, which resulted in the easing of the current account deficit. Notwithstanding the reduction of foreign direct investment inflows and net government debt disbursements, the country's stock of net international reserves increased, covering 5,8 months of the imports of goods and services projected for the year.

Regarding the **monetary and financial** situation, there is an increase of the M2 aggregate of about 5,2%, a growth below expectations due to the moderate growth of domestic credit and decrease in external assets. It should be noted that as a stimulus to increase credit to the economy in a context of excess liquidity of banks, and from a risk-sharing perspective with the State, the latter created a set of mechanisms to facilitate access to credit, such as guarantees, interest subsidization, and a credit line under a Project with the World Bank. Even so, the growth of credit granted to the economy was only 3,5%, lower than in the previous year (5%).





**Source:** Banco de Cabo Verde, Relatório da Política Monetária (Monetary Policy Report), October 2018

With regard to **Public Finance**, Bank of Cape Verde data points to a worsening of the fiscal situation in the third quarter of 2018, mainly due to the increase in current expenditure (+11,4%), transfers to public administrations and the growth in social benefits. On the side of Total Revenues, the data points to a 3,1% growth, the highlight being the increase in tax revenues and the reduction of donations. Bank of Cape Verde also foresees a reduction of the debt burden to GDP from 124% to 121%.

## 7. BANKING ACTIVITY OVERVIEW

### Due to Customers and Other Loans

As of 31 December 2018, customer deposits, which are the main source of financing of the Bank, amounted to 16.668 million CVE, reflecting a growth of 19,9% compared with 2017. Of the evolution of Due to customers the highlight goes to the increase of (i) 1.746 million CVE in Demand Deposits; (ii) 838 million CVE in Time Deposits; and (iii) the growth of emigrants' funds of over 301 million CVE.

This growth reflects the commercial strategy of the Bank that, at the beginning of the year, adopted a new business model focused on market segmentation, in order to deepen the relationship with its different types of customers, supported by a range of products and services of differentiated quality. The objective of this strategy is primarily to increase the raising of stable resources, maintaining the focus on segments that provide the desired stability.

(in thousands of CVE)						
Designation	2018		2017		Change	
	Amount	Mix	Amount	Mix	Abs	%
Demand deposits	6.957.369	41,74%	5.211.504	37,5%	1.745.864	33,5%
Emigrants	436.898	2,62%	440.005	3,2%	(3.107)	-0,7%
Others	6.520.470	39,12%	4.771.499	34,3%	1.748.971	36,7%
Time deposits and Savings accounts	8.775.871	52,65%	7.937.866	57,1%	838.005	10,6%
Emigrants	2.889.812	17,34%	2.588.836	18,6%	300.976	11,6%
Others	5.886.059	35,31%	5.349.030	38,5%	537.029	10,0%
Other payables	1.335	0,01%	2.998	0,0%	(1.663)	-55,5%
Charges payable	252.230	1,51%	206.231	1,5%	45.999	22,3%
Securities sold with repurchase agreements	669.008	4,01%	536.083	3,9%	132.926	24,8%
Charges payable	12.236	0,07%	8.287	0,1%	3.949	47,6%
<b>Total</b>	<b>16.668.049</b>	<b>100,00%</b>	<b>13.902.969</b>	<b>100%</b>	<b>2.765.080</b>	<b>19,9%</b>

The growth at the level of deposits placed with BCN (19,9%) was higher than the market growth rate (3,4%), which led to an increase in market share from 7,6% to 8,8%.

	2017	% Mix	2018	% Mix	Δ abs.	Δ %
BCN	13.903	7,6%	16.668	8,8%	2.765	19,9%
National Banking System*	182.792	100%	188.946	100%	6.154	3,4%

\* Estimation for December 2018 based on data published by the BCV: (Consolidated Balance of Deposit Banks (Statistics from December 2010 to November 2018); Economic and Financial Indicators January 2019; and Statistics Bulletin January 2019

As regards emigrant funds, BCN recorded an increase of 9,8%, from 3.029 million CVE in 2017 to 3.327 million CVE in 2018, a growth above market growth, with a consequent increase in market share to 6,5% (5,8% in 2017).

In the customer funding structure, the emigrant segment has a weight around 19,9%, a decrease from the previous year (21,8% in 2017), explained by the greater growth of funding in other segments. It should be noted, however, that the Bank increased its market share for this segment as a result of the growth in the funding of this segment of around 9,8%, higher than the growth at the system's level (1,1%).



### Loans and Advances Portfolio (hereinafter also "Loan portfolio")

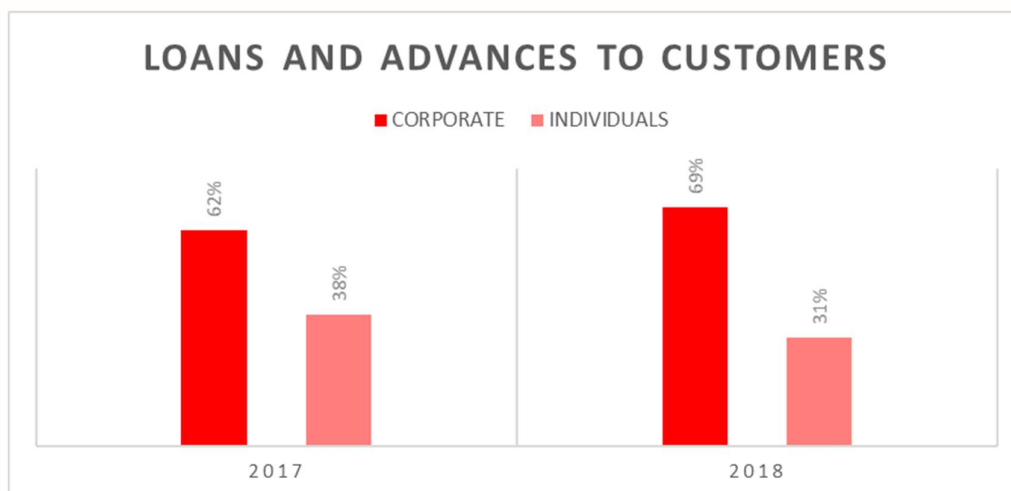
The Loan Portfolio (loans and advances to customers) as of 31 December 2018 totaled a gross amount of 13.646 million CVE, an increase of 26,8% (+ 2.888 million CVE) over the homologous period of 2017 (10.758 million CVE).

With a growth exceeding the market average (3,1%), BCN's credit market share increased 2,2 p.p., from 9,7% in 2017 to 11,9% at the end of 2018.

	2017	% Mix	2018	% Mix	Δ abs.	Δ %
BCN	10.758	9,7%	13.646	11,9%	2.888	26,8%
System*	111.020	100%	114.438	100%	3.418	3,1%

\* Estimation for December 2018 based on data published by the BCV: (Consolidated Balance of Deposit Banks (Statistics from December 2010 to November 2018); Economic and Financial Indicators January 2019; and Statistics Bulletin January 2019

Regarding the composition of the portfolio by segment, Corporate and Individuals, there was an increase in the Corporate segment, which now represents 69% of the portfolio (62% in 2017). On the other hand, the weight of the Individuals segment fell to 31% (38% in 2017), which reflects, to a large extent, the business segmentation initiated in 2018 with an emphasis on Small and Medium Enterprises (SMEs), a segment which, due to the fundamental role it plays in the national economy, has become a strategic segment for BCN.



In terms of concentration, the Bank's 20 largest exposures, dispersed across various sectors of activity, such as energy, telecommunications, tourism, electricity, transport and public sector, represented, in 2018, a weight of circa 38.0%, a slight reduction from that of the previous year (38,7%), which reflects the strategy of portfolio diversification over various sectors of economic activity.

Regarding the maturity of the portfolio, approximately 80,4% of the loans and advances granted have a maturity exceeding one year, when at the end of 2017 this percentage stood at 81,7%.

In terms of sectoral distribution, compared with 2017, there was a decrease in the weight of the loans granted to Individuals with an emphasis on "Housing" loans which represents 21,4% of the Loans and Advances Portfolio (26,0% in 2017), despite the growth in absolute terms of 125 million CVE.

Considering the distribution of Corporate loans, by economic activity sector, the highlight goes to **(1)** the growth of 2.181 million CVE in the volume of loans and advances to companies operating in the Services sector, with the consequent increase of their weight in the Portfolio structure that moved from 11,3% in 2017 to 24,9% in 2018; **(2)** the increase in the loans and advances to companies operating in the Tourism sector of over 647 million CVE; and **(3)** the increase in the volume of loans and advances granted to the Trade sector of over 492 million CVE.

(in thousands of CVE)

Loans and advances to customers before provisions/impairment	2018		2017		Change	
		%		%	Abs	%
Commerce	1.416.754	10,38%	924.533	8,59%	492.220	53,24%
Construction and Public works	443.676	3,25%	196.043	1,82%	247.633	126,32%
Consumption	196.828	1,44%	156.262	1,45%	40.566	25,96%
Housing	2.922.534	21,42%	2.797.414	26,00%	125.120	4,47%
Industry	201.569	1,48%	239.547	2,23%	(37.978)	-15,85%
Real State Operations	1.635.647	11,99%	1.681.253	15,63%	(45.605)	-2,71%
Services	3.392.123	24,86%	1.211.545	11,26%	2.180.578	179,98%
Tourism	1.755.373	12,86%	1.108.599	10,30%	646.774	58,34%
Other Individuals	1.128.669	8,27%	1.111.919	10,34%	16.750	1,51%
Other Sector	110.977	0,81%	975.616	9,07%	(864.639)	-88,62%
Public Sector	441.988	3,24%	355.641	3,31%	86.346	24,28%
<b>Total</b>	<b>13.646.138</b>	<b>100,00%</b>	<b>10.758.372</b>	<b>100,00%</b>	<b>2.887.766</b>	<b>26,84%</b>

### Quality of the Loans and Advances Portfolio<sup>1</sup>

Under Circular no. 150 of Bank of Cape Verde, at the end of December 2018, one verifies that there is an increase in the volume of non-performing loans of +16,0%, corresponding to 115 million CVE, to which contributed, essentially, the Corporate segment, which increase was in the order of 30,5% (+ 144 million CVE). The level of non-performing loans in the Individuals segment decreased around 12% (-29 million CVE).

(in thousands of CVE)

Designation	2018		2017		Change	
	Amount	%	Amount	%	Abs.	%
CORPORATE	616.382	74,12%	472.227	65,88%	144.155	30,53%
INDIVIDUALS	215.257	25,88%	244.588	34,12%	-29.332	-11,99%
<b>TOTAL</b>	<b>831.638</b>	<b>100,00%</b>	<b>716.815</b>	<b>100,00%</b>	<b>114.823</b>	<b>16,02%</b>

As regards the distribution of non-performing loans, in function of the delay observed, one notes that the largest volume, around 85%, corresponding to 708 million CVE (98% in 2017, corresponding to 702,3 million CVE) relates to operations past due for more than 1 (one) year and that are in the judicial enforcement of guarantees' phase.

(in thousands of CVE)

	2018		2017		Change	
	Amount	%	Amount	%	Abs.	%
Past due Loans and interest - 90 to 180 days	4.931		1.743		3.188	182,91%
Past due Loans and interest - 180 days to 1 year	119.076		12.725		106.351	835,77%
Past due Loans and interest - 1 to 3 years	96.002		47.167		48.835	103,54%
Past due Loans and interest > 3 years	611.630		655.180		(43.551)	-6,65%
<b>Total</b>	<b>831.638</b>		<b>716.815</b>		<b>114.823</b>	<b>16,02%</b>

In terms of the distribution of past due loans and advances and interest by activity sector, the weight of the past due loans in the "Real Estate Operations" sector, 34,9% (49,8% in 2017) stands out, even though it has revealed a decrease of 14,9 p.p. vis-à-vis 2017.

<sup>1</sup> The total amount of Non-performing loans and advances is calculated in accordance with Circular no. 150/DSE/2009, of 28 December 2009, and results from the sum of two components: (1) the amount past due for more than 90 days and (2) the principal due, which amount to consider is based on the total period of the operation and the number of days in arrears of said operation. As a result, the total amount of the provisions set up for a given operation may, in some cases, be higher than the amount considered as non-performing, which means that in these cases there is a level of non-performing loan coverage in excess of 100%. This situation can also occur with the loan impairment recognized given the convergence required between the provisions and the impairment. However, the non-performing loans and advances portfolio, for the purposes of this report, does not consider a group of transactions that have already been identified and 100% provided against, and which are expected to be written off as soon as the Tax Authority has provided due clarification regarding the issue of the fiscal relevance of the amounts written off with regard to the determination of the taxable income. The amount in question is 450,7 million CVE.

(in thousands of CVE)

	2018		2017		Change	
		%		%	Abs	%
Commerce	72.812	8,76%	79.243	11,05%	-6.432	-8,12%
Construction and Public works	12.451	1,50%	15.686	2,19%	-3.235	-20,62%
Consumption	13.816	1,66%	12.326	1,72%	1.490	12,09%
Housing	111.382	13,39%	102.089	14,24%	9.293	9,10%
Industry	3.770	0,45%	288	0,04%	3.482	1210,40%
Real State Operations	290.780	34,96%	357.171	49,83%	-66.392	-18,59%
Services	24.942	3,00%	19.329	2,70%	5.613	29,04%
Tourism	211.605	25,44%	334	0,05%	211.270	63163,73%
Other Individuals	90.059	10,83%	130.173	18,16%	-40.115	-30,82%
Other Sector	23	0,00%	175	0,02%	-152	-86,72%
Public Sector	0	0,00%	0	0,00%	0	0,00%
<b>Total</b>	<b>831.638</b>	<b>100,00%</b>	<b>716.815</b>	<b>100,00%</b>	<b>114.823</b>	<b>16,02%</b>

At the end of 2018, impairments/provisions covered 101,2% of the volume of Non-performing Loans and Advances (110,9% in the previous year), a coverage level higher than the amount of the non-performing loans and advances and well above that verified at the level of the Cape Verdean banking system, for which the latest data, provided by BCV (through the Main Indicators of the National Banking System), point to a coverage level around 69,5% (70,8% in December 2017).

The Credit Quality indicator<sup>2</sup> revealed a slightly favorable behavior, standing at 6,3% (6,96% in 2017). The more favorable behavior in the quality of the loans and advances portfolio is justified, on the one hand, by the stabilization of the non-performing loan levels and, on the other, by the overall increase in the loans and advances portfolio.

The total amount of renegotiated loans and advances (amounts in stock) at the end of 2018 was 306,5 million CVE, which represents an increase of 21% (+ 8 million CVE) over the amount in stock in the homologous period of the previous year (288,5 million CVE).

(in thousands of CVE)

Designation	2018		2017		Change			
							Impairment	
	Balance	Impairment	Balance	Impairment	Abs.	%	Abs.	%
Restructured loans	306.483	50.532	288.524	41.759	17.960	6,2%	8.774	21,0%

## Distribution Channels and Payment Means

Banco Caboverdiano de Negócios, SA, maintained its **distribution network**, with a strong presence on the island of Santiago (7 Business Units) and a wide coverage of the entire national territory, with a presence in all the other inhabited islands of the country. The distribution network consists of a total of 17 (seventeen) Branches and 1 (one) Private Banking unit, which represents about 15% of the national banking system (unchanged since the previous year) in terms of the network's physical distribution.

<sup>2</sup> It should be noted that in December 2018, Banco de Cabo Verde published a set of technical instructions concerning credit quality that changes the manner of determining the amount of non-performing loans, which now includes the outstanding principal not yet due regardless of the term of the loan operation and the respective guarantee. Notwithstanding its entry into force, and applying same for 2018, the quality ratio would be 10,1%, still below the industry average which, according to BCV data available and according to Circular no. 150, is circa 13,4%.

As regards the **ATM** network, BCN has a national geographic coverage with 27 ATMs distributed over all islands (22 ATMs in the previous year), which represents about 14% of the total ATM system in 2018, consisting of a total of 191 machines.

At the **POS** level, at the end of 2018 BCN counted on 735 automatic payment terminals, which represents an increase of about 21% (+126) compared with the previous year (609 in 2017). BCN's weight in the total POS system increased from 9,3% to 10,0% (at system level there was an increase of 578 POSs, from 6.543 POSs in 2017 to 7.121 in 2018).

BCN was responsible, while Support Bank (that is, a Bank which ATMs and POSs served as a base for conducting transactions), for 11,5% of the number of transactions<sup>3</sup>, featuring, thus, as the fourth largest Support Bank of Rede Vinti<sup>4</sup>.

Of the total 246.611 **active cards** in the system in 2018 (223.950 in 2017), BCN accounts for 12.761 cards (10.764 in 2017), which represents 5% of the total active cards at the national banking system level.

In 2018, there was also an increase in new contracts for and in the use of Internet banking services, and there has been a gradual transfer of the transactional activity from the Branches to this channel, especially with regard to intra-bank transfers and interbank transfers.

---

<sup>3</sup> As per SISP - Sociedade Interbancária de Sistemas de Pagamento's Performance Evaluation Report of December 2018.

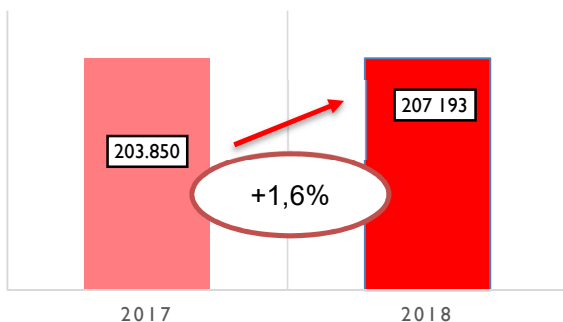
## Analysis of the Economic-Financial Situation

On 1 January 2018, IFRS 9 - Financial Instruments, replacing IAS 39 - Financial Instruments: recognition and measurement, came into effect. This standard establishes new rules for the recognition of financial instruments and introduces relevant changes, particularly in terms of the methodology for calculating impairment.

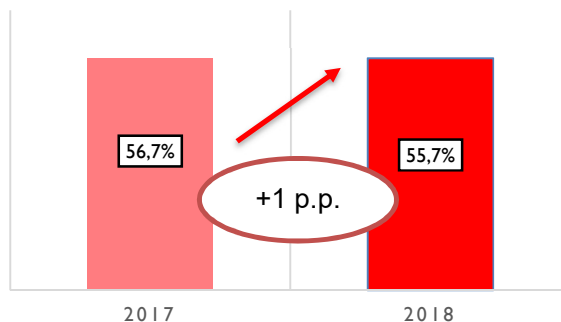
The adoption of IFRS 9 had an impact on the structure of the financial statements of Banco Caboverdiano de Negócios, SA, compared with the homologous period of 2017, although it did not materially influence the income statement for 2018. It should also be noted that BCN opted not to restate the comparative balances of the previous period.

More details in the Notes to the financial statements, in the Chapter on Standards.

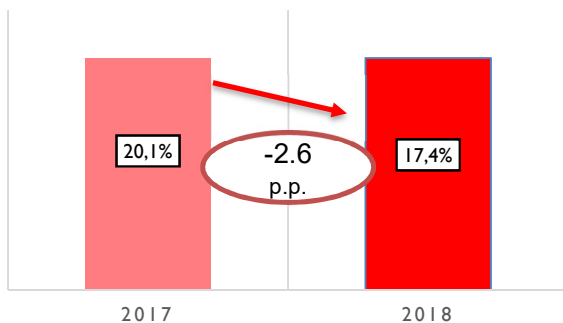
### NET INCOME



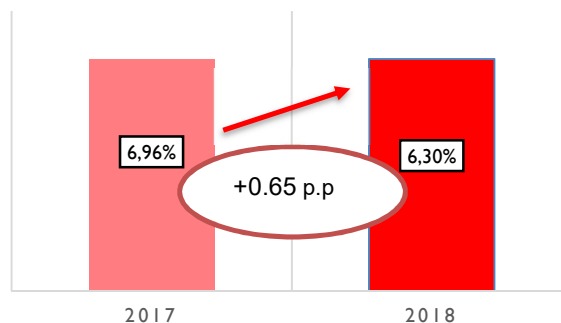
### EFICIENCY RATIOS



### SOLVENCY RATIOS



### LOANS QUALITY



The financial statements of BCN for the 2018 financial year, prepared in accordance with International Financial Reporting Standards (IFRS), with the exception provided for in Notice no. 4/2006 of Banco de Cabo Verde, and the changes introduced by Notice no. 6/2007 related to regulatory provisions, present a Net Income for the period of CVE 207.2 million (CVE 203.9 million the previous year) resulting primarily from the commercial activity growth in a context of reinforcement of impairment levels, both of loan operations as well as of real estate held in the portfolio.

The Balance Sheet increased by 16.9% to CVE 19,396 million (+CVE 4,827 million over the previous year), with the Loans and advances to customers and the Due to customers having a significant weight in its composition, 63.9% (57.3% in 2017) and 85.9% (83.8% in 2017), respectively.

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

- Net interest income (NII) attained CVE 632.3 million, 29.5% more than in the homologous period of the previous year, supported by the good performance of the credit activity, with interest earned growing 20.9% (+CVE 166.3 million);
- An increase in Operating income, which jumped from CVE 641.8 million to CVE 785.6 million, mainly influenced by the increase in Net interest income.
- Operating expenses increased by about 20.4% to CVE 437.7 million (CVE 363.6 million in 2017), reflecting an increase both in Staff costs (+29.7%) as well as in General administrative expenses (+16.2%), following the implementation of various measures during 2018, namely the salary equality program, the internal reorganization and also sundry expenses related to the contracting of consultancy services and technical assistance;
- Net operating income attained the amount of CVE 347.9 million, 25.1% more than that recorded in the homologous period of the previous year (CVE 278.2 million), positively influenced by the favorable evolution of Operating income;
- The structure cost as a percentage of operating income (cost-to-income ratio) decreased slightly compared with the homologous period of 2017, from 56.7% to 55.7%, with the Bank continuing to present a high level of operational efficiency;
- Net impairment losses on loans and advances totaled CVE 49.9 million, which compares with the reversal of circa CVE 2.0 million in 2017;
- Impairment related to other assets totaled CVE 37.9 million, a change of +64.4% compared with the previous year (CVE 23.0 million). It should be noted that such amounts result, essentially, from the change in the fair value of certain properties held in the portfolio and own use properties;
- The Net income for the period amounted to CVE 207.2 million versus the CVE 203.9 million recorded in the previous year, ground, fundamentally, on the improvement in the performance of the activity, despite the increase in structure costs and impairment;
- In terms of liquidity, the Bank maintains a comfortable liquidity position with a transformation ratio of Total Funds to Credit of 80.3%, 5.8 p.p. more than in the previous year (74.5%),

reflecting the higher growth of the caption of Loans and advances to customers compared with that of Total Funding;

- As a result of the increase in the volume of Loans and advances to customers, with the consequent impact on weighted assets, the solvency ratio decreased to 17.4%, 2.6 p.p. lower than in the previous year (20.1%) and 5.4 p.p. higher than the regulatory minimum, which at the reference date was 12% . The Tier I ratio was 16.1% (18.95% in 2017).

## Evolution of the Balance Sheet

### Assets

At the end of 2018, the Net assets of BCN amounted to CVE 19,396 million, representing an increase over 2017 of about 17%, of note being the increase in the Loans and advances to customers portfolio which weight in Net assets moved from 57.3% to 63.9%, an increase of about 6.6 p.p. reflecting, essentially, the increase in the production of new loans and advances.

The balances of Cash, Deposits with Central Bank and Deposits with other banks, recorded a slight decrease of -1.1%, moving from CVE 3,832 million to CVE 3,789 million in 2018.

In 2018, the highlight goes to the decrease, of circa CVE 255.3 million, in the caption Other assets, associated, primarily, with the disposal of some properties in the portfolio.

### Liabilities

Total liabilities increased 17.4% over 2017, from CVE 14,666 million in 2017 to CVE 17,214 million in 2018, with Due to customers representing 96.8% of Total liabilities (94.8% in 2017).

Of note was the fact that Due to customers (including interest payable) experienced an overall increase of 19.9% (+CVE 2,765 million) with Demand deposits increasing circa 33.5% (+CVE 1,746 million) and Term deposits increasing by 10.9% (+CVE 884.0 million). In the case of the latter caption, it should be highlighted that the increase occurred in a context in which the Bank adopted the strategy of reducing the rates of the funding operations, with the consequent effect at the level of the funding cost associated with the deposits and, therefore, at the level of the Net interest income.

	2018	% Mix	2017	% Mix	Change	
					Amount	%
Securities sold with repurchase agreements	681.244	4,1%	544.370	3,9%	136.874	25,1%
Demand deposits	6.957.369	41,7%	5.211.504	37,5%	1.745.865	33,5%
Time deposits	9.028.101	54,2%	8.144.097	58,6%	884.004	10,9%
Other payables	1.335	0,0%	2.998	0,0%	-1.663	-55,5%
	<b>16.668.049</b>	<b>100,0%</b>	<b>13.902.969</b>	<b>100,0%</b>	<b>2.765.080</b>	<b>19,9%</b>

The Bank's total funding increased by 17.7% compared with the previous year, from CVE 14,448 million to CVE 16,999 million. Due to other banks decreased by 39.1% (-CVE 213 million), mainly associated with the decrease in Due to other national banks. It should be noted that as at 31 December 2018, the Bank had recorded in the caption Due to other banks, an amount equivalent to Euros 2 million related to disbursement s under the credit line contracted with IFC.



	2018	% Mix	2017	% Mix	Change	
					Amount	%
Deposits from banks	331.582	2,0%	544.733	3,8%	-213.151	-39,1%
Due to customers and Other loans	16.668.049	98,0%	13.902.969	96,2%	2.765.080	19,9%
<b>Total Funding</b>	<b>16.999.631</b>	<b>100,0%</b>	<b>14.447.702</b>	<b>100,0%</b>	<b>2.551.929</b>	<b>17,7%</b>

### Shareholders' Equity

As of 31 December 2018, the Bank presented a Shareholders' equity of CVE 2,182 million, which represents a change of 13.7% compared with the homologous period of the previous year (CVE 1,919 million), driven by results of the year and by the non-distribution of dividends related to the previous year.

## **Evolution of the Income Statement**

### Net Interest Income

In 2018, the Net interest income amounted to CVE 632.3 million, which represents an increase of 29.5% (+CVE 144.0 million), motivated by the increase in interest and similar income of about 20.9% (+CVE 166.3 million), essentially explained by the increase in the loan portfolio. As regards interest expense and similar charges, an increase of 7.3% (+CVE 22.3 million) was verified, the result of an increase in the deposits' portfolio and the charges with the credit line contracted from IFC.

### Supplementary Margin

Compared with the previous year, the Supplementary margin remained practically unchanged in 2018, CVE 153.3 million, which compares with CVE 153.5 million in 2017.

A more detailed analysis of the main components of the Supplementary margin reveals **(1)** an increase in Fee and commission income, +14.2% (+CVE 20.2 million), strictly related to the increase in the loan portfolio and to commissions associated with services rendered to third parties, despite the decrease in transactional commission prices resulting from the Bank's revision of the price list with the aim of making it more competitive; **(2)** an increase in Fee and commission expenses of about 55.1% (+CVE 19.8 million), mainly explained by commissions paid in the scope of the formalization of the credit line contract with IFC; **(3)** an increase in Other net operating gains/(losses), +CVE 14.9 million, related to the increase in the recovery of default loans and advances.

Of note, too, is the decrease of circa 54% (-CVE 12.4 million) in the Net gains/(losses) from foreign exchange revaluation explained, mainly, by the exchange rate swings, essentially USD, and by the Bank's position in this currency.

### Operating Income

Operating income was CVE 785.6 million (CVE 641.8 million in 2017), which corresponds to an increase of 22.4% compared with the homologous period of 2017, influenced by the performance of its components, Net interest income and Supplementary margin.

### Operating Expenses

Operating expenses (Staff costs, General administrative expenses and Depreciation and amortization) had a global increase, in 2018, of 20.4%, (+CVE 74.1 million), from CVE 363.6 million in 2017 to CVE 437.7 million in 2018.

Staff costs attained CVE 220.9 million, which represents an increase of 29.7% compared with the previous year (CVE 170.3 million). This increase is related to **(1)** an increase in the number of employees with the consequent increase in the base remuneration; **(2)** the continuation of the salary equality program, stated in 2017, with salary adjustments for a significant number of employees; and **(3)** an increase in the mandatory social charges as a result of the two previous aspects.

General administrative expenses reveal an increase of 16.3% compared with the homologous period of the previous year, standing at CVE 183.6 million (+CVE 25.6 million). At the base of this increase are, essentially, charges related to the hiring of specialized services in various areas, such as IFC technical assistance, consultancy in IT systems, preparation of the marketing plan, and revision of the Bank's Functions, Careers and Salaries Plan. Likewise, the reinforcement of vigilance and security services contributed to this increase.

