

# Relatório e Contas |



2013



NÓS BANCO NA NÓS TERA  
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## **1 – STATUTORY BODIES**

A general meeting of Banco Comercial do Atlântico (BCA), held on 4 September 2012, under the terms of article 13 of its articles of association, elected the following members of its statutory bodies whose composition was changed to the following on 4 June 2013:

### **General meeting**

Chairman: Amaro Alexandre da Luz (representing the State of Cape Verde)

Vice-Chairman: David Hopffer Almada

Secretary: Salomão Jorge Barbosa Ribeiro

### **Board of directors**

The board of directors, comprising a chairman and four board members, two of whom non-executive, is appointed by the general meeting:

Chairman António Joaquim de Sousa (representing Caixa Geral de Depósitos up to 4 June 2013)

Chairman António José de Castro Guerra (representing Caixa Geral de Depósitos, from 4 June 2013)

Board member Fernando Jorge do Livramento Santos da Moeda

Board member Maria Eduarda Simões Lopes Branco Vicente

Board member Ana Isabel Pais Vinagre Tomázio

Board member Avelino Bonifácio Fernandes Lopes

### **Auditors**

Permanent: Deloitte & Associados, SROC S.A., represented by João Carlos Henriques Gomes Ferreira

Deputy: Carlos Luis Oliveira de Melo Loureiro

The executive committee, comprising three members, is appointed by the board of directors:

António Joaquim de Sousa – Chairman (up to 4 June 2013)

António José de Castro Guerra – Chairman (from 4 June 2013)

Fernando Jorge do Livramento Santos da Moeda

Maria Eduarda Simões Lopes Branco Vicente

## 2 – SHARE CAPITAL

BCA has a share capital of CVE 1,324,765,000 (one billion, three hundred and twenty four million, seven hundred and sixty five thousand Cape Verde escudos) which, at 31 December 2013, was held by the shareholders set out in the following table, which shows that the equity stakes held by Caixa Geral de Depósitos Group, SA, Banco InterAtlântico, SA, Garantia – Companhia de Seguros de Cabo-Verde, SA and the state of Cape Verde were qualified:

### Share capital at 31/12/2013

Shareholder	Amount	CVE
		Percentage
CGD/INTERATLÂNTICO	697,446,000	52.65%
GARANTIA	165,826,000	12.52%
STATE	132,476,000	10.00%
ASA - AEROPORTO E SEGURANÇA AÉREA, SA	28,780,000	2.17%
WORKERS	31,875,000	2.41%
OTHER SHAREHOLDERS	268,362,000	20.26%
<b>TOTAL</b>	<b>1,324,765,000</b>	<b>100.00%</b>

### 3 – MAIN INDICATORS

#### Main amounts and indicators - activity and net income

Variables	Unit	2012	2013	Change
<b>BALANCE SHEET</b>				
Total assets	CVE thousand	69,942	70,327	0.6%
Total credit (net)	CVE thousand	40,438	39,168	-3.1%
Total liabilities	CVE thousand	66,201	65,837	-0.6%
Customer resources	CVE thousand	58,176	58,968	1.4%
Shareholders' equity	CVE thousand	3,741	4,490	20.0%
<b>OPERATING INCOME</b>				
Net interest income	CVE thousand	2,139	1,913	-10.6%
+Non-interest income	CVE thousand	745	719	-3.5%
=Net operating income	CVE thousand	2,884	2,632	-8.8%
-Administrative costs	CVE thousand	2,146	2,113	-1.5%
=Operating cash flow	CVE thousand	738	518	-29.8%
+ Income from subsidiaries exc. from consolidation	CVE thousand	30	40	31.4%
-Depreciation for period	CVE thousand	203	192	-5.5%
-Impairment/net provisions for period	CVE thousand	118	69	-41.7%
-Income tax	CVE thousand	108	78	-27.8%
=Net income for period	CVE thousand	339	220	-35.3%
<b>RATIOS</b>				
Overdue credit/loans and advances to customers	%	12.0%	14.8%	
Credit overdue > 90 days/loans and advances to customers	%	10.5%	13.9%	
Impaired credit/overdue credit	%	62.9%	64.1%	
Impaired credit and bonds/overdue credit	%	64.3%	67.1%	
Loans and advances to customers/customer deposits	%	71.0%	68.2%	
Net income/shareholders' equity (ROE)	%	9.1%	5.1%	
Net income/assets (ROA)	%	0.5%	0.3%	
Solvency ratio	%	11.78%	13.27%	
<b>OPERATING</b>				
(Cost-to-income) inc. pension fund	%	81.5%	87.6%	
(Cost-to-income) exc. pension fund	%	67.4%	72.8%	
Total assets /total active employees	CVE thousand	162	162	-0.4%
Credit and total deposits/no. active employees	CVE thousand	221	223	0.5%
Credit and total deposits/ no. branches	CVE thousand	2,982	2,934	-1.6%
Total active employees	Unit	431	435	0.9%
Permanent active employees	Unit	397	388	-2.3%
No. branches	Unit	33	33	0.0%

### 4 – CHAIRMAN'S STATEMENT

Dear Shareholders,

As was the case in 2012, BCA continued to operate in a particularly adverse context, in 2013. The 9% growth rate of credit across the whole of the domestic financial system, in 2011, was up by no more than 0.3% in 2012, with an estimate of no more than 0.2% in 2013.

The evolution of the credit market in Cape Verde reflects the adverse conditions in international markets and, consequently and cumulatively, conditions in the domestic market and their effects on the expectations of all economic agents.

World GDP growth of 5.2%, in 2010, has, since then, trended downwards to 3% in 2013. Growth in the countries with the most prosperous economies was much lower than the average world growth and growth rates, even in the emerging and developing economies, including the sub-Saharan economies, have decelerated since 2010.

The eurozone has, over the last two years, been forced to contend with the recessionary environment dictated by adjustment programmes on the sovereign debt levels of many countries, with a highly negative impact on the operation of the financial system, funding for companies, households and a large number of member states and respective employment levels. In such an environment, the performance of the Portuguese and Spanish economies – in which Cape Verde's economy is particularly integrated – has translated into negative growth rates, for three and two consecutive years respectively and, consequently very high levels of unemployment.

The US economy grew between 1.8% and 2.5% after the year in question, following negative growth in 2009, in line with the recession affecting all of the advanced economies in the same year.

With its main economic partners in recession or with very low rates of growth, Cape Verde's economy was particularly penalised in economic terms and funding – a substantial drop in FDI, a slight reduction in emigrants' remittances, reduction of unilateral transfers and less favourable terms on international credit, notwithstanding the government's anti-cyclical fiscal policy.

This anti-cyclical fiscal policy took the form of an ambitious public investment policy designed to reduce the country's infrastructure deficit, so necessary to meet the requirements of greater domestic market integration and to improve the domestic economy's position in the global economy, in addition to the country's aspirations regarding the satisfaction of two historically essential needs: improvements to the reliability of the electricity system and a reduction of water shortages, to improve energy and water supplies for Cape Verde's people and its economy.

The government's anti-cyclical policy's failure to offset the negative effects of the international environment, negatively impacted both GDP growth, particularly as regards private investment and household consumption and fiscal and other revenues and consequently public debt levels. Notwithstanding the above, according to Bank of Cape Verde forecasts, GDP is likely to grow between 2% and 3% in 2013.

Monetary policy, primarily geared to maintaining the stability of the parity between the Cape Verde escudo and euro, at the end of 2011 and across a part of 2012 was pro-cyclical in reducing liquidity in the financial system. This led the banks to adopt measures to protect their deposits base, translating into significantly higher interest on borrowing over the longer maturities.

Customer resources were up 3% in 2012 and 1.4% in 2013. However, in light of the contraction of economic activity and, particularly, the lower expectations of economic agents with their already significant levels of leverage, demand for credit was down. This eased the restrictions on banks' liquidity starting second half 2012 and across the whole of 2013 but had negative effects on net interest income, also worsened by the evolution of default levels in the credit portfolio.

Starting 2nd half 2012 and across the whole of 2013, demand for available liquidity in banks was not felt in terms of the desired quality and investment alternatives, namely central bank and Treasury bonds, whose falling rates at the close of successive issuances, also contributed to a contraction of net interest income.

Monetary policy measures □ reduction of key reference rates □ taken in 1st quarter 2014 to incentivise the banks to expand their lending to the economy have still to produce the desired effect. The still high level of borrowing costs and, particularly, economic agents' lower confidence levels, have had an inhibiting effect on the efficiency of monetary policy transmission mechanisms which were intended to be expansionary.

Contracting demand for credit in a context of surplus liquidity, has increased prime customers' bargaining capacity, leading to greater competition from all market competitors and reducing the difference between lending and borrowing rates. As a consequence, BCA's net interest income was down 10.6% by CVE 226.3 million over 2012, to CVE 1.9 billion.

Non-interest income, as another component of the bank's revenues was also down but much less so (-3.5%) than net interest income. The combined effect of these two margins resulted in an 8.8% reduction of net operating income over 2012, to CVE 2.63 billion.

The board of directors' perception of market evolution led to a tightening of focus on two of the four strategic objectives defined for 2013: cost control and the improvement/non-deterioration of efficiency ratios; better internal control and operational risk.

With greater focus on these two objectives, but not disregarding the other two – greater control of credit portfolio quality, qualification and the greater involvement of senior management staff in the bank's strategic decisions – 2013 produced two results we wish to emphasise:

- Notwithstanding the significant increase of impairment costs, net income was positive, albeit down 35.3% over 2013 to around CVE 220 million;
- Strengthening of the bank's own resources, with a significant improvement in its shareholders' equity and solvency. The solvency ratio's increase from 11.78% to 13.27%, was necessary to enable BCA to continue to contend with an adverse environment, whose evolution is beyond our control, being critically dependent upon the international and national environment in which we operate.

Following two years of an adverse environment, these results were achieved owing to the professionalism and dedication of the bank's management staff and their teams which justly merit our full recognition and gratitude.

On behalf of BCA's board of directors we also wish to take advantage of this opportunity to express our gratitude and appreciation to all shareholders, board of the general meeting, auditors, Bank of Cape Verde, and the General Securities Market Audit Authority, stock exchange and external auditors for all of their collaboration and competence in overseeing the bank's current management.

We are grateful for the confidence of our customers who are our *raison d'être* and wish to reiterate our full commitment to satisfying their expectations of BCA, by strengthening our proximity approach and our supply of products and services compatible with their interests and needs, strengthening links of loyalty, based on trust and reciprocal respect and interests.



The IMF's projections for this year and 2015 point to more robust world GDP growth rates and for the eurozone's sustained exit from its recessionary situation of the last two years. The Portuguese economy is expected to evolve over the two year period in line with the referred to projections of 1.2% in 2014 and 1.5% in 2015. The Bank of Portugal's projections for the Portuguese economy, over the same timeframe, mirror the IMF's forecasts of growth of 1.7% in 2016. According to the said projections, the Spanish economy will grow by around 1%, both this year and next.

The US economy will also grow above the average of the last two years as will the emerging and developing economies.

With expectations of good headwinds, Cape Verde's economy will find it easier to take advantage of the public investments made over the last few years, which will, as a whole, fuel better and greater investment opportunities for private initiative in Cape Verde.

BCA and its board of directors, together with its senior management, reiterate their commitment to promoting Cape Verde's economic and social development, by providing fair returns on deposits and care in the investment thereof with the business community and households, for which they rely upon the trust of customers and shareholders. This explains why BCA continues to be the banking market leader in Cape Verde and the *Bank of Confidence* of its citizens.

## 5 – INTERNATIONAL AND DOMESTIC ENVIRONMENT

### 5.1 – INTERNATIONAL

There was a global deceleration of economic activity in 2013, with a slowdown in the rate of economic growth in emerging markets, not only on account of the reduction in demand from the advanced economies but also the persistence of internal structural fragilities with their conditioning effects on such markets manufacturing capacities.

The following table provides information on the evolution of the main macroeconomic indicators.

	Evolution of indicators					
	GDP		Inflation		Unemployment	
	2012	2013p	2012	2013p	2012	2013p
<b>USA</b>	2.8%	1.9%	2.1%	1.4%	8.1%	7.6%
<b>Eurozone</b>	-0.6%	-0.4%	2.5%	1.5%	11.4%	12.3%
Portugal	-3.2%	-1.4%	2.8%	0.4%	15.7%	17.4%
Germany	0.9%	0.5%	2.1%	1.6%	5.5%	5.6%
<b>Japan</b>	2.0%	2.0%	0.0%	0.0%	4.4%	4.2%
<b>Emerging economies</b>	4.9%	4.5%	6.1%	6.2%	n.a.	
<b>Brazil</b>	0.9%	2.5%	5.4%	6.3%	5.5%	5.8%
<b>Russia</b>	3.4%	1.5%	5.1%	6.7%	6.0%	5.7%
<b>Emerging Asia</b>	5.8%	5.9%	4.4%	4.5%	n.a.	
<b>India</b>	3.2%	3.8%	10.4%	10.9%	n.a.	
<b>China</b>	7.7%	7.6%	2.6%	2.7%	4.1%	4.1%
<b>Sub-Saharan Africa</b>	4.9%	5.0%	9.0%	6.9%	n.a.	
<b>Global economy</b>	3.1%	3.0%	4.0%	3.8%	n.a.	

*Sources: IMF, BdP, Proj Oct13*

The **US economy** was conditioned by fiscal restrictions, in 2013, owing both to its current fiscal policy and political differences over federal government debt levels. Notwithstanding the moderation of growth in economic activity during the course of 2013, conditions in the labour market have shown a tendency to improve and the unemployment rate has fallen gradually to 7.6%.

Following a recessionary period in the **eurozone**, the official statistics point towards a decline in the rate of growth of economic activity. However, the progress achieved in terms of improved competitiveness and higher exports have still not succeeded in offsetting depressed domestic demand, with IMF projections pointing towards a 0.4% fall of GDP, in 2013 (against a fall of 0.6% in 2012).

The **Portuguese economy** continued to be highly reliant on fiscal and funding restrictions. According to the Bank of Portugal, however, economic activity in 2013 was characterised by a recovery of domestic demand starting second quarter, particularly private consumption and investment, allied with a marked growth of exports. The employment situation also improved by an average annual 2.8% in 2013. The Bank of Portugal's projections for a 1.4% drop of GDP in 2013 confirm the prospects for the gradual recovery of the Portuguese economy at the end of 2013.

Economic activity in **Japan** remains anaemic, reflecting the postponing of the structural reforms needed to reinvigorate growth potential. According to the IMF's October forecasts, GDP in 2013, is likely to grow 2%, as was the case in 2012.

There was a deceleration of the first half 2013 rate of growth in **China**. IMF forecasts point towards economic growth of 7.6%, down 0.1 pp over 2012.

Notwithstanding the difficult external conditions, the economic performance of countries in the sub-Saharan Africa region continues to be significant. The region grew at a higher than world average rate in 2012, and at the same rate as the emerging countries. In its update of the world economic outlook, the IMF considers that the sub-Saharan African economy is likely to grow 5% in 2013. The expansion of economic activity will continue to be fuelled by several sectors of activity, whose weight and influence vary in line with the characteristics of the different countries. Projects related with commodities are expected to support higher growth.