The captions related to External supplies and services recorded an increase of 13% (+CVE 2.7 million), as a result of the increase in the caption Forms and Stationery, +37% (+CVE 1.6 million) in the scope of the rebranding process resulting from the Bank's corporate image change following the change in shareholder structure in 2017.

Depreciation and amortization for the period amounted to CVE 33.2 million, a decrease of 6.1% (-CVE 0.2 million) compared with the previous year, explained by the end of the useful lives of some tangible and intangible assets.

Operating cash flow attained CVE 381.0 million, which signifies an increase of 21.5% compared with the previous year (CVE 313.5 million) resulting from the increase in operating income, despite the increase in operating expenses.

The Cost-to-income ratio, measured by the ratio between Operating expenses, including depreciation and amortization, and Operating income, stood at 55.7%, 0.9 p.p. lower than in the previous financial year, influenced by the good performance of Operating income, despite the increase in structure costs.

Impairment of loans and advances, net of reversals and recoveries amounted to CVE 49.9 million (reversal of CVE 2 million in 2017) and resulted, essentially, from the reinforcement of the minimum regulatory provisions on the application of Notice no. 4/2006 of Banco de Cabo Verde, related to the Classification of Loans and Provisions, conjugated with compliance with Circular Series "A", no. 179/DSE/2013 of Banco de Cabo Verde, related to the recording of the minimum regulatory provisions.

Impairment of other assets, net of reversals and recoveries, which essentially includes the impairment recognized for real estate recorded in the balance sheet and received in lieu of payment of loans and advances (hereinafter mostly referred to as “foreclosures”), was reinforced by CVE 37.9 million in 2018, CVE 14.8 million more than in 2017. This increase was mainly due to the change in the fair value of certain properties held in the portfolio, compared with the carrying amount at which they were previously recorded.

#### Net Income for the Period

Net income for the period, in 2018, calculated in accordance with International Financial Reporting Standards, attained CVE 207.2 million, slightly higher than that attained in 2017 (CVE 203.9 million), due, essentially, to the increase in the Bank's activity.

#### **Main Indicators and Prudential Ratios**

BCN closed the 2018 financial year meeting all the prudential limits imposed by the local Regulator, Banco de Cabo Verde, of note being the solvency ratio that attained 17.4% (20.1% in 2017), well above the prudential limit of 12%, demonstrative of the solvency of the Bank.

The returns on assets (ROA) and equity (ROE) stood at 1.1% (1.2% in 2017) and 9.5% (10.6% in 2017), respectively.

In terms of the cost-to-income ratio, there was a decrease of 0.9 p.p., moving from 56.7% in 2017 to 55.7% in 2018, with the Bank continuing to maintain a high level of operational efficiency.

The level of commercial transformation experienced a slight increase of +5.8 p.p. in 2018, moving from 74.5% to 80.3%, as a result of the greater growth of the loans and advances portfolio compared with that of the funds portfolio.

## 8. OVERVIEW OF THE MAIN INITIATIVES CARRIED OUT IN 2018

### Commercial Actions

It is the responsibility of the Commercial Directorate to implement the strategies related to the development of the business with customers of the segments composing the market, through its network of Branches, present on all the islands.

In 2018, in line with that defined in the Bank's Strategic Plan for the coming five years, the Bank carried out a profound restructuring of its Commercial area which structure came to be based on a segmentation of the market, with the Directorate coming to be composed of three large nuclei: Corporate, Small and Medium Enterprises, and Individuals.

The structuring of the Commercial Directorate in terms of market segments aims to equip the nuclei with specialists in each of the segments, thus offering a specialized and differentiated service in both financial and non-financial aspects, with an emphasis on the SMEs Nucleus.

Hence, the Corporate Nucleus is oriented to large companies, public institutions and non-governmental organizations (NGOs); the Small and Medium Enterprises Nucleus specializes in meeting the demands of small and medium-sized enterprises (SMEs) and the Individuals Nucleus places special attention on the provision of products and services to individuals with a focus on emigrants and high-income individuals.

For the year 2018, a number of growth macro-objectives were defined for the funds portfolio, loans and advances, active customers, the financial and complementary margins and the control of past due loans. As a result of a number of new routines established and initiatives carried out during 2018, there was, in general terms, a level of achievement of the objectives in line with those initially set.

Also within the scope of the reorganization of its commercial area, same now integrates the Marketing and Sales Support area through a specific Nucleus which mission is the development and implementation of marketing, communication and sales support strategies, with the view of meeting the commercial and institutional objectives defined.

At the marketing level, in 2018, the rebranding work begun in 2017 with the change in the shareholder structure, continued.

With regard to communication, campaigns were carried out throughout the year for various products and services, namely, Housing Credit, Payment of Electra Invoices at Branches, New Features of BCN Online (Payment of Services & Mobile Phone Airtime Charging) and BCN Consumer Loans, with the objective of disclosing the benefits associated with each of these products and services.

As part of its strategy of being close to the market and gaining notoriety, BCN participated, together with IMPAR Seguros, in two business fairs, Expomar and FIC - Feira Internacional de Cabo Verde, in the months of October and November, respectively.

Expomar, which ran from 10 to 13 October in São Vicente, was the ideal stage to promote the credit product intended to finance investments in sectors related to the maritime economy, Credimar. At FIC, which took place in the city of Praia between 14 and 18 November, the pre-launch of the Mastercard international debit cards destined for the private and business segments,

including the Cartão do Empresário (Entrepreneur's Card), and the promotion of the Global Solutions for SMEs and of the Credit Solutions for Individuals, were made.

Given BCN's need to create strategic partnerships with several entities, in order to achieve the commercial objectives defined, the Bank signed, during 2018, Commercial Protocols with some entities, with a view to granting special access conditions to the Bank's products, to employees of those companies/institutions.

With regard to the emigrant segment, throughout the year several initiatives were directed towards this public, as in previous years, which reveals BCN's firm intention to get closer to this segment. In addition to the differentiated offer, the Bank carried out business missions to emigrant host countries and organized meetings in Cape Verde, in order to fulfill its promise of rapprochement with the emigrant community, providing face-to-face service to current and potential customers, in both situations.

In the business area scope, a Workshop on International Trade was held in the month of June, at the Hotel Praia Mar, in the city of Praia, which was attended by representatives of the main companies in the Cape-Verdean market.

With regard to new products and services, 2018 saw the launch of services in partnership with various entities, namely the signing of the Protocol with ASDIS.

In 2018, in the Social Responsibility scope, partnership protocols were signed with the aim of granting sponsorships and supporting non-governmental organizations in the realization of projects in social and cultural areas, especially the signing of Protocols with Mindelact and Cruz Vermelha de Cabo Verde.

### **Activity Risk Management and Control**

The Bank is subject to risks of various orders in the scope 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 the material risks to which the Bank is exposed, in order to ensure adequate levels of risk in line with those previously defined by the Board of Directors, body responsible for the definition of policies for the main activity risks, such policies being the object of sporadic revisions, whenever warranted.

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

This function is transversal to the entire organizational structure of the Bank, although it is carried out in an independent and centralized manner by the Credit and Risk Office (CRO), a body in the organizational structure of the Bank depending directly on Board of Directors, through the responsible Director, who has no direct responsibilities over the Commercial Directorate, thus guaranteeing his independence from this body. The CRO is a centralized and independent structure unit as regard risk analysis and control, according to the best organizational practices in this domain and the demands of the Basel Accord. The CRO is responsible for the monitoring of all the risks the Bank is subject to in carrying out its activities.

During the year, the control of the risks subjacent to the Bank's activity was carried out respecting the principle of prudence, based on the following aspects:

- Revision of the Bank's impairment model according to the provisions of the new IASB – International Accounting Standards Board standard, IFRS 9;
- Identification, measurement and mitigation of the different risks (credit, market, operational or other risks);
- Analysis of the performance indicators;
- Realization of stress tests for the main activity risks considering different scenarios and shock magnitudes;
- Adoption of operational risk tools, management processes and controls associated with the formalization of loan operations;
- Regular reporting (quarterly) to the Management Body, on the Bank's situation regarding the main activity risks;
- Revision of the credit scoring model;
- Collaboration in the revision of the Bank's Credit Regulation; and
- Collaboration in the definition of the credit risk policy for SMEs.

### *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, as such, is, essentially, present in the loans and guarantees granted. Given the nature of the banking activity, credit risk is of particular importance, given its materiality, notwithstanding its interconnection with other risks.

In 2018, despite its loan portfolio growth objective, the Bank maintained prudent and conservative criteria in relation to the granting of loans and loan portfolio monitoring, having focused on financing new operations with associated good risk levels.

Regarding the credit granting policy, and despite the Bank having reviewed its organizational structure with the creation of the Credit Directorate, which is the body with the global responsibility for the credit risk-taking analysis that is independent of the commercial structure, for certain amounts (aggregate exposures in excess of 1% of the Bank's Own Funds) the opinion of the CRO is always necessary, as a form of complementing the identification of possible situations that could jeopardize the repayment of the amounts requested.

The decision process continued to be ensured by different levels, clearly defined and prioritized by the Credit Regulation, revised in 2018, depending on the type, amount and nature of the operations.

Regarding the monitoring/accompanying of the loan portfolio, this continued to be carried out in a continuous and comprehensive manner in order to preserve its quality and ensure its diversification, be it by activity sector, 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 respect, and as a result of the entry into force, on 1 January 2018, of the new measurement standard for financial instruments, issued by the IASB - International Accounting Standards Board, denominated IFRS 9, which replaced IAS 39: Recognition and measurement, the Bank introduced structural changes in its impairment model, aiming to align the model with the best internationally accepted practices, namely:

- A robust definition of credit in default;
- Introduction of a set of detection indicators of a significant increase in credit risk since its origination/acquisition;
- Conservative transition criteria for loan operations between different stages (default, with a significant increase in risk and performing) that includes quarantine periods;
- Determination of expected losses over the entire life of the financial assets (lifetime approach.)

In addition, for significant exposures (from CVE 25 million for operations with evidence of a significant increase in credit risk or in default and from CVE 100 million for performing operations), the principle of individual-based analysis was continued. It should be added that the Bank, applying a conservative approach, 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.

Furthermore, risk management and control activities were focused on the following lines of action:

- At the credit control level, there was an ongoing focus on the continuous and permanent monitoring of the loans and advances portfolio, with a view to maintaining strict control over its risk, through the monthly production of a report, so as to ensure the timely implementation of measures with regard both to potential defaults as well as to the resolution of non-performing loans, with a focus on materially relevant operations;
- Reinforcement of the 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 regard;



In terms of loan recovery, focus on the restructuring negotiations, in order to reconcile the customer's ability to pay with the loan installments, and/or the transfer of the collateral in lieu of payment as opposed to the judicial enforcement of guarantees, given the associated slowness and costs.

### Credit Recovery Area

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

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 Directorate through the Credit Monitoring Nucleus (CMN) and litigation phase operations under the management of the Legal Advisory Office (LAO).

The Bank has opted, whenever possible, for loan renegotiation through its restructuring, depending on the financial capacity of the customers. In the cases for which restructuring is not possible, extrajudicial negotiation is recommended, with a view to the realization of foreclosure operations in lieu of payment as opposed to the judicial execution of guarantees, given their associated slowness and costs.

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

Regarding the portfolio under the CMN's management, the exposure volume of the loans and advances portfolio recorded an increase of 70%, related to the allocation of loan operations of considerable amounts, aimed at a better management of the loans and advances portfolio. It should be noted that, consequently, the number of customers under CMN management increased by 11%.

On the contrary, at the level of loan operations under litigation, there was a decrease of circa 9%, mainly associated with recovery through adjudication by the court to the Bank of the credit guarantees and negotiation of extrajudicial settlements. Consequently, the weight of judicial cases to total loans and advances being followed by the recovery areas dropped from 77% to 64%. With regard to the number of judicial enforcement cases, there was a decrease of around 6%.

### **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, namely, by fluctuations in interest rates, exchange rates, share quotations or commodity prices. As at 31 December 2018, 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 assessed, 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 the positive and negative parallel shock scenario of the 200 base-point yield curve and its respective impact on net equity and net interest income, based on assumptions made in accordance with Circular Series "A" 164/DSE/2011, of Banco de Cabo Verde.

As at 31 December 2018, based on the Exposure Schedule of the Assets and Liabilities and Off-Balance Sheet Items comprising 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 64% (62% in the previous year) and -2% (-4% in the previous year), respectively.

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

### **Exchange Rate Risk**

Exchange Rate risk consists of the likelihood of a negative impact on results or equity due to adverse movements in exchange rates, that is, 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.

### **Liquidity Risk**

Liquidity risk arises from the likelihood 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, carried out jointly by the Finance and International Directorate and the Risk Management Office, is done from the short-term and the long-term perspectives. From either perspective, the main objective is to maintain a minimum mandatory balance with Banco de Cabo Verde, seeking a return on any excess in relation to this balance using the different instruments existing, such as deposit facilities with BCV, short-term loans and advances to correspondent banks, investments in public debt securities, etc.

The Bank continues to maintain a very balanced position in the management of its liquidity, recording, at the end of 2018, a growth in the funds portfolio (19.9%) lower than the growth in the loan portfolio (26.8%), with the transformation ratio standing at 80.3% (74.5% in 2017).

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

Still regarding liquidity management, every fortnight the Bank determines the existence of potential gaps, considering the potential commitments assumed.

### **Operational Risk**

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

Operational risk is intrinsic to all the banking activity and, as such, is generated both by the Business Units 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.

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

Regarding the rating of operational risk related to the processing of transactions, the Bank's risk is considered moderate, supported by the following aspects:

- ✓ The Bank performs some complex operations, but the volume and frequency of the total operations are not significant;
- ✓ The processes of prior analysis, settlement and processing of operations are standardized;
- ✓ The commercial pressure for the development of new products is not relevant, the planning of new products is satisfactory and their remuneration covers the risk;
- ✓ Errors or failures in the prior analysis, settlement or processing of operations are easily corrected at an acceptable cost;
- ✓ Manual interventions in the settlement and processing processes are standardized, but occur in significant numbers;

### **Compliance and Reputational Risk**

Compliance risk is defined as the likelihood 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 on both equity and results arising from the negative perception by both the customers and by the suppliers and 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 risk covers the following instruments:

- Compliance policy
- Policy for the prevention of money laundering and financing of terrorism
- Codes of conduct
- Conflict of interests
- Processing and protection of personal data
- Monitoring and follow-up of regulations and legal and regulatory provisions
- Policy regarding the financing of sensitive sectors

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

### **Real Estate Risk**

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

Given the weight of the foreclosed real estate (real estate received in lieu of payment) in the balance sheet caption, the Bank has continued to pay particular attention to the management of this caption in order to promote the sale of these assets and, consequently, minimize the intrinsic risk.

Regarding the commercialization of real estate assets, the Bank has the following guidelines:

- All real estate held by the Bank, with the exception of that in its own service, is held for sale, either through internal or external channels, with the attribution of incentives to employees and payments of real estate brokerage commissions;
- The Bank has a specific product to finance the sale of its real estate, with attractive conditions regarding the rate, commissions and term;



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 m<sup>2</sup> 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 m<sup>2</sup>.

Real estate asset flows are monitored on a daily basis, 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 Directorate with the support of other organic units of the Bank.

During the year 2018, foreclosed<sup>4</sup> real estate in an approximate amount of CVE 237,625 thousand was received, an increase of around 31.6% in relation to the previous year, during which the real estate received amounted to CVE 180,542 thousand.

Looking at the distribution of foreclosed real estate, according to the time elapsed since its recording, one verifies that about 16.2% (corresponding to CVE 198,074 thousand) of the real estate recorded in the balance sheet was received less than a year ago and 93.6% of the real estate in the portfolio was received less 5 years ago.

One notes that 6.4% of the properties (corresponding to CVE 77,686 thousand) were received more than 5 years ago, with part of that amount (CVE 28,824 thousand) having been deducted from Own Funds, as provided for in article 4, paragraph b) of Notice no. 07/2015 of BCV 60/VIII/2014.

	< 1 YEAR	< 2,5 YEARS	< 5 YEARS	>= 5 YEARS	TOTAL
<b>LAND</b>	<b>11.442</b>	<b>15.242</b>	<b>263.927</b>	<b>60.974</b>	<b>351.585</b>
URBAN	11.442	15.242	263.927	60.974	351.585
RURAL	0	0	0	0	0
<b>BUILDINGS UNDER CONSTRUCTION</b>	<b>0</b>	<b>10.326</b>	<b>22.785</b>	<b>0</b>	<b>33.111</b>
COMMERCIAL	0	0	22.785	0	22.785
HOUSING	0	10.326	0	0	10.326
OTHERS	0	0	0	0	0
<b>BUILDINGS CONSTRUCTED</b>	<b>186.633</b>	<b>135.419</b>	<b>259.153</b>	<b>16.713</b>	<b>597.917</b>
COMMERCIAL	114.697	0	60.292	0	174.990
HOUSING	71.935	8.310	128.737	16.713	225.695
OTHERS	0	127.109	70.124	0	197.232
<b>OTHERS</b>	<b>0</b>	<b>0</b>	<b>240.513</b>	<b>0</b>	<b>240.513</b>
<b>TOTAL</b>	<b>198.074</b>	<b>160.988</b>	<b>786.378</b>	<b>77.686</b>	<b>1.223.126</b>

<sup>4</sup> 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 at 31/12/2018, the amount, net of impairment was CVE 1,103 million (CVE 1,326 million in 2017).

As of 31 December 2018, the Bank had in its portfolio circa 54 properties, including land, residential, commercial and other buildings, with their fair value being reflected in the table below.

	No. PROPERTIES	FAIR VALUE	ACCOUNT VALUE
<b>LAND</b>	<b>15</b>	<b>439.270</b>	<b>351.585</b>
URBAN	15	439.270	351.585
RURAL	0	0	0
<b>BUILDINGS UNDER CONSTRUCTION</b>	<b>2</b>	<b>41.751</b>	<b>33.111</b>
COMMERCIAL	1	27.533	22.785
HOUSING	1	14.218	10.326
OTHERS	0	0	0
<b>BUILDINGS CONSTRUCTED</b>	<b>35</b>	<b>642.053</b>	<b>597.917</b>
COMMERCIAL	4	165.139	174.990
HOUSING	29	232.528	225.695
OTHERS	2	244.386	197.232
<b>OTHERS</b>	<b>2</b>	<b>209.735</b>	<b>240.513</b>
<b>TOTAL</b>	<b>54</b>	<b>1.332.808</b>	<b>1.223.126</b>

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

During the year 2018, the Bank sold a total of 9 (nine) properties for a global amount of CVE 364,575 thousand, an amount practically identical to their net carrying amount, in this manner conferring some security on the amounts by which the real estate is recorded versus the prices practiced in the market. It should be noted that the gross amount of the real estate disposed of was CVE 411,777 thousand.

(in thousands of CVE)

Gross amount	Accumulated Impairment	Net amount	Sales amount	Intermediation cost	Gains / (losses) on sale of Real State
411.777	47.094	364.683	364.575	338	-496

## Compliance Function

The Bank has, since 2010, an independent, permanent and effective Compliance function responsible for controlling compliance with the obligations and duties to which the Institution is bound, namely to ensure that the management bodies, functional structures and all the employees comply with the legal and regulatory rules governing the activity of the financial sector, the Institution's by-laws, and the superiorly approved rules of ethics and conduct, in order to minimize the risks of the Bank incurring in legal or regulatory sanctions, and in financial losses or penalties of a reputational nature arising from non-compliance.

The Compliance Office (CO) is part of the internal control body, according to the organizational structure in force, with direct dependence on the Board of Directors, through the responsible Director, and with permanent reporting to the Board of Directors, counting on staff exclusively allocated to same.

The Office is responsible, in summary, for:

- Ensuring the compliance with and updating of the policies and procedures in light of the legislation and regulations;
- Ensuring and supervising compliance with the policies and procedures adopted in the Manual on the Prevention of Money Laundering and Financing of Terrorism (PML/FT);
- Ensuring the monitoring of transactions in the matter of PML/FT;
- Preparing a monthly report on the analysis of eligible transactions in the scope of PML/FT, including a summary of any suspicious transactions;
- Complying with the duty of reporting suspicious transactions to the Financial Information Unit (FIU);
- Submitting a quarterly report to the Board of Directors (BD), on the activity developed by the Compliance Office;
- Acting as a privileged interlocutor of the judicial, police, Financial Information and supervision units and ensuring the provision of all information requested by these entities;
- Developing training actions and internal information in order to generate an appropriate team attitude towards Compliance-related issues.

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

In financial year 2018, the Compliance Office was involved in the implementation of support tools, and in the development of policies and procedures necessary to effectively comply with the provisions of Notices no. 3/2017 - Opening of bank deposit accounts, no. 4/2017 - Internal Control System and no. 5/2017 - Notice of the conditions, mechanisms and procedures necessary for the effective fulfillment of the preventive duties regarding money laundering and financing of terrorism, published by Banco de Cabo Verde in 2017.

As for regulations, with an impact on the banking activity, published in 2018, the following stand out:

- Decree-Law no. 48/2018 revoking paragraph b) of no. 2 of article 21 of Decree-Law no. 25/2010, of 2 August that regulates the conditions of access to and exercise of the activity of insurance mediation on national territory;
- Legislative-Decree no. 3/2018 establishing the legal regime that regulates economic and financial operations with foreign countries and foreign exchange operations on national territory;



- Legislative-Decree no. 7/2018 establishing the legal framework applicable to the regulation, management and operation of the Cape-Verdean Payments System;
- Legislative-Decree no. 8/2018 establishing the legal regime governing the provision of payment services and the issuance, distribution and reimbursement of electronic money in Cape Verde by legally authorized entities;
- Legislative-Decree no. 9/2018 establishing the legal regime governing access to the activity of payment institutions and electronic money institutions;
- Notice no. 1/2018, of 22 January - Minimum cash requirement
- Notice no. 2/2018, of 9 March - Amends and republishes Notice no. 1/2013, of 12 April (Lays down the rules to be observed by Financial Institutions in terms of price list disclosure, defines the duties of information and assistance to customers imposed on the Institutions and defines which financial services are free);
- Notice no. 5/2018, of 27 July - Approves the charter of accounts of the Deposits Guarantee Fund;
- Notice no. 6/2018, of 27 August - Duty of Information of Foreign Operations and Foreign Exchange Operations;
- Notice no. 7/2018, of 27 August - List of Economic and Financial Operations with Foreign Countries.

### **Banking Operations and Services**

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

Following the guidelines, and with the focus on mitigating operational risks and increasing the speed of operations, throughout the year 2018 several activities and initiatives were carried out by the OD, with an emphasis on the implementation of measures leading to the improvement of some processes, especially as regards loan processes, always considering the binomial simplicity/security of the operations.

In line with previous years and with a view to safeguarding the Bank's future position, continuity was given to the collection and safekeeping of all loan contracts and guarantees processed during the course of 2018 as well as the procedures for the periodic updating of collateral values, in line with internal and regulatory provisions.

Also in the course of 2018, the Operations Directorate continued to monitor the development and implementation of projects of varying order, with the emphasis being on the mitigation of operational risk associated with processes, functioning as the main support area of the commercial network as regards the execution and processing of back office operations.

### **Information Systems**

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



In the first quarter of 2018, the focus of the ISTD was to analyze and propose improvements in the infrastructure and systems of the Bank with a view to a new paradigm in the provision of services.

In this manner, already in the second quarter of 2018, the experimental installation of a Virtual Desktop Infrastructure (VDI) system was carried out. This system aims to reuse the already obsolete equipment in terms of computational capacity to visualize and operate a virtual desktop that resides in the Data Center with, as of this date, the infrastructure having already been installed and presently undergoing tests in some of the Bank's directorates.

Also in the course of 2018, a number of activities were carried out aimed at improving existing conditions and services or activities that required an environment change, among which the following stand out:

#### Development:

- RED Platform
- Fraud Module in GestCard
- New features in the ADC with the introduction of a module to open accounts with new features in the CPSI
- New SIC features
- Adaptations to Centric (BCV)
- Adaptations to PS2

#### Core Banking:

- Activation of the MasterCard (Debit, Prepaid Debit) service
- Setup of the DR Banka Environment in one of the Business Units of the Bank
- Migration of the SWIFT Service from BCV to SISP

#### Systems:

- Installation of a VDI platform (being testing)
- Migration of MS Exchange 2003 to Office 365
- Installation of a temporary virtualization infrastructure
- Staging of a new AD forest for the migration of the IMPAR Group

#### Communications and Security:

- Redesign of the Group's communications infrastructure architecture
- Activation of the point-to-point link with various entities, namely SISP

#### Other:

- Technical Support:
  - Western Union
  - SIC – updating (new features) and correction of bugs
  - ELAG/U@Cloud (Electra Payments)
  - Management/maintenance of applications and sites in production
  - Portal – corrections and adaptations (content management)

- Banka/Kanalo/Office Automation
- Communications Management
- Daily close

### Internal Audit Function

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

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

The Internal Audit function implemented at the Bank seeks to comply with the control requirements of the function, namely those defined in Notice no. 4/2017 of Banco de Cabo Verde and also international best practice in the matter of audits. It carries out its activity with scrupulous observance of the principles of independence, legality, objectivity, impartiality, professionalism and confidentiality. It also seeks to develop its activity in conformity with the internal audit principles recognized and accepted internationally.

The audit plan for 2018 was based on the risk assessment of the Institution's activities, systems and processes, so as to focus on the evaluation of the adequacy and effectiveness of the internal control system in the higher risk areas (credit, operational and compliance risk). With this objective in mind, contributions were requested of the management body, managers and external auditors for the preparation of the audit plan.

In 2018, the IAO carried out its function of ensuring compliance with internal regulations and conformity with the legal provisions that regulate the activity of the Institution, reporting the facts and situations that constitute deviations from that laid down in the regulations in force, recommending, whenever considered appropriate, updates to existing regulations and/or the creation of new ones in order to adapt the procedures to the new conjuncture of the banking activity.

In the audits of the Business Units, the areas audited in 2018 were those considered to be at greater risk, namely: treasury, internal security means, verification of cashier documents, filing, transfers, debit cards, check payments, time deposits, account opening procedures, verification of loan processes, compliance with price list and delegated powers and compliance with internal and regulatory provisions in the matters of money laundering and the financing of terrorism.

The IAO, through its work actions, face-to-face and at a distance, followed the Activities Plan approved by the Executive Commission, which covered the Bank's various functional areas, with the weaknesses identified meriting the attention of the bodies involved, thereby contributing to the strengthening of the internal control in place.

In total, the audit work carried out covered 17 Business Units and 4 Central Directorates/areas/topics, as shown in the table below:

Designation
<b>Retail Banking</b>
Mortgage loans
<b>Commercial Banking</b>
Loans
<b>Own Portfolio</b>
Securities portfolio
<b>Other</b>
Deposits
<b>General functions</b>
Management
Control functions: Internal Audit, Compliance, Risk Management
External Reporting
IT Systems

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

The IAO also carried out the following activities:

- ✓ Preparation of the report for the Board of Directors and for the Supervisory Board of BCN on audit issues, with a summary of the main weaknesses detected in the control actions;
- ✓ Validation of medium- and high-risk internal control points with closed status;
- ✓ Preparation of follow-up actions on the occurrences identified in the scope of the work carried out;
- ✓ Preparation of reporting information for the management body.

Taking into account the extent and nature of the activities carried out by BCN, its internal audit function is endowed with a solid, coherent and consistent organizational model that incorporates the regulatory requirements, guidelines and best practices for internal audit, recognized and accepted nationally and internationally for the pursuit of its vision, mission, strategic objectives and attributions.

### Customer Ombudsman

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

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

The Customer Ombudsman, responsible for the handling of complaints, must respond to the complaining Customer within a maximum of 10 working days following the receipt of the complaint, imposing a greater need for speed of response, which also implies greater speed on the part of the other services of the Bank as regards their cooperation and response to the requests of the Ombudsman.

Special emphasis was placed on the contact with the author of the complaint or suggestion, preferably by telephone or email, with the COO finding out all the aspects of the situation giving rise to the communication, in order to be able to respond comprehensively to that requested.

During 2018, the COO was sent and resolved 18 complaints, which were submitted either directly to BCN, via letter and the Complaints' Book or via Banco de Cabo Verde (BCV).

Of the total number of complaints, 5 (five) were received in the first half of the year and 13 (thirteen) in the second, with 13 (thirteen) of the complaints originating in the Business Units in the Sotavento area.

The complaints had various reasons at their base, of note being Customer Service, loan operations and card usage problems.

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

The efficient and constructive handling of the complaints received allowed for the adoption of corrective and preventive measures, it having been possible to provide an adequate response to the claimants by sending them an explanatory note, thereby improving the image of the Bank vis-à-vis its customers.