## **5.2 – DOMESTIC**

### **5.2.1 – General**

The country's economic and financial development continues to be conditioned by the persistently unfavourable international context. Economic indicators suggest a continuous slowdown of economic dynamics over the first nine months of 2013, influenced by the relatively unfavourable development of the credit market. According to the Bank of Cape Verde and the latest projections, GDP growth in 2013 will be between 2% - 3%. Following the dissipation of the fiscal measures implemented at the start of the year, the average annual inflation rate trended downwards to 1.5%, in December 2013.

The following table provides information on the evolution of domestic economic indicators:

### Domestic macroeconomic indicators

Indicators	Units	Forecast	
		2012	2013
Real GDP	%	[2 - 3]	[2 - 3]
Public debt ratio	GDP %	85.9	92.2
Average annual exchange rate	USD/CVE	85.8	83.1
Inflation	Av. annual change	2.5%	1.5%
Unemployment	%	16.8	n.a.
Foreign direct investment	CVE thousand	4,841	1,949
Money supply	Av. annual change	6.30	4.80
Foreign trade (goods and services)			
Imports	CVE thousand	99,901	85,401
Exports	CVE thousand	66,995	69,063
Foreign currency reserves	Import months	3.9	4.3
Emigrants' remittances	CVE thousand	14,380	13,526
Lending to the economy	Change	0.3%	-0.8%

***Source: SB 2013, BCV and INE***

In the case of foreign trade and according to data for November, the deficit on the goods and services account continued to trend downwards by around 25%. The less unfavourable performance of the balance of trade derived from an expressive 85% increase of goods exports (particularly frozen fish) a continued reduction of goods imports (mainly capital goods) and an increase of around 8% in revenues from tourism up to November.

The performance of unilateral transfers over the last few months has, in turn, remained unfavourable, translating into a reduction of around 27% in donations and 2.1% in emigrants' remittances up to November 2013.

According to Bank of Cape Verde projections, reserves are up €4.5 million, guaranteeing 4.3 import months of goods and services in 2013.

From a fiscal viewpoint, September saw an improvement based on a reduction of investment expenditure. The fiscal deficit of 4% of GDP was down 2.7 pp year on year. The reduction of investment expenditure and increase in donations from central government of 31.8% and 90.5% respectively, explain the more favourable performance of the public accounts in the first nine months of the year.

The M2 monetary aggregate was up 10% year-on-year November, explained by the accumulation of net international reserves, significant increase in claims on commercial banks abroad and the net growth of 33.5% in lending to general government.

Lending to the economy remained stagnant (0.2% in November). Bank of Cape Verde projections indicate a decline of 0.8% in 2013 as opposed to customer deposits which are the main source of banks' revenues with a continued acceleration in their growth rate (12% up to September 2013), notwithstanding a slowdown of emigrants' remittances.

Fitch Ratings downgraded its outlook on Cape Verde's country risk from "stable" to "negative" in April 2013 with a possible reduction of its rating on long term debt in foreign currency to B+, having eventually downgraded the rating on long term debt, in both foreign and domestic currency, to B, in April 2014. Standard and Poor's (S&P), after downgrading its outlook on long term debt of B+ in June 2013, also announced a debt downgrade to B, in December 2013. In both cases, mention was made of the growth trend in the public and external deficit and deceleration of the economy as conditioning factors on Cape Verde's capacity to accommodate any external shocks.

Notwithstanding a less favourable macroeconomic environment, Cape Verde has merited the consideration of the main international institutions. The World Bank's "Doing Business Index" for 2014 (DB 2014), ranked the country 121st out of the 189 economies analysed, the 2nd best classified in Central and Western Africa. In the United Nations' Human Development Index, Cape Verde occupied one of the leading positions among the countries positioned in the "average human development" category. It should be remembered that, in 2012, Cape Verde was the sixth best classified country in sub-Saharan Africa. Cape Verde came 3rd out of the 52 African countries analysed in the Ibrahim Index of African Governance, having been overtaken only by Mauritius and Botswana.

### **5.2.2 – Financial system**

The Bank of Cape Verde submitted the pre-legislative projects on the Basic Law for the Financial System and Law on Activities and Financial Institutions, for public consultation. These laws were designed to modernise the regulatory and financial supervision network, bringing it into line with relevant international principles and practice and the current and prospective challenges facing financial activity in Cape Verde.

The Bank of Cape Verde has adopted a moderately accommodative approach to stimulating the funding of viable private projects and consequently economic activity. Starting May this year, it reorganised its own securities auctions, based on the rates proposed by the banks, having lowered the return on its standing deposit facilities from 3.25% to 1%, in September.

On 28 May 2013, the Directorate General of the Treasury implemented a financial platform permitting direct access to Treasury bills with the objective of stimulating the savings of investors, companies and households and reducing the state's funding costs.

The following is a summary of several notices and items of legislation published in 2013:

- A compendium of legislation on the insurance sector, published on 10 January by the Bank of Cape Verde, with the objective of facilitating the consultation of laws regulating financial activity.
- Law 27/VIII/2013 of 21 January, establishing preventative and repressive measures against terrorism and its financing and changing the Penal Code, approved by Legislative Decree 4/2003 of 18 November.
- The Regulations of the General Securities Market Audit Authority (AGMVM) 1/2012 (Prudential Supervision) and 2 /2012 (Public Access to Records) establishing the general rules and principles on prudential supervision and the terms of public access to the AGMVM's records.
- Regulation AGMVM 3/2012 (Normalisation of Financial Information) defining the rules on the contents, organisation and presentation of economic, financial and statistical information used in accounting documents, in addition to the respective audit rules.
- Resolution 9/2013 of 4 February, authorising the member of government responsible for the finance and planning area to promote the creation of a privately subscribed closed-end property investment fund, referred to as "Fund", with a holding of the state and other strategic partners, primarily geared to the management of property forfeited to the state in criminal proceedings.
- Ministerial Order 14/2013 of 22 February 2013, which includes an addendum to article 1 of Ministerial Order 19/2005 of 14 March, defining the minimum amount of the equity capital of credit and parabanking institutions.
- Bank of Cape Verde *Official Notice* 01/2013 of 12 April, repealing BCV *Official Notices* 5/94 of 7 May 1994 and 02/99 of 3 May 1999, establishing the rules to be complied with by credit and parabanking institutions when publishing their price lists and defining the duties of information and assistance to customers on free banking services.
- Bank of Cape Verde *Official Notice* 2/2013 of 18 April establishing the fundamental principles and dispositions governing the implementation of the credit risk management system.
- Rectification 50/2013 of 3 May to *Official Notice* 1/2013, which established the rules to be complied with by "Institutions" when publishing their price lists.
- Ministerial Order 28/2013 of 15 May 2013, authorising the formation of a mutual guarantee company type special credit institution with the corporate name of CVGARANTE - Sociedade de Garantia Mútua, S.A and a share capital of CVE 100,000,000 (one hundred million Cape Verde escudos) to perform operations permitted by the applicable laws under the required terms.

- Ministerial Order 30/2013 of 27 May, which establishes the centralisation of the Public Debt securities of the state of Cape Verde and the Treasury bills and bonds of the Centralised Securities System managed by the Cape Verde stock exchange.
- *Official Notice* 3/2013 of 4 July, which establishes the regime applicable to information on interest rates and other credit operations' costs to be provided to their customers by credit and parabanking institutions.

### 5.2.3 – BCA and the financial system

Cape Verde's financial sector, with eight commercial and seven offshore banks operating in the market in 2013, is becoming increasingly more competitive.

BCA has retained its leading position in Cape Verde's banking sector as the benchmark and "Bank of Confidence" of its citizens, both in terms of its market share of 40.3% and 43.6% in credit and customer resources respectively, up to September 2013. In terms of its national footprint, the bank continues to operate a branch office network of 33 counters, particularly including its four "corporate offices".

BCA continued to commit heavily to its **electronic means of payment** in 2013, having issued 37,121 *Vinti4* cards in 2013 (11% increase of 3,705 over 2012). BCA's production of *Vinti4* cards represented 47% of total network production with a 3% increase of 2,212 units over the preceding year.

BCA had 61,471 active cards in circulation at 31 December 2013, comprising a 36% market share of the nationwide network.

BCA also produced 3,228 VISA credit cards, comprising 1,502 renewals, 40 replacement cards and the issue of 1,686 new cards. The top selling card continues to be Visa Flex, with 75% of all VISA cards issued. The bank had a total number of 4,431 active VISA credit cards at 31 December 2013 of which 69% were BCA Visa Flex cards.

## **6 – STRATEGIC VISION 2013**

Set against the framework of the Major Guidelines for 2013 drawn up by the board of directors and embodying BCA's sense of mission in its goal of continuing to be the best bank in Cape Verde's financial system, maintaining its market shares □ without any deterioration of its credit portfolio and improving its levels of profitability and efficiency □ special emphasis was placed on strengthening and developing the following strategic objectives:

### **Protection of BCA's profitability through:**

#### *1. Cost control and improved efficiency ratios*

Given market conditions, the improvement and sustainability of results can only be achieved on the basis of the very careful management of cost structures in which rationalisation, higher productivity and efficiency are day-to-day concerns. This originates a permanent attitude geared to eliminating unnecessary expenses and waste. Rigour in the production of the budget and systematic control of its performance are decisive factors in achieving the desired objective.

#### *2. Improved revenues/net interest income in BCA*

Given its dimension, BCA will always be a bank with a highly targeted universal vocation as a credit institution for customers from all strata and segments. This explains the need to emphasise its concern over improving the quality of service and customer helpdesks, strengthening its segmentation principles and maintaining a special focus on the emigrants' segment. Reference should also be made to its proactive approach to securing new business areas and finding new customers, with new spaces and relationship models.

### **Promotion of human capital**

A leading financial system bank must have the ambition to employ the best workers in the sector and succeed in keeping them motivated on the basis of transparent performance policies designed to promote professional careers in which the sustained recognition of merit and talent are prevalent factors.

### **Operational risk and internal control (ROCI)**

The reduction of operational risk continues to be a transversal project across all Divisions with the objective of helping to make significant improvements to efficiency, *modus operandi* and administrative routines, resulting in effective structural gains and consequently the bank's results.



### **Improvement of credit portfolio quality**

In an economic environment, whose evolution is still unclear, prudence as regards commercial, foreign exchange, market and other risks, having a direct impact in the balance sheet is in the order of the day. The strengthening of exacting, rigorous levels with the introduction of new mechanisms, control and oversight instruments will, at the very least prevent any worsening of default levels. All resources and structures available to manage and endeavour to achieve settlements of non-performing loans will be cumulatively perfected and continues to be one of the bank's main priorities.

## 7. – COMMERCIAL ACTIVITY

### 7.1. – RESOURCES

An approach geared to the quality of customer service, product innovation, the recognition afforded by Cape Verde's citizens, both in-country and its diaspora, and its selection for the fourth consecutive year as the **Brand of Confidence** of Cape Verdeans make BCA a benchmark operator in the domestic banking market.

In line with the proposed objective, the customer resources balance, was up 1.4% to CVE 58.9 billion, based on the combination of a 3.6% increase in customer deposits and 67.5% decline in the placements of securities with repo agreements in the secondary market. Term deposits were up 6% over December 2012. Sight deposits were up 0.6% in 2013, in comparison to the same period of the preceding year.

Information on the evolution of customer resources over the last two years is set out in the following table:

<b>Customer resources</b>			<b>(CVE thousand)</b>	
<b>Account headings</b>	<b>2012</b>	<b>2013</b>	<b>Change</b>	
			<b>Total</b>	<b>Percent</b>
<b>Deposits</b>	<b>55,558</b>	<b>57,556</b>	<b>1,998</b>	<b>3.6%</b>
Sight	20,639	20,768	129	0.6%
Term	31,567	33,473	1,905	6.0%
Savings accounts	3,351	3,316	-35	-1.1%
<b>Interest payable on deposits</b>	<b>684</b>	<b>709</b>	<b>25</b>	<b>3.7%</b>
<b>Secondary market securities</b>	<b>1,902</b>	<b>652</b>	<b>-1,251</b>	<b>-65.7%</b>
<b>Other customer resources</b>	<b>31</b>	<b>50</b>	<b>19</b>	<b>61.0%</b>
<b>TOTAL CUSTOMER RESOURCES</b>	<b>58,176</b>	<b>58,968</b>	<b>792</b>	<b>1.4%</b>

Most customer deposits, accounting for a 3.0% increase to 83.3%, have been made by individual customers. Emigrants' total deposits were up 5.5% over December 2012 and account for 52.6% of the deposits portfolio total. Securities placements in repo operations were down 65.7% over the preceding year to a balance of CVE 652 million.

## Customer deposits

Account headings	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
<b>Sight deposits</b>				
Residents	14,726	14,559	-166	-1.1%
Emigrants	3,857	4,134	277	7.2%
Non-residents	2,056	2,075	18	0.9%
<b>Total</b>	<b>20,639</b>	<b>20,768</b>	<b>129</b>	<b>0.6%</b>
<b>Term deposits</b>				
Residents	9,268	9,798	530	5.7%
Emigrants	24,856	26,151	1,295	5.2%
Non-residents	794	839	45	5.7%
<b>Total</b>	<b>34,919</b>	<b>36,788</b>	<b>1,870</b>	<b>5.4%</b>
<b>TOTAL DEPOSITS</b>	<b>55,558</b>	<b>57,556</b>	<b>1,998</b>	<b>3.6%</b>

The start of the operation of the New Treasury Securities Platform in the stock exchange, on 28 May, gave customers given direct access to the primary market, with the bank ceasing to be able to provide repo operations.

## 7.2. – CREDIT

### 7.2.1 – Constraints on credit activity

The unfavourable economic environment in 2013, with its impact on public and private investment and institutional investors' and households' reduced capacity to promptly honour their commitments, conditioned the activity of the banking sector in general and contributed towards the deterioration of the quality of the banks' credit portfolios.

The Central Bank of Cape Verde, in its adoption of a risk-based supervision approach, accordingly took several measures, including the issue of the Series A 176/DSE/2013 circular of 25 April, requiring greater rigour from the commercial banks in identifying and marking restructured credit portfolios in their IT records.

BCA took a prudent approach to the issue of new loans, both on account of the limited number of viable commercial projects and restrictive lending to individual customers criteria, owing to the reduction of household disposable income and consequently impaired loan repayment and self-financing capacity, with the aim of minimising risk while always endeavouring, in line with the strategic guidelines, to protect the bank's profitability. The gradual recovery of international economic partners, with an impact on the overall domestic economy, is, however, expected in 2014.

### 7.2.2 – Lending analysis

Total new loans, in 2013, including restructured credit were down 20.4% by CVE 2,214 million over 2012 to around CVE 8.6 billion, with 61.5% of total lending during the year being for the business sector. Lending to corporates, during the year, was however, down 26.1% over 2012, owing to fewer private initiatives, deriving from their lack of financial capacity, decline in business opportunities and higher default levels. The decline, in the case of individual customers, was 9.3% (30.9% on mortgages for own homes and buy-to-let) particularly explained by lower household income levels. Such values are, in short, indicative of the deterioration of domestic economic activity, unfavourable conditions affecting market evolution and their effect on banking activity.

The following table shows the evolution of credit by customer segment.

Credit by customer segment					(CVE thousand)	
CREDIT	2012	2013	Change		Structural	
			Total	Percent	2012	2013
<b>Corporate</b>	<b>7,178</b>	<b>5,303</b>	<b>-1,875</b>	<b>-26.1%</b>	<b>66.3%</b>	<b>61.5%</b>
Short term	3,882	2,837	-1,045	-26.9%	35.8%	32.9%
Medium/long term	3,296	2,466	-830	-25.2%	30.4%	28.6%
<b>Individual customers</b>	<b>3,652</b>	<b>3,313</b>	<b>-339</b>	<b>-9.3%</b>	<b>33.7%</b>	<b>38.5%</b>
Housing loans	1,966	1,358	-608	-30.9%	18.2%	15.8%
Consumer credit	1,686	1,955	269	15.9%	15.6%	22.7%
<b>TOTAL LENDING</b>	<b>10,830</b>	<b>8,616</b>	<b>-2,214</b>	<b>-20.4%</b>	<b>100.0%</b>	<b>100.0%</b>

Lending was down in percentage terms over December 2012, particularly on account of short term loans, which, globally down 23.9%, largely derived from the 26.9% decline in treasury support lending to corporates, i.e. revolving credit facilities. Medium and long term credit was down 18%, fundamentally on account of loans and advances to individual customers, in respect of mortgages for home ownership and buy-to-let with an unfavourable evolution of -30.9%. This is both on account of the suspension of subsidies and the existence of an unfavourable business environment during the year, in addition to the bank's greater prudence in making new loans.

### Credit by maturities

CREDIT	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
<b>Short term</b>	4,420	3,362	-1,058	-23.9%
<b>Medium/long term</b>	6,410	5,254	-1,156	-18.0%
<b>TOTAL CREDIT</b>	<b>10,830</b>	<b>8,616</b>	<b>-2,214</b>	<b>-20.4%</b>

### 7.2.3 – Analysis of credit portfolio

The performing credit portfolio, not including securitised loans, was down 4.1% by CVE 1.4 billion over the preceding year to CVE 33.4 billion. This unfavourable evolution reflects both higher default rates on loans and fewer new operations. The decline was transversal to both the corporate (5.3%) and individual customers' (3%) segments. The following table also shows that around 43.8% of customers' performing loans comprise mortgages:

**Performing credit portfolio by segments**

Segments	2012	2013	(CVE thousand)			
			Change		Structural	
			Total	Percent	2012	2013
<b>Corporates</b>	<b>15,587</b>	<b>14,753</b>	<b>-834</b>	<b>-5.3%</b>	<b>44.7%</b>	<b>44.1%</b>
Short term	3,073	1,976	-1,096	-35.7%	8.8%	5.9%
Medium/long term	12,514	12,777	263	2.1%	35.9%	38.2%
<b>Individual customers</b>	<b>19,282</b>	<b>18,696</b>	<b>-587</b>	<b>-3.0%</b>	<b>55.3%</b>	<b>55.9%</b>
Housing loans	14,828	14,638	-190	-1.3%	42.5%	43.8%
Consumer credit	4,454	4,057	-396	-8.9%	12.8%	12.1%
<b>Sub-total</b>	<b>34,869</b>	<b>33,449</b>	<b>-1,420</b>	<b>-4.1%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Public/private bond issuances</b>	<b>3,918</b>	<b>3,852</b>	<b>-66</b>	<b>-1.7%</b>		
<b>Income from credit</b>	<b>219</b>	<b>191</b>	<b>-28</b>	<b>-12.7%</b>		
<b>Deferred revenue</b>	<b>-266</b>	<b>-234</b>	<b>32</b>	<b>-12.0%</b>		
<b>LOANS AND ADVANCES TO CUSTOMERS (PERFORMING)</b>	<b>38,740</b>	<b>37,258</b>	<b>-1,482</b>	<b>-3.8%</b>	<b>100.0%</b>	<b>100.0%</b>

Including overdue credit and interest, income receivable and public and private bonds, the total customer credit portfolio was down 1% year-on-year.

Notwithstanding greater endeavours in terms of prudent risk management, the adoption of preventative measures, more restructuring operations and permanent oversight of customers with the highest exposure levels with the aim of optimising credit portfolio quality, defaults were up 22.2% to CVE 5.8 billion, owing to the unfavourable environment in 2013.

The following table shows the evolution of the total loans and advances to customer portfolio over the last two years:

(CVE thousand)

			Total	Percent
<b>Performing credit</b>	<b>34,869</b>	<b>33,449</b>	<b>-1,420</b>	<b>-4.1%</b>
Short term	3,676	2,482	-1,194	-32.5%
Medium and long term	31,193	30,967	-226	-0.7%
<b>Overdue credit and interest</b>	<b>4,755</b>	<b>5,812</b>	<b>1,057</b>	<b>22.2%</b>
<b>Public/private bond issuances</b>	<b>3,918</b>	<b>3,852</b>	<b>-66</b>	<b>-1.7%</b>

## 8 □ OTHER ACTIVITIES

### 8.1 □ HUMAN RESOURCES

BCA had a staff complement of 435 active workers at 31 December 2013 of whom 388 were permanent staff and 47 on fixed-term work contracts. It also had seven employees on unpaid leave, two of whose employment was suspended for health reasons and one on a preventative basis.

There were 14 new hirings in 2013 with four employees leaving the bank at the bank's initiative. Eight workers took retirement (totalling 131), as shown in the following table.

#### Distribution of employees

	<b>ACTIVE</b>			<b>INACTIVE</b>	
	<b>2012</b>	<b>2013</b>		<b>2012</b>	<b>2013</b>
Permanent	397	388	Retired	121	131
Term contracts	34	47	Rescissions/indemnified	2	2
			On secondment	0	0
			Leave	6	6
			Sick leave	6	6
			Absence for other reasons	1	1
<b>TOTAL</b>	<b>431</b>	<b>435</b>	<b>TOTAL</b>	<b>136</b>	<b>146</b>

An analysis of active workers by gender shows that 63% of the total workforce comprises 63% women and 37% men. In terms of distribution by functional groups, 39% of employees were engaged on technical functions, 22% in line management, 19% in auxiliary and support roles, 11% multifunctional and 9% in administrative functions.

As regards academic qualifications, the following table shows an increase in the percentage of graduate employees from 35.7% to 38.4% in terms of the employee total. It also shows that 32% of employees had secondary educational qualifications, with 19.8% having primary, 3% higher educational (polytechnic) and 6.9% vocational qualifications.

### Academic qualifications

	2012		2013	
	No.	%	No.	%
Primary	85	19.7%	86	19.8%
Secondary	146	33.9%	139	32.0%
Vocational	32	7.4%	30	6.9%
Polytechnic	14	3.2%	13	3.0%
University	154	35.7%	167	38.4%
<b>TOTAL</b>	<b>431</b>	<b>100%</b>	<b>435</b>	<b>100%</b>

### Training and professional advancement

BCA invested CVE 11.5 million in 52 training actions, involving a total number of 509 employees totalling 8,347 hours, in 2013, geared to improving the qualifications of its human capital.

Training activities, allied with the bank's strategic objectives, particularly included: Audit – How to Enhance the Credibility of Financial Information; Credit Management and Recovery; Credit Negotiation and Recovery; Internal Control and Audit; International Accounting Standards; Coaching and Leadership in Team Motivation; Pension Plan Risks; Integrated Banking Management Course; Understanding Dispute Resolution; Master Dispute Case Filling; Design and Implementation of Clearing Systems.

32 training actions involving 266 workers, totalling 5,343 hours were organised outside Cape Verde. Seven actions for 226 workers, totalling 2,210 hours took place inside Cape Verde.

17 workers were involved in 13 training actions abroad, in the following institutions: IFB – Instituto de Formação Bancária (Portugal), Caixa Geral de Depósitos, seminars in South Africa and Dubai, totalling 792 hours.

The bank also contributed to the academic training of its employees, by paying a part share of the fees for first degree and masters courses.

Eight new placements were organised during the year, five of which curricular and three professional. Trainees took part in the activities of the Financial and International, Divisions, Logistical Support, Means and Channels, Marketing and Public Relations Office and at the Avenida and Maio branches.



## **Social support for workers**

Workers enrolled in the bank's Private Social Security System and retirees in Cape Verde, in addition to their family members, continue to benefit from medical diagnoses, general and specialised medical consultations, eye, ear and stomatological prostheses, out-patient treatment and hospital in-patient surgeries in 2013.

Under the protocol between BCA and *SAMS - Serviços de Apoio Médico e Social dos Sindicatos dos Bancários do Sul e Ilhas de Portugal* – workers benefited from consultations, medical and clinical tests surgical interventions and hospital confinements

Healthcare services and medicine costs totalled CVE 62.2 million, split up into overseas medical assistance (CVE 14.8 million) and in Cape Verde (CVE 47.3 million).

The bank continued to assist its active workers and retirees on the basis of its preferred lending policy for the acquisition or construction of permanent residential properties for their own use and fiscal subsidies. It also continued to advance wages for education, healthcare, extraordinary costs, home repairs and improvements and vehicle acquisitions.

Reference should also be made to the following actions: the organisation of the 2nd stage of assessments, designed to promote people's corporate performance; medical inspections for all BCA employees, screening for health risks and supplementary monitoring, namely in cases of chronic illness and to ensure the physical and mental aptitude for job performance purposes; continuation of the design of new human resources management instruments, under the VALORh ("Value/Belief/Leadership/Optimisation/Recognition") project.

## **8.2 – FINANCIAL AND INTERNATIONAL AREA**

### **Planning and management and accounting control**

DPG (Planning and Management Control Division) remained geared to perfecting the quality of its supply of management information to the bank's executive committee. In endeavouring to comply with all requests both from the financial system supervisor and its main shareholder, additional efforts were made to promptly supply statistical, prudential and accounting information for the Bank of Cape Verde, for supervision purposes and to Caixa Geral de Depósitos, as the bank's main shareholder for consolidation and oversight purposes.

### **International**

The bank continued to commit to selective internationalisation, as an international area strategy in continuing to cover the countries of Cape Verdean emigration and to meet customers' needs in terms of international operations.

With the objective of improving the quality and efficiency of services, preferential agreements were entered into with other financial institutions, concentrating on the growing use of the vast international network of Caixa Geral de Depósitos, for operations on behalf of customers in the most varied markets.

BCA has also afforded preference to strengthening relationships with Caixa Geral de Depósitos Group institutions, particularly in terms of the exchange of experiences in various operations and products. Endeavours were also made to improve relationships with other correspondent banks with the aim of improving the quality of service at attractive prices.

### **Relations with correspondent banks**

BCA has a vast network of 30 correspondent banks in 17 countries and a variety of operations in currencies such as EUR, USD, CHF, GBP, CAD, DKK, SEK, NOK, JPY and ZAR. This network, complemented by 231 SWIFT correspondents has enabled it to constantly improve conditions governing its performance of international business, guaranteeing prompt cover in the main markets at reduced costs.

Visits were received from representatives and delegations from several of the following international banking organisations:

- Agence Française de Développement (AFD) – for the implementation of the 2nd line of Credit and Social Responsibility Project.
- Proparco – Instituição Financeira para o Desenvolvimento, founded in 1977 and jointly owned by Agence Française de Développement and private shareholders to analyse the appropriateness of setting up a credit and support line for small and medium sized enterprises.
- Dutch Development Bank FMO – for the promotion of the sustainable development of the private sector based on partnerships, loans and knowledge-sharing, which met with BCA for the presentation and negotiation of the possibility of setting up an investor support line of credit and services, market fact finding and an update of its knowledge on the country's economic and financial situation.
- International Monetary Fund (IMF) and World Bank – These two institutions were received as part of a technical assistance mission geared to the liquidity and public bonds areas and an analysis of the situation of Cape Verde's economy and financial system.
- Fitchratings visited Cape Verde with the objective of reviewing its sovereign rating and met with banks in Cape Verde's financial system.
- Other entities such as Commerzbank and Societé Générale with which the bank enjoys a relationship.

### **Liquidity management**

Liquidity management (assets and liabilities) involved rigorous compliance with responsibilities and the maximum exploitation of cash funds, making use of the domestic and international financial markets, in a permanent attempt to minimise liquidity, market and exchange risks.

BCA continued to correctly identify various business opportunities, control liquid assets and accelerate the transformation process of foreign banknotes spent in the country into currency reserves.

Currency inflows, in 2013, were up 9.7% by CVE 3,285 billion, with outflows down 3.0% by (CVE 1,101 billion). The change on the inflows side essentially derived from payment orders received, which were up

13.82% by CVE 3.6 billion. In terms of outflows, the largest total change occurred with the issue of payment orders which were down CVE 800 million.

Operations with BCV (currency purchases and sales), were down both in the case of currency purchases and currency sales. Sales were 1.9 times higher than purchases.

### Currency inflows/outflows

Account headings	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
Currency inflows	30,936	34,772	3,836	12.4%
Purchases from BCV	2,845	2,294	-551	-19.4%
<b>Total inflows</b>	<b>33,781</b>	<b>37,066</b>	<b>3,285</b>	<b>9.7%</b>
Currency outflows	32,045	31,110	-935	-2.9%
Sales to BCV	4,521	4,355	-166	100.0%
<b>Total outflows</b>	<b>36,566</b>	<b>35,465</b>	<b>-1,101</b>	<b>-3.0%</b>

The availability of liquidity enabled the bank to invest surpluses, both in the domestic and international markets. The quest for better returns and preference for the short term led to short term investments, particularly in the domestic money market.

Reference should also be made to investments in Treasury bonds, owing to surplus liquidity, up 463.3% over 2012.

### Accrued investments in period

	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
<b>Domestic money market</b>	<b>127,003</b>	<b>151,942</b>	<b>24,939</b>	<b>19.6%</b>
Treasury bills		499	499	
Investments in BCV	73,330	147,850	74,520	101.6%
Other investments in BCV (TIMs)	898	2,174	1,276	142.1%
Other investments in BCV (TRMs)	9,875	1,419	-8,456	-85.6%
Investments in other banks	42,900	0	-42,900	-100.0%
<b>Capital market</b>	<b>678</b>	<b>2,253</b>	<b>1,575</b>	<b>232.3%</b>
<b>Investments in correspondent bank</b>	<b>26,551</b>	<b>13,394</b>	<b>-13,157</b>	<b>-49.6%</b>
<b>TOTAL</b>	<b>154,232</b>	<b>167,589</b>	<b>13,357</b>	<b>8.7%</b>

Investments were accordingly up 8.7% by around CVE 13.4 million, particularly with the central bank and in public debt securities.