### **Social Balance Sheet and Human Resources**

Since 1 January 2018, in line with the Mission and Values of BCN, the new organic structure of the Bank entered into force. In this new organizational structure, the Administrative and Human Resources Directorate (AHRD) was created, this being the body which mission is to promote the necessary conditions for the development of an adequate work environment conducive to the growth and satisfaction of Employees, promoting sustainable relations with all Stakeholders of the Bank, incorporating, in all circumstances, the new Values of BCN.

The materialization of the Vision, the Mission and the strategic objectives of the Bank depend, fundamentally, on the commitment, dedication and "*Djunta Mom*" of the Employees. Thus, during the year 2018, several initiatives were carried out in order to valorize the Human Resources asset that represents one of the biggest strengths of BCN.

### **Organizational climate survey**

In order to give voice to Employees, to know and understand the attitudes, motivations and, consequently, the factors that contribute to their satisfaction, in 2018, a survey was carried out for the first time at BCN, on the satisfaction and organizational climate.

Hearing the Employees through this survey, made anonymously, was the instrument chosen by the Bank in order to involve the Employees in orienting Management as regards the best way to promote a favorable working environment that foment the motivation of Employees and, naturally, the achievement of the established strategic objectives.

The survey was carried out by a Cape-Verdean consulting firm and was based on the use of questionnaires previously put together and discussed with the human resources area of BCN.

The questionnaire was answered by 94% (ninety-four per cent) of the Employees, which reveals their interest in a diagnosis of the climate at BCN, as well as their desire to contribute to a continuous improvement of the Bank.

The criterion used in the evaluation of the results was the Satisfaction Index (average relative to the positive responses), with the following qualitative analysis of the results:

- 90% to 100 % Full satisfaction
- 75% to 89 % High satisfaction
- 55% to 74 % Medium satisfaction
- 35% to 54 % Unsatisfied
- 0% to 34 % Critical

The overall result of BCN's Employees' Satisfaction Index resulted in a level of Medium Satisfaction.

Of the dimensions of the organizational climate analyzed, a high level of Employee satisfaction in the dimensions of Work Involvement and Career Opportunities is highlighted, evidencing the Employees willingness to give their best at work every day, to focus on their functions, to be involved in their work, feel encouraged to go to work, be willing to take on new tasks, as necessary and to take the initiative to help each other, when necessary.

In relation to the dimensions for which the levels of satisfaction have called for special attention by the Management of the Bank, there are a number of actions that are being carried out with a view to improving the respective indicators.

#### Salary equality

In the first quarter of 2018, the Bank continued the equality process, initiated in 2017, in relation to the salary levels practiced in order to promote internal corrections and adjustments in respect of the remuneration in functions which tasks, profile, professional experience and degree of responsibility are similar and to gradually increase BCN's competitiveness when compared with the remuneration in the banking sector. The equality program encompassed not only the remuneration of the function but also the placing within the category under the Positions, Career and Salaries Plan in force, covering about half of the Bank's Employees, of which 62% belong to the commercial network .

#### Benefits

The well-being of the BCN Employees has been a major concern of the Bank's Management. In this sense, in 2018, the portfolio of Products and Services at the employees' disposal with preferential conditions, as well as the conditions of access to same, was reviewed.

The synergies, which result from the fact that the Bank integrates a Financial Group of which an Insurance company forms part of, IMPAR Seguros, are also reflected in the benefits attributed to the Employees, with the benefits extending to insurance products.

### Training

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

With this in mind, a set of actions were developed in 2018, with particular emphasis on the creation of the BCN Trainers' pool, the main idea of which being the creation of a base for the centralization of learning and the standardization of contents taught internally. In this sense, during the first half of 2018, a number of Employees covering all functional areas of the Bank had access to a "Training of Trainers" action given by the Instituto do Emprego e Formação Profissional (Institute of Employment and Vocational Training) (IEFP) of Cape Verde.

Besides this training action, and in line with the Bank's strategy, other training actions were carried out, totaling 43 in 2018, corresponding to 400 participations and 854 hours of training, with an emphasis on (1) training in Relational banking given to customer attendance technical staff; (2) training and workshop on International Business given to the technical staff of the Commercial and Central Services area, in partnership with one of BCN's Correspondent Banks; (3) Insurance training, in which the customer attendance technical staff of all the branches of BCN could participate; and (4) training in compliance matters in which the technical staff working in the commercial network participated.

In addition to the training actions, the Employees of BCN were able to participate in Lectures with varied themes, namely, Security, Emotional Intelligence, Management and Leadership, among others.

Some Team Building actions were also carried out in order to promote teamwork and reinforce the technical and behavioral skills of Employees.

### Internship program

In 2018, BCN established a Partnership Protocol with the IEFP, through which the two entities cooperate in the fields of Recruitment, Internships, Vocational Training, Entrepreneurship and Self-Employment.

Regarding the professional internships, BCN adhered to the PEPE - Programa de Estágio Profissional Empresarial (Professional Internship Program in Business) program and has been very active in promoting professional internships for recent graduates looking for their first job.

### Characterization of the permanent staff

At the end of 2018, the payroll had a total of 133 Employees (110 in 2017), of which 132 were in active service (109 in 2017) and 1 was inactive, due to the exercise of a public function.

30 (Thirty) new Employees were admitted (+12 in relation to the homologous period) and there were 7 (seven) departures (-2 compared with 2017).

Year 2017	Joiners in 2018	Leavers in 2018	Total Year 2018
110	30	7	133

The admissions more than compensated the departures, with a growth of 21% in the number of Employees of BCN being verified in 2018.

Of the 133 permanent Employees, 66% had undefined-term contracts with the Bank and the rest had defined-term contracts.

#### Distribution by Gender

Analyzing permanent staff by gender, 75% (+1 p.p. compared with 2017) correspond to female Employees and 25% to male Employees. Compared with the previous year, there was a decrease of 1 p.p. in terms of male Employees.

#### Distribution by Age

The average age of the Employees of BCN in 2018 remained at 36 years, with most Employees falling within the age range of 30 and 40 years.

#### Distribution by Academic Qualification

With regard to the distribution of staff by academic qualification, most Employees have higher education.

#### Distribution by Organic Unit

In 2018, the distribution by organic unit continued to be predominantly led by the commercial area, with 58% of the Employees (64% in 2017), while 42% (36% in 2017) of the Employees were in Central Services.

#### Distribution by Geographical Areas

One verifies that the highest concentration of Employees is on the island of Santiago with a total of 67% of the Employees, of which 63% are at the Headquarters, followed by the island of São Vicente with 9% of the Employees.

## 9. PROPOSAL FOR THE APPROPRIATION OF RESULTS

Considering that:

i) In financial year 2018, Banco Caboverdiano de Negócios, SA, generated in its accounts a net income of 207.193.374 CVE (two hundred and seven million one hundred and ninety-three thousand three hundred and seventy-four Cape-Verdean Escudos); and

ii) In 2017, the shareholders of the Bank adopted a prudent posture and intent on reinforcing the Shareholders' Equity of the Bank in order to boost its activity decided not to distribute dividends in the following five years;

The Board of Directors, under the terms and for the purposes of paragraph b) of no. 1 and of no. 2 of article 407 of the Commercial Companies Code and of no. 1 of article 42 of Law no. 62/VIII/2014, of 23 April, proposes that the Net income for financial year 2018 should be distributed as follows,:

	Percentage (%)	Amount
Legal reserve	10%	20.719.337
Retained earnings	88%	181.794.037
Profit Sharing	2%	4.680.000
<b>TOTAL</b>	<b>100%</b>	<b>207.193.374</b>



## **II. FINANCIAL STATEMENTS**

As already mentioned, the financial statements of the Bank are presented in accordance with IFRS 9. However, it should be noted that the changes introduced by the new standard were applied only to the current reporting period, with the Bank opting not to make changes to the presentation of the information related to the 2017 financial year.

## Balance sheet as of 31 December 2018 and 2017

(in thousands of CVE)					
Description	Notes	2018			2017 Net book value
		Amounts before provisions, impairment and amortization	Provisions, impairment and amortization	Net book value	
<b>Assets</b>					
Cash and deposits with Central Banks	4	2.429.820	-	2.429.820	2.556.840
Deposits with Banks	5	1.359.177	-	1.359.177	1.275.472
Financial assets designated at fair value through profit or loss	6	33.456	-	33.456	29.454
Financial assets measured at fair value through other comprehensive income	7, 10 e 32	179.855	-	179.855	152.331
Financial assets measured at amortized cost					
Debt securities	10	1.398.200	8.509	1.389.691	1.238.143
Loans and advances to banks	8	106.124	-	106.124	52.169
Loans and advances to customers	9, 32 e 36	13.646.138	1.292.660	12.353.478	9.510.238
Other tangible assets	11, 32	685.042	453.450	231.593	191.860
Other intangible assets	12	142.420	134.753	7.667	3.929
Tax Assets					
Current tax assets	14	-	-	-	35.676
Deferred tax assets	13	22.751	-	22.751	947
Other assets	15, 32	1.409.394	126.687	1.282.707	1.538.001
<b>Total Assets</b>		<b>21.412.376</b>	<b>2.016.058</b>	<b>19.396.318</b>	<b>16.585.060</b>
Description	Notes			2018	2017
<b>LIABILITIES</b>					
Financial liabilities measured at amortized cost					
Deposits from Banks	16			331.582	544.733
Due to customers and other loans	17			16.668.049	13.902.969
Provisions	34			7.675	20.030
Current tax liabilities	18			31.985	-
Deferred tax liabilities	13			4.107	39.281
Other liabilities	19			170.986	159.108
<b>Total Liabilities</b>				<b>17.214.385</b>	<b>14.666.121</b>
<b>EQUITY</b>					
Share Capital	20			900.000	900.000
Revaluation reserves	21			181.854	114.762
Legal reserve	22			103.974	83.589
Other reserves and retained earnings	22			788.912	616.737
Net income for the period				207.193	203.850
<b>Total Equity</b>				<b>2.181.934</b>	<b>1.918.939</b>
<b>Total Liabilities + Equity</b>				<b>19.396.318</b>	<b>16.585.060</b>

Financial and International Directorate

The Board of Directors

## Income statement for the financial years ended as of 31 December 2018 and 2017

Description	Notes	2018	2017
Interest and similar income		961.432	795.110
Interest and similar expenses		(329.101)	(306.807)
<b>Net interest income</b>	23	<b>632.331</b>	<b>488.303</b>
Dividend income	24	12.828	12.147
Fee and commission income	25	162.878	142.668
Fee and commission expenses	26	(55.881)	(36.031)
Net gain / (losses) from assets and liabilities at fair value through profit or loss		3.077	5.342
Net gain / (losses) from foreign exchange revaluation	27	10.597	23.039
Net gain / (losses) on disposal of other assets	28	474	1.896
Other net operating gains / (losses)	29	19.303	4.433
<b>Operating income</b>		<b>785.609</b>	<b>641.796</b>
Staff costs	30	220.937	170.305
General and administrative expenses	31	183.626	157.986
Depreciation and amortization	11 e 12	33.153	35.310
Provisions, net of reversals	34	(12.305)	-
Impairment losses of loans and advances, net of reversals and recoveries	32	49.936	(2.081)
Impairment losses of other assets, net of reversals and recoveries	32	37.860	23.034
<b>Profit / (loss) before income tax</b>		<b>272.401</b>	<b>257.242</b>
Income Tax		65.207	53.392
Current tax		87.011	54.339
Deferred tax		(21.804)	(947)
<b>Net income for the period</b>		<b>207.193</b>	<b>203.850</b>
<b>Earnings by share</b>	32		
. Basic (CVE)		230	227
. Diluted (CVE)		230	227

Financial and International Directorate

The Board of Directors

## Statement of comprehensive income for the financial years ended as of 31 December 2018 and 2017

(in thousands of CVE)

	2018	2017
<b>Net income for the period</b>	207 193	203 850
<b>OTHER COMPREHENSIVE (EXPENSE) / INCOME</b>		
<b>ITEMS THAT WILL NOT SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:</b>		
Changes in fair value from equity instruments measured at fair value through other comprehensive income	27.524	
Tax associated with elements that will not subsequently be reclassified	36.294	
<b>ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:</b>		
Debt securities at fair value through other comprehensive income		
Gains or (losses) from fair value adjustments of tangible assets	4 394	(641)
Transferred to profit or loss		
Deferred tax liability associated with fair value adjustment of other elements	(1 121)	164
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>274 285</u>	<u>203 373</u>

Financial and International Directorate

The Board of Directors

## Statement of changes in shareholders' equity as of 31 December 2018 and 2017

(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 2016		900.000	73.298	669.590	102.909	1.745.797
Appropriation of net income from the year of 2016		-	10.291	61.746	(102.909)	(30.873)
Comprehensive income of 2017		-	-	164	203.850	204.014
Balances at 31 of december of 2017	-	900.000	83.589	731.499	203.850	1.918.939
Appropriation of net income of the previous year		-	20.385	171.285	(203.850)	(12.180)
Comprehensive income of 2018		-	-	67.982	207.193	275.175
<b>Balances at 31 of december of 2018</b>		<b>900.000</b>	<b>103.974</b>	<b>970.766</b>	<b>207.193</b>	<b>2.181.934</b>

Financial and International Directorate

The Board of Directors

## Statement of cash flows as of 31 December 2018 and 2017

(in thousands of CVE)			
Accounts	Notes	2018	2017
<b>Operating Activities</b>			
Operating Results			
Net income for the period		207.193	203.850
Impairment charges for the period	32	87.797	20.954
Depreciation and amortization for the period	11 e 12	33.153	35.310
Allocation for income taxes for the period	18	87.011	54.339
Deferred taxes	13	(21.804)	(947)
Provisions	34	(12.305)	-
Dividends		(12.180)	(30.873)
Change in Operating Assets and Liabilities:			
(Increase) / Decrease in Financial Assets designated at Fair Value through profit or loss	6	(4.002)	(3.091)
(Increase) / Decrease in Financial Assets available for sale	7	-	-
(Increase) / Decrease in Loans and advances to banks	8	(53.955)	2.121.819
(Increase) / Decrease in Held-to-maturity investments	10, 32	1.238.143	2.996
(Increase) / Decrease in Loans and advances to customers	9, 32 e 36	(4.320.728)	(1.500.274)
(Increase) / Decrease in Other Assets	15, 32	185.099	23.057
Increase / (Decrease) in Deposits from banks	16	(213.151)	492.076
Increase / (Decrease) in Due to Customers and Other loans		2.765.080	1.434.249
Increase / (Decrease) in Other Liabilities		62.672	(54.119)
<i>Cash Flow from Operating Activities (1)</i>		<b>28.024</b>	<b>2.799.344</b>
<b>Investing Activities</b>			
Purchase of Other Tangible Assets	11, 32	(71.229)	(36.964)
Disposals of Other Tangible Assets	11, 32	1.712	26
Purchase of Other Intangible Assets	12	(7.516)	(818)
Disposals of Other Intangible Assets	12	-	-
Others		5.694	-
<i>Cash Flow from Investing Activities (2)</i>		<b>(71.339)</b>	<b>(37.757)</b>
<b>Financing Activity</b>			
Increase in Share Capital		-	-
Change in Reserves and Retained earnings	21, 22	-	-
<i>Cash Flow from Financing Activities (2)</i>		<b>-</b>	<b>-</b>
<i>Change in cash and cash equivalents (4)=(1)+(2)+(3)</i>		<b>(43.315)</b>	<b>2.761.587</b>
<i>Effect of foreign exchange differences</i>			<b>-</b>
		<b>(43.315)</b>	<b>2.761.587</b>
<b>Change in cash and cash equivalents</b>			
Cash and Cash equivalents at the beginning of the period		3.832.312	1.070.724
Cash and Cash equivalents at the end of the period		3.788.997	3.832.312
		<b>(43.315)</b>	<b>2.761.588</b>
<b>Balance sheet amounts of cash and cash equivalents:</b>			
Cash and deposits with Central Banks	4	2.429.820	2.556.840
Deposits with Banks	5	1.359.177	1.275.472
		<b>3.788.997</b>	<b>3.832.312</b>

Financial and International Directorate

The Board of Directors

### **III. NOTES TO THE FINANCIAL STATEMENTS**



## 1. General Information

BCN - Banco Caboverdiano de Negócios, SA (hereinafter designated as BCN or Bank), having 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 activity includes all banking and financing operations permitted by Cape Verdean Law.

## 2. IFRS Disclosures – New standards as of 31 December 2018

### I. Impact of the adoption of amendments to standards that became effective as from 1 January 2018:

- a) **IFRS 15** (new), 'Revenue from contracts with customers'. This new standard applies only to contracts for the delivery of products or services to customers and requires the entity to recognize revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration the entity is entitled to, as provided for in the "5-step methodology".
- b) **Amendments to IFRS 15**, 'Revenue from contracts with customers'. These amendments refer to the additional indications to follow for determining the performance obligations of a contract, for recognizing revenue of an intellectual property license, for revising the indicators for the classification of the principal versus agent relationship, and for the new regimes foreseen to simplify the transition.
- c) **IFRS 9** (new), 'Financial instruments'. IFRS 9 replaces the requirements of IAS 39, in respect of: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of receivables (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. The impacts of the adoption of this new Standard will be covered in a specific chapter.
- d) **IFRS 4** (amendment), 'Insurance contracts (application of IFRS 4 with IFRS 9)'. This amendment gives entities that negotiate insurance contracts the option of recognizing in Other comprehensive income, instead of recognizing in the income statement, the volatility that may result from the application of IFRS 9 before the new insurance contracts standard is published. In addition, a temporary exemption is granted to the application of IFRS 9 up to 2021 to entities which predominant activity is that of insurance company. This exemption is optional and does not apply to consolidated financial statements that include an insurance entity.
- e) **IFRS 2** (amendment), 'Classification and measurement of share-based payment transactions'. This amendment clarifies the measurement basis for cash-settled share-based payment transactions and the accounting for changes to a share-based payment plan that change its classification from cash-settled to equity-settled. In addition, it introduces an exception to the principles of IFRS 2, which requires that a share-based payment plan be treated as if it were fully equity-settled when the employer is required to withhold an amount of tax from the employee and pay that amount over to the tax authority.

- f) **IAS 40** (amendment) 'Transfers of investment properties'. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in use. A change of management's intention alone is not sufficient to effect the transfer.

g) **Improvements to standards 2014 – 2016.**

IFRS 1, 'First-time adoption of IFRS'. This improvement eliminates the temporary exemptions for IFRS 7, IFRS 10 and IAS 19, since they are no longer applicable.

IFRS 12, 'Disclosure of interests in other entities'. The purpose of this improvement is to clarify that its scope includes investments classified under IFRS 5, and that the only exemption is related to the disclosure of the summary of the financial information of those entities.

IAS 28, 'Investments in associates and joint ventures'. This improvement clarifies that investments in associates or joint ventures held by a venture capital company may be measured at fair value in accordance with IFRS 9, on an individual basis. This improvement also clarifies that an entity that is not an investment entity but holds investments in associates and joint ventures that are investment entities may maintain the fair value measurement of the associate's or joint venture's interests in their own subsidiaries.

- h) **IFRIC 22** (new), 'Foreign currency operations and advance consideration' This is an interpretation of IAS 21 'The effects of changes in exchange rates' and refers to the determination of the 'transaction date' when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The 'transaction date' determines the exchange rate to be used to convert the transactions into foreign currency.

**2. Standards (new and amendments) and interpretations published, which application is effective for annual periods beginning on or after 1 January 2019, already endorsed by the European Union:**

- a) **IFRS 16** (new), 'Leases' (to be applied as from the annual periods beginning on or after 1 January 2019). This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognize future lease liabilities reflecting lease payments and a "right of use" asset for all leases, except certain short-term and low-value asset leases. The definition of a lease was also changed, being now based on the "right to control the use of an identified asset". As regards the transitional regime, the new standard can be applied retrospectively or a modified retrospective approach can be followed.

Regarding the adoption of IFRS 16, effective as from 1 January 2019, the Bank is conducting an analysis of the lease agreements entered into that could be impacted by this standard. The main typology of the contracts identified that require estimating an asset for "right of use" and a liability for finance leases are real estate leases. Once the impact of adopting the standard has been ascertained, the Bank plans to adjust its balance sheet as at 1 January 2019, without restating comparatives as provided for in the standard. The Bank will continue to monitor sectoral interpretations in this matter, planning to adjust its implementation accordingly, during 2019.

- b) **IFRS 9** (amendment), 'Prepayment elements with negative compensation' (to be applied as from the annual periods beginning on or after 1 January 2019). This amendment introduces the possibility of classifying financial assets with prepayment conditions with negative compensation at amortized cost, provided that specific conditions are verified, instead of classifying same at fair value through profit and loss.

- c) **IFRIC 23** (new), 'Uncertainty over the treatment of income tax' (to be applied as from the annual periods beginning on or after 1 January 2019). This is an interpretation of IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of a certain tax treatment by the tax authorities in respect of income tax. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12, rather than IAS 37 – 'Provisions, contingent liabilities and contingent assets', based on the expected amount or the most probable amount. The application of IFRIC 23 may be of retrospective or retrospective modified application.

**3. Standards (new and amendments) and interpretations published, which application is effective for annual periods beginning on or after 1 January 2019, but not yet endorsed by the European Union:**

- a) **IAS 19** (amendment), 'Changes, reductions and liquidations of defined benefit plans' (to be applied for annual periods beginning on or after 1 January 2019). This amendment is still subject to the process of endorsement by the European Union. This amendment to IAS 19 requires an entity: (i) to use updated assumptions to determine the current service cost and the net interest for the remaining period after the change, reduction or liquidation of the plan; and (ii) to recognize in profit and loss as part of the past service cost, or as a gain or loss on the liquidation any reduction in excess coverage, even if the surplus coverage had not been previously recognized due to the impact of the asset ceiling. The impact on the asset ceiling is always recorded in Other Comprehensive Income, and may not be recycled through profit and loss.
- b) **IAS 28** (amendment), 'Long-term investments in associates and joint ventures' (to be applied as from the annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investment in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9. The long-term investments in associates and joint ventures are subject to the expected impairment loss model, before being added for purposes of the impairment test of the overall investment in an associate or joint venture, when there are indications of impairment.
- c) **IFRS 3** (amendment), 'Definition of a business' (to be applied as from the annual periods beginning on or after 1 January 2020). This amendment is still subject endorsement by the European Union. This amendment constitutes a revision of the definition of a business for the purpose of accounting for business combinations. The new definition requires that an acquisition include an input and a substantial process that together generate outputs. Outputs are defined as goods and services that are delivered 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. Combination tests are allowed to determine whether a transaction refers to the acquisition of an asset or a business.
- d) **IAS 1 and IAS 8** (amendment), 'Definition of material' (to be applied as from the annual periods beginning on or after 1 January 2020). This amendment is still subject endorsement by the European Union. This amendment introduces a modification to the concept of material. It includes clarifications regarding the reference to unclear information, corresponding to situations in which its effect is similar to omitting or distorting such information, within the overall context of the financial statements; as well as clarifications as to the term 'principal users of financial statements', with these being defined as 'current and future investors, lenders and creditors' that rely on the financial statements to obtain a significant part of the information they require.

- e) Improvements to standards 2015 – 2017** (to be applied as from the annual periods beginning on or after 1 January 2019). This cycle of improvements is still subject to endorsement by the European Union. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IAS 23, 'Borrowing costs' (to be applied as from the annual periods beginning on or after 1 January 2019). This improvement clarifies that specific loans obtained that remain outstanding after the qualifying assets to which they relate are in condition of use or sale should be added to the general loans to calculate the average capitalization interest rate on the other qualifying assets.

IAS 12, 'Income taxes' (to be applied as from the annual periods beginning on or after 1 January 2019). This improvement clarifies that the tax impacts of dividends are recognized on the date the entity registers the responsibility for the payment of dividends, which are recognized in the income statement for the year, other comprehensive income or equity, depending on the transaction or event that gave rise to dividends.

IFRS 3, 'Business Combinations' and IFRS 11, 'Joint Arrangements' (to be applied as from the annual periods beginning on or after 1 January 2019). These improvements clarify that: (i) on gaining control over a business that is a joint venture, the interests previously held by the investor are re-measured at fair value; and (ii) when an investor in a joint venture that does not exercise joint control, obtains joint control over a joint venture which is a business, the interest previously held is not re-measured at fair value.

- f) Conceptual framework, 'Changes in referencing to other IFRS'** (to be applied as from annual periods beginning on or after 1 January 2020). These changes are still subject to endorsement by the European Union. As a result of the publication of the new Conceptual Framework, the IASB introduced changes in the text of various 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, and SIC 32, in order to clarify the application of the new definitions of assets/liabilities and expenditure/income, in addition to some of the characteristics of the financial information. These changes are of retrospective application, except if impractical.

- g) IFRS 17** (new), 'Insurance contracts' (to be applied as from the annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 is based on the discounted value measurement of the technical liabilities at each reporting date. The discounted value measurement can be based on a complete "building block approach" or "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application.

### Summary table of new standards:

Description	Amendment	Effective date
<b>1. New standards, amendments and interpretation effective as from 1 January 2018</b>		
• IFRS 15 – Revenue from contracts with customers	Recognition of revenue related to the delivery of assets and provision of services, by applying the 5-step methodology	1 January 2018
• Amendments to IFRS 15 – Revenue from contracts with customers	Identification of performance obligations, recognition of IP licensing revenue, revision of the indicators for the classification of the principal versus agent relationship, and new regimes for the simplification of the transition	1 January 2018
• IFRS 9 – Financial instruments	New standard on the accounting treatment of financial instruments	1 January 2018
• IFRS 4 – Insurance contracts (application of IFRS 4 with IFRS 9)	Temporary exemption from the application of IFRS 9 for insurers for years beginning before 1 January 2021.  Specific regime for the assets under IFRS 4 that qualify as financial assets at fair value through profit and loss under IFRS 9 and as financial assets at amortized cost under IAS 39, allowing for the classification of the measurement difference in Other comprehensive income	1 January 2018
• IFRS 2 – Share-based payment transactions	Measurement of cash-settled share-based payment plans, accounting for changes, and classification of equity-settled share-based payment plans, when the employer is required to withhold tax	1 January 2018
• IAS 40 – Investment properties	Clarification that evidence of change of use is required to effect the transfer of	1 January 2018

Description	Amendment	Effective date
	assets to and from the investment property category	
• Improvements to standards 2014 – 2016	Various clarifications: IFRS 1, IFRS 12 and IAS 28	1 January 2018
• IFRIC 22 – Foreign currency operations and advance consideration	Foreign exchange rate to be applied when consideration is received or paid in advance	1 January 2018
<b>2. Standards (new and amendments) and interpretations that become effective as from 1 January 2019, already endorsed by the European Union</b>		
• IFRS 16 – Leases	New definition of leasing. New accounting of lease contracts for lessees. There are no changes to the accounting of leases for lessors	1 January 2019
• IFRS 9 – Financial instruments	Accounting treatment options for financial assets with negative compensation	1 January 2019
• IFRIC 23 – Uncertainty over the income tax treatment	Clarification on the application of the principles of recognition and measurement of IAS 12 when there is uncertainty about the tax treatment of a transaction, in respect of income tax	1 January 2019
<b>3. Standards (new and amendments) that become effective as from 1 January 2018, not yet endorsed by the European Union</b>		
• IAS 19 – Employee benefits	Requires the use of updated assumptions to calculate the remaining liabilities, with an impact on the income statement, except for the reduction of any excess falling within the scope of the asset ceiling	1 January 2019
• IAS 28 – Investments in associates and joint ventures	Clarification regarding long-term investments in associates and joint ventures that are not being measured using the equity method	1 January 2019
• IFRS 3 – Business combinations	Change in the definition of a business	1 January 2020

Description	Amendment	Effective date
<ul style="list-style-type: none"> <li>• IAS 1 – Presentation of the financial statements; IAS 8 – Accounting policies, changes in estimates and errors</li> </ul>	Update of the definition of material	1 January 2020
<ul style="list-style-type: none"> <li>• Improvements to standards 2015 – 2017</li> </ul>	Various clarifications: IAS 23, IAS 12, IFRS 3 and IFRS 11	1 January 2019
<ul style="list-style-type: none"> <li>• Conceptual framework – Changes in referencing to other IFRS</li> </ul>	Amendment to some IFRSs regarding cross-references and clarifications on the application of the new definitions of assets/liabilities and expenses/income	1 January 2020
<ul style="list-style-type: none"> <li>• IFRS 17 – Insurance contracts</li> </ul>	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation features	1 January 2021

**In light of the changes in the standards/interpretations mentioned above, the Bank is studying the main impacts on the presented Financial Statement. Specifically, as regards of the adoption of IFRS 16, the Bank is still studying its impact and as regards the impact of IFRS 9 as at 1 January 2018, see the impact in the following chapter.**

## THE ADOPTION OF IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 is a Standard issued in June 2014 by the International Accounting Standards Board (IASB), relating to the classification and measurement of financial instruments, which mandatory adoption date was 1 January 2018. This standard, which replaced IAS 39, establishes new classification and measurement rules for financial assets and liabilities, which are grouped into three levels:

- 1- The classification and measurement of financial assets and liabilities and for certain types of contracts for the purchase or sale of non-financial items;
- 2- The definition of a new methodology for the recognition of impairment losses of financial assets by introducing a conceptual model in the recognition of impairment losses on financial assets based on the **Expected Credit Loss (ECL)** in replacement of the **Incurred Loss Model** defined by IAS 39; and
- 3- The presentation of new possibilities of applying hedge accounting rules more in line with risk management practices.