### Interest on investments in period

	2012	2013	(CVE thousand)	
			Change Total	Percent
<b>Domestic money market</b>	<b>33,119</b>	<b>36,681</b>	<b>3,562</b>	<b>10.8%</b>
Treasury bills	0	169	169	
Investments in BCV	8,364	17,938	9,574	114.5%
Other investments in BCV (TIMs)	3,651	16,810	13,160	360.5%
Other investments in BCV (TRMs)	21,104	1,764	-19,341	-91.6%
<b>Capital market</b>	<b>446,578</b>	<b>495,900</b>	<b>49,322</b>	<b>11.0%</b>
<b>Investments in correspondent banks</b>	<b>9,545</b>	<b>7,139</b>	<b>-2,406</b>	<b>-25.2%</b>
<b>TOTAL</b>	<b>489,242</b>	<b>539,720</b>	<b>50,479</b>	<b>10.3%</b>

The 10.3% increase of around CVE 50.4 million in interest income is also explained by investments in capital market securities, investments in the central bank and Treasury bonds. Such income derives from the volume effect, as, starting September, the liquidity absorption rate on overnight operations fell from 3.25% to 1%. There was also a sharp decline in returns from TRMs (certificates of monetary regulation), which ceased to be fixed at 5.75% and were assessed on an auction basis, starting April and TIMs (certificates of monetary intervention). The rates varied between 5.5833% for TIMs and 5.75% for TRMs at the start and 0.8094% and 0.6858%, respectively, at the end of the year.

Surplus liquidity investments at the end of the periods of the constitution of minimum cash reserves with the Central Bank of Cape Verde were up 101.6% over the preceding year to CVE 147.85 billion. Interest was up 100.7%.

Foreign currency surpluses invested in correspondent banks were globally down by 49.6%, owing to the continued commitment to investment in the domestic market. The average weighted rates on investments during the year, both in EUR as in USD, were highly volatile and continue to be much lower than domestic market rates.

USD rates were the most volatile and were also fuelled by the amounts of the investments and maturities over the different months, with a 0.31% positive change at year end, one basis point higher than the rate at the start of the year (0.01%). EUR rates were very low across most of the year, with a positive change in the overnight rate over the last few months, which ended the year at 0.10%, albeit two basis points down over the January 2013 rate.

## **Capital market**

### **BCA – financial intermediary**

BCA played an active role as a financial intermediary in the developing capital market, particularly in the case of Treasury bonds.

The official launch of the Public Debt Auction Platform in Cape Verde's stock exchange took place in 2013.

The primary securities market posted transactions of CVE 9.6 billion of which an amount of CVE 2.9 billion was made by INPS and CVE 2.8 million by BCA, with a global proportion of 29.27%. BCA's contribution to total market trading, considering solely bank trading, was 42.1%.

BCA accounted for a global proportion of 32.3% of total securities issuances, as regards the securities auctioned on the new Auction Platform starting May. BCA accounted for 38% of the competing bids, with BCA customers subscribing for 13.7% of the global amount of non-competing bids. The stock exchange justified the fact that transactions were down by a global 70.4% in the secondary market by the smallness of the market and the unfavourable domestic and international macroeconomic scenario. BCA accounted for 18.55% of a global amount of CVE 105.9 million in transactions and was the most active operator when analysed by the number of transactions (25 accounting for 45.45%).

## **8.3 – RISK MANAGEMENT**

### **Credit risk**

On the credit side, 2013 was characterised by a clearly unfavourable environment, with a deterioration of counterparties' ability to honour their commitments, accordingly contributing towards an increase in non-performing loans within the banking system. To improve the situation, BCA endeavoured to renegotiate loans with the aim of adjusting debt servicing levels to borrowers' real current payment capacity.

This situation naturally conditioned results during the year and to a certain extent forced the bank to be more demanding in its assessments of new funding operations, taking greater care when issuing new loans and focusing on negotiations involving operations of undeniably high quality.

The supervisor played a highly active role in credit risk matters within the banking system, in 2013. Firstly with circular 176/DSE/2013 – Identification and marking of restructured loans by means of which it started to insist upon the segregation and oversight of the restructured loans portfolio. It should be noted that, in this particular case, BCA had already taken a proactive approach to updating its impairment model, having painstakingly identified and marked restructured loans. This work, as a whole, enabled BCA to respond quickly and pragmatically to Bank of Cape Verde requirements, once again confirming the bank's correct choice in deciding to segregate this not insignificant risk portfolio.

Based on *Official Notice 2/2013*, BCV requested the banks to implement a credit risk system by 31 December 2013. This required the creation of a specific credit risk management unit, with which BCA complied with relative ease, owing to the fact that it has had a specialised credit risk processing office since 2006.

Banks were also given the responsibility for defining limits on credit operations, periodically assessing the level of sufficiency of guarantees and defining credit risk management policies and strategies. BCA took the necessary steps to comply with the supervisor's demands, in the form of internal standards, particularly emphasising credit risk management policies and strategies.

DGR, through GRC (Credit Risk office) continues to assist decision-making bodies, meeting their risk opinion requests, overseeing major exposures, with the consolidation of the quarterly reports demanded by BCV, production of periodic reports on impairment losses and oversight of the recovery process, working closely with the commercial area on debt restructuring matters.

As opposed to the usual end of year practice, the fact that the risk factors underpinning impairment losses, namely PDs (Probability of Default) and LGDs (Loss Given Defaults) were updated in advance (September 2013), enabled the alleviation of a certain pressure at the end of the year.

Exploratory sectoral studies were carried out with the aim of assessing the possibility of entering new markets and/or sectors, to assist the competent decision-making body and diversify the portfolio, with a natural reduction in associated risks. Reference should also be made to several sectoral studies, namely mortgage loans, factoring operations, loans to municipalities and housing credit.

### **Market and liquidity risk**

2013 confirmed the stabilisation of the bank's liquidity indicators, owing to the continued growth of deposits and a certain containment in lending operations.

In a context of relative stability, DGR, through its Market and Liquidity Risk Office, continued to oversee BCA's exposure to liquidity risk, based on its monthly monitoring of the evolution of customer resources and a quarterly analysis of the evolution of the liquidity gap.

As regards interest rate risk, the monthly evolution of the credit portfolio with indexed interest rates and the evolution of the actual indexers were monitored, consolidating the analysis of the evolution of the repricing gap. Charts monitoring interest rate risk as required by the central bank (stress tests, impact on net interest income and on shareholders' equity) also continued to be produced.

Foreign exchange risk continued to be monitored by a monthly oversight of the evolution of the foreign exchange position, exchange rates and income from the revaluation of the US dollar, in addition to value-at-risk on the foreign currency portfolio and several of the more important trading currencies, based on a comparison with foreign exchange risk exposure limits approved by the board of directors.

The Risk Management Division's main milestone in 2013 was, beyond the shadow of a doubt, the approval and operational start-up of the ALCO Committee as a forum for high level discussions on strategic issues of capital importance to the bank, many of which having a direct impact on BCA's market and liquidity risk management.

#### **8.4 – COMPLIANCE**

With the aim of strengthening internal control and the security of operations, 2013 saw the production and updating of standards and procedures, as well as the upgrading of IT control functions on compliance issues. A new standard on the prevention of money laundering and countering the financing of terrorism, in addition to the prevention of market abuse, bringing rules and procedures into line with recently approved legislation and regulation in line with best practice was also approved. The filtering application was also upgraded and IT routines on the development of the routine control of conformity operations developed.

Compliance tests with legal standards and duties were performed, namely on mortgage loans, restrictions on the use of cheques and duties to inform customers, whose results were reported to the executive committee and the structural bodies directly involved in the implementation of the measures identified for remedying any shortcomings.

In the CRM sphere and in compliance with information duties and the regulator's guidelines, BCA made a series of changes to its price list and updated the information on its supply of products and services to customers and the general public.

Another aspect meriting special attention was complaints management, with the acquisition of an IT computer support application to improve the processing of complaints and processes and procedures in line with good national and international practice and standards.

Internal training actions were organised to promote a compliance and risk prevention culture, on issues such as the management of compliance risk, BCA's code of conduct, prevention of money laundering and countering the financing of terrorism.

## **8.5 – ORGANISATION AND INNOVATION**

Special attention was paid, during the course of the year, to the adequacy of internal procedures, the functioning of BCA and the demands of the central bank accompanied by concerns over the creation of an environment of security and stability, both necessary and appropriate for managing the risks involved in banking activities, translatable into an enhancement of BCA's market competitiveness and the confidence of its customers.

Of the various standards produced and published, reference should be made to the Regulation formalising the general bases upon which BCA's internal control system is founded; the Standard defining the guidelines and procedures ensuring compliance with legal and regulatory duties on the prevention of money laundering and countering the financing of terrorism; Regulation on the prevention of the abuse of insider information and market fixing and Regulation on the monthly assessment of impairment losses on the bank's credit portfolio.

As part of the bank's organic structure through the transformation and expansion of GES (Southern Corporate Office) into GES I (Southern Corporate Office I) and GES II (Southern Corporate Office II) respectively, BCA had four *Corporate Offices*, two of which in Praia and the others on Sal and São Vicente.

Further work was carried out on strategic actions related with the implementation of new IT applications, designed to automate agreements and several external resolutions received from the central bank and the Ministry of Finance on the adequacy of the price list, collection of public revenues – *DUC* (collection documents), the collection of amounts owed by these contributors to INPS, *inter alia* and training and refresher course to improve the performance of the users of the bank's IT system.

## **8.6 – IT SUPPORT**

The processes and actions developed in 2013, in the IT Support Division are essentially related with the infrastructures and communications area, in most cases promoting BCA's security and redundancy requirements:



- The installation of infrastructures for cash machines in various cities and municipal districts;
- The implementation of an automation system for the bank's fax network;
- A new access process to the Western Union application, with the installation of digital certificates in all front offices;
- An upgrade of the 2 MB internet link to 4 MB fibre optic, permitting an increase in the number of employees with access to this tool;
- Installation of two data storage systems, increasing the storage capacity and the security of data on the islands' servers.

## **8.7 – MARKETING AND PUBLIC RELATIONS**

2013 was marked by the celebrations of the bank's 20th birthday, comprising various activities helping to further the objective of enhancing and maintaining the BCA brand as market leader, projecting its credibility and strengthening the relationship of trust with the bank.

This brand strengthening and positioning action particularly included the maintenance of an enhanced institutional image, repositioning of current products and services, a progressive improvement in product promotion and the provision of information to the customer, proximity and a closer relationship with customers (more ATMs, particularly the cash machine installed in the municipal district of São Salvador do Mundo, which, prior to the said date did not have any bank branch), continuation of the image standardisation process in BCA's branches and the organising of a presence in high impact events for the bank and the country in general.

Various initiatives enabling the bank to continue to improve its level of customer services were organised during the year to help maintain its undisputed leading position in the Cape Verde market as a benchmark domestic and international operator, as Cape Verdeans' "Bank of Confidence" for the 4th consecutive year.

In commercial terms, work continued to be carried out on the implementation of the APC ("Proactive Customer Approach"), project particularly comprising actions for the implementation of service models, to improve value proposals geared to a commercial approach based on quality of customer service and closer customer ties, loyalty and satisfaction. Reference should also be made to the acquisition of support and business tools and the continuation of employee training actions in the customer care quality area.

In the corporate segment, with the aim of adding value to an ever more demanding segment, work continued to be performed on new initiatives and the introduction of new commercial protocols, with the aim of retaining the loyalty of current customers and finding new ones, based on the needs of each concrete situation.

The *Acolhimento Emigrante* ("Emigrants' Welcome") project was retained in the emigrants' segment, as a preferred segment project aimed at setting up personalised help desks at branches, airport reception facilities and offer of free gifts. Events were organised in contacts with the Cape Verdean diaspora; seasonal products were repositioned to the segment at highly competitive rates and various meetings were arranged in Cape Verde and abroad.

### **Social responsibility**

As part of its social responsibilities, BCA sponsored initiatives in such different areas as education, health, culture and sport. The bank responded positively to the expectations of such events' promoters, tailoring its involvement in the context of sustainability guidelines, demanding behaviour and attitudes from its partners in conformity, continuing to operate on the basis of rigorous, responsible criteria particularly as regards fair relationships with customers, environmental-friendly business, a responsible contribution to the community, ethical behaviour and responsible relationships with employees. It has started work on the production of a General Sustainability Policy training programme and an Environmental and Social Risk Policy.

BCA continues to operate as a responsible institution, committed to promoting a better future, endeavouring to involve its stakeholders in this common goal.

## **8.8 – MEANS AND CHANNELS**

### **Means of payment**

The bills payment by bank transfer service has retained its trend of the last few years with the creation of 982 new automatic payment orders, in 2013, up 16% over the preceding year. This growth was particularly fuelled by the comfort and security of the service provided, in addition to new corporate subscriptions.

### **BCA Directo (internet banking)**

BCA Directo is the bank's internet banking service which gives customers access to a wide range of operations, in terms of viewing and using their accounts.

The BCA Directo service has maintained its growth of the last few years, both on a level of use and the number of contracts entered into, with an increase of around 15% over last year in the total volume of transactions performed on the channel to an amount of CVE 5.5 million. The number of successful transactions was up by around 42% to 195 thousand operations. There was no change in subscription growth trends with a 3% increase to 4.3 thousand new contracts.

There was a 21% increase in the number of active users over the preceding year to 28,032.

### **Automatic teller machines (ATMs)**

Providing continuity to its customer proximity policy aimed at promoting card use, BCA installed a further five ATMs, three in Praia, one in Santiago and one in Mindelo, during the year.

By the end of 2013, BCA had installed 52 *Vinti4* network ATMs, up 8% over the preceding year, to a market share of 32%. This growth particularly derived from the installation of machines in non-banking locations (19 units), up 36% over the preceding year, promoting the value of convenience and reflecting its commitment to expanding the total number of installations. There were 163 functional ATMs.

BCA's ATM machines processed around 3.1 million operations, for an amount of CVE 10 billion, in 2013 up 7% and 14% over last year, respectively.

Reference should also be made to the fact that cash withdrawals comprised a large proportion of the transactions performed through BCA's ATMs, with CVE 9.7 billion by value and 1.6 million in number of operations, up 15% and 13%, respectively.

### **POS terminals**

The bank continued to commit to expanding its number of POS terminals having closed the year with 1,146 active POS terminals on the network, up 17% year-on-year with a market share of 31%.

POS transactions accounted for CVE 5 billion in value and 1.5 million in number, up 19% and 36%, respectively, over the preceding year.

Reference should be made to the growth in the number of POS terminals in Praia and in São Vicente, in 2013, with 39% and 25% of the POS terminals having been installed by BCA, respectively.

## 8.9 – OPERATIONAL SUPPORT

46 leasing agreements were approved in 2013 (56 in December 2012) for an amount of CVE 295.5 million. Only three new factoring agreements for the amount of CVE 76.1 million were authorised in 2013.

521 loans were restructured in 2013. In 63 of them, only the periods of use or repayments were extended and 458 rescheduled, for a global amount of CVE 2.7 billion of which 228 in the Northern and 293 in the Southern zones. 117 of the 521 renegotiated loans are corporate and 404 individual customers.

### Foreign transactions

There was a 2.5% positive evolution in payment orders received in comparison to the previous year in quantitative terms and 0.57%, by amount.

The issue of payment orders was up 0.64% in terms of quantity and down 2.12% by amount.

	(CVE thousand)					
	2012		2013		Change	
	No.	Amount	No.	Amount	No.	Amount
Payment orders (received)	88,669	27,885	90,968	28,044	2.59%	0.57%
Payment orders (issued)	24,271	24,397	24,552	29,057	0.64%	-2.12%
Documentary credit						
Imports	35	1,122	35	1,222	0.00%	8.93%
Exports	0	0			0.00%	0.00%
Bank guarantees (issued)	22	686	28	438	27.27%	-36.13%
Western Union - sent	15,027	506	13,589	456	-9.57%	-9.89%
- received	40,469	1,178	42,712	1,219	5.54%	3.42%
Foreign cheques (purchased)*	15,390	1,598	13,982	1,533	-9.15%	-4.04%

Source: BCA

\* Including cash advances

### Swift

There was a slight increase in *Swift* messages both received and sent. Received messages were up 0.2% over 2012. Sent messages, as opposed to the drop of 7.1% in 2012 were up 1.1%, in 2013.

### Swift messages

Years	2011	2012	2013
Messages received	109,693	124,446	124,683
Messages sent	32,993	30,634	30,969

## **8.10 - INVESTMENTS**

With the aim of continuously improving its level of customer service, with higher levels of comfort, security and speed in its operational performance, remodelling works began on the Plateau, Ribeira Brava, S. Nicolau and Achada Santo António I branches.

In addition to the remodelling works on some branches, the works associated with the replacement of the security systems installed at the Santa Cruz branch were also completed.

With the objective of promoting the use of *Vinti4* cards, BCA's ATM network was expanded, in 2013, with the installation of an additional three machines, all of which were equipped with video-surveillance systems.

BCA invested CVE 298.6 million in 2013 of which CVE 295.6 million in tangible and CVE 2.9 million in intangible assets. An amount of CVE 162.5 million of such investments is still in progress.

## 9 □ ANALYSIS OF ECONOMIC-FINANCIAL SITUATION

### 9.1 □ BALANCE SHEET

BCA's net assets of CVE 70.3 billion, in December 2013, were up 0.7% by CVE 523 million over December 2012. Contributory factors were the 15.5% increase in cash and claims on the central bank and 2.6% and 2.7% increases in investments in credit institutions and available for sale financial assets respectively.

#### Consolidated balance sheet

	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
<b>Assets</b>				
Cash and claims at central bank	2,343	2,705	362	15.5%
Claims on other credit institutions	817	503	-313	-38.3%
Available for sale financial assets (net)	7,061	7,255	194	2.7%
Investments in credit institutions	11,513	11,810	296	2.6%
Loans and advances to customers (net)	40,438	39,168	-1,270	-3.1%
Public debt securities	3,357	4,527	1,169	34.8%
Investment properties	1	1	0	-1.7%
Other tangible assets (net)	1,992	2,082	90	4.5%
Intangible assets	46	23	-23	-50.4%
Investments in subsidiaries, associates and jointly-controlled entities	232	268	36	15.5%
Current tax assets	723	808	85	11.8%
Deferred tax assets	97	2	-95	-97.5%
Other assets	1,321	1,175	-147	-11.1%
<b>Total</b>	<b>69,942</b>	<b>70,327</b>	<b>385</b>	<b>0.6%</b>
<b>Liabilities</b>				
Other credit institutions' resources	542	730	189	34.8%
Customer resources and other loans	58,176	58,968	792	1.4%
Liabilities provisions	5,693	5,112	-582	-10.2%
Deferred tax liabilities	24	142	118	491.3%
Other subordinated liabilities	499	399	-100	-20.1%
Other liabilities	1,267	486	-781	-61.7%
<b>Total Liabilities</b>	<b>66,201</b>	<b>65,837</b>	<b>-365</b>	<b>-0.6%</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>3,741</b>	<b>4,490</b>	<b>749</b>	<b>20.0%</b>
<b>Of which: net income</b>	<b>339</b>	<b>220</b>	<b>-120</b>	<b>-35.3%</b>
<b>TOTAL</b>	<b>69,942</b>	<b>70,327</b>	<b>384</b>	<b>0.5%</b>

### **Cash and claims**

This account heading was up of 15.5% over the preceding year owing to the 33% increase in the balance of sight deposits with the central bank.

### **Investments in credit institutions**

Investments in credit institutions, including investments in Cape Verde and abroad were up 2.6% and CVE 296 million year-on-year to CVE 11.8 billion. The change derives from the CVE 395 million increase in investments abroad. TIMs ("certificates of monetary intervention") on the other hand, were down CVE 708 million and TRMs ("certificates of monetary regulation") up CVE 308 million.

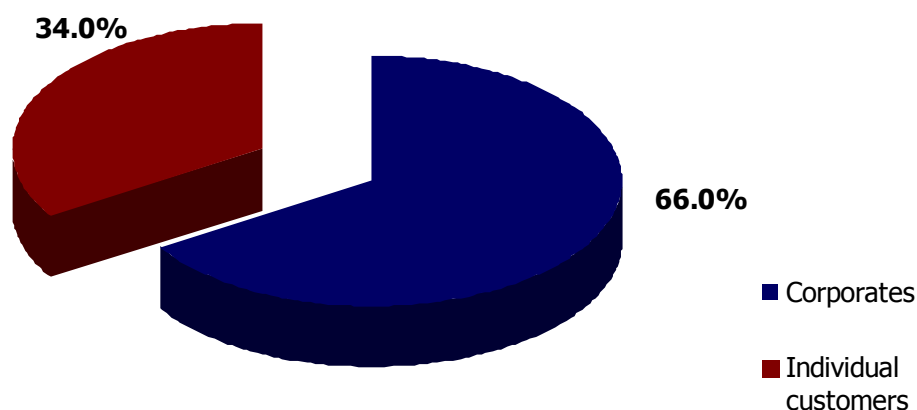
### **Loans and advances to customers**

The global loans and advances to customers portfolio was down 1% over the December 2012 balance to CVE 43 billion as a reflection of the context governing the development of banking activity in 2013. The new loans and advances portfolio was down 20.4% over December 2012 to CVE 8.6 billion. This decline particularly derives from the 26.1% drop in the corporate segment, of which 26.9% comprised short and 25.2% medium and long term loans, showing that the situation of companies continues to be conditioned by economic sluggishness. Loans and advances to the individual customers segment were down 9.3% with mortgage loans for own accommodation and buy-to-let down 30.9% against an increase of 15.9% in loans for other purposes.

The balance on the overdue loans portfolio was up 22.2% to CVE 5.8 billion, i.e. around CVE 1 billion year-on-year as a reflection of the continuing deterioration of the business environment. This amount gave an overdue credit and interest to total credit ratio of 14.8% against the preceding year's 12% and a credit more than 90 days overdue ratio of 13.9% in December 2013 (10.5% in December 2012).

There was a higher level of growth of overdue credit in the corporate segment, at a rate of 36.4% against only 1.7% for individual borrowers. This increased its proportion from 59.1%, in December 2012, to 66% in December 2013.

### Overdue credit and interest by segment - 2013



The accrued credit impairment balance which includes impaired private bond issuances totalled CVE 3.9 billion, with the cost of credit risk for the year having risen to CVE 979.7 million against CVE 114.9 million in 2012, translating into an overdue credit coverage ratio of 64.1%.

### Loans and advances to customers portfolio (net)

(CVE thousand)

Account headings	2012	2013	Change	
			Total	Percent
<b>Total credit</b>	<b>37,754</b>	<b>37,317</b>	<b>-437</b>	<b>-1.2%</b>
Performing credit	32,999	31,505	-1,494	-4.5%
Overdue credit and interest	4,755	5,812	1,057	22.2%
<b>Loans to employees</b>	<b>1,870</b>	<b>1,944</b>	<b>74</b>	<b>3.9%</b>
<b>Income receivable on credit</b>	<b>219</b>	<b>191</b>	<b>-28</b>	<b>-12.7%</b>
<b>Deferred revenue</b>	<b>-266</b>	<b>-234</b>	<b>32</b>	<b>-12.0%</b>
<b>Public and private bond issuances</b>	<b>3,918</b>	<b>3,852</b>	<b>-66</b>	<b>-1.7%</b>
<b>Impaired credit and bonds</b>	<b>-3,057</b>	<b>-3,902</b>	<b>-844</b>	<b>27.6%</b>
<b>Credit net of impairment</b>	<b>40,438</b>	<b>39,167</b>	<b>-1,270</b>	<b>-3.1%</b>
<b>GROSS CREDIT</b>	<b>43,495</b>	<b>43,069</b>	<b>-426</b>	<b>-1.0%</b>

### Securities portfolio

The balance on the securities investments portfolio, which includes available for sale securities and Cape Verde public debt securities was up 13.5% by CVE 1.3 billion year-on-year, as a consequence of the 35% increase of CVE 1.1 billion in the Treasury bonds portfolio and 2.9% capital gains of CVE 192 million on TCMFs made in 2013.



## Customer resources

The customer resources portfolio grew by around 1.4% or CVE 792 million over December 2012, to an accrued balance of CVE 58.9 billion. This evolution is explained by the 3.6% in customer deposits. Customer resources accounted for 83.9% of liquid assets in December 2013.

Information on the evolution of the customer resources balance between 2012 and 2013, by segment, is given in the following table:

<b>Customer resources</b>				
<b>Type of customers</b>	<b>2012</b>	<b>2013</b>	<b>(CVE thousand)</b>	
			<b>Change</b>	
			<b>Total</b>	<b>Percent</b>
<b>Individual customers</b>	<b>46,127</b>	<b>47,939</b>	<b>1,812</b>	<b>3.9%</b>
Sight deposits	12,255	12,603	349	2.8%
Term deposits	30,521	32,020	1,499	4.9%
Savings accounts	3,351	3,316	-35	-1.1%
<b>Corporates</b>	<b>7,885</b>	<b>7,988</b>	<b>103</b>	<b>1.3%</b>
Sight deposits	6,860	6,565	-295	-4.3%
Term deposits	1,025	1,423	398	38.8%
<b>General government</b>	<b>1,546</b>	<b>1,630</b>	<b>84</b>	<b>5.4%</b>
Sight deposits	1,525	1,601	76	5.0%
Term deposits	21	29	8	38.5%
<b>Total customer deposits</b>	<b>55,558</b>	<b>57,557</b>	<b>1,999</b>	<b>3.6%</b>
<b>Other customer resources</b>	<b>1,934</b>	<b>702</b>	<b>-1,231</b>	<b>-63.7%</b>
<b>Interest payable on deposits</b>	<b>684</b>	<b>709</b>	<b>25</b>	<b>3.7%</b>
<b>TOTAL CUSTOMER RESOURCES</b>	<b>58,176</b>	<b>58,968</b>	<b>792</b>	<b>1.4%</b>

Emigrants' deposits were up 5.5% by CVE 1.5 billion over 2012, from CVE 28.7 billion to CVE 30.2 billion. This growth reflects the loyalty of our diaspora customers to the BCA brand and strengthens the existing level of confidence. The 6.1% and 7.2% increases in term and sight deposits in this segment respectively, were decisive factors in such growth. It should be noted that the proportion of emigrants' to the bank's total deposits rose from 51.7% in 2012 to 52.6% in 2013, as shown in the following table.

### Emigrants' deposits

Account headings	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
Sight deposits	3,857	4,134	277	7.2%
Savings accounts	2,523	2,453	-70	-2.8%
Term deposits	22,333	23,698	1,365	6.1%
<b>Total emigrants</b>	<b>28,714</b>	<b>30,285</b>	<b>1,571</b>	<b>5.5%</b>
<b>TOTAL DEPOSITS</b>	<b>55,558</b>	<b>57,557</b>	<b>1,999</b>	<b>3.6%</b>
<b>Emigrant/total proportion</b>	<b>51.7%</b>	<b>52.6%</b>		

### Provisions for risks and liabilities

The provision for retirement and survivors' pensions, totalling CVE 4.7 billion, was down 11.4%, by around CVE 614 million in 2013, in comparison to December 2012.

BCA workers' standard contribution to their retirement and survivors' pensions totalled CVE 53.5 million of which an amount of CVE 19.3 million was paid by workers and CVE 34.1 million by the bank, with payments of CVE 163.5 million to retired staff and pre-retirees. It should also be noted that the costs borne by the bank on interest and its current service of the pension and survivors' fund totalled CVE 390.2 million, coming to a total cost of CVE 424.4 million in 2013 with a direct impact on employee costs.

The bank changed several of the premises and benefits of the retirement pension of its private system workers in December 2013 namely: the retirement age was changed to 62 or 39 years of service, the fund's rediscount rate was changed to 5.5% and the wage and pension growth rates to 3% and 1%, respectively. The pensionable wage was also changed to the basic wage plus seniority payments with the amount of the retirement being 90% of the amount assessed on the basis of the pensionable wage of the last 5 years.

The following table provides information on the fund's net worth over the last two years:

### Net worth of retirement and survivors' pension funds

Period	Opening balance	Movements in period				(CVE thousand)
		Bank's costs	Use of provisions	Cancellations of provisions	Other	
						Value of fund
<b>2012</b>	<b>5,367</b>	440	-149		-279	<b>5,379</b>
<b>2013</b>	<b>5,379</b>	424	-164	-914	40	<b>4,765</b>

### **Shareholders' equity**

Shareholders' equity was up 8.6% by CVE 357.2 million as a consequence of the incorporation of 100% of net income for 2012, the full amount of net income for 2013 and the positive revaluation reserve on TCMFs for the amount of CVE 192 million obtained in 2013, into reserves. On the other hand IAS 19 – Amendment, made several changes related with the report on defined benefit plans, with the full amount of actuarial gains/losses now being recognised in reserves (with the use of the corridor method no longer being allowed) with effect from 1 January 2013. Accordingly the net actuarial gain previously recognised in assets and liabilities for the amount of CVE 508.7 million now has a positive effect on the bank's shareholders' equity.

## 9.2. □ INCOME STATEMENTS

### INCOME STATEMENT

	2012	2013	(CVE thousand)	
			Change	
			Total	Percent
Interest and similar income	3,752	3,612	-140	-3.7%
Interest and similar costs	1,613	1,699	86	5.3%
<b>Net interest income</b>	<b>2,139</b>	<b>1,913</b>	<b>-226</b>	<b>-10.6%</b>
Income from equity instruments	187	188	1	0.6%
Income from services and commissions	380	378	-2	-0.4%
Costs of services and commissions	46	45	-1	-2.2%
Income from foreign exchange revaluations	147	129	-18	-12.4%
Income from disposals of other assets	0	-2	-2	-662.6%
Other operating income	76	70	-6	-7.5%
<b>Non-interest income</b>	<b>744</b>	<b>719</b>	<b>-26</b>	<b>-3.5%</b>
<b>Net operating income</b>	<b>2,884</b>	<b>2,632</b>	<b>-252</b>	<b>-8.7%</b>
Employee costs	1,409	1,354	-54	-3.9%
General administrative expenditure	738	759	22	2.9%
Depreciation for period	203	192	-11	-5.5%
Provisions net of recoveries and cancellations	-11	-914	-903	7921.1%
Impairment of other financial assets (net)	115	980	865	752.7%
Impairment of other assets net of reversals	15	4	-11	-75.5%
Income from subsidiaries excluded from the consolidation	30	40	10	31.6%
<b>Income before tax</b>	<b>447</b>	<b>298</b>	<b>-150</b>	<b>-33.5%</b>
Current tax	30	0	-30	-100.0%
Deferred tax	78	78	0	0.0%
<b>Net income</b>	<b>339</b>	<b>220</b>	<b>-120</b>	<b>-35.3%</b>

### Net income

BCA's net income was down 35.3%, by around CVE 120 million, to CVE 220 million, as a result of the 8.7% drop in net operating income, notwithstanding a 1.9% decline in operating costs. The decline of net operating income, particularly derives from lower levels of both other net interest income and non-interest income, but more particularly so in the case of net interest income, owing to the 3.7% drop in revenues against a 5.3% increase in interest expenditure. Net impairment on loans and advances to customers, including private bonds increased by CVE 865 million, up 752.1% over 2012 as a result of the increase of the portfolio of loans in default, the new restructured credit concept imposed by the central bank and implementation of new risk factors. This was offset by net provisions with a gain of CVE 914 million in respect of the changes in the retirement pension benefits of the bank's workers who are beneficiaries of the private fund.