That is, the new standard establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for the calculation of impairment and the application of hedge accounting rules, the last not being applicable in the case of BCN. It should be noted that the adoption of IFRS 9 brought a profound change to the methodology for the calculation of impairment of the Bank and constitutes the main change introduced with its adoption.

### IFRS 9 Financial Instruments – Changes in policies and impacts

In terms of impacts, it should be noted that the main impact was on impairment of financial assets, with, in the case of loan impairment, the negative impact being absorbed by the existence of the differential related to the regulatory provisions arising from the application of Notice no. 4/2006. In this manner, there was no impact on Shareholders' Equity from the adoption of the new standard.

At the level of the accounting policies in force in respect of financial instruments, with the adoption of IFRS 9, the following changes were made:

- Assets held for trading and derivatives held for risk management, which were classified as held-for-trading and measured at FVTPL under IAS 39, are measured at FVTPL under IFRS 9;
- Due from banks, measured at nominal value on the balance sheet date under IAS 39 are, generally, measured at amortized cost under IFRS 9;
- Loans and advances to customers, measured at amortized cost under IAS 39 are, generally, measured at amortized cost under IFRS 9;
- Investments in held-to-maturity securities, measured at amortized cost under IAS 39 are, generally, measured at amortized cost under IFRS 9;



- Financial assets classified as available-for-sale under IAS 39 are, under IFRS 9, measured at FVOCI or FVTPL, depending on certain circumstances;
- Due to banks, measured at amortized cost under IAS 39 are, generally, measured at amortized cost under IFRS 9;
- Due to customers and other loans, measured at amortized cost under IAS 39 are, generally, measured at amortized cost under IFRS 9;

Based on this analysis, there were no material changes in the measurement criteria associated with the financial assets of the Bank (financial assets measured at amortized cost versus financial assets measured at fair value) with an impact, on the transition to IFRS 9.

### Impairment – Financial Assets

IFRS 9 replaces the "Loss Incurred" model of IAS 39 with the forward-looking "Expected Credit Loss (ECL)" model, which considers expected losses over the life of financial instruments. Thus, in the determination of the ECL, macroeconomic factors as well as other forward-looking information, which changes impact the expected losses, are taken into account. At the level of the Bank, the model does not yet include the macroeconomic variables; however, the Bank expects to include such factors in the next financial year.

On 1 January 2018, no impact on Shareholders' Equity arising from the adoption of IFRS 9 and related to impairment losses of financial assets was recorded, due to the fact that the impact of the adoption of this standard is lower than the difference between the impairment and the minimum defined regulatory provisions of Banco de Cabo Verde. With regard to derecognition and modification of contracts, IFRS 9 incorporates the requirements of IAS 39 for derecognition of financial assets and liabilities with no significant changes.

With regard to the transition, the Bank applied the exception that allows for the non-restatement of comparative information from prior periods regarding changes in classification and measurement (including impairment).

*More detail is presented in Note 3.6, with a full description of the accounting policy followed for IFRS 9.*

## Comparability of the information

The adoption of IFRS 9 determined changes in the classification and valuation of certain financial assets, as presented in the following schedules. It should be noted that the amounts as at 31 December 2017 are presented solely for comparative purposes. It should be noted that in relation to the homologous period of last year, the Bank applied the exception that allows for the non-restatement of comparative information regarding changes in classification and measurement (including impairment).

### Impacts on Assets of the first application of IFRS 9

(in thousands of CVE)	IAS 39 31 dec 2017	Reclassification / Remeasurement	IFRS 9 1 jan 2018
<b>ATIVO</b>			
Cash and deposits with Central Banks	2.556.840	-	2.556.840
Deposits with Banks	1.275.472	-	1.275.472
Financial assets held for trading	-	-	-
Financial assets designated at fair value through profit or loss	29.454	-	29.454
Financial assets measured at fair value through other comprehensive income	-	152.331	152.331
Financial assets available for sale	152.331	(152.331)	-
Financial assets measured at amortized cost	9.562.406	1.238.143	10.800.549
Debt securities	-	1.238.143	1.238.143
Loans and advances to banks	52.169	-	52.169
Loans and advances to customers	9.510.238	-	9.510.238
Held-to-maturity Investments	1.238.143	(1.238.143)	-
Other tangible assets	191.860	-	191.860
Other intangible assets	3.929	-	3.929
Current tax assets	35.676	-	35.676
Deferred tax assets	947	-	947
Other assets	1.538.001	-	1.538.001
<b>TOTAL ASSETS</b>	<b>16.585.060</b>	<b>-</b>	<b>16.585.060</b>

With the adoption of IFRS 9, the Bank reclassified its financial assets, for the portfolios existing as at the adoption date:

- Loans and advances to customers continue recorded at amortized cost;
- Debt instruments were reclassified from "Held-to-maturity investments" to "Financial assets at amortized cost - Debt securities";
- Financial assets that under IAS 39 were classified under "Available-for-sale financial assets" were reclassified to "Financial assets at fair value through other comprehensive income".

### Impacts on Liabilities of the first application of IFRS 9

(in thousands of CVE)	IAS 39 31 dec 2017	Reclassification / Remeasurement	IFRS 9 1 jan 2018
<b>LIABILITIES</b>			
Financial liabilities measured at amortized cost	14.447.702	-	14.447.702
Deposits from Banks	544.733	-	544.733
Due to customers and other loans	13.902.969	-	13.902.969
Provisions	20.030	-	20.030
Current tax liabilities	-	-	-
Deferred tax liabilities	39.281	-	39.281
Other liabilities	159.108	-	159.108
<b>TOTAL LIABILITIES</b>	<b>14.666.121</b>	-	<b>14.666.121</b>

In financial liabilities, the categories provided for under IFRS 9 are similar to those under IAS 39.

### Impacts on Shareholders' equity of the first application of IFRS 9

(in thousands of CVE)	IAS 39 31 dec 2017	Reclassification / Remeasurement	IFRS 9 1 jan 2018
<b>TOTAL EQUITY</b>			
Share Capital	900.000	-	900.000
Revaluation reserves	114.762	-	114.762
Legal reserve	83.589	-	83.589
Other reserves and retained earnings	616.737	-	616.737
Net income for the period	203.850	-	203.850
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS</b>	<b>1.918.939</b>	-	<b>1.918.939</b>
Interesses que não controlam	-	-	-
<b>TOTAL EQUITY</b>	<b>1.918.939</b>	-	<b>1.918.939</b>

As mentioned, the adoption of IFRS 9 did not produce any impact on Shareholders' Equity.

Impact on the Loan portfolio, segmentation and impairment (on the first application of IFRS 9 – 30 June 2018)<sup>5</sup>

**Exposure**

(in thousands of CVE)

	IAS 39			IFRS 9			
	Collective Analysis	Individual Analysis	Total	Exposure with low credit risk	Exposure with significant increase of credit risk	Exposure with impairment situation	Total
<b>Loans</b>							
Corporate	2.515.049	4.011.223	6.526.272	5.274.953	388.964	862.356	6.526.272
Corporate - Prepaid credit	0	308.798	308.798	0	0	308.798	308.798
Individuals - Consumption Rents	850.066	202.521	1.052.587	785.779	88.191	178.617	1.052.587
Individuals - Housing	2.765.717	67.425	2.833.143	2.348.860	277.035	207.249	2.833.143
Individuals - Revolving	62.745	51.697	114.442	44.396	3.697	66.348	114.442
Individuals - Prepaid credit	0	142.802	142.802	0	0	142.802	142.802
Overdue Credit Expenses	0	17.380	17.380	0	0	17.380	17.380
Public Sector	117.894	1.253.060	1.370.954	1.282.869	67.929	20.155	1.370.954
<b>Sub - Total</b>	<b>6.311.472</b>	<b>6.054.906</b>	<b>12.366.378</b>	<b>9.736.857</b>	<b>825.817</b>	<b>1.803.704</b>	<b>12.366.378</b>
<b>Commitments</b>							
Guarantees	623.140	35.423	658.563	658.563	0	0	658.563
Revocable Commitments	437.269	341.553	778.822	777.611	981	231	778.822
<b>Sub - Total</b>	<b>1.060.409</b>	<b>376.976</b>	<b>1.437.385</b>	<b>1.436.173</b>	<b>981</b>	<b>231</b>	<b>1.437.385</b>
<b>Securities</b>							
Debt securities	804.056	0	804.056	804.056	0	0	804.056
Other residents securities	437.266	0	437.266	437.266	0	0	437.266
<b>Sub - Total</b>	<b>1.241.323</b>	<b>0</b>	<b>1.241.323</b>	<b>1.241.323</b>	<b>0</b>	<b>0</b>	<b>1.241.323</b>
<b>Total</b>	<b>8.613.203</b>	<b>6.431.882</b>	<b>15.045.085</b>	<b>12.414.353</b>	<b>826.797</b>	<b>1.803.935</b>	<b>15.045.085</b>

<sup>5</sup> Banco de Cabo Verde only issued guidelines to banks regarding the adoption of IFRS 9 at the beginning of 2018, and, consequently, extended the deadline for its implementation and reporting to the end of the first half-year.

## Impairment / Provisions

(in thousands of CVE)

	IAS 39			IFRS 9				Provisions
	Collective Analysis	Individual Analysis	Total	Exposure with low credit risk	Exposure with significant increase of credit risk	Exposure with impairment situation	Total	
<b>Loans</b>								
Corporate	69.459	195.558	265.017	66.420	91.884	191.973	350.276	577.121
Corporate - Prepaid credit	0	308.798	308.798	0	0	308.798	308.798	308.789
Individuals - Consumption Rents	22.202	13.915	36.117	5.601	5.620	57.625	68.846	123.371
Individuals - Housing	20.967	6.239	27.206	4.363	8.731	46.189	59.284	57.855
Individuals - Revolving	3.218	6.127	9.345	1.029	1.343	36.343	38.715	31.265
Individuals - Prepaid credit	0	142.802	142.802	0	0	142.802	142.802	142.802
Overdue Credit Expenses	0	17.380	17.380	0	0	17.380	17.380	17.380
Public Sector	8.837	25.179	34.017	18.743	948	281	19.972	998
Impairment Adjustments (1)						252.765	252.765	
<b>Sub - Total</b>	<b>124.683</b>	<b>715.999</b>	<b>840.682</b>	<b>96.156</b>	<b>108.527</b>	<b>801.392</b>	<b>1.258.839</b>	<b>1.259.581</b>
<b>Commitments</b>								
Guarantees	640	526	1.166	909	0	0	909	166
Revocable Commitments	0	0	0	0	0	0	0	0
<b>Sub - Total</b>	<b>640</b>	<b>526</b>	<b>1.166</b>	<b>909</b>	<b>0</b>	<b>0</b>	<b>909</b>	<b>166</b>
<b>Securities</b>								
Debt securities	0	0	0	11.257	0	0	11.257	0
Other residents securities	0	0	0	9.195	0	0	9.195	0
<b>Sub - Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20.452</b>	<b>0</b>	<b>0</b>	<b>20.452</b>	<b>0</b>
<b>Total</b>	<b>125.323</b>	<b>716.524</b>	<b>841.848</b>	<b>117.516</b>	<b>108.527</b>	<b>801.392</b>	<b>1.280.199</b>	<b>1.259.748</b>

### **3. Bases of Presentation and Accounting Policies**

#### **3.1. Bases of presentation of the accounts**

BCN's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued and adopted by the International Accounting Standards Board (IASB), in the scope of the provisions of Notice no. 2/2007, of Banco de Cabo Verde, of 25 February, with the exception foreseen in Notice no. 4/2006 and the alterations introduced by Notice no. 6/2007.

The Financial Statements, approved by the Board of Directors on 12 March 2019, were prepared in accordance with the historical cost convention, with the exception of the revaluation of real estate and financial instruments recorded at fair value. The main accounting policies used by BCN are presented in the following notes.

#### **3.2. Comparative information**

Notwithstanding the changes in accounting policies linked to the classification, recognition and measurement of financial instruments, arising on the adoption of IFRS 9, the amounts presented are comparable, in the relevant aspects, with those of the previous financial year. Further details are presented in the note on the adoption of IFRS 9, "Comparability of the Information".

#### **3.3. Use of estimates in the preparation of the 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, income and expenses, as well as the contingent liabilities disclosed. In preparing these estimates, Management used its judgment, as well as the information available at the date of the preparation of the financial statements. Consequently, the future amounts actually realized may differ from the estimates made.

The most significant management estimates and assumptions are as follows:

#### **Continuity of operations**

The financial statements have been prepared on a going concern basis, as Management believes that the Bank has the means and ability to continue its business in the foreseeable future. For this judgment, the Bank took into account all the information that 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, it being considered that the value by which an asset held in the portfolio can be transacted is considered to be the 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 and loss, in which case these transaction costs are recognized directly in the income statement.

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

Note 38 describes the criteria for the classification of financial assets by levels and the methodology used to obtain the respective fair value, in accordance with IFRS 13 - Fair Value Measurement. It should be noted that in 2018 there were no significant changes in valuation methodologies when compared with the previous year.

### **Impairment losses of loans and advances to customers**

Loans and advances to customers in default (Stage 3) and for which the customers' total liabilities are considered significant are individually analyzed to assess the need to record impairment losses. In this analysis, the amount and period of the future flows is estimated. These estimates are based on assumptions about a number of factors that may change in the future and, as such, may alter the impairment amounts. In addition, a collective analysis of impairment by loan segments with similar characteristics and risks is performed and the associated impairment losses are determined.

### **Real estate for own use**

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

### **Deferred tax**

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

### **Valuation of real estate assets**

The real estate appraisal service is provided by independent external specialized appraisers registered with the AGMVM - Auditoria Geral de Mercados de Valores Mobiliários (General Audit of the Securities Market) or members of the Ordem dos Engenheiros de Cabo Verde (Engineers' Association), with qualifications and recognized professional competence and experience that is adequate to perform the respective functions.

The valuation procedures presuppose a rigorous collection of information, namely of up-to-date documentation, of an inspection of the property and surrounding area, and of information from the city halls and other organisms, as well as the analysis of the market, transactions, supply/demand relation and development prospects. The processing of this information, areas and usage and market values, allows for the adoption of base values for the calculation, by application of the methods and their comparison. The comparative market method is always used, either directly or as a base for the development's cash flows, updated as at the valuation date at rates that incorporate project risk.

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

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

Real estate assets are recorded as Other assets (Note 15) and Real estate for own use (Note 11).

### **Provisions**

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

### **3.4. Transactions in Foreign Currency**

Transactions in foreign currency are translated at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Cape-Verdean Escudos at the exchange rate prevailing as at the balance sheet date. Foreign 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 as at the date of the transaction. Non-monetary assets and liabilities expressed in foreign currency recorded at fair value are translated at the exchange rate prevailing as at the date the fair value was determined.

### **3.5. Cash and Cash Equivalents**

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



### **3.6. Financial Instruments**

#### **3.6.1. Accounting policy adopted until 31 December 2017 (IAS 39)**

Until 31 December 2017, the Bank, to classify Financial instruments, applied IAS 39, as indicated next:

##### **3.6.1.1. Recognition and measurement of financial instruments**

The acquisitions and sales of financial assets that imply the delivery of assets in accordance with periods established by regulation or market convention, are recognized on the date of the transaction, that is, the date on which the acquisition or sale commitment is entered into. Derivative financial instruments are also recognized on the transaction date.

The classification of financial instruments on the date of initial recognition depends on their characteristics and the intention subjacent to their acquisition. All financial instruments are initially measured at fair value plus costs directly attributable to the acquisition or issuance, except for assets and liabilities at fair value through profit and loss, in respect of which such costs are recognized directly in the income statement.

##### **3.6.1.2. Subsequent measurement of financial instruments**

###### *Financial assets and liabilities at fair value through profit and loss*

These captions include the financial assets and liabilities classified by the Bank irrevocably on initial recognition as at fair value through profit and loss, in accordance with the option provided for in IAS 39 (fair value option), provided that the conditions established for their recognition are met, namely:

- i) the designation eliminates or significantly reduces the measurement inconsistencies of financial assets and liabilities and the recognition of the respective gains or losses (accounting mismatch);
- ii) the financial assets and liabilities are part of a group of assets or liabilities or both that are managed and their performance measured on a fair value basis, in accordance with a duly documented investment and risk management strategy; or
- iii) the financial instrument integrates one or more embedded derivatives, except when the embedded derivatives do not significantly modify the cash flows inherent to the contract, or it is clear, with little or no analysis, that the separation of the embedded derivatives cannot be effected.

After initial recognition, the gains and losses generated by the subsequent measurement of the fair value of the financial assets and liabilities are reflected in the income statement.

The Bank classifies in financial assets at fair value through profit and loss almost the entire securities portfolio constituted within the scope of the banking activity, which management and performance

evaluation is based on fair value, except for strategic shareholdings and securities for which it is not possible to obtain reliable valuations.

#### *Available-for-sale financial assets*

Instruments that can be sold in response to or in anticipation of liquidity needs or changes in interest rates, exchange rates or changes in their market price, and which the Bank did not qualify under any of the other categories, are classified under this caption. Therefore, at the reference date of these financial statements, this caption includes, essentially, strategic shareholdings and/or equity instruments for which reliable valuations cannot be obtained.

Subsequent to initial recognition, they are measured at fair value or maintained at acquisition cost in the case of equity instruments for which it is not possible to determine their fair value reliably, and the respective gains and losses are reflected in the caption Revaluation reserves until their sale (or the recognition of impairment losses), at which time the accumulated amount is transferred to the income statement for the year under the caption Net gains/(losses) from Available-for-sale financial assets.

Interest on financial assets is calculated according to the effective interest rate method and recognized in the income statement under the caption Interest and similar income.

Dividends are recognized in the income statement under the caption Dividend income, when the right to receive them is established.

An analysis is made of the existence of evidence of impairment losses of available-for-sale financial assets at each reporting date. Impairment losses are recognized in the income statement under the caption Impairment losses of other financial assets, net of reversals and recoveries.

#### *Held-to-maturity financial assets*

Held-to-maturity financial assets comprise financial investments with fixed or determinable payments and fixed maturities, and for which there is an intention and ability to hold them until maturity.

Subsequent to initial recognition, they are measured at amortized cost, using the effective interest rate method, net of impairment losses. The amortized cost is calculated taking into account the premium or discount as at the acquisition date and other charges directly attributable to the acquisition as part of the effective interest rate. The amortization is recognized in the income statement under the caption Interest and similar income.

Impairment losses are recognized in the income statement under the caption Impairment losses of other financial assets, net of reversals and recoveries.

### *Due from banks and Loans and advances to customers*

These captions include applications with banks and loans and advances granted to customers of the Bank.

They are financial assets with fixed or determinable payments that are not quoted on an active market, that are not assets acquired or originated with intention of selling them in the short term (held for trading) or classified as financial assets at fair value through profit and loss at their initial recognition.

Subsequent to initial recognition, normally at the amount disbursed that includes all costs inherent in the transaction, including commissions charged which nature is not service rendering, these assets are measured at amortized cost, using the effective interest rate method, being subject to impairment tests.

The amortized cost is calculated considering the income or expenses directly attributable to the origination of the asset as part of the effective interest rate. The amortization is recognized in the income statement under the caption Interest and similar income. Impairment losses are recognized in the income statement under the caption Impairment losses of loans and advances, net of reversals and recoveries.

### *Due to banks, and Due to customers and Other loans*

The remaining financial liabilities, which include, essentially, bank funding and customer deposits, are initially recognized by the consideration received, net of directly associated transaction costs and subsequently measured at amortized cost, using the effective interest rate method. The amortization is recognized in the income statement under the caption Interest expense and similar charges.

### Fair value

As mentioned above, financial instruments recorded in the categories of Financial assets and liabilities at fair value through profit and loss and Available-for-sale financial assets are measured at fair value.

The fair value of a financial instrument corresponds to the amount by which a financial asset or financial liability can be sold or settled between parties that are independent, informed and interested in realizing the transaction under normal market conditions.

The fair value used in the valuation of financial assets and liabilities held for trading, classified as at fair value through profit and loss, and available-for-sale financial assets is determined in accordance with the following criteria:

- In the case of instruments transacted on active markets, the fair value is determined based on the closing price, the price of the last transaction made or the value of the last known bid; and
- In the case of instruments not traded on active markets, fair value is determined using valuation techniques, which include recent transaction prices of comparable instruments and other valuation methods used by the market (discounted cash flow, option valuation models, etc.).

Variable-income assets (i.e. shares) and derivative instruments that have these as underlying assets, for which reliable valuations cannot be obtained, are carried at acquisition cost, less any impairment losses.

## Impairment of financial assets

### *Financial assets at amortized cost*

The Bank regularly assesses whether there is objective evidence of impairment in financial assets recorded at amortized cost, namely, due from banks (applications in banks), held-to-maturity instruments, loans and advances to customers and amounts receivable. The impairment losses identified are recognized in the income statement.

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

A loan or advance, or a loan portfolio, defined as a group of loans and advances with similar risk characteristics, is impaired whenever:

- There is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, and
- When this event (or events) has an impact on the recoverable value of the future cash flows of the loan or advance or of the loan portfolio, and which measurement can be reliably estimated.

Two methods of analysis are used to determine impairment losses:

#### *a) Individual analysis*

The assessment of the existence of impairment losses in individual terms is performed through a case-by-case analysis of the situation of customers with a total credit exposure considered significant. In 2017, the Bank adopted a new criterion for the individual analysis, and all customers with a materially significant exposure, understood as an aggregate exposure exceeding CVE 100,000,000 (one hundred million Escudos) regardless of whether past due or not, are subject to a case-by-case analysis.

Impairment losses are calculated by comparing the present value of the expected future cash flows discounted at the original effective interest rate of each contract and the carrying amount of each loan or advance, with the losses being recorded against the income statement. The carrying amount of impaired loans and advances is presented in the balance sheet net of impairment losses.

Loans individually analyzed and for which an impairment loss has been estimated are not considered for purposes of the collective assessment.

Whenever an impairment loss is identified in individually assessed customer loans and advances, the amount of the loss is determined by the difference between the carrying amount of that loan or advance and the present value of its estimated future cash flows discounted at the effective interest rate of the operation.

Loans and advances to customers presented on the balance sheet are reduced by the use of an impairment loss account and the amount is recognized in the income statement under the caption Impairment losses of loans and advances, net of reversals and recoveries. For variable interest rate loans

and advances, the discount rate used to determine any impairment loss is the annual effective interest rate determined by the contract.

The calculation of the present value of the estimated future cash flows of a loan with collateral reflects the cash flows that may result from the recovery and disposal of the collateral, less the costs inherent to its recovery and sale.

Loans and advances individually analyzed, for which no objective evidence of impairment is found, are grouped based on similar risk characteristics and collectively assessed for impairment purposes.

#### *a) Collective analysis*

Loans and advances assessed on a collective basis are grouped by segments with similar characteristics and risks. Impairment losses on these loans are estimated considering the historical experience of losses in portfolios with a similar risk, the economic environment and its influence on the level of historical losses. The Bank updates, annually, the historical parameters used to estimate the losses in the collective assessment.

Whenever a loan or advance is considered uncollectible, with its impairment loss being estimated at 100% of the loan amount, the corresponding write-off is made against the impairment loss account. The loan or advance is thus written off from assets and included in the off-balance-sheet accounts.

In compliance with Banco de Cabo Verde guidelines for credit institutions, and in accordance with Technical Instruction 179/2013, the minimum amount of impairment to be constituted, and which must be recorded in the financial statements, must correspond to the amount of the regulatory provisions calculated in accordance with Notice no. 4/2006 of Banco de Cabo Verde and the changes introduced through its Notice no. 6/2007.

#### *Available-for-sale financial assets*

In addition to the abovementioned impairment indications for financial assets recorded at amortized cost, IAS 39 also provides the following specific indications for impairment of equity instruments:

- information on significant changes with an adverse impact on the technological, market, economic or legal environment in which the issuer operates that indicates that the cost of the investment will not be fully recovered; and
- a significant or prolonged decline in market value below the acquisition cost.

At each reporting date, available-for-sale financial assets are analyzed whenever there is objective evidence of impairment, particularly when there is a significant or protracted decline in fair value below the acquisition cost. Determining the level of decline that is considered "significant or protracted" requires judgment. In this context, the Bank considers that a decline in the fair value of an equity instrument equal to or greater than 30% or a decline for longer than 1 year may be considered significant or protracted.

Whenever there is objective evidence of impairment, the accumulated losses recognized in reserves are transferred to costs of the year in the form of impairment losses, and are recorded in the caption Impairment losses of other financial assets, net of reversals and recoveries.

Impairment losses on equity instruments cannot be reversed and, therefore, unrealized capital gains arising subsequent to the recognition of impairment losses are reflected in the Fair value reserves. If additional capital losses are subsequently determined, impairment is always considered to exist, for which reason these are reflected in the income statement for the year.

As regards financial assets recorded at cost, namely unquoted equity instruments, and which fair value cannot be reliably measured, the Bank also performs periodic impairment analyses. In this case, the recoverable amount corresponds to the best estimate of the future cash flows receivable from the asset, discounted at a rate that adequately reflects the risk associated with its ownership.

The amount of the impairment loss determined is recognized directly in the income statement. Impairment losses on these assets cannot be reversed either.

### **3.6.2. Accounting policy after the adoption of IFRS 9**

#### **Financial assets**

As already mentioned, on 1 January 2018, the Bank adopted IFRS 9 - Financial Instruments, replacing IAS 39 - Financial Instruments: Recognition and measurement, and chose not to restate the comparative balances of the previous year, as permitted by the transitory provisions of IFRS 9. Likewise, and as already mentioned, the changes arising from the adoption of the new standard had no impact on shareholders' equity (as permitted by the standard, all the adjustments arising from changes in the carrying amounts of financial assets and liabilities at the transition date are to be recognized in shareholders' equity).

IFRS 9 introduces a new approach to the recognition of financial instruments, based on the characteristics of the cash flows and the business model inherent to the asset in question.

#### **3.6.2.1. Initial classification, recognition and measurement and subsequent measurement of financial assets**

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

- I. Financial assets at amortized cost, consisting of Debt Securities, Loans and advances to customers and Due by banks;
- II. Financial assets at fair value through other comprehensive income; or
- III. Financial assets at fair value through profit and loss.

The classification and subsequent valuation of these instruments is carried out taking into consideration 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.

#### Assessment of the business model

The Bank carried out an assessment of the business model under which the financial instrument is held as well as of the policies and objectives established for the portfolio held, including whether management focuses on the receipt of contractual interest or the realization of cash flows through the sale of the instruments. It should be noted that for the identification of the business model the Bank takes into consideration a number of indicators, among which:

- The history, with regard to the nature of the cash flows received;
- How the performance of assets is evaluated and reported to management;
- How risks are assessed and managed; and
- How managers are paid.

Financial assets held for trading and financial assets measured at fair value are measured at fair value through profit and loss because they are not held either for the receipt of contractual cash flows or for sale.

#### Assessment of the contractual cash flows corresponding solely to receipt of principal and interest (SPPI - Solely Payments of Principal and Interest)

In the assessment of the financial instruments for which the contractual cash flows refer exclusively to the receipt of principal and interest<sup>6</sup>, the Bank considered the original contractual terms of the instrument. This assessment included the analysis of the existence of situations where contractual terms could modify the periodicity and amount of the cash flows so that they do not fulfill the SPPI condition. In the assessment process, the Bank took into account a set of potential events that may modify the periodicity and amount of the cash flows and also:

- Contractual provisions relating to early repayment;
- Extension of the maturity; and
- All other contractual clauses that may limit the right of the Bank to claim cash flows in relation to specific assets, etc.

---

<sup>6</sup> For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the consideration for the time value of money, the credit risk associated with the amount outstanding for 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.

## **I. Financial assets at amortized cost**

### *Classification*

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

This category includes Due from banks, Loans and advances to customers and Debt securities managed in a business model which purpose is to receive their contractual cash flows.

### *Initial recognition and subsequent measurement*

Due from banks and Loans and advances to customer are recognized on the date the funds are made available to the counterparty and Debt securities on the date of their physical settlement through the organized market.

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

## **II. Financial assets at fair value through other comprehensive income**

### *Classification*

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

### *Initial recognition and subsequent measurement*

Debt instruments at fair value through other comprehensive income are initially recognized at 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 their disposal, the respective gains or losses accumulated in other comprehensive income are reclassified to a specific income statement caption, Accumulated gains/losses on derecognition of financial assets at fair value through other comprehensive income.

Since their recognition debt instruments are assessed for impairment losses for expected losses, which are recognized in the income statement in the caption Impairment of financial assets at fair value through other comprehensive income with the counterpart in other comprehensive income and do not



reduce the carrying amount of the financial instrument in the balance sheet. Interest and premiums are recognized in the caption Interest and similar income, in the income statement.

With respect to equity instruments at fair value through other comprehensive income, these are also initially recognized at fair value plus transaction costs and are subsequently measured at fair value. The changes are recorded through other comprehensive income and the dividends, when received, are recognized in the income statement.

### **III. Financial assets at fair value through profit and loss**

#### *Classification*

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

This caption also includes all financial instruments for which any of the following characteristics are met: (1) they are acquired for the purpose of selling in the short term; (2) there is evidence of recent actions with the objective of achieving gains in the short term; and (3) they are derivative instruments that do not meet the definition of a financial guarantee contract and 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 being recognized in profit and loss at the initial moment. Subsequent changes in fair value are also recognized in the income statement.

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

#### **3.6.2.2. Reclassification between categories of financial assets**

The reclassification of financial assets to other categories is permitted only when there is a change in the business model used, and such reclassification is applied prospectively from the reclassification date, with no previously recognized gains, losses or interest being restated.

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

### **3.6.2.3. Modification and derecognition of financial assets**

The Bank derecognizes a financial asset when:

- The contractual rights of the Bank to the receipt of its cash flows expires;
- The Bank has transferred all the risks and benefits arising from holding same;
- The Bank has transferred control over these assets, despite retaining the risks and benefits associated with their holding.

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

### **3.6.2.4. Initial classification, recognition and measurement and subsequent measurement of financial liabilities**

Regarding the measurement of financial liabilities, IFRS 9 did not introduce any significant changes to the requirements of the previous standard except for the recognition of changes in fair value, which should be recognized in shareholders' equity. The subsequent reclassifications of these changes to profit and loss is not permitted.

With respect to other financial liabilities, composed of Due to central banks, Due to banks, and Due to customers, these are initially valued at fair value, net of transaction costs directly associated and subsequently valued at amortized cost using the effective interest rate method. The amortization is recognized in the income statement in the caption Interest expense and similar charges.

### **3.6.2.5. Impairment losses of financial instruments**

#### **3.6.2.5.1. Financial instruments subject to the recognition of impairment losses**

IFRS 9 introduces the concept of expected credit losses, replacing IAS 39 which concept of impairment was based on losses incurred. Thus, under IFRS 9, institutions merely anticipate the recognition of credit losses in their financial statements.

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

The Bank applies the IFRS 9 concept of expected losses to financial assets at amortized cost, debt instruments measured at fair value through other comprehensive income, off-balance sheet exposures, finance leasing, other amounts receivable, financial guarantees and credit commitments not valued at fair value.

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

#### 3.6.2.5.2. Financial assets at amortized cost

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

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

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

The measurement of expected credit losses should reflect:

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

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

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

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

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

### **3.6.2.5.3. Debt instruments at fair value through other comprehensive income**

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

### **3.7. Non-current Assets Held for Sale**

Non-current assets are classified as held for sale whenever it is determined that their carrying amount will be recovered through a sale. This condition only occurs when the sale is highly probable and the asset is available for immediate sale in its current state. The sale must take place within a maximum period of one year after being classified under this caption. An extension of the period during which the sale is required to be completed 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 control of the Bank and if the commitment is maintained as regards the sale of the asset.

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

### **3.8. Other Tangible Assets**

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

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

The own use properties of the Bank are revalued regularly, so that their carrying amounts do not differ significantly from their fair value at the balance sheet date, using as a reference a period of three years between revaluations.

Positive changes in fair value are credited to revaluation reserves, included in equity, except and 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 change must be recognized in the income statement.

Negative fair value changes are recognized in the income statement, except and 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 depreciation and impairment losses. Repair, maintenance 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 life, as follows (in years):

Properties	10 - 33
Motor vehicles	5 - 8
Other tangible assets	3 - 25

On the transition date, the Bank used the option allowed by the IAS to consider their fair value as the "deemed cost" of tangible assets.

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

### **3.9. Other Intangible Assets**

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

### **3.10. Income Tax**

The Bank is subject to corporate income tax under the current tax legislation in force. The income tax rate is 25%, increased by the fire rate of 2% on the tax calculated, which correspond to an aggregate tax rate of 25.5%.

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

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

The Bank records as deferred tax assets and liabilities the amounts related to the recognition of taxes recoverable and payable in the future, arising from deductible and taxable timing differences, respectively.

Deferred tax assets and liabilities are calculated and valued on a yearly basis using the tax rates anticipated to be in effect at the date of the reversal of the timing differences, which correspond to the rates approved or substantially approved at the balance sheet date. Deferred tax liabilities are always recorded. Deferred tax assets are only recorded to the extent that future taxable income will be available that permits their realization.

Income taxes are recorded against profit and loss for the year, except in situations where the events that gave rise to them have been reflected in a specific caption of equity, namely, as regards the valuation of available-for-sale assets and properties held for own use. In this case, the tax effect associated with the valuations is also reflected in equity, not affecting the net income for the period.

### **3.11. Provisions and Contingent Liabilities**

A provision is constituted when there is a present obligation (legal or constructive) resulting from past events for which a future outflow of resources is probable and can be reliably determined. The provision corresponds to the best estimate of the Bank of possible amounts that would have to be disbursed to settle the liability at the balance sheet date.

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

### **3.12. Dividends**

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

### **3.13. Recognition of Revenue and Costs**

In general, income and expenses are recognized in function of the period of the operations in accordance with the accrual 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 the economic benefits associated with the transaction are likely to 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 interest 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, to the net present value currently recorded for the financial asset or liability. When the effective interest rate is calculated, the future cash flows are estimated considering the contractual terms and considering all other income or expenses directly attributable to the contracts.

### **3.14. Fee and Commission income and Fee and Commission Expenses**

The Bank charges commissions to its customers for the provision of a wide range of services. These include commissions for the provision of continuing services, in respect of which customers are usually periodically charged, or commissions charged for the performance of a particular significant act.

Commissions charged for services rendered over a given period are recognized over the duration of the service. The commissions related to the realization of a significant act are recognized at the time said act occurs.

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

### 3.15. Financial Guarantees

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

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

## 4. Cash and Deposits with Central Banks

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
Cash				
National currency				
Bank notes	126.815	177.214	(50.399)	-28,44%
Coins	1.452	733	720	98,21%
ATMs	113.179	93.168	20.011	21,48%
Foreign bank notes and coins	471.054	193.555	277.500	143,37%
Deposits with BCV				
Bank of Cape Verde - OC	1.717.319	2.092.171	(374.852)	-17,92%
	<u>2.429.820</u>	<u>2.556.840</u>	<u>(127.021)</u>	<u>-4,97%</u>

Bank Notes and National Coins account refers to cash in treasuries of the Business Units and in the General Treasury.

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

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

The caption Banco de Cabo Verde - MN, presents the demand deposits placed with Banco de Cabo Verde to satisfy the minimum cash requirements. In accordance with the provisions of Banco de Cabo Verde, the deposits must correspond to 13% of the average of the effective liabilities in local and foreign currency, with the Bank being obliged to have placed with BCV, on a daily basis, the equivalent of 20% of that average. In the 2017 and 2018 financial years, these deposits were not remunerated.

## 5. Deposits with Banks

The breakdown of this caption is as follows:

	(in thousands of CVE)			
	<b>2018</b>	<b>2017</b>	<b>Change</b>	
			<b>Amount</b>	<b>%</b>
Foreign deposits	1.306.100	775.847	530.253	68,34%
Domestic deposits	23.671	23.715	(43)	-0,18%
Checks to collect - Domestic	29.181	475.296	(446.115)	-93,86%
Checks to collect - Foreign	225	614	(389)	-63,36%
	<b>1.359.177</b>	<b>1.275.472</b>	<b>83.705</b>	<b>6,56%</b>

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)	
	<b>2018</b>	<b>2017</b>
Banco de Investimento Global, SA	947.750	536.375
Bank of New York Mellon	-	12.492
Banco Santander Totta	264.016	146.248
Post finance-luxemburgo	16.218	7.916
Post finance-frança	7.852	5.232
Banco Privado Atlântico Europa	70.265	67.584
	<b>1.306.100</b>	<b>775.847</b>

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

The captions Checks to collect relate to the amount of checks drawn on other banks as of 31 December 2018. Checks to collect relate to customer checks drawn on other banks sent for clearing. In the case of Checks to collect – Local, the financial liquidation will occur on the first working day of the following financial 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)

		2018		2017	Change	
Security	Quantity	Book value	Quotation	Book value	Amount	%
<u>Equity instruments</u>						
Enacol	2.381	5.500	2.310	5.500	-	0,00%
Sociedade Caboverdiana Tabacos	1.498	4.494	3.000	4.494	-	0,00%
VISA	1.848	23.462	131,94	19.460	4.002	20,57%
		33.456		29.454	4.002	13,59%

As of 31 December 2018, these assets were valued based on active market quotations as at that date. For the shares of Enacol and Sociedade Caboverdiana de Tabacos, the reference is the value of the respective quotation on the Bolsa de Valores de Cabo Verde (Cape Verde Stock Exchange) and for VISA, the reference is the quotation of this company on the NYSE - New York Stock Exchange.

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

## 7. Financial Assets at Fair Value through Other Comprehensive Income

(in thousands of CVE)

		Fair valye		Change	
Security	Quantity	2018	2017	Amount	%
<u>Equity instruments</u>					
SISP	10.000	179.855	152.331	27.524	18,07%
		179.855	152.331	27.524	18,07%

The caption consists essentially of the 10% shareholding held by the Bank in the share capital of SISF – Sociedade Interbancária e Sistemas de Pagamentos, S.A.. The shareholding in SISF is recognized at its estimated fair value through other comprehensive income, and is supported by an independent valuation realized in 2019. It should be noted that the Bank neither controls nor exercises significant influence in the management of SISF.

It should be noted that for the determination of the fair value of the Bank's shareholding in SISF, two valuation methods, the Adjusted Present Value method and the Discounted Dividend Model method, were used. The valuation was based on (i) the assumption of the continuity of the operation and the activity, (ii) the accounting data related to the close of 2018, (iii) the Reports and Accounts of SISF related to the 2015 through 2017 financial years, (iv) the financial statements as at October 2018, and (v) the activities plan for 2019.

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

For further details see Note 21 - Revaluation reserves.

## 8. Loans from Banks

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
Domestic Banks	-	-	-	0,00%
Foreign Banks	106.124	52.169	53.955	103,42%
Interest Deferral	-	-	-	0,00%
	<u>106.124</u>	<u>52.169</u>	<u>53.955</u>	<u>103,42%</u>

Of the amount of 106.124 thousand CVE, recorded in Foreign banks, in 2018, 30.938 thousand CVE corresponds to a security deposit in US dollars placed as a guarantee for the company VISA, 55.133 thousand CVE to an application placed with Banco Santander Totta and 19.245 CVE to an USD application placed with Banco Atlântico Europa.

The application placed with Santander Totta refers to an unremunerated time deposit in Euros which guarantees a trade finance line in the amount of Euros 1 million. That placed with Banco Atlântico Europa refers to a time deposit in USD remunerated at the rate of 2.5% p.a..

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

The breakdown of this caption is as follows:

(in thousands of CVE)				
		Change		
		2018	2017	
				Amount %
Performing Loans and Advances				
Loans		9.069.723	7.199.443	1.870.280 25,98%
Guaranteed current accounts		2.678.889	1.839.465	839.424 45,63%
Overdrafts demand deposits		91.564	100.666	(9.101) -9,04%
Financial leasing		10.738	-	10.738 -
Sub-total		11.850.914	9.139.573	2.711.340 29,67%
Non-Performinf Loans and Advances				
Principal		1.741.283	1.565.076	176.206 11,26%
Past due interest		18.746	19.819	(1.073) -5,41%
Sub-total		1.760.028	1.584.895	175.133 11,05%
Interest receivable		81.199	59.814	21.385 35,75%
Deferred commissions and other income		(46.003)	(25.911)	(20.092) 77,54%
Accumulated Impairment		(1.292.660)	(1.248.134)	(44.525) 3,57%
		12.353.478	9.510.238	2.843.241 29,90%

Credit risk management policies and impairment assessment methodologies are described in Notes 36.1 and 36.2.

As of 31 December 2018, impairment recognized in the balance sheet amounted to 1.292.660 thousand CVE, and reflects the impairment calculated in accordance with the current impairment model, increased by the adjustment to the provisions calculated in accordance with Notice no. 4/2006 of Bank of Cape Verde, and which include additional provisions determined by the regulator, on the basis that said Notice is the minimum referential of the provisions to be recognized by credit institutions, in accordance with 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)			Change	
	2018	2017	Amount	%
Government debt securities	967.759	789.188	178.571	22,63%
Other debt securities	416.329	438.329	(22.000)	-5,02%
Accrued interest	14.112	13.955	157	1,13%
Accumulated impairment	(8.509)	(3.329)	(5.180)	155,63%
	<u>1.389.691</u>	<u>1.238.143</u>	<u>151.548</u>	<u>12,24%</u>

Government debt securities correspond to Cape Verdean Treasury Bonds. As of 31 December 2018 and 2017, the bonds sold to customers in the secondary market amounted to 681.244 thousand CVE and 544.370 thousand CVE, respectively, as presented in Note 17.

It should be noted that the Bank assumes a low credit risk for the counterpart "State of Cape Verde", for which reason it does not recognize expected losses on the debt securities issued by that counterpart, based on the following assumptions:

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

The Other debt securities correspond to bonds of the companies Sogei – Sociedade Gestora de Investimentos, IFH - Imobiliária Fundiária e Habitat, SA, ASA - Aeroporto e Segurança Aérea and TACV - Transportes Aéreos de Cabo Verde, as indicated below:

(in thousands of CVE)

	Gross Amount		Change	
	2018	2017	Amount	%
Sogei	3.329	3.329	-	0,00%
IFH Imobiliária	88.000	110.000	(22.000)	-20,00%
ASA	125.000	125.000	-	0,00%
TACV	200.000	200.000	-	0,00%
	<u>416.329</u>	<u>438.329</u>	<u>(22.000)</u>	<u>-5,02%</u>
Impairment	<u>(8.509)</u>	<u>(3.329)</u>	<u>(5.180)</u>	<u>155,63%</u>
Total	<u>407.820</u>	<u>435.000</u>	<u>(27.180)</u>	<u>-6,25%</u>

With regard to the Sogei bonds, it should be noted that in April 2017, the bondholders, in the General Meeting, decided to grant the company a period of one year to find a strategic partner to complete the investment, at which point they would decide whether or not to establish a Real Estate Investment Fund in which the participation of each bondholder in the Fund would be equal to the amount of the bonds held in their portfolio. It should also be mentioned that the bond loan guarantee is the mortgage of the Salinas Beach Resort development, valued in 2014 at the global amount of CVE 1.910.661.600. It should be noted that these bonds are totally provided against.

With respect to the IFH bonds, these relate to the subscription, in 2015, of 110.000 bonds issued by that entity with a maturity of 7 years, guaranteed by an endorsement of the State of Cape Verde. In 2018, IFH amortized the equivalent of 20% of its share capital.

The Bank also has in its portfolio, 125.000 bonds of ASA and 200.000 bonds of TACV, and in the case of the latter it obtained the express guarantee of the State of Cape Verde through an Endorsement provided by the Treasury Directorate-General.

As at 31 December 2018 and 2017, impairments in the amount of 8.509 thousand CVE and 3.329 thousand CVE, respectively, are 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 of the State of Cape Verde, the impairment determined results from the recognition of an expected loss associated with a possible default of the State of Cape Verde. For the determination of the ECL of these entities, the Bank used the country rating, in accordance with Moody's classification, and their respective risk factors.

## 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
<b>31 December 2016</b>	<b>141.839</b>	<b>12.040</b>	<b>11.135</b>	<b>16.610</b>	<b>5.344</b>	<b>186.968</b>
. Gross amount	241.280	21.091	108.437	64.207	143.351	578.365
. Accumulated depreciation	(100.566)	(9.050)	(97.853)	(47.597)	(138.008)	(393.073)
. Impairment	(2.720)	-	-	-	-	(2.720)
. In progress (gross amount)	3.845	-	550	-	-	4.395
<i>Evolution:</i>						
Acquisitions - In progress	3.019	-	2.587	-	9.252	14.858
Acquisitions - In use	12.551	8.867	2.475	392	1.667	25.952
Revaluations	-	-	-	-	-	-
Transfers + (in progress to use)	-	-	-	-	-	-
Transfers - (in progress to use)	(3.845)	-	-	-	-	(3.845)
Regularizations	-	-	-	-	-	-
Depreciation	(16.268)	(2.513)	(6.827)	(5.018)	(1.420)	(32.046)
Disposals / Write-offs - Gross amount	-	(2.600)	(157)	(59)	(862)	(3.679)
Disposals / Write-offs - Acc. Depreciat.	-	2.600	146	45	862	3.653
<b>31 December 2017</b>	<b>137.296</b>	<b>18.394</b>	<b>9.359</b>	<b>11.969</b>	<b>14.843</b>	<b>191.860</b>
. Gross amount	253.831	27.357	110.755	64.539	144.156	600.638
. Accumulated depreciation	(116.833)	(8.963)	(104.533)	(52.570)	(138.566)	(421.466)
. Impairment	(2.720)	-	-	-	-	(2.720)
. In progress (gross amount)	3.019	-	3.137	-	9.252	15.408
<i>Evolution:</i>						
Acquisitions - In progress	9.568	-	3.028	233	264	13.093
Acquisitions - In use	44.177	3.415	5.877	1.452	12.551	67.472
Revaluations	5.284	-	-	-	-	5.284
Transfers + (in progress to use)	(410)	-	-	-	-	(410)
Transfers - (in progress to use)	(2.731)	-	(49)	-	(8.871)	(11.651)
Regularizations	-	-	(2.587)	-	(382)	(2.969)
Depreciation	(15.438)	(3.508)	(3.934)	(4.606)	(1.890)	(29.375)
Disposals / Write-offs - Gross amount	-	(5.101)	(345)	(296)	(1.775)	(7.517)
Disposals / Write-offs - Acc. Depreciat.	-	4.445	219	282	859	5.806
<b>31 December 2018</b>	<b>177.745</b>	<b>17.645</b>	<b>11.568</b>	<b>9.036</b>	<b>15.599</b>	<b>231.593</b>
. 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

Depreciations are calculated on the 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, with the Bank having revalued same in 2018, and with the positive differences having been recorded in the caption Revaluation reserves and the negative differences having been recorded in the caption Impairment of other assets, in the income statement.

## 12. Other Intangible Assets

Other intangible assets, which refer exclusively to software, had the following evolution:

(in thousands of CVE)

<b>Movement</b>	<b>Software</b>
<b>31 December 2016</b>	<b>6.375</b>
. <i>Gross amount</i>	134.086
. <i>Accumulated depreciation</i>	(127.711)
<u><i>Evolution:</i></u>	
. <i>Acquisitions</i>	818
. <i>Amortization</i>	3.264
. <i>Regularizations</i>	-
<b>31 December 2017</b>	<b>3.929</b>
. <i>Gross amount</i>	134.904
. <i>Accumulated depreciation</i>	(130.975)
<u><i>Evolution:</i></u>	
. <i>Acquisitions</i>	7.516
. <i>Amortization</i>	(3.778)
. <i>Regularizations</i>	-
<b>31 December 2018</b>	<b>7.667</b>
. <i>Gross amount</i>	142.420
. <i>Accumulated depreciation</i>	(134.753)

The amortization of software is calculated on the straight-line basis over an estimated useful life of three years, as evidenced in Note 3.9.

### 13. Deferred Tax Assets and Deferred Tax Liabilities

(in thousands of CVE)

	2017	Increase during 2018	Use during 2018	Annulment during 2018	2018
<b>Deferred tax assets</b>	<b>947</b>	<b>21.804</b>	<b>-</b>	<b>-</b>	<b>22.751</b>
<b>Deferred tax liabilities</b>	<b>39.281</b>	<b>1.347</b>	<b>227</b>	<b>36.294</b>	<b>4.107</b>
Revaluation of financial assets measured at fair value through other comprehensive income	36.294	-	-	36.294	-
Revaluation of tangible assets	2.986	1.347	227	-	4.107

In 2018, the Bank annulled the deferred tax amount associated with the revaluation of financial assets at fair value through other comprehensive income, related to the revaluation of the Bank's shareholding in SISP (Note 21), based on the introduction of the alteration in the State Budget for the year 2019 in respect of the Tax Benefits Code that exempts from taxation the capital gains and capital losses resulting from onerous disposals of financial shareholdings.

The deferred tax associated with other tangible assets is related to the revaluation of the useful life of a group of assets, made in 2015.

The Deferred tax assets amount of 22.751 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 in rem over immovable property, being supported by article no. 42 of the IRPC Code.

### 14. Current Tax Assets

(in thousands of CVE)

	2017	Increase during 2018	Use during 2018	2018
<b>Current tax assets</b>	<b>35.676</b>	<b>-</b>	<b>35.676</b>	<b>-</b>



## 15. Other Assets

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
Stationery	19.805	2.173	17.632	811,23%
Sundry Debtors	8.842	8.639	203	2,35%
Active Operations to Regularize:				
Compensation from Western Union and Redevint4	14.131	322	13.809	4288,49%
Accrued Income	-	-	-	-
Others	1.359.883	1.671.525	(311.643)	-18,64%
Prepayments	6.733	2.533	4.200	165,85%
Sub-total	<b>1.409.394</b>	<b>1.685.193</b>	<b>(275.799)</b>	<b>-16,37%</b>
Accumulated impairment	(126.687)	(147.192)	20.506	-13,93%
	<b>1.282.707</b>	<b>1.538.001</b>	<b>(233.258)</b>	<b>-15,17%</b>

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 requirements. Regarding the foreclosed real estate, the movement occurring, in the years 2017 and 2018, was that reflected in the tables below:

(in thousands of CVE)							
Asset Category	Balance as of 31/12/2016	Movement of the period					Balance as of 31/12/2017
		Additions	Impairment reversal	Impairment losses	Disposals	Transfers	
Properties and Land	1.221.534	180.542	3.521	20.038	68.218	(9.244)	1.308.097

(in thousands of CVE)							
Asset Category	Balance as of 31/12/2017	Movement of the period					Balance as of 31/12/2018
		Additions	Impairment reversal	Impairment losses	Disposals	Transfers	
Properties and Land	1.308.097	237.625	52.672	32.166	411.777	(51.714)	1.102.737

For further details, see the Real Estate Risk note in the Chapter "Overview of the main initiatives carried out in 2018".

With regard to impairment, of the total amount of 126.687 thousand CVE, the amount of 120.389 thousand CVE refers to the impairment recorded for properties held in the portfolio and 6.298 thousand CVE is intended to cover amounts recorded in Sundry debtors.

## 16. Due to Other Banks

The table below shows the breakdown of this caption as of 31 December 2018, with the amounts Due to other banks - domestic being exclusively related to the deposits of the two national insurers.

As previously referred, in March 2018 the Bank signed with International Financial Corporation (IFC) a credit line of 551.325 thousand CVE, of which 220.530 CVE has been used up as of 31 December 2018.

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
Foreign Banks				
			-	
Medium to Long Term Loans				
IFC	220.530	-	220.530	-
Domestic Banks				
Demand deposits	35.916	19.119	16.796	87,85%
Time deposits	6.025	6.025	-	0,00%
			-	
Insurance companies				
Demand deposits	53.495	504.833	(451.338)	-89,40%
Time deposits	15.000	14.680	320	2,18%
			-	
Others	-	-	-	0,00%
			-	
Charges payable	616	75	541	718,08%
	331.582	544.733	(213.151)	-39,13%

## 17. Due to Customers and Other Loans

The breakdown of this caption is as follows:

		(in thousands of CVE)			
		2018	2017	Change	
				Amount	%
Securities sold with repurchase agreements:					
Treasury Bonds		669.008	536.083	132.926	24,80%
Charges payable		12.236	8.287	3.949	47,65%
Sub- total		681.244	544.370	136.874	25,14%
Demand deposits					
		6.957.369	5.211.504	1.745.864	33,50%
Time deposits					
		8.775.871	7.937.866	838.005	10,56%
Other payables					
		1.335	2.998	(1.663)	-55,46%
Charges payable					
		252.230	206.231	45.999	22,30%
Sub- total		15.986.805	13.358.599	2.628.206	19,67%
Total		16.668.049	13.902.969	2.765.080	19,89%

## 18. Income Tax

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

As of 31 December 2018, the tax rate applicable is 25%, increased by a fire rate of 2% on the tax calculated, which corresponds to an aggregate tax rate of 25.5%.

For the tax estimate, the Bank took into account the provisions of the IRPC Code, it being 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 2018 financial year can be demonstrated as follows:

	31-12-2018	
	Rate	Tax
Profit / (loss) before income tax		272.400.699
Tax determined based on nominal rate	25,50%	69.462.178
Income from Government Debt Securities placed on the secondary market	-2,27%	(6.193.374)
Interest from Bonds of other residents	0,00%	-
Dividends received	-1,21%	(3.295.751)
Donations	-0,04%	(103.222)
30% of costs related to vehicles	0,15%	408.919
50% of costs related to representation	0,01%	28.801
Depreciation / Amortization on revaluation of useful life	0,00%	-
Depreciation / Amortization on revaluation of tangible assets	0,08%	226.911
Depreciation / Amortization not tax deductible	0,02%	44.610
Provisions / Impairments not tax deductible	8,00%	21.803.940
Sole tax on assets subject to registration	0,25%	682.464
Extraordinary losses	1,14%	3.098.839
Autonomous taxation	0,31%	846.948
Corporate income tax for the period	<u>31,94%</u>	<u>87.011.264</u>

As of 31 December 2018, the balance relating to income tax was 31.985 thousand CVE, following the deduction from the tax estimate of the asset amount estimated to be recoverable from the Tax Administration, 55.026 thousand CVE. More details are presented in the table below:

(in thousands of CVE)

	2017	Increase during 2018	Use during 2018	2018
Current tax liabilities	-	87.011	55.026	31.985

The use of the amount of 55.026 thousand CVE refers to the deduction of the amount due as the fractional payment for the year 2018 (13.319 thousand CVE) and the remainder to the tax amount calculated for the year 2017.

Under the current legislation in force, Law n. 59/VI/2005, income earned on securities issued by the Treasury of Cape Verde and which have been placed on the secondary market, are exempt from taxation.

According to the General Tax Code approved by Law no. 47/VIII/2013, of 20 December, the tax authorities have the right to review the tax situation of the Bank during a period of five years, and, 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 express and binding guarantees of the State and loan operations covered by rights in rem over immovable property are not tax accepted.

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

## 19. Other Liabilities

The breakdown of this caption is as follows:

(in thousands of CVE)			Change	
	2018	2017	Amount	%
Amounts due to Public Sector	37.771	11.053	26.718	241,72%
Liability operations to be regularize	5.166	31.207	(26.042)	-83,45%
Other	128.049	116.848	11.202	9,59%
	170.986	159.108	11.878	7,47%

As regards Other liabilities, the caption Other is composed of amounts to be offset on the 1<sup>st</sup> working day following the year end (16.832 thousand CVE in 2018 and 11.758 thousands CVE in 2017), and 26.230 thousand CVE (24.277 thousand CVE in 2017) refers to Charges payable.

## 20. Share Capital

The holders of the share capital of the Bank are as follows:

(in thousands of CVE)

Entities	2018		2017	
	Amount	%	Amount	%
Impar - Companhia Caboverdiana de Seguros, SARL	465.182	51,7%	465.182	51,7%
SEPI - Sociedade de Estudos e Promoção de Investimentos, SA	394.818	43,9%	394.818	43,9%
Cruz Vermelha de Cabo Verde	40.000	4,4%	40.000	4,4%
	<b>900.000</b>	<b>100,0%</b>	<b>900.000</b>	<b>100,0%</b>

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

## 21. Revaluation Reserves

The breakdown of this caption is as follows:

(in thousands of CVE)

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

As mentioned in Note 13, in 2018 the Bank annulled the deferred tax amount associated with the revaluation of financial assets at fair value through other comprehensive income, related to the revaluation of the Bank's financial shareholding in SISP (Note 21), based on the alteration introduced by the State Budget for the year 2019 in the Tax Benefits Code, which exempts from taxation the capital gains and capital losses resulting from onerous disposals of financial shareholdings.

## 22. Other Reserves and Retained Earnings

The breakdown of this caption is as follows:

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
Legal Reserve	103.974	83.589	20.385	24,39%
Other reserves and retained earnings	788.912	616.737	172.175	27,92%
	892.886	700.326	192.560	27,50%

Under the legislation in force in Cape Verde (Law no. 62/VIII/2014, of 23 April), a minimum of 10% of the annual net income must be appropriated 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.