## **Net interest income**

Net interest income was down 10.6% by CVE 226 million over the preceding year to CVE 1,913 million. Notwithstanding the 40.4% increase of CVE 33.8 million in commissions associated with credit and the 25.9% increase of CVE 48.9 million in interest on Treasury bonds, lower levels of interest received on loans and advances to customers and interest on overdue credit of 6.1% (down by CVE 187.1 million) and 33.4% (down by CVE 11 million), respectively, were contributory factors in the performance of net interest income. Other contributory factors to the less favourable evolution of this margin were the declines in the rates on very short term investments with the central bank which, at the start of the year, being around 5.5%, fell to less than 1% starting second half 2013.

In terms of borrowing operations, reference should be made to the 5.3% increase of around CVE 86 million in customer resources, particularly as a consequence of the 9.4% increase of CVE 137.2 million in interest paid on customer deposits. Higher interest on customer deposits derives both from the volume effect, with the 5.4% increase in term deposits and the price effect, as the average weighted rate on term and savings accounts increased to 4.5% (4.46% in December 2012). Term deposits and savings accounts in the emigrants' segment were up 5.2% by around CVE 1.2 billion.

## **Non-interest income**

Non-interest income was down 3.5% by CVE 26 million over December 2012 to CVE 718.6 million. The declines of 12.5% and 7.6% in income from foreign exchange revaluations and other operating income, respectively were determinants in the referred to drop. It should, however, be noted that owing to major endeavours made to collect commissions, net commissions were down by no more than 0.2% over the preceding year.

The negative evolution of net interest income and non-interest income translated into net operating income of CVE 2,632 million in 2013, down 8.8% by around CVE 252.4 million over the preceding year.

## **Operating costs**

Operating costs were down 1.9% to CVE 2,305 million. This is explained by the 3.9% decline of employee costs to CVE 1,354 million owing to the fact that there were no wage increases in 2013 and the retirement of eight employees. Interest and the current service costs of the pension fund were also down in 2013 to €390 million (€405 million in December 2012).

General administrative expenditure was up 2.9% by around CVE 21.6 million as a result of the implementation of various projects in progress, namely the VALORh ("Value/Belief/Leadership/Optimisation/Recognition") project – Revision of the HR Management Model, aimed at modernising the management tools in force, revision of the impairment model, assessment analyses to promote corporate performance based on people, *inter alia*. The various activities organised to celebrate BCA's 20th birthday increased the advertising and

publishing account heading by 12.5% (CVE 9.4 million) and consultants and auditors by 85.4% (CVE 10.6 million). Reference should also be made to increases in the valuables transport headings (up 12.7% by CVE 4.1 million) and SISP costs of 5.4% or CVE 5.7 million, as a consequence of increased purchases of foreign banknotes and use of means of payment.

Depreciation for the period was down 5.5% by CVE 11.1 million over December 2012, to CVE 191.8 million, as a consequence of the write-off of several assets.

The following table shows the composition of operating costs and their respective evolution:

<b>Operating costs</b>				
<b>Account headings</b>	<b>2012</b>	<b>2013</b>	<b>(CVE thousand)</b>	
			<b>Change</b>	
			<b>Total</b>	<b>Percent</b>
<b>Employee costs</b>	<b>1,408</b>	<b>1,354</b>	<b>-54</b>	<b>-3.8%</b>
Remuneration	775	781	6	0.8%
Mandatory social costs	566	529	-37	-6.5%
Retirement and survivors' pensions	405	390	-15	-3.7%
Optional social costs and other	68	45	-23	-34.5%
<b>General administrative expenditure</b>	<b>738</b>	<b>759</b>	<b>22</b>	<b>2.9%</b>
<b>Depreciation</b>	<b>203</b>	<b>192</b>	<b>-11</b>	<b>-5.5%</b>
<b>TOTAL OPERATING COSTS</b>	<b>2,349</b>	<b>2,305</b>	<b>-44</b>	<b>-1.9%</b>

### 9.3 – RATIOS ANALYSES

Return on assets (ROA) and return on equity (ROE) trended unfavourably to 0.3% and 5.1%, respectively, against 0.5% and 9.1% in 2012, as a direct consequence of the decline in net income for the period and increase in shareholders' equity.

Cost-to-income which associates operating costs with net operating income deteriorated from 81.5% in December 2012 to 87.6% in December 2013 with employee costs to net operating income increasing from 48.8% to 51.5%. With the elimination of the pension fund effect, cost-to-income would have been 72.8% in 2013 (against 67.4% in 2012).

In the case of risk indicators reference should be made to the non-performing to total credit ratio of 14.8%, in 2013, against 12% in 2012 and the overdue credit impairment cover ratio of 64.1% in 2013 against 62.9% in 2012.

The loans to deposits ratio measured by loans and advance to customers over customer resources was down to 68.% (71.3% in 2012).

#### **9.4 – PRUDENTIAL RATIOS**

In prudential terms, BCA produced a highly solid level of performance with own funds of CVE 4.2 billion, up CVE 325.4 million over 2012. BCA's own funds, however, were being progressively penalised by the impact of the transition adjustments to the new IFRS accounting standards in 2009, which in December 2012 totalled CVE 1,174 million.

With the increase in own funds, the fixed assets coverage ratio in 2013 remained very high at 202.9% (195.8% in 2012).

The solvency ratio according to Bank of Cape Verde regulations totalled 13.27%, against the 10% minimum legally required of Cape Verde's commercial banks.

The ratio relating public debt securities with deposits (CVE 2.8 billion), was higher than the amount required by BCV, which determines that investments in the public debt securities of financial institutions may not be less than 5% of their total deposits liabilities.

BCA's total proportion of the global amount of credit, whose risks are subject to concentration limits, at CVE 5.5 billion, is also lower than BCV requirements, whose aggregate limit may not exceed eight times own funds i.e. CVE 34 billion with a limit of CVE 1,062 thousand per entity

The following table provides information on the evolution of prudential ratios over the last two years:

#### **Evolution of prudential ratios**

<b>Ratios</b>	<b>2012</b>	<b>2013</b>
Own funds	3,924,795	4,250,241
Fixed assets coverage	208.4%	203.0%
Solvency ratio	11.78%	13.27%

## 10 □ APPROPRIATION OF NET INCOME

The board of directors hereby proposes the following appropriation of BCA's net income of CVE 219,544,419 (two hundred and nineteen million, five hundred and forty four thousand four hundred and nineteen Cape Verde escudos) for the period:

<b>Net income</b>	<b>219,544,419</b>
Legal reserves (10%)	21,954,442
<u>Other reserves (90%)</u>	<u>197,589,977</u>

This proposal for the appropriation of net income which does not include the payment of dividends to shareholders, aims to strengthen BCA's solvency, as there continue to be uncertainties regarding the economic outlook for 2014 and its correlative impact on the domestic banking system together with the maintenance of several contingencies with Cape Verde's Treasury.



## 11 – LIST OF CORRESPONDENT BANKS

### Portugal

Caixa Geral de Depósitos SA – Lisbon  
Banco Espírito Santo SA – Lisbon  
Banco Português de Investimento SA – Porto  
Banco Santander Totta SA – Lisbon  
Banco do Brasil SA – Lisbon

### Holland

Royal Bank of Scotland NV - Amsterdam  
ING Bank NV – Amsterdam  
ABN AMRO BANK NV – Amsterdam

### Luxembourg

Déxia Bank Internacional à Luxembourg – Luxembourg  
Bank et Caisse d'Epargne d'Etat – Luxembourg

### United Kingdom

Lloyds Bank PLC – London  
Citibank NA – London  
HSBC Bank PLC – London

### Germany

Deutsche Bank AG – Frankfurt  
Commerzbank AG – Frankfurt

### Austria

Bank of Austria Creditanstalt – Vienna

### Sweden

Nordea Bank AB (publ) – Stockholm

### Norway

DnB NOR Bank ASA – Oslo

### United States of America

Citibank NA – New York  
JP Morgan Chase Bank, N.A. – New York

### France

Caixa Geral de Depósitos SA – Paris  
Banque Nationale de Paris – BNP-Paribas

### Italy

Intesa Sanpaolo SPI – Milan  
UniCrédito Italiano SPA – Milan

### Belgium

Ing Belgium SA/NV – Brussels  
Fortis Bank NV/SA – Brussels

### Senegal

Citibank Senegal NA – Dakar

### Switzerland

UBS Swiss Bank Corporation AG – Zurich

### Spain

Banco Sabadell SA TSB – Sabadell

### Denmark

Jyske Bank A/S – Copenhagen

### Japan

Bank of Tokyo Mitsubishi UFJ Ltd – Tokyo

## 12 – DIVISIONS AND BRANCH OFFICE NETWORK

### **Northern Commercial Division – DCN**

Gilda Monteiro  
**Director**

### **Financial and International Division – DFI**

Amélia Figueiredo  
**Director**

### **Means and Channels Division – DMC**

Américo Andrade  
**Director**

### **IT Systems Division – DSI**

Luís Barbosa  
**Director**

### **Operational Support Division – DSO**

Anibal Moreira  
**Director**

### **Audit Office – GAI**

Francisco Ramos  
**Coordinator**

### **Marketing and Public Relations Office – GMR**

Ana Gonçalves  
**Coordinator**

### **Compliance Office – GFC**

Vanda Centeio  
**Coordinator**

### **Southern Commercial Division – DCS**

Herminalda Rodrigues  
**Director**

### **Risk Management Division – DGR**

Filomena Figueiredo  
**Director**

### **Organisation and Innovation Division – DOI**

Águeda Monteiro  
**Director**

### **Security and Logistics Division – DSL**

Adalberto Melo  
**Director**

### **Legal and Credit Recovery Office – GJR**

Carlos Lopes  
**Coordinator**

### **Human Resources Office – GRH**

Euridice Mascarenhas  
**Coordinator**

## **CORPORATE OFFICES**

### **Northern Companies Office – GEN**

Lenise Almeida  
**Coordinator**

### **Southern Companies Office – GES**

Sofia Alexandra Barbosa  
**Coordinator**

### **Sal Companies Office – GESA**

Zara Barbosa Vicente  
**Coordinator**

### **Southern Companies Office (2) – GES2**

Nelson Moreira  
**Coordinator**

## NORTHERN ZONE BRANCHES

Elisa Santos  
**Coordinator**

### Type I Branches

**São Vicente Branch – ASV**  
Joana Helena Carvalho  
**Manager**

### Type II Branches

**Boa Vista Branch – ABV**  
Cláudio Mendonça  
**Manager**

**Praça Nova Branch – PNA**  
Maísa Sancha Crisóstomo  
**Manager**

**Porto Novo Branch – APN**  
António Évora  
**Manager**

**Ribeira Grande Branch – ARG**  
Osvaldina Espírito Santo G. Brito  
**Manager**

**Sal Branch – ASA**  
**Counter at Amílcar Cabral International Airport**  
Zara Barbosa Vicente  
**Manager**

**São Nicolau Branch – ASN**  
Augusta Benilde Cruz  
**Manager**

### Type III Branches

**Fonte Filipe Branch – AFF**  
Lídia Pereira  
**Manager**

**Monte Sossego Branch – MAS**  
Nelson Gomes  
**Manager**

**Ponta do Sol Branch – APS**  
**Paúl Counter – APL (Ext. ARG)**  
Osvaldina Espírito Santo G. Brito  
**Manager**

**Santa Maria Branch – ASM**  
Elizabeth Alexandre  
**Manager**

**Tarrafal de São Nicolau Branch – ATS**  
Manuel Freitas  
**Manager**

## SOUTHERN ZONE BRANCHES

Guilherme Araújo  
**Coordinator**

### Type I Branches

**Praia Branch – APA**  
**Domingos Extension – PSD**  
Janira Barbosa Andrade  
**Manager**

**Santa Catarina Branch – ASC**  
**Assomada Extension – ADA**  
Luis Ramos  
**Manager**

### Type II Branches

**Achada Santo António I Branch – ASTI**  
Dulce Santos  
**Manager**

**Avenida Branch – AVE**  
**Achada São Filipe Extension – ASF**  
Celmira Mendes  
**Manager**

**São Filipe Branch – FOGO – AFG**  
Luis dos Reis  
**Manager**

**Tarrafal Branch – ATA**  
Isabel Costa  
**Manager**

### Type III Branches

**Achada Santo António II Branch – ASTII**  
Maria Teresa Borges  
**Manager**

**Brava Branch – ABR**  
Ângela Rosa  
**Manager**

**Maio Branch – AMA**  
Alexandrino Eanes  
**Manager**

**Mosteiros Branch – AMO**  
Luis dos Reis  
**Manager**

**Palmarejo Grande Branch – APG**  
Joaquina Lopes Tavares  
**Manager**

**Santa Cruz Branch – STC**  
José Moniz  
**Manager**

## Anexos |



# Banco Comercial do Atlântico, S.A

## Balance sheet at 31/12/2013

	Amount before provisions, impairment and depreciation	Provisions, impairment and depreciation	Net amount
<b>Assets</b>			
Cash and claims at central banks	2 704 800 392		2 704 800 392
Claims on other credit institutions	503 495 284		503 495 284
Available for sale financial assets	7 265 407 432	10 841 439	7 254 565 993
Investments in credit institutions	11 809 655 612		11 809 655 612
Loans and advances to customers	43 069 143 442	3 901 594 001	39 167 549 441
Public debt securities	4 526 582 511		4 526 582 511
Investment properties	1 529 000	103 600	1 425 400
Other tangible assets	3 887 649 792	1 805 720 815	2 081 928 978
Intangible assets	266 583 054	243 810 231	22 772 823
Investments in subsidiaries excluded from consolidation and jointly controlled entities	268 319 527		268 319 527
Current tax assets	808 221 132		808 221 132
Deferred tax assets	2 448 376		2 448 376
Other assets	1 307 666 521	132 800 630	1 174 865 891
<b>Total assets</b>	<b>76 421 502 076</b>	<b>6 094 870 716</b>	<b>70 326 631 361</b>
<b>Dez/13</b>			
<b>Liabilities</b>			
Other credit institutions' resources			730 371 096
Customer resources and other loans			58 967 699 291
Provisions			5 111 726 370
Current tax liabilities			-
Deferred tax liabilities			142 207 094
Other subordinated liabilities			399 039 906
Other liabilities			485 632 019
<b>Total liabilities</b>			<b>65 836 675 776</b>
<b>Capital</b>			
Capital			1 318 647 814
Revaluation reserves			256 090 227
Other reserves and retained earnings			2 695 673 125
Net income for period			219 544 419
<b>Total capital</b>			<b>4 489 955 585</b>
<b>Total liabilities + capital</b>			<b>70 326 631 361</b>