## 23. Net Interest Income

The net interest income presents the following breakdown:

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
<b>Interest and similar income</b>				
Interest from deposits with banks	7.216	5.888	1.328	22,55%
Interest from loans and advances to banks	3.827	6.890	(3.062)	-44,45%
Interest from loans and advances to customers	909.512	683.222	226.291	33,12%
Interest from hel-to-maturity investments	-	67.011	(67.011)	-100,00%
Commissions from amortized cost	40.877	32.099	8.778	27,35%
	961.432	795.110	166.323	20,92%
<b>Interest and similar expenses</b>				
Interest from deposits with banks - Domestic	(2.006)	-	(2.006)	-
Interest from deposits with banks - Foreign	(1.943)	(5)	(1.938)	38768,12%
Interest from due to customers	(298.301)	(285.911)	(12.390)	4,33%
Interest from securities sold - Treasury Bonds	(26.851)	(20.891)	(5.961)	28,53%
	(329.101)	(306.807)	(22.294)	7,27%
Net interest income	632.331	488.303	144.029	29,50%

As previously mentioned, the increase in Interest from loans and advances to customers in the total amount of 226.291 CVE is directly related to the increase in the loan portfolio.

## 24. Dividend Income

This caption amounts to 12.828 thousand CVE (12.147 thousand CVE in 2017) and corresponds to the recognition of the dividends received, corresponding almost entirely to dividends of the company SISP, in the amount of 9.966 thousand CVE (9.710 thousand CVE in 2017).

## 25. Fee and Commission Income

The breakdown of these captions is as follows:

(in thousands of CVE)

	2018	2017	Change	
			Amount	%
<b>Commissions</b>				
Sundry services	38.771	27.161	11.610	42,74%
Comission from WU	26.478	26.096	382	1,46%
Maintenance of Demand deposits	-	3.232	(3.232)	-100,00%
ATM Services	20.695	18.782	1.913	10,18%
Guarantees and endorsements provided	8.687	5.944	2.743	46,15%
Card management	26.992	23.185	3.807	16,42%
Annual charges	9.711	8.895	816	9,17%
Fund transfers	5.547	5.431	116	2,14%
Purchase of bank checks	5.669	4.796	873	18,21%
Commissions on current account loan commitments	1.598	351	1.246	354,89%
Advances	5.995	8.335	(2.340)	-28,07%
Documentary credits opened	1.229	1.055	174	16,50%
Collection and payment of taxes	4.461	3.222	1.239	38,47%
Stock exchange operations	1.000	1.000	-	0,00%
Sureties and indemnities	2.642	4.425	(1.783)	-40,30%
Notes and endorsements	3.405	759	2.646	348,38%
	<b>162.878</b>	<b>142.668</b>	<b>20.211</b>	<b>14,17%</b>

Of the amount of 38.771 thousand CVE in the caption Sundry services, 20.572 thousand CVE, corresponding to 53%, refers to commissions received for the provision of services related to foreign operations (payment orders sent and received) and 10.377 thousand CVE, corresponding to 27%, refers to foreign exchange transactions carried out at the branches.



## 26. Fee and Commission Expenses

The breakdown of this caption is as follows:

(in thousands of CVE)

	2018	2017	Change	
			Amount	%
<b>Commissions</b>				
Payment operations	(6.533)	(4.460)	(2.073)	46,48%
Issue of cars	(26.699)	(18.713)	(7.986)	42,68%
Commissions to WU	(9.855)	(10.493)	638	-6,08%
Sundry services	(12.794)	(2.366)	(10.428)	440,66%
	<u>(55.881)</u>	<u>(36.031)</u>	<u>(19.849)</u>	<u>55,09%</u>

Of the amount of 12.794 thousand CVE related to the caption Sundry services, the amount of 4.737 thousand CVE, corresponding to 37%, refers to commissions paid to correspondent banks.

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

The breakdown of this caption is as follows:

(in thousands of CVE)

	2018	2017	Change	
			Amount	%
<b>Gains on foreign exchange revaluation</b>				
On foreign exchange transfers	41.780	62.035	(20.255)	-32,65%
On foreign bank notes and coins	9.207	3.357	5.850	174,28%
	<u>50.987</u>	<u>65.392</u>	<u>(14.405)</u>	<u>-22,03%</u>
<b>Losses on foreign exchange revaluation</b>				
On foreign exchange transfers	(22.370)	(39.540)	17.170	-43,42%
On foreign bank notes and coins	(18.020)	(2.813)	(15.207)	540,61%
	<u>(40.390)</u>	<u>(42.353)</u>	<u>1.963</u>	<u>-4,63%</u>
<b>Net gains / (losses) from foreign exchange revaluation</b>	<u>10.597</u>	<u>23.039</u>	<u>(12.442)</u>	<u>-54,00%</u>

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

In 2018, sales of assets with associated net gains of 474 thousand CVE (1.896 thousand CVE in 2017) were recorded.

## 29. Other Net Operating Gains/(Losses)

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

(in thousands of CVE)				
	2018	2017	Change	
			Amount	%
<b>Other operating gains</b>				
Reimbursement of expenses	3.737	1.899	1.839	96,85%
Loan, interest and expense recoveries	25.743	1.857	23.886	1286,16%
Sundry gains related to prior years	650	480	170	35,48%
Sale of checks	1.591	1.400	191	13,64%
Other	7.633	9.651	(2.018)	-20,91%
	<u>39.355</u>	<u>15.287</u>	<u>24.068</u>	<u>157,45%</u>
<b>Other operating losses</b>				
Losses related to prior years	(3.333)	(3.416)	83	-2,42%
Quotations and donations	(1.604)	(1.460)	(144)	9,84%
Other operating expenses	(12.101)	(2.612)	(9.488)	363,20%
Other taxes and rates	(3.014)	(3.366)	351	-10,44%
	<u>(20.052)</u>	<u>(10.854)</u>	<u>(9.198)</u>	<u>84,74%</u>
<b>Other net operating gains / (losses)</b>	<u>19.303</u>	<u>4.433</u>	<u>14.871</u>	<u>335,48%</u>

The caption Loan, interest and expense recoveries refers to recoveries of loans written off against assets, which in 2018 were in an amount higher than in 2017 (+ 23.886 thousand CVE).

Of the amount of 12.101 thousand CVE in the caption Other operating costs the amount of 6.508 thousand CVE refers to debt pardons associated with loan operations partially recovered through the courts and the amount of 2.500 thousand CVE to the Bank's contribution to the Deposits Guarantee Fund in respect of the year 2017.

### 30. Staff Costs

The breakdown of this caption is as follows:

(in thousands of CVE)	2018	2017	Change	
			Amount	%
Remuneration of management and supervisory bodies	23.432	22.995	437	1,90%
Remuneration of staff	172.552	129.375	43.176	33,37%
	195.983	152.370	43.613	28,62%
Mandatory social charges	21.698	17.319	4.379	25,28%
Contractual indemnities	3.029	49	2.980	6080,99%
Other staff costs	227	567	(339)	-59,86%
	24.954	17.935	7.019	39,14%
	220.937	170.305	50.632	29,73%

### 31. General Administrative Costs

The breakdown of this caption is as follows:

(in thousands of CVE)	2018	2017	Change	
			Amount	%
Specialized services	88.631	78.449	10.183	12,98%
Communication	11.997	10.440	1.557	14,91%
Rentals and hires	20.243	19.466	777	3,99%
Travelling and accommodation	7.529	6.831	697	10,21%
Consumable materials	6.686	4.901	1.785	36,43%
Advertising	16.539	7.583	8.956	118,12%
Water, gas and electricity	12.525	12.162	363	2,98%
Maintenance and repairs	4.892	2.306	2.586	112,10%
Insurance	1.748	1.043	705	67,61%
Fuel	1.800	2.064	(263)	-12,76%
Transport	1.104	786	318	40,40%
Training	4.003	6.380	(2.377)	-37,26%
Other	5.929	5.575	354	6,35%
	183.626	157.986	25.640	16,23%

The Specialized services amounting to 88.631 thousand CVE relate mainly to services provided by various consultants (14.221 thousand CVE), the use of SISP's Vinti4 network (19.400 thousand CVE) and IT technical assistance services (32.379 thousand CVE).

### 32. Impairment of Loans and Advances and Other Assets

With regard to the movement of the impairment accounts, this was as follows:

(in thousands of CVE)

	Notes	Balance as of 31-12-2017	Additions	Reversals	Transfers	Balance as of 31-12-2018
<b>Impairment of:</b>						
Loans and advances to customers	9	1.248.135	477.767	(433.242)	-	1.292.660
Debt instruments	7	-	17.402	(12.221)	3.329	8.509
Other assets	15	147.192	32.166	-	(52.672)	126.687
Held-to-maturity investments	10	3.329	-	-	(3.329)	-
Tangible assets	11	2.720	8.217	(2.523)	-	8.415
		<b>1.401.376</b>	<b>535.553</b>	<b>(447.987)</b>	<b>(52.672)</b>	<b>1.436.270</b>

The criteria and methodologies used to determine the impairment of loans and advances to customers are described in Note 36.2. as previously referred, the assets previously recorded in the caption Held-to-maturity investments were reclassified to the caption Financial assets at amortized cost – Debt securities, and, as referred in Note 10, were the object of an assessment of expected losses.

The accumulated impairment of foreclosed real estate amounted to 120.389 thousand CVE, which corresponds to about 9.8% of their gross carrying amount.

### 33. Earnings Per Share

	2018	2017
<b>Basic</b>		
Net income for the period	207.193	203.850
Number of ordinary shares	900.000	900.000
. Basic (CVE)	<b>230</b>	<b>227</b>
. Diluted (CVE)	<b>230</b>	<b>227</b>

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

### 34. Provisions and Contingent Liabilities

The movement in the caption Provisions was as follows:

(in thousands of CVE)

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

In 2018, the Bank reversed provisions for tax contingencies recorded in previous years, of which 6.933 thousand CVE involved a tax litigation that ended in 2018 and was related to the determination of the taxable income for the year of 2013. The amount of 5.372 thousand CVE was related to a provision to cover for possible corrections, by the Tax Administration, of the taxable income of 2011.

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

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

(in thousands of CVE)

	2018	2017	Change	
			Amount	%
Guarantees provided (of which):				
Guarantees and endorsements	618.295	428.814	189.481	44,19%
	<b>618.295</b>	<b>428.814</b>	<b>189.481</b>	<b>44,19%</b>
Commitments to third parties:				
Revocable commitments	746.801	438.421	308.380	70,34%
	<b>1.365.096</b>	<b>867.236</b>	<b>497.860</b>	<b>57,41%</b>
Deposits and custody of securities:				
Dematerialized securities	(863.920)	(733.396)	(130.524)	17,80%
Collection of amounts	25.350	21.960	3.390	15,44%
	<b>(838.569)</b>	<b>(711.435)</b>	<b>(127.134)</b>	<b>17,87%</b>

It should be noted that the guarantees provided are considered for the purposes of determining impairment under the impairment model in force.

### 35. Operating Segments

The Bank has its business organized by areas, namely 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 as at 31 December 2018, correspond to the way the information is analyzed:

- Trading and Sales - Includes the banking activity related to the management of the own securities portfolio, the 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 granting of credit and funding activities among large companies and small- and medium-sized enterprises. Included in this segment are loans, current account loans, financing of investment projects, discounting of notes, factoring, finance and real estate leasing and the taking of syndicated loans, as well as loans and advances to the Public Sector;
- Retail Banking - Includes the banking activity with individuals, individual entrepreneurs and micro-companies. Included in this segment are consumer loans, mortgage loans and also deposits taken from individuals; and
- Central Services supporting the business - back-office units associated with operation execution, risk analysis and administrative services.

The reports used by Management are essentially based on accounting information, there being no differences to the measurement of income, expenses, assets and liabilities of the reportable segments.

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

With reference to 31 December 2018 and 2017, the information relating to the operating segments used by the Bank may be summarized as follows:

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2017
Interest and similar income	113.163	176.589	505.357	-	795.110
Interest and similar expenses	(61.926)	(89.206)	(155.675)	-	(306.807)
<i>Net interest income</i>	51.238	87.383	349.682	-	488.303
Dividend income	12.147	-	-	-	12.147
Fee and commission income	21.671	32.090	88.907	-	142.668
Fee and commission expenses	(16.095)	(141)	(19.795)	-	(36.031)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	-	-	-	5.342	5.342
Net gain / (losses) from foreign exchange revaluation	23.039	-	-	-	23.039
Net gain / (losses) on disposal of other assets	1.896	-	-	-	1.896
Other net operating gains / (losses)	5.370	(102)	(835)	-	4.433
<i>Operating income</i>	99.266	119.231	417.959	5.342	641.796
Staff costs	4.481	11.694	76.450	77.680	170.305
General and administrative expenses	5.748	5.056	47.543	99.639	157.986
Depreciation and amortization	1.131	1.300	13.273	19.606	35.310
Provisions, net of reversals	-	-	-	-	-
Impairment losses of loans and advances, net of reversals and recoveries	-	-	(2.081)	-	(2.081)
Impairment losses of other assets, net of reversals and recoveries	-	1.298	1.619	79	2.996
Impairment losses of other assets	-	-	-	20.038	20.038
<i>Profit / (loss) before income tax</i>	87.906	99.883	281.155	(211.700)	257.241
Income Tax					
Current tax	22.416	25.470	71.694	(65.241)	54.339
Deferred tax	-	-	-	(947)	(947)
<i>Net income for the period</i>	65.490	74.413	209.461	(145.511)	203.850

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2018
Interest and similar income	136.835	213.528	611.069	-	961.432
Interest and similar expenses	(66.426)	(95.688)	(166.987)	-	(329.101)
<i>Net interest income</i>	70.410	117.840	444.082	-	632.331
Dividend income	12.828	-	-	-	12.828
Fee and commission income	24.741	36.636	101.502	-	162.878
Fee and commission expenses	(24.961)	(219)	(30.700)	-	(55.881)
Net gain / (losses) from assets and liabilities at fair value through profit or loss	3.077	-	-	-	3.077
Net gain / (losses) from foreign exchange revaluation	10.597	-	-	-	10.597
Net gain / (losses) on disposal of other assets	-	-	-	474	474
Other net operating gains / (losses)	23.383	(442)	(3.638)	-	19.303
<i>Operating income</i>	120.075	153.815	511.245	474	785.609
Staff costs	5.813	15.171	99.178	100.774	220.937
General and administrative expenses	6.681	5.876	55.259	115.809	183.626
Depreciation and amortization	1.062	1.220	12.462	18.409	33.153
Provisions, net of reversals	-	-	-	(12.305)	(12.305)
Impairment losses of loans and advances, net of reversals and recoveries	-	-	49.936	-	49.936
Impairment losses of other assets, net of reversals and recoveries	-	-	-	37.860	37.860
Impairment losses of other assets	-	-	-	-	-
<i>Profit / (loss) before income tax</i>	106.518	131.547	294.410	(260.074)	272.401
Income Tax					
Current tax	27.162	33.545	75.075	(48.770)	87.011
Deferred tax	-	-	-	(21.804)	(21.804)
<i>Net income for the period</i>	79.356	98.003	219.335	(189.500)	207.193



As to the distribution of the Balance sheet over the various segments, the situation in 2018 and 2017 is as follows:

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2017
<b>ASSETS</b>					
Cash and deposits with Central Banks	2.556.840	-	-	-	2.556.840
Deposits with Banks	1.275.472	-	-	-	1.275.472
Financial assets designated at fair value through profit or loss	29.454	-	-	-	29.454
Financial assets measured at fair value through other comprehensive income	152.331	-	-	-	152.331
Financial assets measured at amortized cost					
Debt securities	-	-	-	1.238.143	1.238.143
Loans and advances to banks	52.169	-	-	-	52.169
Loans and advances to customers	-	2.246.487	7.263.750	-	9.510.238
Other tangible assets	5.756	1.918	132.384	51.802	191.860
Other intangible assets	-	-	-	3.929	3.929
<b>Tax Assets</b>					
Current tax assets	-	-	-	35.676	35.676
Deferred tax assets	-	-	-	947	947
Other assets	538.290	230.699	384.506	384.506	1.538.001
<b>Total Assets</b>	<b>4.610.312</b>	<b>2.479.105</b>	<b>7.780.640</b>	<b>1.715.003</b>	<b>16.585.060</b>

Description					
<b>PASSIVO</b>					
Financial liabilities measured at amortized cost					
Deposits from Banks	544.733	-	-	-	544.733
Due to customers and other loans	-	3.620.352	10.282.617	-	13.902.969
Provisions	-	-	-	20.030	20.030
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	39.281	-	-	-	39.281
Other liabilities	31.820	63.644	47.732	15.912	159.108
<b>Total Liabilities</b>	<b>615.834</b>	<b>3.683.995</b>	<b>10.330.349</b>	<b>35.942</b>	<b>14.666.121</b>
<b>EQUITY</b>					
Share Capital	179.385	165.012	546.882	8.722	900.000
Legal Reserve	-	-	-	83.589	83.589
Revaluation reserves	-	-	-	114.762	114.762
Other reserves and retained earnings	296.228	721.681	1.313.966	(1.715.137)	616.737
Net income for the period	65.490	74.413	209.461	(145.511)	203.850
<b>Total Equity</b>	<b>541.103</b>	<b>961.105</b>	<b>2.070.308</b>	<b>(1.653.575)</b>	<b>1.918.938</b>
<b>Total Liabilities + Equity</b>	<b>1.156.937</b>	<b>4.645.101</b>	<b>12.400.657</b>	<b>(1.617.633)</b>	<b>16.585.060</b>

(in thousands of CVE)

Description	Trading and sales	Commercial Banking	Retail Banking	Central Services	Balance as of 31/12/2018
<b>ASSETS</b>					
Cash and deposits with Central Banks	2.429.820	-	-	-	2.429.820
Deposits with Banks	1.359.177	-	-	-	1.359.177
Financial assets designated at fair value through profit or loss	33.456	-	-	-	33.456
Financial assets measured at fair value through other comprehensive income	179.855	-	-	-	179.855
Financial assets measured at amortized cost					
Debt securities	-	-	-	1.389.691	1.389.691
Loans and advances to banks	-	-	-	106.124	106.124
Loans and advances to customers	-	-	-	12.353.478	12.353.478
Other tangible assets	6.948	2.316	159.799	62.530	231.593
Other intangible assets	-	-	-	7.667	7.667
<b>Tax Assets</b>					
Current tax assets	-	-	-	-	-
Deferred tax assets	-	-	-	22.751	22.751
Other assets	448.939	192.405	320.681	320.681	1.282.707
<b>Total Assets</b>	<b>4.458.195</b>	<b>194.721</b>	<b>480.481</b>	<b>14.262.922</b>	<b>19.396.318</b>

Description					
<b>PASSIVO</b>					
Financial liabilities measured at amortized cost					
Deposits from Banks	331.582	-	-	-	331.582
Due to customers and other loans	-	4.340.382	12.327.667	-	16.668.049
Provisions	-	-	-	7.675	7.675
Current tax liabilities	4.063	9.899	18.024	-	31.985
Deferred tax liabilities	4.107	-	-	-	4.107
Other liabilities	34.196	68.395	51.295	17.100	170.986
<b>Total Liabilities</b>	<b>373.948</b>	<b>4.418.676</b>	<b>12.396.986</b>	<b>24.775</b>	<b>17.214.385</b>
<b>EQUITY</b>					
Share Capital	179.385	165.012	546.882	8.722	900.000
Legal Reserve	-	-	-	103.974	103.974
Revaluation reserves	-	-	-	181.854	181.854
Other reserves and retained earnings	378.926	923.153	1.680.787	(2.193.953)	788.912
Net income for the period	79.356	98.003	219.335	(189.500)	207.193
<b>Total Equity</b>	<b>637.668</b>	<b>1.186.168</b>	<b>2.447.004</b>	<b>(2.088.903)</b>	<b>2.181.934</b>
<b>Total Liabilities + Equity</b>	<b>1.011.616</b>	<b>5.604.843</b>	<b>14.843.989</b>	<b>(2.064.128)</b>	<b>19.396.318</b>

## **36. Financial Instrument Risks**

### **36.1. Risk management policies**

The strategies and policies guiding Global Risk Management, and for each of the main risks identified, are defined by the Board of Directors. The management of the activity risks is carried out in an independent manner and with an adequate segregation of duties.

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

The Bank promotes the collective awareness of the nature and dimension of the inherent risks, seeking, however, to adopt strategies to maximize the results considering the risks and the established consolidated exposure limits.

The Bank has, over the last few years, developed a number 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 carried out.

### **36.2. Credit risk**

Credit risk is the likelihood 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 refining its internal risk analysis models, both in the retail segment and in the corporate segment.

Credit risk management and monitoring were carried out in accordance with the principles and rules for the granting of credit as defined in the General Credit Regulation of the Bank, specific credit regulations, non-performing credit regulations and the rules established by the regulatory authority.

Credit risk management was mainly based on the monitoring and follow-up of the Loans portfolio, mainly as regards its quality and concentration (in terms of sectors and large risks). In this context, the Bank continued to use the IT tool SIC (Sistema de Informação Comercial (Commercial Information System)), which benefited from updates during 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 detect, in a timely manner, warning signals and, consequently, take the necessary preventive measures to mitigate the risk of default.

Due to their material impact, large exposures are subject to special surveillance in order to anticipate their eventual default and to take measures regarding the minimization of an eventual impact, either through the decrease of liabilities or through the reinforcement of guarantees.

In addition to the daily monitoring, monthly monitoring is carried out through the follow-up and control of exposures via the monthly preparation of credit reports with the main quality indicators.

### *Credit risk assessment*

In the analysis of loan operations, the Bank continued to use, in a generalized manner, the auxiliary Rating models for companies and the Scoring models for individuals thus conferring greater objectivity, speed and reliability on the credit decisions, along with a decrease in the costs associated with the decision-making process.

Also in the scope of the credit risk assessment, several tools were developed to support the risk analysis thus providing the various players of the credit decision process with clear and accurate information aimed at the making of a correct and reliable decision.

### *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 particular type of loan or advance granted, namely:

- In medium-/long-term loans to Individuals, such as housing loans, the collateral usually takes the form of a real guarantee, namely the mortgage of the property. In short-term loans or advances, Individuals are usually only required to provide personal guarantees.
- In the case of Company loans, in particular 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 vary according to the risk attributed to the customer and the period of the loan granted to Companies. Whenever there is any increase in credit risk, the customers are required to provide additional collateral.
- In the case of loans granted to companies belonging to economic groups, it is common practice to mitigate credit risk with collateral provided by the Group's parent company.

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

Collateral management is developed in a continuous manner, thereby promoting the maintenance of the coverage, by the collateral, of the loans granted.

The real guarantees are mandatorily revalued in the following situations:

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

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

The collaterals that, due to customer default, are executed and pass into the possession of the Bank are, in general, sold for the total or partial settlement of the debt. In the event that there is commercial interest in a particular asset, the Bank retains it in its property for own use.

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

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 on the basis of 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 EAPR and, only when it is not available, the initial nominal fixed rate of the loan agreement (NAR) will be applied;

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

The application of the transfer in lieu of/judicial enforcement 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 takes into account 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 construction (<50%) and land: 2 years
C	4	in the case of a normal legal enforcement (3 years) with sale of constructed property: 4 years
D	5	in the case of a complex legal enforcement (4 years) with sale of constructed property: 5 years
E	5	in the case of a normal legal enforcement (3 years) and subsequent sale of property under construction (<50%) and land: 5 years
F	6	in the case of a complex legal enforcement (4 years) and subsequent sale of property under construction (<50%) and land: 6 years

- The interest rate to be applied will be the EAPR and, only when it is not available, the initial nominal fixed rate of the loan agreement (NAR) will be applied;
- When valuations are considered inadequate, haircut factors are applied to same as mentioned above;
- If the recovery costs were not considered in the valuation, 3% should be considered for the cost of real estate intermediation (applied on the PVT, with disbursement at the time of sale) and 2% for the maintenance of buildings (applied on the PVT, in the period between the delivery of the asset to the Bank and its sale – 1 to 2 years, according to the time methodology defined in the table above).

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

As of 31 December 2018 and 2017, the fair value of the real guarantees received by type of customer (individuals, companies, public and institutional sector), has the following breakdown:

Segment	(in thousands of CVE)				(in thousands of CVE)			
	2018				2017			
	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	7.784.397	3.965.182	102.581	4.067.764	5.289.124	2.653.065	62.089	2.715.154
Past due	1.170.943	682.874		682.874	1.055.816	750.216		750.216
Loans (off-balance)								
Due	1.272.363	156.675	25.907	182.582	770.086	63.865	22.998	86.862
Individuals								
Loans (balance amount)								
Due	3.701.544	2.900.787	156.287	3.057.074	3.529.062	3.129.544	132.349	3.261.892
Past due	547.265	345.114	875	345.989	528.729	326.058	719	326.777
Loans (off-balance)								
Due	107.286		5.000	5.000	39.237		5.000	5.000
Public Sector and Institutional								
Loans (balance amount)								
Due	441.984				355.630			0
Past due	3				11			0
Loans (off-balance)								
Due	45.521				57.913			0
<b>Total</b>	<b>15.071.309</b>	<b>8.050.633</b>	<b>290.650</b>	<b>8.341.283</b>	<b>11.625.607</b>	<b>6.922.748</b>	<b>223.155</b>	<b>7.145.903</b>

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				Individuals Housing			
	Real State Properties		Other collaterals*		Real State Properties		Other collaterals*	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M CVE	5	0	1	0	6	0	0	0
>= 0,5 M CVE e < 1 M €	1	1	5	4	2	1	1	1
>= 1 M CVE e < 5 M €	13	36	40	108	126	431	3	13
>= 5 M CVE e < 10 M €	25	182	11	72	186	1.348	19	147
>= 10 M CVE e < 20 M €	22	308	9	119	101	1.281	20	217
>= 20 M CVE e < 50 M €	38	1.177	4	85	27	760	0	0
>= 50 M CVE	45	8.349	1	50	8	576	0	0
<b>Total</b>	<b>149</b>	<b>10.054</b>	<b>71</b>	<b>438</b>	<b>456</b>	<b>4.398</b>	<b>43</b>	<b>377</b>

### Assessment of impairment

As already mentioned, by virtue of the adoption of IFRS 9, the Bank altered the conceptual framework of the impairment model by replacing the Incurred Loss Model (ILM) with a model based on the Expected Credit Loss (ECL).

The Bank recognizes as a cost, the expected losses 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 losses expected over its lifetime if the credit risk associated with this financial asset has increased significantly since its initial recognition.

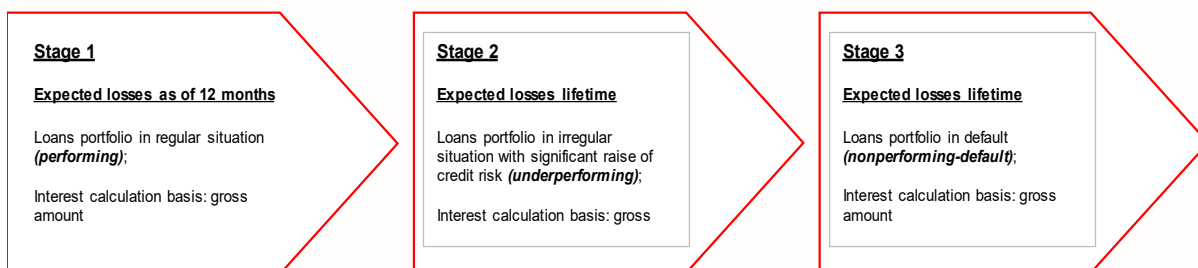
Credit risk assessment is done on an individual basis as well as on a collective basis, based on reasonable and sustainable information, including prospective approaches.

The expected credit losses are measured based on the present value of the difference between the contractual cash flows and the cash flows expected to be received by the entity, including the cash flows from the sale of collateral, in the cases of the Individuals, Mortgage and Corporate segments

### Collective analysis

The Bank determines the expected credit losses of each operation as a result of the deterioration of the credit risk verified since its initial recognition. For this purpose, it established as a principle the segmentation of the portfolio into three stages, defining as principles of the 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), which must take into account the date of origination of the financial asset/loan.

With regard to 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 stay in stages 2 and 3 (quarantine state) 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 in the profit and loss 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". Nevertheless, 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 in 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 refute such assumption, which is consistent with the definition used in the Bank's current credit risk management policies.

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

In addition, in the classification of stage 3 and for the segments indicated in the table below, the Bank took materiality criteria as indicated therein into account. 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 the criteria for the selection of exposures which impairment is analyzed on an individual basis, Customers with Significant Exposure, the Bank consider the following criteria:

1. Customers with liabilities exceeding 100.000.000 CVE and performing (stage 1);
2. Customers with a significant increase in credit risk or in a default situation with liabilities exceeding 25.000.000 CVE (stage 2 or 3).

For these cases, the final impairment to be considered will be the greater resulting from the comparison of the ECL value obtained through the individual analysis and that resulting from the collective analysis.

Still with regard to significant customers, subject to a case-by-case analysis, the Bank performs both stage and impairment analysis. Whenever this analysis results in a zero ECL, the Bank recognizes an ECL subject to a floor. For the other cases, the ECL to be recognized is that resulting from the individual analysis performed.

### **Reversals and write-offs**

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

An operation's write-off from assets must meet a number of requirements, namely:

- b) Being past due, fully provisioned and the impairment having been recognized in the total amount. If the operation does not have provisions and impairment at 100%, it will be necessary to reinforce these up to the amount to be written off from assets (which constitutes a loss in the income statement);
- c) The necessary and appropriate collection efforts have been developed;
- d) The expectations of recovery are reduced or zero.

However, in the last 3 years the Bank has not realized write-offs, despite having a number of operations in the balance sheet meeting the conditions for same, in accordance with Notice no. 4/2006 of BCV, in so far as they are not tax accepted, with the Bank awaiting clarification from the Tax Administration regarding this matter. It should be noted that the write-off policy has direct implications on the determination of the credit quality ratio. After being written off, amounts recovered are recorded in a

specific account - Loan, interest and expense recoveries, being a positive component for the determination of the operating income.

In terms of reversals, the Bank stipulates that the impairment of a customer analyzed on a case-by-case basis may only be reversed in respect of an event occurring after the initial recognition of such loss, such as the reinforcement of guarantees, payment of past due interest, etc.. In the scope of the collective analysis, the reversal stems from the application of the model developed, and may result from the improvement of the risk parameters of the portfolio or the reduction of exposure, among other factors.

## 1 Maximum exposure to credit risk

As at 31 December 2018 and 2017, 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)			
	2018				2017			
	Gross exposure (1)	Collaterals received (2)	Provisions and impairment	Effective exposure (3)	Gross exposure (1)	Collaterals received (2)	Provisions and impairment	Effective exposure (3)
<b>Assets</b>								
Financial assets designated at fair value through profit or loss	33.456	-	-	33.456	29.454	-	-	29.454
Financial assets designated at fair value through other comprehensive income	179.855	-	-	179.855	152.331	-	-	152.331
Financial assets measured at amortized cost								
Loans and advances to banks	106.124			106.124	52.169			52.169
Loans and advances to customers	13.646.138	8.153.700	1.292.660	4.199.778	10.758.372	7.054.040	1.248.134	2.456.198
Debt Securities	1.398.200	-	8.509	1.389.691	1.241.472	-	3.329	1.238.143
<b>Off-Balance</b>								
Guarantees and endorsements	641.295	187.582	430	453.283	428.814	91.863	439	336.513
Revocable commitments	783.876	-	-	783.876	438.421	-	4.896	433.525
<b>Total</b>	<b>16.788.943</b>	<b>8.341.283</b>	<b>1.301.599</b>	<b>7.146.062</b>	<b>13.101.033</b>	<b>7.145.903</b>	<b>1.256.798</b>	<b>4.698.332</b>

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.

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

## Residual maturity term

As at 31 December 2018 and 2017, credit risk by type of financial instrument has the following breakdown by residual maturity term:

(in thousand of CVE)

Description	2018								Undetermined	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		
<b>Assets</b>										
Other financial assets at fair value through profit or loss									33.456	33.456
Financial assets at fair value through other comprehensive income									179.855	179.855
Financial assets measured at amortized cost										
Loans and advances to banks	19.266	30.938		55.919						106.124
Loans and advances to customers	2.327.863	727.356	734.291	691.681	847.451	1.585.954	3.284.508	3.447.034		13.646.138
Debt securities	3.435		226.976		62.696	360.453	744.640			1.398.200
Other assets (if applicable)										0
<b>Off-balance</b>										
Guarantees and endorsements	46.520	134.861	18.148	128.200	189.316	23.240	101.011			641.296
Commitments to third parties	229.459	75.885	258.230	183.227				1.875		748.676
<b>Total</b>	<b>2.626.543</b>	<b>969.040</b>	<b>1.237.645</b>	<b>1.059.027</b>	<b>1.099.463</b>	<b>1.969.647</b>	<b>4.130.160</b>	<b>3.448.909</b>	<b>213.311</b>	<b>16.753.744</b>

(in thousand of CVE)

Description	2017								Undetermined	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		
<b>Assets</b>										
Other financial assets at fair value through profit or loss									29.454	29.454
Financial assets at fair value through other comprehensive income									152.331	152.331
Financial assets measured at amortized cost										
Loans and advances to banks	30.541	10.758		10.870						52.169
Loans and advances to customers	1.869.734	66.772	507.987	655.793	829.388	975.037	2.177.809	3.675.851		10.758.372
Debt securities	107				227.258	208.334	382.369	420.075		1.238.143
Other assets (if applicable)										
<b>Off-balance</b>										
Guarantees and endorsements	9.500	19.757	134.591	94.258	76.505		94.204			428.814
Commitments to third parties	63.582	11.550	169.157	194.122						438.421
<b>Total</b>	<b>1.973.474</b>	<b>108.836</b>	<b>811.736</b>	<b>955.043</b>	<b>1.133.151</b>	<b>1.183.371</b>	<b>2.654.381</b>	<b>4.095.926</b>	<b>181.785</b>	<b>13.097.704</b>

## Quality of loans and advances to customers

The following schedules evidence the quality of the Bank's loans and advances portfolio, as at 31 December 2018, compared with the homologous period of the previous year, based on Circular no. 197 of 2018.12.21 of Bank of Cape Verde.

## Exposures and impairment by segment

As at 31 December 2018 and 2017, 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 31/12/2018								Impairment as of 31/12/2018			
	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	15.819	0	0	0	0		15.819	0	15.819	0	0	15.819
Corporate	9.080.381	7.752.145	0	0	453.586	42.219	874.649	190.441	293.732	91.853	79.695	122.185
Pre-Drowned Corporate	308.761	0	0	0	0		308.761	0	308.761	0	0	308.761
Individuals Housing Consumption	1.048.164	832.066	0	0	87.921	2.266	128.176	37.720	58.119	5.826	5.979	46.314
Individuals Housing	2.978.980	2.466.400	0	0	282.256	9.589	230.324	24.249	59.874	4.512	5.629	49.733
Pre-Drowned Individuals	141.960	0	0	0	0		141.960	0	141.960	0	0	141.960
Individuals Revolving	178.089	154.846	0	0	8.748		14.496	0	22.676	11.035	1.758	9.884
Public sector	1.319.155	1.248.853	0	0	70.282		21	0	16.323	15.435	867	21
Impairment adjustments (1)									375.396			375.396
<b>Total</b>	<b>15.071.309</b>	<b>12.454.310</b>	<b>0</b>	<b>0</b>	<b>902.793</b>	<b>54.074</b>	<b>1.714.205</b>	<b>252.409</b>	<b>1.292.660</b>	<b>128.661</b>	<b>93.928</b>	<b>1.070.071</b>

\* Includes off-balance-sheet amounts

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

### Detail of exposures and impairment constituted by segment in function of the delays

(in thousands of CVE)

(in thousands of CVE)		Exposure as of 31/12/2018					Impairment as of 31/12/2018				
Segment	Exposure as of 31/12/2018*	Low credit risk exposure (Stage 1)	Significant credit risk exposure (Stage 2)	Sub-total	Default exposure (Stage 3)		Impairment as of 31/12/2018	Stage 1	Stage 2	Stage 3	
					Days delay <= 90 days	Days delay > 90 days				Days delay <= 90 days	Days delay > 90 days
Judicial Expenses	15.819	0	0	0	0	15.819	15.819	0	0	0	15.819
Corporate	9.080.381	7.752.145	453.586	8.205.732	116.602	758.047	293.732	91.853	79.695	8.955	113.230
Pre-Drowned Corporate	308.761	0	0	0	0	308.761	308.761	0	0	0	308.761
Individuals Housing Consumption	1.048.164	832.066	87.921	919.988	22.723	105.453	58.119	5.826	5.979	5.313	41.001
Individuals Housing	2.978.980	2.466.400	282.256	2.748.656	58.413	171.911	59.874	4.512	5.629	7.169	42.564
Pre-Drowned Individuals	141.960	0	0	0	0	141.960	141.960	0	0	0	141.960
Individuals Revolving	178.089	154.846	8.748	163.593	7.409	7.087	22.676	11.035	1.758	2.886	6.998
Public sector	1.319.155	1.248.853	70.282	1.319.134	0	21	16.323	15.435	867	0	21
Impairment adjustments (1)							375.396	0	0		375.396
Total	15.071.309	12.454.310	902.793	13.357.103	205.148	1.509.058	1.292.660	128.661	93.928	24.322	1.045.749

\* Includes off-balance-sheet amounts

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

## Loan portfolio by segment and by year of production

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

(in thousands of CVE)

Production year	Judicial Expenses			Corporate			Pre-Drowned Corporate			Individuals Housing 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
2009 and before	0	0	0	299	548.738	74.404	0	0	0	42	54.160	7.002	123	510.909	12.196	0	0	0	3.234	29.773	8.824	4	523	4	3.702	1.144.103	102.430
2010	0	0	0	55	114.743	13.427	0	0	0	40	55.776	6.027	32	179.909	3.853	0	0	0	671	2.333	456	0	0	0	798	352.760	23.763
2011	0	0	0	42	184.282	27.990	0	0	0	51	23.065	5.413	39	255.309	2.583	0	0	0	856	1.470	333	0	0	0	988	464.125	36.318
2012	69	11.773	11.773	28	134.351	5.881	0	0	0	72	65.475	3.724	28	137.106	723	0	0	0	439	977	91	2	2	0	638	349.683	22.192
2013	19	1.837	1.837	42	667.194	27.779	0	0	0	67	154.023	3.137	61	498.284	24.618	0	0	0	417	6.138	353	1	65.601	812	607	1.393.076	58.535
2014	14	819	819	44	166.466	9.106	20	23.508	23.508	66	58.616	4.111	31	192.596	3.060	276	43.566	43.566	583	728	269	1	3.371	42	1.035	489.671	84.480
2015	12	770	770	42	403.853	13.421	286	12.491	12.491	80	90.564	15.645	40	227.931	1.103	6.820	10.934	10.934	503	6.012	535	2	11	11	7.785	752.565	54.909
2016	11	380	380	50	787.771	40.339	84	271.425	271.425	108	98.130	4.827	43	306.020	3.121	2.287	81.940	81.940	594	1.133	231	4	147.146	1.843	3.181	1.693.945	404.105
2017	6	226	226	67	1.079.381	12.805	2	1.337	1.337	140	126.287	2.101	35	220.515	4.772	5	5.520	5.520	516	56.541	9.097	2	481.752	5.992	773	1.971.560	41.851
2018	2	15	15	187	4.993.602	68.581	0	0	0	299	322.067	6.134	77	450.403	3.844	0	0	0	163	72.984	2.488	9	620.749	7.619	737	6.459.820	88.682
<b>Total</b>	<b>133</b>	<b>15.819</b>	<b>15.819</b>	<b>856</b>	<b>9.080.381</b>	<b>293.732</b>	<b>392</b>	<b>308.761</b>	<b>308.761</b>	<b>965</b>	<b>1.048.164</b>	<b>58.119</b>	<b>509</b>	<b>2.978.980</b>	<b>59.874</b>	<b>9.388</b>	<b>141.960</b>	<b>141.960</b>	<b>7.976</b>	<b>178.089</b>	<b>22.676</b>	<b>25</b>	<b>1.319.155</b>	<b>16.323</b>	<b>20.244</b>	<b>15.071.309</b>	<b>917.264</b>

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

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

The tables below reflect the Bank's loan portfolio and the impairment assessed (individual and collective) as at 31 December 2018, by segment and sector of activity

(in thousands of CVE)

Analysis	Judicial Expenses		Corporate		Pre-Drowned Corporate		Individuals Housing 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
Individual	15.819	15.819	5.820.936	173.974	308.761	308.761	38.826	302	51.282	95	141.960	141.960	53.660	9.721	1.237.254	15.292
Collective	0	0	3.259.445	119.759	0	0	1.009.338	57.817	2.927.699	59.779	0	0	124.429	12.955	81.901	1.031
<b>Total</b>	<b>15.819</b>	<b>15.819</b>	<b>9.080.381</b>	<b>293.732</b>	<b>308.761</b>	<b>308.761</b>	<b>1.048.164</b>	<b>58.119</b>	<b>2.978.980</b>	<b>59.874</b>	<b>141.960</b>	<b>141.960</b>	<b>178.089</b>	<b>22.676</b>	<b>1.319.155</b>	<b>16.323</b>

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

(in thousands of CVE)

Analysis	Commerce		Construction		Real State		Industries		Services		Tourism		Public Sector		Other Sectors		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	626.340	46.865	343.256	163.741	1.552.893	72.831	58.879	2.532	3.151.482	95.937	1.124.433	52.097	413.644	5.073	0	0	7.270.927	439.077
Collective	935.766	62.868	618.164	25.824	120.364	6.266	146.826	13.689	666.713	53.274	720.859	18.826	73.865	915	124.651	4.994	3.407.208	186.656
<b>Total</b>	<b>1.562.107</b>	<b>109.733</b>	<b>961.420</b>	<b>189.566</b>	<b>1.673.257</b>	<b>79.097</b>	<b>205.705</b>	<b>16.221</b>	<b>3.818.195</b>	<b>149.210</b>	<b>1.845.292</b>	<b>70.924</b>	<b>487.509</b>	<b>5.988</b>	<b>124.651</b>	<b>4.994</b>	<b>10.678.135</b>	<b>625.732</b>



## Type of impairment

As of 31 December 2018 and 2017, 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	2018				2017			
	Exposure (1)	Impairment			Exposure (1)	Impairment		
		Individual	Collective	Total		Individual	Collective	Total
Corporate								
Loans (asset)								
Due	7.784.397	129.577	47.570	177.147	5.289.124	125.476	42.550	168.026
Past due	1.170.943	304.292	137.889	442.180	1.055.816	380.470	13.572	394.043
Loans (off-balance sheet)								
Due	1.272.363	135	282	417	770.086		5.064	5.064
Individuals								
Loans (asset)								
Due	3.701.544	9.720	33.459	43.179	3.529.062	11.945	20.044	31.988
Past due	547.265	29.013	219.326	248.339	528.729	177.426	16.635	194.062
Loans (off-balance sheet)								
Due	107.286		13	13	39.237		271	271
Public and institutional sector								
Loans (asset)								
Due	441.984	5.073	912	5.984	355.630	6.911	1.434	8.344
Past due	3		3	3	11	11		11
Loans (off-balance sheet)								
Due	45.521				57.913			0
Impairment adjustments (2)		375.396		375.396	0	446.327		446.327
<b>Total</b>	<b>15.071.309</b>	<b>853.206</b>	<b>439.453</b>	<b>1.292.660</b>	<b>11.625.607</b>	<b>1.148.565</b>	<b>99.569</b>	<b>1.248.135</b>

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

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

The fair value of the collateral associated with the loan operations, by stage of impairment, as at 31 December 2018, 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
<b>Corporate</b>	790	6.498.039	435.414	874.565	287.166
No collateral associate	573	2.539.553	103.197	48.042	106.858
> 150%	105	899.276	259.464	406.634	63.089
< =150% e >125%	20	366.427	0	6.951	15.014
< = 125% e > 100%	58	1.150.165	60.170	217.170	74.564
< = 100%	34	1.542.618	12.583	195.769	27.641
<b>Individuals Housing</b>	509	2.410.290	282.256	230.324	59.874
No collateral associate	13	14.105	0	15	26
> 150%	190	631.807	94.005	146.952	40.249
< =150% e >125%	76	378.120	54.346	20.687	4.981
< = 125% e > 100%	200	1.225.863	116.410	48.322	11.224
< = 100%	30	160.395	17.495	14.348	3.394
<b>Total</b>	<b>1.299</b>	<b>8.908.329</b>	<b>717.670</b>	<b>1.104.889</b>	<b>347.041</b>

## Restructured loans and advances

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

In the scope of Circular Series "A" 166/DSE/2012, which regulates Credit at Risk, the Bank has an internal regulation regarding the identification and marking of restructured loans and advances. The loan operations targeted for restructuring are identified and marked as such in the information systems, being considered operations which initial credit conditions were reformulated, in the same operation or through the contracting of a new loan, due to the deterioration of the customer's financial capacity.

The Bank maintains the loan operation subject to restructuring, at the minimum, in the same class of risk, and a possible reclassification to a lower class of risk only occurs after 1 (one) year has elapsed since the restructuring without any default and with partial amortization or the reinforcement of guarantees.

As at 31 December 2018 and 2017, restructured loans have the following breakdown by type of customer:

Segment	2018				2017			
	Total		Of which restructured (1)		Total		Of which restructured (1)	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
(in thousands of CVE)								
Corporate								
Loans (asset)								
Due	7.784.397	177.147	42.219	24.573	5.289.124	168.026	26.117	23.926
Past due	1.170.943	442.180	190.441	6.327	1.055.816	394.043	190.441	14.270
Loans (off-balance sheet)								
Due	1.272.363	417			770.086	5.064		
Individuals								
Loans (asset)								
Due	3.701.544	43.179	52.815	6.043	3.529.062	31.989	50.579	881
Past due	547.265	248.339	21.008	13.589	528.729	194.062	21.388	2.681
Loans (off-balance sheet)								
Due	107.286	13			39.237	271		
Public and institutional sector								
Loans (asset)								
Due	441.984	5.984			355.630	8.345		
Past due	3	3			11	11		
Loans (off-balance sheet)								
Due	45.521				57.913			
Impairment adjustments (2)		375.396				446.327		
<b>Total</b>	<b>15.071.309</b>	<b>1.292.660</b>	<b>306.483</b>	<b>50.532</b>	<b>11.625.607</b>	<b>1.248.138</b>	<b>288.525</b>	<b>41.759</b>

Notes:

(1) Restructured: Restructured operations in accordance with Circular Letter no. 176 / DSE / 2013 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 / DE / 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 2018 and 2017:

(in thousands of CVE)	2018	2017
Balance at the beginning of the period	288.525	294.117
Loans restructured in the period	60.551	35.201
Accrued interest on the restructured portfolio		67
Settlement of restructured loans (partial or total)	-20.684	-785
Unmarked Loans	-21.909	-40.480
Loans written off from assets		
Other		405
Balance at the end of the period	306.483	288.525

As regards 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	1	990	83	3	26.832	2.817	4	27.822	2.900
Grace period	0	0	0	1	10.642	2.076	1	10.642	2.076
Interest Rate Reduction	0	0	0	0	0	0	0	0	0
Capitalization of interest	8	53.084	25.021	16	214.936	20.535	24	268.020	45.556
Forgiveness of interest and capital	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>9</b>	<b>54.074</b>	<b>25.104</b>	<b>20</b>	<b>252.409</b>	<b>25.428</b>	<b>29</b>	<b>306.483</b>	<b>50.532</b>

### 36.3. Liquidity risk

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

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

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

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

The public debt securities portfolio is an alternative to the application of the Bank's liquidity, be it in Banco de Cabo Verde securities or in securities of the State of Cape Verde. Public debt securities, in turn, can be passed on to the secondary market.

The contractual residual amounts of the main financial instruments have the breakdown presented in the following table, which was prepared according to the following assumptions:

- Due to banks and Due to customers 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 judicial execution) 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)

2018										
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Undetermined	Total
<b>Assets</b>										
Cash and deposits with Central Banks	-	-	-	-	-	-	-	-	2.429.820	2.429.820
Deposits with Banks	-	-	-	-	-	-	-	-	1.359.177	1.359.177
Financial assets measured at amortized cost										
Loans and advances to banks	19.266	30.938	-	55.919	-	-	-	-	-	106.124
Debt securities (gross amount)	-	-	226.976	-	62.696	360.453	744.640	-	3.435	1.398.200
Loans and advances to customers (gross amount)	567.834	727.356	734.291	691.681	847.451	1.585.954	3.284.508	3.447.034	1.760.028	13.646.138
	<b>587.101</b>	<b>758.294</b>	<b>961.267</b>	<b>747.600</b>	<b>910.147</b>	<b>1.946.407</b>	<b>4.029.148</b>	<b>3.447.034</b>	<b>5.552.460</b>	<b>18.939.458</b>
<b>Liabilities</b>										
Financial liabilities measured at amortized cost										
Deposits from Banks	-	15.027	-	-	6.140	221.004	-	-	89.441	331.612
Due to customers and other loans	1.422.283	968.076	1.744.446	2.380.025	3.186.940	2.000	-	-	6.964.279	16.668.049
	<b>1.422.283</b>	<b>983.103</b>	<b>1.744.446</b>	<b>2.380.025</b>	<b>3.193.079</b>	<b>223.004</b>	<b>-</b>	<b>-</b>	<b>7.053.689</b>	<b>16.999.631</b>
<b>2018 differential</b>	<b>(835.183)</b>	<b>(224.810)</b>	<b>(783.179)</b>	<b>(1.632.425)</b>	<b>(2.282.932)</b>	<b>1.723.402</b>	<b>4.029.148</b>	<b>3.447.034</b>	<b>(1.501.229)</b>	<b>1.939.827</b>

2017										
	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
<b>Assets</b>										
Cash and deposits with Central Banks	-	-	-	-	-	-	-	-	2.556.840	2.556.840
Deposits with Banks	-	-	-	-	-	-	-	-	1.275.472	1.275.472
Financial assets measured at amortized cost										
Loans and advances to banks	30.541	10.758	-	10.870	-	-	-	-	-	52.169
Debt securities (gross amount)	107	-	-	-	227.258	208.334	382.369	420.075	-	1.238.143
Loans and advances to customers (gross amount)	284.839	66.772	507.987	655.793	829.388	975.037	2.177.809	3.675.851	1.584.895	10.758.372
	<b>315.487</b>	<b>77.530</b>	<b>507.987</b>	<b>666.663</b>	<b>1.056.646</b>	<b>1.183.371</b>	<b>2.560.178</b>	<b>4.095.926</b>	<b>5.417.207</b>	<b>15.880.995</b>
<b>Liabilities</b>										
Financial liabilities measured at amortized cost										
Deposits from Banks	13.755	-	7.026	-	-	-	-	-	523.952	544.733
Due to customers and other loans	876.237	933.807	1.446.613	2.121.205	3.308.610	-	2.000	-	5.214.498	13.902.969
	<b>889.992</b>	<b>933.807</b>	<b>1.453.639</b>	<b>2.121.205</b>	<b>3.308.610</b>	<b>-</b>	<b>2.000</b>	<b>-</b>	<b>5.738.450</b>	<b>14.447.702</b>
<b>2017 differential</b>	<b>(574.505)</b>	<b>(856.277)</b>	<b>(945.652)</b>	<b>(1.454.541)</b>	<b>(2.251.963)</b>	<b>1.183.371</b>	<b>2.558.178</b>	<b>4.095.926</b>	<b>(321.243)</b>	<b>1.433.293</b>

### 36.4. Market risk

Market or price risk is defined as the probability of negative impacts on results or equity due to unfavorable movements in the market price of the trading portfolio instruments, caused, namely, by fluctuations in interest rates, exchange rates, share quotations or commodity prices.

The Bank's policy in this area is characterized by prudence and systematization, by the reviewing and adjusting of the activity limits in the respective markets by the management bodies, with the intervention being guided, in this respect, by operation and control rules duly regulated by the internal regulations and by the supervisory rules, following international good practice.

### 36.5. Interest rate risk

Interest rate risk consists of the probability of negative impacts on results or equity due to adverse movements in interest rates.

Most of the contracted loan operations are fixed rate, which implies the existence of interest rate risk, but which is minimized by natural hedging through liability operations.

Thus, as regards 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 useful life of the loan;
- 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 carried out 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 at 31 December 2018 and 2017, 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 2018 and 2017, 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 2018 and 2017.

(in thousands of CVE)

	-200bp	-100bp	-50bp	50bp	100bp	200bp
Impact in 2018	13.958	6.979	3.489	(3.489)	(6.979)	(13.958)
Impact in 2017	20.943	10.472	5.236	(5.236)	(10.472)	(20.943)

The impact (corresponding only to the effect on net interest income) of a 50, 100 and 200 bps shift in the reference interest rate curves of sensitive assets and liabilities corresponds to the scenarios used internally by the management bodies in the follow-up and monitoring of the interest rate risk exposure.

The Bank does not present financial instruments with indexed interest rates in a significant amount.

It should be noted that (1) the information contained in the table above corresponds to a static scenario, not taking into account changes in the strategy and interest rate risk management policies that the Bank may adopt as a consequence of changes in interest rates of reference; and (2) most of the sensitive assets considered are fixed-rate loans granted, i.e. not susceptible to change over the life of the loan.

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

#### Gap repricing

	2018							
	Up to	Up to	Up to	Up to	Up to	Up to	Up to	More than
	1 month	3 months	6 months	1 year	3 years	5 years	10 years	10 years
Accumulated Gap (1)	(835.183)	(1.059.992)	(1.843.171)	(3.475.596)	(5.758.528)	(4.035.126)	(5.977)	3.441.056

Note:

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

### 36.6. Exchange rate risk

Exchange rate risk consists of the probability of negative impacts on results or equity due to adverse movements in exchange rates.

The Bank continuously controls and evaluates the risk of its operations. The foreign exchange exposure limits, as well as open positions, are monitored regularly.

The existence of a fixed parity between the Cape Verdean Escudo and the Euro (CVE 110.265 to the Euro), resulting from the convertibility agreement existing between Cape Verde and Portugal, explains the fact that the Euro is not considered for the open foreign exchange positions in the current regulations of Banco de Cabo Verde.

The Bank maintains a neutral position in US Dollars (matching), and has practically no position in other currencies, which only sporadically occur and only in small retail transactions.

As at 31 December 2018 and 2017, the Bank's balance sheet presented the following breakdown by currency:

(in thousands of CVE)

	<b>2018</b>				
	<b>CVE</b>	<b>EUR</b>	<b>USD</b>	<b>Others</b>	<b>Total</b>
<b><u>Assets</u></b>					
Cash and deposits with Central Banks	1.958.765	446.590	20.494	3.971	2.429.820
Deposits with Banks	29.244	1.178.051	142.927	8.955	1.359.177
Financial assets at fair value through profit or loss	9.994	-	23.462	-	33.456
Financial assets at fair value through other comprehensive income	179.855	-	-	-	179.855
Financial assets measured at amortized cost					
Debt securities	1.389.691	-	-	-	1.389.691
Loans and advances to banks	-	55.919	50.204	-	106.124
Loans and advances to customers	12.076.893	272.671	22	3.892	12.353.478
Other tangible assets	231.593	-	-	-	231.593
Other intangible assets	7.667	-	-	-	7.667
Current tax assets	-	-	-	-	-
Deferred tax assets	22.751	-	-	-	22.751
Other assets	1.282.707	-	-	-	1.282.707
	<b>17.189.160</b>	<b>1.953.231</b>	<b>237.110</b>	<b>16.817</b>	<b>19.396.318</b>
<b><u>Liabilities</u></b>					
<b><u>Financial liabilities measured at amortized cost</u></b>					
Deposits from Banks	103.569	221.257	6.756	-	331.582
Due to customers and other loans	15.787.693	530.115	348.671	1.571	16.668.049
Provisions	7.675	-	-	-	7.675
Current tax liabilities	31.985	-	-	-	31.985
Deferred tax liabilities	4.107	-	-	-	4.107
Other liabilities	170.768	217	-	-	170.986
	<b>16.105.798</b>	<b>751.589</b>	<b>355.427</b>	<b>1.571</b>	<b>17.214.385</b>
<b>Equity</b>	<b>1.083.362</b>	<b>1.201.642</b>	<b>(118.317)</b>	<b>15.247</b>	<b>2.181.934</b>



(in thousands of CVE)

	<b>2017</b>				
	<b>CVE</b>	<b>EUR</b>	<b>USD</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>					
Cash and deposits with Central Banks	2.363.285	179.241	10.446	3.868	2.556.840
Deposits with Banks	475.402	759.819	35.810	4.441	1.275.472
Financial assets at fair value through profit or loss	9.994	-	19.460	-	29.454
Financial assets at fair value through other comprehensive income	152.331	-	-	-	152.331
Financial assets measured at amortized cost					
Debt securities	1.238.143	-	-	-	1.238.143
Loans and advances to banks	-	22.929	29.240	-	52.169
Loans and advances to customers	9.214.861	291.015	16	4.346	9.510.238
Other tangible assets	191.860	-	-	-	191.860
Other intangible assets	3.929	-	-	-	3.929
Current tax assets	35.676	-	-	-	35.676
Deferred tax assets	947	-	-	-	947
Other assets	1.538.001	-	-	-	1.538.001
	<b>15.224.430</b>	<b>1.253.004</b>	<b>94.971</b>	<b>12.655</b>	<b>16.585.060</b>
<b>Liabilities</b>					
<b>Financial liabilities measured at amortized cost</b>					
Deposits from Banks	531.694	252	12.786	-	544.733
Due to customers and other loans	13.167.015	604.982	129.318	1.654	13.902.969
Provisions	20.030	-	-	-	20.030
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	39.281	-	-	-	39.281
Other liabilities	-	-	-	-	-
Other liabilities	159.025	80	3	-	159.108
	<b>13.917.045</b>	<b>605.315</b>	<b>142.107</b>	<b>1.654</b>	<b>14.666.121</b>
<b>Equity</b>	<b>1.307.385</b>	<b>647.689</b>	<b>(47.136)</b>	<b>11.001</b>	<b>1.918.939</b>

### 36.7. Operational risk

Operational risk consists of the risk of losses incurred due to inadequate or deficient procedures, 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 domain.