Board chairman

.....  
António de Castro Guerra

Chief accountant

.....  
Maria de Fátima N. Evora

Financial and international director

.....  
Amélia Figueiredo

## Banco Comercial do Atlântico, S.A

### Cost to Income - Operating costs / Net operating income

#### Net operating income

Account headings	2012	2013	Change	
			Percent	Total
Net interest income	2 139 392 097	1 912 995 399	-10,6%	-226 396 699
+ Non-interest income	744 637 558	718 607 046	-3,5%	-26 030 512
<b>= Net operating income</b>	<b>2 884 029 656</b>	<b>2 631 602 444</b>	<b>-8,8%</b>	<b>-252 427 211</b>

#### Operating costs

Account headings	2012	2013	Change	
			Percent	Total
Administrative cost	2 146 103 295	2 113 297 832	-1,5%	-32 805 463
Depreciation	202 996 976	191 809 086	-5,5%	-11 187 890
<b>= Operating cost</b>	<b>2 349 100 271</b>	<b>2 305 106 918</b>	<b>-1,9%</b>	<b>-43 993 353</b>

#### Cost to Income

Account headings	2012	2013
<b>Cost to Income - inc. pension fund</b>	81,5%	87,6%
<b>Cost to Income - exc. Pension fund</b>	67,4%	72,8%

# Banco Comercial do Atlântico, S.A

## Income statement at 31/12/2013

Description	Amount
Interest and similar income	3 611 699 388
Interest and similar costs	1 698 703 989
<b>Net interest income</b>	<b>1 912 995 399</b>
Income from equity instruments	187 667 415
Income from services and commissions	378 332 715
Costs of services and commissions	44 715 885
Income from available for sale financial assets	0
Income from foreign exchange revaluations	128 977 117
Income from disposals of other assets	-2 030 891
Other operating income	70 376 575
<b>Net operating income</b>	<b>2 631 602 444</b>
Employee costs	1 354 098 650
General administrative expenditure	759 199 182
Depreciation for period	191 809 086
Provisions net of recoveries and cancellations	-914 405 000
Impairment of other financial assets net of reversals and recoveries	979 707 707
Impairment of other assets net of reversals and recoveries	3 578 700
Inc. subsidiaries exc. from consolidation, ass., jointly controlled entities	40 011 447
<b>Income before tax</b>	<b>297 625 566</b>
Tax	
Current	
Deferred	78 081 147
<b>Net income</b>	<b>219 544 419</b>

Board chairman  
.....  
António de Castro Guerra

Chief accountant  
.....  
Maria de Fátima N. Evora

Financial and international director  
.....  
Amélia Figueiredo

## Banco Comercial do Atlântico, S.A

### Main indicators

Main indicators	2012
1. ROE	10,0%
2. ROA	0,5%
3. Cost/income exc. pension fund	67,4%
4. Overdue credit	4 754 991
5. Solvency ratio	11,78%
6. TIER 1 (basis own funds / weighted assets)	14,35%
7. Loans to deposits ratio	71,32%
8. Productivity per employee	787
8.1. Turnover (credit + deposits) / no. employees	220 841
8.2. Net operating income / no. employees	6 691
9. Fixed assets coverage ratio	195,82%
10. Own funds	3 924 795



## Banco Comercial do Atlântico, S.A

### Liquidity measurement ratios

Account headings	2012		2013	
	Amounts	%	Amounts	%
<b>1-Total deposits/assets</b>	<u>55 558 104 201</u> 68 622 287 184	<b>81,0%</b>	<u>57 556 499 473</u> 70 065 052 906	<b>82,1%</b>
<b>2-Loans and advances to customers/assets</b>	<u>39 624 222 207</u> 68 622 287 184	<b>57,7%</b>	<u>39 260 492 595</u> 70 065 052 906	<b>56,0%</b>
<b>3-Short term credit/assets</b>	<u>4 382 145 854</u> 68 622 287 184	<b>6,4%</b>	<u>3 704 553 951</u> 70 065 052 906	<b>5,3%</b>
<b>4-Medium long term credit/assets</b>	<u>35 242 076 353</u> 68 622 287 184	<b>51,4%</b>	<u>35 555 938 644</u> 70 065 052 906	<b>50,7%</b>
<b>5-Loans and advances to customers/total deposits</b>	<u>39 624 222 207</u> 55 558 104 201	<b>71,3%</b>	<u>39 260 492 595</u> 57 556 499 473	<b>68,2%</b>
<b>6-Short term investments/assets</b>	<u>15 896 843 032</u> 68 622 287 184	<b>23,2%</b>	<u>15 219 251 128</u> 70 065 052 906	<b>21,7%</b>

### Productivity indicators

Account headings	2012		2013	
	Amounts	CVE thousand	Amounts	CVE thousand
<b>1-Credit and deposits/no. active employees</b>	<u>95 182 326</u> 431	<b>220 841</b>	<u>96 816 992</u> 436	<b>222 057</b>
<b>2-Net operating income/no. active employees</b>	<u>2 884 030</u> 431	<b>6 691</b>	<u>2 631 602</u> 436	<b>6 036</b>
<b>3-Credit and deposits/no. counters</b>	<u>95 182 326</u> 32	<b>2 974 448</b>	<u>96 816 992</u> 32	<b>3 025 531</b>

## Banco Comercial do Atlântico, S.A

### Structural ratios

Account headings	2012		2013	
	Amounts	%	Amounts	%
1-Short term credit/loans and advances to customers	<u>4 382 145 854</u> 39 624 222 207	<b>11,1%</b>	<u>3 704 553 951</u> 39 260 492 595	<b>9,4%</b>
2-Medium/long term credit/loans and advances to customers	<u>35 242 076 353</u> 39 624 222 207	<b>88,9%</b>	<u>35 555 938 644</u> 39 260 492 595	<b>90,6%</b>
3-Overdue credit/loans and advances to customers	<u>4 754 991 413</u> 39 624 222 207	<b>12,0%</b>	<u>5 811 623 397</u> 39 260 492 595	<b>14,8%</b>
4-Overdue credit impairment/overdue credit	<u>2 989 095 236</u> 4 754 991 413	<b>62,9%</b>	<u>3 726 543 333</u> 5 811 623 397	<b>64,1%</b>
5-Loans and advances to customers/deposits	<u>39 624 222 207</u> 55 558 104 201	<b>71,3%</b>	<u>39 260 492 595</u> 57 556 499 473	<b>68,2%</b>
6-Loans and advances to customers/term deposits	<u>39 624 222 207</u> 34 918 627 890	<b>113,5%</b>	<u>39 260 492 595</u> 36 788 346 497	<b>106,7%</b>
7-Performing credit/term deposits	<u>34 869 230 794</u> 34 918 627 890	<b>99,9%</b>	<u>33 448 869 198</u> 36 788 346 497	<b>90,9%</b>
8-Short term credit/term deposits	<u>4 382 145 854</u> 34 918 627 890	<b>12,5%</b>	<u>3 704 553 951</u> 36 788 346 497	<b>10,1%</b>
9-Medium/long term credit/term deposits	<u>35 242 076 353</u> 34 918 627 890	<b>100,9%</b>	<u>35 555 938 644</u> 36 788 346 497	<b>96,7%</b>
10-Sight deposits/total deposits	<u>20 639 476 310</u> 55 558 104 201	<b>37,1%</b>	<u>20 768 152 976</u> 57 556 499 473	<b>36,1%</b>
11-Term deposits/total deposits	<u>34 918 627 890</u> 55 558 104 201	<b>62,9%</b>	<u>36 788 346 497</u> 57 556 499 473	<b>63,9%</b>

### Performance assessment ratios

Account headings	2012		2013	
	Amounts	%	Amounts	%
<b>1-RCP=Net income/shareholders' equity</b>	<u>339 088 246</u> 3 381 003 638	<b>10,0%</b>	<u>219 544 419</u> 4 311 326 934	<b>5,1%</b>
<b>2-RDA=Net income/average assets</b>	<u>339 088 246</u> 68 622 287 184	<b>0,5%</b>	<u>219 544 419</u> 70 065 052 906	<b>0,3%</b>
<b>3-ML = Net income/income</b>	<u>339 088 246</u> 7 494 371 289	<b>4,5%</b>	<u>219 544 419</u> 8 034 845 417	<b>2,7%</b>
<b>4-RA = Income/assets</b>	<u>7 494 371 289</u> 69 941 737 177	<b>10,7%</b>	<u>8 034 845 417</u> 70 326 631 361	<b>11,4%</b>
<b>6-MF=(Interest income-interest costs)/assets</b>	<u>2 139 392 097</u> 69 941 737 177	<b>3,1%</b>	<u>1 912 995 399</u> 70 326 631 361	<b>2,7%</b>
<b>ROA</b>	0,5%		0,3%	
<b>ROE</b>	10,0%		5,1%	

**RCP = Return on shareholders' equity**

**RDA = Return on assets**

**ML = Profit margin**

**RA = Asset rotation**

**MF = Net interest income**

## **BOARD OF DIRECTORS**

**2013**

Chairman     **António Joaquim de Sousa** (representing Caixa Geral de Depósitos up to 4 June 2013)

Chairman     **António José de Castro Guerra** (representing Caixa Geral de Depósitos, from 4 June 2013)

Board member   **Fernando Jorge do Livramento Santos da Moeda**

Board member   **Maria Eduarda Simões Lopes Branco Vicente**

Board member   **Ana Isabel Pais Vinagre Tomázio**

Board member   **Avelino Bonifácio Fernandes Lopes**

## **AUDITORS' REPORT AND OPINION**

To the Shareholders of  
Banco Comercial do Atlântico, S.A.

In conformity with current legislation and our instructions, we hereby submit, for your consideration, the report and opinion on our activities and the accounting documents of Banco Comercial do Atlântico, S.A. (bank) for the period ended 31 December 2013, which are the responsibility of the board of directors.

We have, with the frequency and to the extent considered adequate, monitored the evolution of the bank's activity, the regularity of its accounting records and compliance with its current articles of association, having been provided with all information and clarifications regarding our inquiries by the board of directors and the bank's various departments.

In performing our functions, we examined the balance sheet, at 31 December 2013, the income statement, statement of comprehensive income, statement of cash flows and the statement of changes to shareholders' equity for the year then ended and corresponding notes. We also examined the board of directors' report for 2013 and the proposal therein included. As a consequence of our work, we have, on this date, issued the audit report which includes a reservation and five emphases of matters.

In light of the above, except for the effects of the matter described in paragraph 6 of the audit report and after considering the matters described in paragraphs 8 to 12 thereof, it is our opinion that the above referred to financial statements and board of directors' report, in addition to the proposal therein expressed, are in conformity with the applicable accounting and statutory dispositions for the purposes of the approval of the general meeting of shareholders.

We also wish to express our gratitude for the assistance of the bank's board of directors and its departments.

Lisbon, 6 May 2014



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## **AUDIT REPORT**

(amounts expressed in thousand Cape Verde escudos)

To the Board of Directors  
Banco Comercial do Atlântico, S.A.

### **Introduction**

1. We have audited the attached financial statements of Banco Comercial do Atlântico, S.A. ("Bank" or "BCA"), comprising its balance sheet at 31 December 2013, with a total balance sheet value of CVE 70,326,631 thousand and shareholders' equity of CVE 4,489,955 thousand, including net income of CVE 219,544 thousand, the income statement, net income and other comprehensive income, changes to shareholder's equity and cash flow statements for the year then ended and corresponding notes (Notes 1 to 36).

### **Board of directors' responsibilities for the financial statements**

2. The bank's board of directors is responsible for the preparation and adequate presentation of these financial statements in accordance with the International Financial Reporting Standards and for the internal control considered necessary for ensuring the preparation of financial statements free from material distortion owing to fraud or error.

### **Auditors' responsibility**

3. It is our responsibility to express an independent opinion on the financial statements, based on our audit, which was performed in accordance with the International Audit Standards. These Standards require us comply with ethical considerations and to plan and perform our audit in order to obtain a reasonable guarantee as to whether the financial statements are free from any material distortion.
4. An audit involves the performance of procedures to obtain audit proof regarding the quantities and disclosures set out in the financial statements. The selected procedures are dependent upon the auditor's judgement, including an assessment of the risks of material distortion in the financial statements owing to fraud or error. On making his/her risk assessments an auditor considers the internal control relevant for the preparation and appropriate presentation of the financial statements by the entity for the purpose of designing audit procedures which are appropriate to the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an assessment of the adequacy of the accounting policies used and the reasonableness of the board of directors' accounting estimates, in addition to an assessment of the global presentation of the financial statements.
5. We consider that the audit sample we have obtained is sufficient and appropriate as a basis upon which to issue our audit opinion, with reservations.

## **Bases for opinion with reservations**

6. As described in Note 14, at 31 December 2013, the bank recognised subsidies to be received for the amount of CVE 814,432 thousand (CVE 785,114 thousand at 31 December 2012). Based on an external audit on the application of the subsidised credit regime, DGT (Directorate General for the Treasury) queried the eligibility of a series of operations. In November 2012, DGT informed the bank that it would agree to the payment of CVE 168,133 thousand for mortgage loan subsidies claims between 2000 and 2007, having considered claims for subsidies of CVE 102,098 thousand to be ineligible. DGT also confirmed the amount of CVE 208,564 thousand relative to housing subsidies for the period between 2008 and 2011 against total claims of CVE 277,728 thousand. The bank decided to recognise the cost of the operations identified as being ineligible over a period of 5 years, starting 2012, having recognised expenditure of CVE 34,252 thousand in each of the years 2012 and 2013 and maintaining its recognition of CVE 102,758 thousand, in respect of which, at the said date, its assets and retained earnings were overestimated by CVE 102,758 thousand and CVE 137,010 thousand, respectively and income for the period underestimated by CVE 34,252 thousand. As regards the subsidies for housing credit operations in 2012 and 2013, for which claims and impairment totalled CVE 125,423 thousand and CVE 33,409 thousand, respectively and other subsidies totalling CVE 209,553 thousand, negotiations are still being held between the parties for the purposes of quantifying the eligible operations. In light of the above, we are not able to quantify the additional impairment needed to provide for the part of the balance of the subsidies to be received recognised at 31 December 2013 and which will not be received by the bank.

## **Opinion**


7. In our opinion, except for the effects of the matter described in paragraph 6 above, the financial statements, referred to in paragraph 1 above, provide an appropriate description, in all materially relevant aspects, of the financial position of Banco Comercial do Atlântico, S.A. at 31 December 2013, in addition to the net income and comprehensive income generated by its operations, changes to shareholders' equity and cash flows for the year then ended in conformity with the International Financial Reporting Standards.