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, throughout the entire structure, about the theme.

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 credit granting and account opening.

### 37. Capital management

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

- Comply with the regulatory requirements established by Banco de Cabo Verde;
- Generate an adequate profitability for the Company, with the creation of value for the shareholders, providing same with remuneration on the capital invested;
- Support the development of the operations that the Bank is legally authorized to practice, maintaining a solid capital structure, capable of responding to the growth of the activity and that is appropriate for the risk profile of the Institution; and
- Safeguard the Institution's reputation, by preserving the integrity of the operations practiced in the course of its activity.

In order to achieve the objectives described, the Bank plans its capital needs in the short and medium term, with a view to financing its activity, mainly through the use of self-financing and the raising of external funds. This planning is based on the internal growth estimates of the balance sheet operations.

The activity of credit institutions in Cape Verde is regulated by Law no. 62/VIII/2014, of 23 April, which plays a key role in the prudential regulation. The above mentioned Law, and complementary legal instruments, contemplate several domains of regulation with an influence on the management of the Capital, of which the following are emphasized:

- Mandatory minimum Share Capital of CVE 800 million for banks with a general authorization;
- Determination that the Shareholders' Equity can never be lower than the Minimum Share Capital and that at least 10% of the net income generated in each financial year shall be allocated to the Legal Reserve, up to the limit of the Share Capital or to the sum of the free reserves constituted and the retained earnings, if higher;
- Financial institutions must also create special reserves intended to strengthen the net equity or to cover losses that the profit and loss account is unable to.
- The application of preventive instruments, such as the requirement that the Solvency Ratio cannot be lower than 12%, which, in practice, corresponds to Credit Institutions being required to set aside certain Capital amounts to cope with unexpected losses that may occur;
- The imposition of limits on the concentration of risks vis-à-vis a 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 favors the 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 credit institutions, para-banking institutions, ancillary 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 19 December, of Banco de Cabo Verde. The quotient of their amount by the amount corresponding to the so-called weighted risk exposures constitutes the solvency ratio, regulated by Notice no. 4/2007, of 25 February 2008, of Banco de Cabo Verde, the value of which must be, at least, equal to 12%.

In order to analyze and comply with the legal requirements imposed by the Banking Supervision, the Bank has articulation mechanisms between the various internal departments, especially the Financial and Risk Management areas.

The following table summarizes the composition of the Regulatory Capital of the Bank, at the end of 2018 and 2017:

(in thousands of CVE)

	dez-18	dez-17	Var Abs	Var %
<b>Own Base Funds</b>	<b>1.992.413</b>	<b>1.800.247</b>	<b>192.165</b>	<b>10,7%</b>
Share Capital	900.000	900.000	0	0,0%
Legal Reserve	103.974	83.589	20.385	24,4%
Net income	207.193	203.850	3.343	1,6%
Other Reserves and Retained Earnings	788.912	616.737	172.175	27,9%
Intangible Assets	7.667	3.929	3.738	95,1%
Provisions Insufficiency	-	-	-	0,0%
<b>Complementary Own Funds</b>	<b>181.854</b>	<b>117.749</b>	<b>-64.105</b>	<b>54,4%</b>
Revaluation Reserves	181.854	117.749	64.105	54,4%
Subordinated Loan	-	-	-	0,0%
<b>Equity before deductions</b>	<b>2.174.267</b>	<b>1.917.996</b>	<b>256.271</b>	<b>13,4%</b>
Property, plant and equipment received on repayment of own credit	28.824	12.788	16.036	
<b>Total Eligible Equity</b>	<b>2.145.443</b>	<b>1.905.207</b>	<b>240.235</b>	<b>12,6%</b>
<b>Total Weighted Assets</b>	<b>12.345.950</b>	<b>9.498.926</b>	<b>2.847.024</b>	<b>30,0%</b>

<b>Solvency Ratio</b>	<b>17,4%</b>	<b>20,1%</b>	<b>-2,7%</b>	
-----------------------	--------------	--------------	--------------	--

<b>Tier I Ratio</b>	<b>16,1%</b>	<b>19%</b>	<b>-3%</b>	
---------------------	--------------	------------	------------	--

As can be 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, in full, to the book values;
- the Net income for the period, which is included in Own Funds net of taxes and dividends to be distributed to the shareholders and only if it has been certified by an External Auditor; and
- the deductions from the Base Own Funds, which correspond to several captions that the regulator considered necessary to introduce, from a prudential perspective, as a correction factor.

(ii) Complementary Own Funds: These comprise Subordinated liabilities subject to approval by Banco de Cabo Verde.

The amount of these Complementary Own Funds may not exceed those related to the Basis Own Funds and their breakdown is as follows:

- Subordinated debt, with a maturity of more than 5 years, considered up to the limit of 50% of Base Own Funds, and which conditions are approved by BCV; and
- Positive Revaluation reserves if realized under the terms of the Law and authorized by Banco de Cabo Verde.

(iii) Deductions from Own Funds: This is a group of deductions that result from impositions of the regulator, namely:

- In cases where the Bank has a shareholding of more than 10% of the share capital of a credit institution, 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 institution holding it;
- Possible overshooting 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 credit granted, calculated at the annual rate of 20% as from the date two years have elapsed following the date on which the non-financial assets concerned were received. In the meantime, Banco de Cabo Verde, through Notice no. 7/2015 established a transitory provision for foreclosed real estate received between 2013 and 2016 in that, for these cases, the deduction from Own funds should start in 2018, being 45% in that year and 55% in 2019, and so forth thereafter;

- Surpluses that may occur in qualifying shareholdings (equal to or greater than 10%) in companies other than Financial or Insurance companies, and which amounts exceed, individually, 15% of Own Funds or 60% thereof, in the case of the aggregate amount of this type of shareholdings.

In terms of Capital Requirements, weighted assets are ranked into 4 risk factors (0%, 20%, 50% and 100%), according to the nature of each asset and each counterpart, as well as any guarantees that may exist.

A similar treatment is adopted for the off-balance sheet positions associated with the guarantees provided and other potential commitments assumed.

In 2008, operational risk was also introduced, giving rise to the need for Institutions to calculate additional own fund requirements for its coverage, based on 15% of the average Operating income (when positive) of the last three years.

As regards the reporting periods, institutions shall calculate their own funds at least at the end of each month and inform Banco de Cabo Verde by the tenth day of the following month, of the composition of their own funds and of the respective solvency ratio.

As in the previous year, the Bank had a very comfortable position as regards the capital ratio, 17.4% (20.1% in 2017). The Tier I ratio stood at 16.1% (19.0% in 2017).

### **38. Fair Value of Financial Instruments**

The fair value of financial instruments is estimated, whenever possible, using quotations on active markets. A market is considered active and liquid, when equally knowledgeable counterparts act and where transactions are carried out on a regular basis. For financial instruments in respect of which there is no active market, due to lack of liquidity or absence of regular transactions, valuation methods and techniques are used to estimate their fair value. Financial instruments were classified by levels in accordance with the hierarchy established in IFRS 13 - Fair Value Measurement.

#### Financial instruments recorded in the balance sheet at fair value

In the following tables, an analysis is made of the categories of financial instruments recognized at fair value in the financial statements with reference to 31 December 2018 and 2017, and their respective valuation methods:

(in thousands of CVE)

(in thousands of CNY)								
Description	Market value or quotation		Valuation techniques				Total	
	Level 1		Market analysis		Other			
	31-12-2018	31-12-2017	Level 2	Level 3	31-12-2018	31-12-2017	31-12-2018	31-12-2017
<b>Assets</b>								
Financial assets held for negotiation	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	33.456	29.454	-	-	-	-	33.456	29.454
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	33.456	29.454	-	-	-	-	33.456	29.454
Derivatives	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	179.855	152.331	179.855	152.331
Derivatives	-	-	-	-	-	-	-	-
<b>Liabilities</b>								
Financial liabilities held for negotiation	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Overdraft Positions	-	-	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-

In the construction of the above tables the following assumptions were used:

- Market value or quotation (Level 1): this column includes financial instruments valued based on active market quotations which, it is considered, provide the most reliable indication of fair value;
- Market analysis (Level 2): This column includes financial instruments that although not determined by quotation on an active market, these are directly or indirectly observable. These data include quoted prices of similar elements on an active market, quoted prices of identical or similar elements on a non-active market or other market corroborated data.
- Other (Level 3): This column includes financial instruments that are valued using variables not observable on the market. At this level, valuation techniques are used based on available information, including the discounted cash flow approach.

The reconciliation between opening balances and closing balances of Level 3 is as follows:

(in thousands of CVE)

Description	31-12-2017	Total (Losses/Gains)	Change in Revaluation Reserves	Acquisitions	Disposals	Reclassification	Other	Impairment	Transfers between levels	31-12-2018
Financial Assets at fair value through other comprehensive income										
Equity Instruments	152.331	-	27.524	-	-	-	-	-	-	179.855

### Financial instruments at amortized cost

The following table presents a comparative analysis between the carrying amount value and the fair value of the categories of financial instruments that are recognized at cost or amortized cost.

(In thousands of CVE)

Description	31-12-2018		31-12-2017		Difference	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
<b><u>Assets</u></b>						
Deposits with Banks and Loans and Advances to banks	1.465.301	1.465.301	1.327.641	1.327.641	-	-
Loans and advances and other receivable amounts	12.353.478	12.353.478	9.510.238	9.510.238	-	-
Debt instruments	1.389.691	1.389.691	1.238.143	1.238.143	-	-
<b><u>Liabilities</u></b>						
Deposits from Banks	331.582	331.582	544.733	544.733	-	-
Due to customers and other loans	16.668.049	16.668.049	13.902.969	13.902.969	-	-

The Bank still does not have 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 carrying amount. However, in the future, the Bank will develop mechanisms or valuation techniques that will be based on the market conditions applicable to similar operations, namely the amount of the respective discounted cash flows based on interest rates considered appropriate.

### **39. Balances and Transaction with Related Entities**

In the normal course of its financial activity, the Bank carries out transactions with related parties. These include loans and advances to customers, applications with banks, deposits, guarantees and other banking operations and services.

The related parties of BCN are the following:

#### Key management personnel

Luís Miguel Andrade Vasconcelos Lopes  
 Pedro Mendes de Barros  
 Paulo Jorge Ferro Ribeiro Oliveira Lima  
 Carlitos Marcos Lima Fortes  
 Marco António Rodrigues Almeida Pereira  
 António Olavo de Oliveira Rocha  
 Luís Matos Monteiro Fonseca

Close family members of key management personnel

ROSÁLIA GROLA ANDRADE VASCONCELOS LOPES  
AUGUSTO VASCONCELOS LOPES  
MARIA FERNANDA BENROZ LIMA DA FONSECA  
ALBINO SEMEDO MENDES  
MARIA FÁTIMA FERNANDES LOPES SANCHES  
GRACIANO MORAIS FORTES  
CLARA MARIA MORENO DE O.P.A.M.DE BARROS  
Paula Denise Frederico Barros  
Tânia Angelina Frederico Mendes de Barros  
Luiza Maria Pazos Alonso Mendes de Barros  
Pedro Manuel Pazos Alonso Mendes de Barros  
VANDA SOFIA PIRES ÉVORA  
HENRIQUE MAXIMIANO ÉVORA FORTES  
FREDERICO OMAR ÉVORA FORTES  
MARIA FERNANDA BENROZ LIMA DA FONSECA  
SANDRA MONTEIRO NEVES VASCONCELOS LOPES  
CARLOTA MONTEIRO VASCONCELOS LOPES  
ELISETE LÍGIA GONCALVES M OLIVEIRA LIMA  
ELOISA VIEIRA FORTES  
JAYSON DANILO FORTES ROCHA

Shareholders:

IMPAR – Companhia Caboverdiana de Seguros, SARL  
SEPI – Sociedade de Estudos e de Promoção de Investimentos, SA  
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:

(em milhares de CVE - contos)

	<b>Key management personnel</b>		<b>Shareholders</b>		<b>Family of key management personnel</b>	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Deposits with Banks	-	-	-	-	-	-
Loans and advances to customers (*)	4.220	4.129	-	-	-	-
Other assets	-	-	-	-	-	-
	<b>4.220</b>	<b>4.129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>						
Deposits from Banks	-	-	(215.441)	(596.900)	-	-
Due to customers and Other Loans	(20.907)	(77.513)	(21.942)	(9.248)	(25.836)	(7.963)
Other liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
	<b>(20.907)</b>	<b>(77.513)</b>	<b>(237.383)</b>	<b>(606.148)</b>	<b>(25.836)</b>	<b>(7.963)</b>
<b>Income Statement</b>						
<b>Expenses</b>						
Interest expense and similar charges and commissions	-	-	-	-	-	-
Commissions paid	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income</b>						
Interest and similar income and commissions	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Loans and advances to customers include the amount net of impairment

In order to eliminate or reduce to a minimum the risk of the occurrence of situations potentially generating conflicts of interest, the Bank complies fully with the rules and guidelines related to this subject, issued by the Regulatory entity. Transactions, other than loans, with related parties are analyzed in accordance with the criteria applicable to similar operations and are carried out under normal market conditions. These operations are subject to the approval of the Board of Directors. The granting of loans and advances to members of the Bank's corporate bodies or to relatives or entities close to them is prohibited by that provided for in no. 16 of Notice 3/2014 of Banco de Cabo Verde, with the exception of certain transactions provided for in no. 4 of the same article.

#### 40. Subsequent events

At the date of the approval of these financial statements by the Board of Directors of the Bank, there had been no occurrence subsequent to 31 December 2018, the reference date of said financial statements, which required adjustments or changes in the values of the assets and liabilities, under IAS 10 - Events after the reporting date.

## **IV. REPORT OF THE INDEPENDENT AUDITOR**



## ***Independent Auditor's Report***

***(Free translation from the original in Portuguese)***

### ***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 2018 (which shows total assets of CVE 19.396.318 thousand and a total shareholders' equity of CVE 2.181.934 thousand, including a net profit of CVE 207.193 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 2018, 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 regulatory credit 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") 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 & Associados - Sociedade de Revisores Oficiais de Contas, Lda.*  
*Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal*  
*Receção: Palácio Sottomayor, Avenida Fontes Pereira de Melo, nº16, 1050-121 Lisboa, Portugal*  
*Tel +351 213 599 000, Fax +351 213 599 999, [www.pwc.pt](http://www.pwc.pt)*  
*Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000*  
*Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485*

---

**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 2, 3.3, 3.6, 9, 36.1 and 36.2 of the Bank's financial statements

The significant expression of the loans and advances to customers' captions, classified as financial assets at amortized cost, including 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 2018 the gross amount of loans and advances to customers amounts to CVE 13,646.138 thousand and the respective impairment losses as at that date amount to CVE 1,292.660 thousand. The amount of these impairment losses includes the adjustment to the minimum regulatory credit 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 additional provisions determined by the regulator.

The implementation of IFRS 9 - Financial Instruments ("IFRS 9") on 1 January 2018 by the Bank implied the introduction of a set of new requirements with impact on the measurement and recognition of credit impairment for financial assets, to be determined through a model of expected losses to the detriment of the model of incurred losses underlying to IAS 39. The impacts on the Bank's financial statements arising from the adoption of this new standard were estimated with reference to 1 January 2018, based on the information available as of that date and on a set of assumptions, which are presented in note 2 of the Bank's financial statements.

Impairment losses on loans and advances to customers are determined by Management 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.

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 the key controls of the Bank underlying to the timely identification, recording and correct measurement of impairment losses.

Within the scope of IFRS 9 implementation on 1 January 2018, we followed the action plan developed by the Bank and, among others, we developed the following procedures:

- Meetings with Management and those principally responsible for the action plan to understand and monitor the timetable, scope and depth of the work to be carried out by the Bank's different areas;
- Understanding of the Bank's governance process, namely regarding the controls implemented on the review and approval of the main assumptions, judgments and future economic perspectives used in the models defined for the measurement of impairment losses;
- Reading and analyzing the methodological documents of IFRS 9 adoption prepared by the Bank and reviewing its adherence to the principles of this standard;
- Discussion and analysis of the methodological assumptions to be applied by the Bank in g IFRS 9 adoption and reviewing its adherence to the principles of this standard; and
- Review of the effects determined by the Bank as a result of the IFRS 9 adoption with impact on its equity as of 1 January 2018.

For a representative sample of the loans and advances to customers portfolio as at 31 December 2018, selected based on its high exposure or through professional judgment of the auditor, included in the individual analysis perimeter of the Bank following the criteria defined in internal manuals, the

CPS

---

**Key Audit Matter**

This process is summarized as follows:

- For the customers with significant exposures, evaluated in terms of the amount of their responsibilities and the potential observation of triggers of default, the Bank undertakes a process of individual analysis, that includes an individual staging analysis, in order to corroborate the indicative allocation of automatic stage, and an individual analysis of impairment quantification. In this last case, the analysis is performed only for the exposures classified in stages 2 and 3, where the impairment amount is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future by the customer to fulfil its responsibilities - going approach; or (ii) the valuation of the collaterals received to grant the loan, whenever its recovery is anticipated as being through the foreclosure/execution and/or sale of those collaterals, less the costs inherent to its recovery and sale – gone approach.
- For the exposures not covered by the individual analysis, the Bank applies a collective analysis model to calculate the impairment losses, following the requirements of IFRS 9, namely the classification of exposures by different stages according to the evolution of its credit risk since its origination date, and not the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries.

In this context, changes in the assumptions or methodologies used by the Bank in the analysis and quantification of impairment losses on loans and advances to customers, as well as different recovery strategies, may condition the estimate of the recovery flows and the timing of their receipt and may have impacts in the amount of impairment losses at each time.

---

**Summary of the Audit Approach**

procedures carried out consisted of: (i) reviewing the conclusions and results obtained by the Bank in the individual analysis of the stage and the amount of impairment; (ii) obtaining our own judgment on the existence of significant increase in credit risk and default; and (iii) assessing how the impairment losses were timely identified, measured and recognized by Management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that fulfil 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 as at 31 December 2018, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) verifying the adequacy of the cash flows (business plans) used to determine impairment with those reflected in the contractual documentation; (iii) analyzing the contractual documentation and the most relevant collaterals and confirm their registration in favour of the Bank; (iv) analyzing the collaterals valuations that were available; (v) examining the criteria used to determine a significant increase in credit risk (stage 2) and a default situation (stage 3) on an individual basis; (vi) analyzing the discounted cash flows used for impairment calculation; (vii) assessing the evolution of exposures; and (viii) understanding the Bank's vision regarding the economic and financial situation of the customers, the predictability of expected cash flows from businesses, as well as the expectations of collectability of credits.

Whenever we find the need to review some of the assumptions used by Management, we recompute the estimated impairment amount and compare the results obtained with those calculated by the Bank, in order to assess the existence of any discrepancies.

For the portfolio which impairment is calculated using the collective analysis model, we undertook a specific set of procedures with the objective of evaluating if the assumptions considered by Management 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 models development and validation; (ii) analysis of the risk parameters and their results; (iii) review and test of

---

**Key Audit Matter**

---

**Summary of the Audit Approach**

---

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 test the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD calculation (Loss Given Default), including the test of historical recoveries for this calculation, on a sampling basis; and (vii) recomputation of Expected Credit Loss (ECL) for the loans and advances to customers portfolio as at 31 December 2018.

Additionally, the audit procedures applied to the amount of the regulatory credit provisions defined by Banco de Cabo Verde and recognised in the Bank's financial statements as at 31 December 2018 included (i) the verification of the provisions recorded for a number of loan operations granted by the Bank, with reference to 31 December 2018, following the guidelines of 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 for the loans and advances to customers portfolio as at 31 December 2018.

Our auditing procedures also included a review of the disclosures related to the loans and advances to customers, as well as its impairment losses, contained in the notes to the financial statements, taking into account the applicable accounting standards and in force.

---

**Valuation of real estate properties received as recovery of loans and advances**

Measurement and disclosures related to the valuation of real estate properties received in recovery of loans and advances presented in notes 3.3, 3.7 and 15 of the Bank's financial statements

As at 31 December 2018 the net amount of real estate properties received in recovery of loans and advances, presented in the Other asset's account, is CVE 1.102.737 thousand.

According to the policies in force at the Bank, the real estate properties are subject to periodic valuations, carried out by expert appraisers registered in the Auditor-General of the Securities Market ("AGMVM") of Banco de Cabo Verde. Those valuations include a set of assumptions and are used for impairment losses

The audit procedures undertaken included the identification and understanding of the key controls established by the Bank to identify real estate properties received with impairment triggers, to determine the corresponding amounts of impairment losses and to ensure the appropriate accounting balance in an appropriate and timely manner. Our procedures also included performing test of details.

For a sample of real estate properties, we analysed its valuation and, if applicable, the subsequent



---

**Key Audit Matter**

recognition, whenever the value determined by such valuations, net of sales costs, is lower than the book value of the real estate properties analysed.

Due the significant expression of those assets in the Bank's balance sheet and the application of a set of assumptions and judgements by Management to determine the recognition moment and the amount of the corresponding impairment losses, these constituted a key matter for the purposes of our audit.

---

**Summary of the Audit Approach**

impairment losses recorded based on the valuations made by the independent expert appraisers. This analysis also included an assessment of the reasonableness of the methodology applied and the assumptions used by the independent expert appraisers in determining the appraisal value of the selected real estate properties. Whenever necessary, we held meetings with the Bank to understand and challenge the judgements and assumptions adopted in the valuations.

We evaluated the competence, capacity and objectivity of the independent expert appraiser hired by the Bank, including confirming their registration in the AGMVM.

For a sample of real estate properties sold during the year of 2018, we compared the sale value with the last valuation obtained, in order to assess the reasonableness of the valuations previously obtained by the Bank.

Our auditing procedures also included a review of the disclosures related to the real estate properties received as recovery of loans and advances contained in the notes to the financial statements, taking into account the applicable accounting standards and in force.

---

**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 Banco de Cabo Verde, and the changes introduced by its Notice no. 6/2007, related to the constitution of regulatory credit 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 objectives are 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 on the basis of 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:

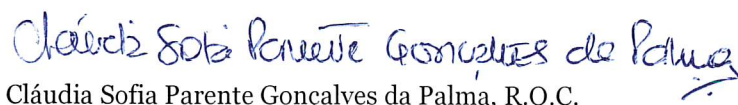
- a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.

20 March 2019

PricewaterhouseCoopers & Associados  
- Sociedade de Revisores Oficiais de Contas, Lda.  
Represented by:

  
Cláudia Sofia Parente Gonçalves da Palma, R.O.C.

**(This is a free translation from the original Auditor's Report issued on 20 March 2019)**

## **V. REPORT AND OPINION OF THE SUPERVISORY BOARD**

**RELATÓRIO E PARECER DO CONSELHO FISCAL SOBRE O RELATÓRIO  
E AS DEMONSTRAÇÕES FINANCEIRAS  
RELATIVOS AO EXERCÍCIO FINDO EM 31 DE DEZEMBRO DE 2018**

Senhores Acionistas,

No cumprimento do mandato que V. Excias. nos conferiram e no desempenho das nossas funções legais e estatutárias, como Conselho Fiscal, apresentamos o relatório sobre a atividade fiscalizadora desenvolvida e damos parecer sobre o Relatório de Gestão e as demonstrações financeiras apresentados pelo Conselho de Administração do BCN – BANCO CABOVERDIANO DE NEGÓCIOS, S.A. (“Banco”) relativamente ao exercício findo em 31 de dezembro de 2018.

**1. Sobre a atividade desenvolvida pelo Conselho Fiscal**

No decurso do exercício o Conselho Fiscal reuniu-se em diversas ocasiões em 2018, tendo acompanhado, com a periodicidade e a extensão que julga-se adequadas às circunstâncias, a atividade do Banco, e, desenvolvido várias atividades no cumprimento das competências que lhe estão legal e estatutariamente atribuídas, nomeadamente:

- Verificou a regularidade da escrituração contabilística e da respetiva documentação bem como a eficácia do sistema de controlo interno, apenas na medida em que os controlos sejam relevantes para o controlo da atividade do Banco e apresentação das demonstrações financeiras, do sistema de gestão de risco e da auditoria interna e vigiou também a observância da Lei e dos Estatutos;
- Procedeu à análise e emissão de parecer sobre a adequação e a eficácia do Sistema de Controlo Interno nos termos do previsto na alínea a) do nº3 do artigo 24º do Aviso nº 4/2017 do Banco de Cabo Verde.

Já em 2019, o Conselho Fiscal procedeu ao:

- Seguimento da revisão legal das contas anuais apresentadas pelo Banco, tendo neste sentido, acompanhado os trabalhos desenvolvidos pela Auditora Independente *PRICEWATERHOUSECOOPERS & ASSOCIADOS* – Sociedade de Revisores Oficiais de Contas, Lda. solicitando esclarecimentos e reunindo-se com os representantes da mesma sempre que se mostrou necessário. Outrossim, apreciou o Relatório de Auditoria desta última, em anexo, emitida sem reserva, no qual constam as matérias relevantes, com a qual este Conselho Fiscal concorda.

**2. PARECER DO CONSELHO FISCAL**

No âmbito das nossas funções o Conselho Fiscal analisou as contas do Banco referentes ao exercício findo em 31 de dezembro de 2018, entendendo ser relevante mencionar os seguintes factos:

- A auditoria às contas efetuada ao exercício findo em 31 de Dezembro de 2018, pela *PRICEWATERHOUSECOOPERS & ASSOCIADOS* – Sociedade de Revisores Oficiais de Contas, Lda., concluiu que as demonstrações financeiras (Balanço, a Demonstração de resultados, a Demonstração do rendimento integral, a Demonstração de alterações no capital próprio, a Demonstração de fluxos de caixa) e o correspondente Anexo, apresentam de forma verdadeira e apropriada a posição financeira do Banco, em todos os aspetos materialmente relevantes, o que permitem uma adequada compreensão da situação financeira do Banco, dos seus resultados, do rendimento integral, das alterações do capital próprio e dos fluxos de caixa;
- As políticas contabilísticas e os critérios valorimétricos adotados, estão conformes com as Normas de Relato Financeiro Internacionais e são adequados, por forma a assegurar que os mesmos conduzem a uma correta apresentação do património e dos resultados do Banco;
- O Relatório de Gestão é suficientemente esclarecedor da evolução dos negócios e da situação do Banco evidenciando os aspetos mais significativos;
- A proposta de aplicação de resultados não contraria as disposições legais e estatutárias aplicáveis; e
- O reconhecimento do esforço que o Conselho de Administração continua a desenvolver no exercício das suas funções, nomeadamente no cumprimento dos procedimentos contabilísticos, administrativos, financeiros e de controlo interno.

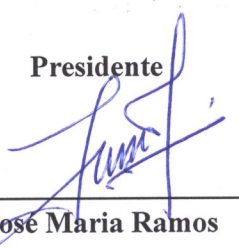
Nestes termos, tendo em consideração as informações recebidas do Conselho de Administração e Serviços e as conclusões constantes do Relatório de Auditoria, somos do parecer que:

- i) seja aprovado o relatório de gestão;
  - ii) sejam aprovadas as demonstrações financeiras; e
  - iii) seja aprovada a proposta de aplicação de resultados.
3. Finalmente, desejamos expressar o nosso agradecimento ao Conselho de Administração e a todos os colaboradores do Banco com quem contactámos, pela valiosa colaboração recebida.

Praia, 11 de março de 2019

#### O Conselho Fiscal

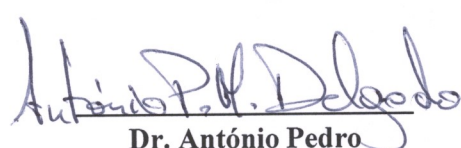
**Presidente**

  
**Dr. José Maria Ramos  
Cunha**

**Vice-Presidente**

  
**Dr. Rui Oliveira Silva**

**O Vogal**

  
**Dr. António Pedro  
Monteiro Delgado**



BANCO CABOVERDIANO  
DE NEGÓCIOS