## **Emphases of matters**

8. The bank's credit portfolio, at 31 December 2013, includes relevant amounts of credit to companies in the property and construction sector, including loans for several projects related with the development of tourism resorts whose construction works are currently suspended. The bank is currently implementing a series of measures to recover the referred to loans and, in most situations, the respective property/land whose valuations are higher than the amount of the loans are mortgaged to the bank. The fulfilment of the expectations over collectability as reflected by the impairment attributed by the bank to these customers, which normally reflects discounts to the amount of the valuations, is naturally dependent upon the evolution of the property market situation in Cape Verde and the results of the referred to measures currently in progress.
9. As described in Note 2.2 m), the bank, in 2013, adopted the amended version of IAS 19 – Employee benefits, for the recognition of its liabilities for employee benefits, having recognised actuarial gains and losses as a charge to shareholders' equity. The bank had previously used the corridor method provided for in the former version of IAS 19, whose actuarial gains and losses relative to pension plans and healthcare benefits were deferred in the balance sheet in the corridor up to a limit of 10% of the current amount of its liabilities for past services. Actuarial deviations higher than the corridor limit were depreciated in net income across the average period of time up to the expected retirement age of the workers enrolled in the plan. In accordance with the requirements of IAS 8 – Accounting for retirement benefits in financial statements of employers, changes in estimates and errors, this change of accounting policy was applied retrospectively and its effect was reflected in the *pro forma* financial statements for 2012, submitted for comparison purposes. The impact of the restatement consisted of an increase of CVE 184,591 thousand and CVE 392,003 thousand, in the bank's shareholders' equity at 1 January 2012 and 31 December 2012 respectively, after consideration of the fiscal effect, including an increase of CVE 12,872 thousand (Note 2.3) in net income for 2012.

10. At 31 December 2013 the bank recognised amounts of CVE 559,149 thousand receivable from the state of Cape Verde in "Other assets", several of which with a significant level of seniority. Notwithstanding the state's confirmation of these balances, including those relative to the subsidies mentioned in paragraph 6 above, their settlement terms have still to be defined. According to the board of directors, negotiations are currently in progress with the state to establish a repayment plan, with the board of directors being of the conviction that the conclusion of the negotiations will not have any materially relevant impacts on the bank's net worth.
11. As described in Note 13, the Fiscal Authorities of Cape Verde made a series of corrections to the bank's taxable income for the years 2005 to 2012, including the non-acceptance of the costs of pensions and healthcare liabilities for the period and the corresponding asset changes from 2009 to 2012 deriving from the transition adjustments to the International Financial Reporting Standards. The bank did not recognise any costs for such corrections, as it is the understanding of the board of directors and its tax consultants that the procedures adopted are in accordance with the legal and fiscal framework in force in Cape Verde, having therefore filed an appeal over the said corrections. The appeal relative to the first additional settlement received in respect of 2008, was rejected by the Fiscal Authorities which decision was contested by the bank. In December 2013, the Western Fiscal and Customs Court accepted the appeal in full, having annulled the act of defining taxable income for 2008 and its corresponding settlement. In February 2014, the Tax Authorities filed an appeal against the decision with the Supreme Court of Justice and the process is currently in progress. At 31 December 2013, the full impact of the non-provisioned contingency associated with these corrections totalled CVE 993,845 thousand, as explained in more detail in Note 13, including an amount of CVE 783,540 thousand already paid by the bank and recognised in "Current tax assets". It is the conviction of the board of directors that the final decision on this process will find for the bank. This explains why no costs related with this contingency have been recognised in the bank's financial statements at 31 December 2013.
12. As described in Note 30, in November 2013, the board of directors decided to change its workers' current pension plan, for sustainability purposes, introducing new rules to assess retirement benefits. These changes originated a reduction of CVE 914,405 thousand in liabilities with reference to 31 December 2013, with the corresponding income having been recognised in "Provisions" in the income statement.

Lisbon, 6 May 2014



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Deloitte & Associados, SROC S.A.

BANCO COMERCIAL DO ATLÂNTICO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2013 AND 2012 (PRO FORMA) AND AT 1 JANUARY 2012 (PRO FORMA)

(Amounts expressed in thousand Cape Verde escudos)

ASSETS	Notes	2013			(pro forma)	(pro forma)	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2013	(pro forma)	(pro forma)
		Gross assets	Impairment and depreciation	Net assets	Net assets	Net assets				31.12.2012	01.01.2012
Cash and claims at central banks	3	2 704 800	-	2 704 800	2 342 558	9 726 629	Other credit institutions' resources	15	730 371	541 719	565 699
Claims on other credit institutions	4	503 495	-	503 495	816 608	656 366	Customer resources and other loans	16	58 967 699	58 175 745	56 459 611
Available for sale financial assets	5	7 265 407	(10 841)	7 254 566	7 060 548	6 310 502	Provisions	17	5 111 726	5 693 269	5 639 025
Investments in credit institutions	6	11 809 656	-	11 809 656	11 513 360	1 210 696	Deferred tax liabilities	13	142 207	158 223	102 001
Public debt securities	7	4 526 583	-	4 526 583	3 357 248	3 457 130	Other subordinated liabilities	18	399 040	499 492	499 934
Loans and advances to customers	8	43 069 143	(3 901 594)	39 167 549	40 437 664	41 671 975	Other liabilities	19	485 633	602 330	713 330
Investment properties	9	1 529	(104)	1 425	1 425	2 925	Total liabilities		65 836 676	65 670 778	63 979 600
Other tangible assets	10	3 887 650	(1 805 721)	2 081 929	1 992 401	1 957 250	Capital	20	1 318 648	1 318 648	1 318 648
Intangible assets	11	266 583	(243 810)	22 773	45 951	42 973	Revaluation reserves	21	390 267	196 537	(367 611)
Investments in subsidiaries, associates and jointly controlled entities	12	268 320	-	268 320	232 356	215 915	Other reserves and retained earnings	21	2 561 496	2 265 551	1 718 119
Current tax assets	13	808 221	-	808 221	723 006	642 452	Net income for period	21	219 544	351 960	536 749
Deferred tax assets	13	2 448	-	2 448	97 117	191 786	Total shareholders' equity		4 489 955	4 132 696	3 205 905
Other assets	14	1 307 667	(132 801)	1 174 866	1 183 232	1 098 906	Total liabilities and shareholders' equity		70 326 631	69 803 474	67 185 505
Total assets		76 421 502	(6 094 871)	70 326 631	69 803 474	67 185 505					

The annex is an integral part of these balance sheets.



BANCO COMERCIAL DO ATLÂNTICO, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED

31 DECEMBER 2013 AND 2012 (pro forma)

(Amounts expressed in thousand Cape Verde escudos)

	<u>Notes</u>	<u>2013</u>	<u>(pro forma) 2012</u>
Interest and similar income	22	3 611 699	3 752 075
Interest and similar costs	23	(1 698 704)	(1 612 683)
<b>NET INTEREST INCOME</b>		<b>1 912 995</b>	<b>2 139 392</b>
Income from equity instruments	24	187 667	186 517
Income from services and commissions	25	378 333	379 995
Costs of services and commissions	25	(44 716)	(45 783)
Income from foreign exchange revaluations	26	128 977	147 353
Income from disposals of other assets	27	(2 031)	361
Other operating income	28	70 377	76 195
<b>NET OPERATING INCOME</b>		<b>2 631 602</b>	<b>2 884 030</b>
Employee costs	29	(1 354 098)	(1 395 718)
General administrative expenditure	31	(759 200)	(737 514)
Depreciation for period	10 and 11	(191 808)	(202 997)
Provisions net of recoveries and cancellations	17	914 405	11 481
Impairment of other financial assets net of reversals and recoveries	17	(979 708)	(114 977)
Impairment of other assets net of reversals and recoveries	17	(3 579)	(14 664)
Income from associates	12	40 011	30 446
<b>INCOME BEFORE TAX</b>		<b>297 625</b>	<b>460 087</b>
<b>Income tax</b>			
<i>Current</i>	13	-	(30 046)
<i>Deferred</i>	13	(78 081)	(78 081)
		<b>(78 081)</b>	<b>(108 127)</b>
<b>Net income for period</b>		<b>219 544</b>	<b>351 960</b>
Average number of ordinary shares issued		1 324 765	1 324 765
Earnings per share		0,16572	0,26568

The annex is an integral part of these statements.

BANCO COMERCIAL DO ATLÂNTICO, S.A.

STATEMENTS OF NET AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED

31 DECEMBER 2013 AND 2012 (pro forma)

(Amounts expressed in thousand Cape Verde escudos)

	<u>2013</u>	<u>(pro forma) 2012</u>
Income not recognised in income statement		
Headings which will not be reclassified to the income statement:		
Actuarial and financial deviations relative to pension costs (Note 2.3)		
Change in year	(56 015)	261 127
Fiscal effect	-	(66 587)
Headings which may be reclassified to the income statement:		
Changes to the fair value of available for sale financial assets		
Change in period	194 299	564 595
Fiscal effect	(570)	(447)
Changes to investments in associates		
Change in period	-	5 377
Fiscal effect	-	(1 371)
Income not recognised in income statement	<u>137 714</u>	<u>762 694</u>
Net income for period	219 544	351 960
Total comprehensive income for period	<u>357 258</u>	<u>1 114 654</u>

The annex is an integral part of these statements.

BANCO COMERCIAL DO ATLÂNTICO, S.A.  
STATEMENTS OF CHANGES TO SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012 (pro forma)  
(Amounts expressed in thousand Cape Verde escudos)

	Capital	Revaluation reserves	Other reserves and retained earnings			Net income for period	Total shareholders' equity
			Legal reserve	Other reserves	Retained earnings		
Balances at 31 December 2011	1 318 648	(367 611)	638 924	2 069 480	(1 174 876)	536 749	3 021 314
Impact of change of accounting policy on pensions (Note 2.3)	-	-	-	184 591	-	-	184 591
Balances at 1 January 2012 (pro forma)	1 318 648	(367 611)	638 924	2 254 071	(1 174 876)	536 749	3 205 905
Appropriation of net income for 2011:							
Incorporation into reserves	-	-	53 675	295 211	-	(348 886)	-
Payment of dividends	-	-	-	-	-	(187 863)	(187 863)
Comprehensive income for period	-	564 148	-	198 546	-	351 960	1 114 654
Balances at 31 December 2012 (pro forma)	1 318 648	196 537	692 599	2 747 828	(1 174 876)	351 960	4 132 696
Appropriation of net income for 2012 (pro forma):							
Incorporation into reserves	-	-	33 909	318 051	-	(351 960)	-
Comprehensive income for period	-	193 730	-	(56 015)	-	219 544	357 259
Balances at 31 December 2013	1 318 648	390 267	726 508	3 009 864	(1 174 876)	219 544	4 489 955

The annex is an integral part of these statements.

BANCO COMERCIAL DO ATLÂNTICO, S.A.

CASH FLOW STATEMENTS FOR THE YEARS ENDED

31 DECEMBER 2013 AND 2012

(Amounts expressed in thousand Cape Verde escudos)

	2013	2012
<b>Cash flows from operating activities</b>		
Income from interest and commissions	3 899 824	4 098 935
Payment of interest and commissions	(1 719 183)	(1 626 491)
Recovery of overdue credit and interest	106 342	123 162
Foreign exchange income	128 977	147 353
Payments to employees and suppliers	(1 609 911)	(1 605 880)
Pensions and healthcare payments	(182 413)	(205 426)
Other receipts / (payments) for operating activity	(49 198)	99 613
Payments of income tax	(85 215)	(110 599)
<b>Operating income before changes in operating assets</b>	<u>489 223</u>	<u>920 667</u>
<b>(Increases) decreases in operating assets:</b>		
Investments in credit institutions	(295 066)	(10 304 247)
Loans and advances to customers	262 228	1 029 503
Public debt securities	(1 153 225)	100 000
Other assets	23 057	(38 107)
	<u>(1 163 006)</u>	<u>(9 212 851)</u>
<b>Increases (decreases) in operating liabilities</b>		
Central banks' and other credit institutions' resources	189 023	(23 557)
Customer resources	766 927	1 684 279
Other subordinated liabilities	(99 699)	(1 511)
Other liabilities	(26 731)	(178 385)
	<u>829 520</u>	<u>1 480 826</u>
<b>Net cash from operating activities</b>	<u>155 737</u>	<u>(6 811 358)</u>
<b>Cash flows from investing activities</b>		
(Increases) decreases in investment assets		
Investments in subsidiaries, associates and jointly controlled entities	(15 000)	-
Investment properties	-	1 500
Intangible assets	(738)	(27 654)
Other tangible assets	(297 865)	(218 901)
Dividends received	206 995	20 447
Net cash from investing activities	<u>(106 608)</u>	<u>(224 608)</u>
<b>Cash flows from financing activities</b>		
Dividends paid	-	(187 863)
Net cash from financing activities	<u>-</u>	<u>(187 863)</u>
<b>Increase (decrease) net of cash and equivalents</b>	49 129	(7 223 829)
Cash and equivalents at start of year	3 159 166	10 382 995
Cash and equivalents at end of year	3 208 295	3 159 166

The annex is an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

## 1. INTRODUCTORY NOTE

Banco Comercial do Atlântico, S.A. (bank) is a commercial bank, formed as a spin-off from the Bank of Cape Verde, under Decree Law 43/93 of 16 July. Under the terms of the privatisation process of credit institutions and financial companies with a state equity investment and Council of Ministers' resolution 46/99 of 27 September, the group, comprising Caixa Geral de Depósitos, S.A. and Banco Interatlântico, S.A.R.L. held the majority of the bank's share capital. The bank's shares have been listed on the Cape Verde stock exchange since December 2005.

The bank's corporate object of performing banking operations, includes all accessory, connected or similar operations compatible with such operations and permitted by law.

The bank is headquartered in Praia in the Republic of Cape Verde and its operations are performed by 33 branch offices.

The bank's financial statements, at 31 December 2013, were approved by the board of directors at 05 May 2014 but still require the approval of its general shareholders' meeting. The bank's board of directors, however, considers that they will be approved without any significant alterations.

## 2. PRESENTATION BASES AND ACCOUNTING POLICIES

### 2.1. Presentation bases

The bank's financial statements have been prepared on the going concern principle, based on books and accounting records, kept in conformity with the accounting principles set out in the International Financial Reporting Standards (IFRS) under the terms of *Official Notice 2/2005* of 19 November issued by the Bank of Cape Verde.

### 2.2. Accounting policies

#### a) Accrual basis

Costs and income are recognised on an accrual basis, as and when generated, notwithstanding the date of payment or receipt.

#### b) Translation of balances and transactions in foreign currency

Assets and liabilities denominated in foreign currency are translated into Cape Verde escudos at the bank's average exchange rate on the last working day of each month. The assessment of exchange rate differences is recognised in income for the period, except for differences originated by non-monetary financial instruments, such as shares, classified as being available for sale which are recognised in shareholders' equity until disposal.

The Cape Verde escudo's exchange rate at 2013 and 2012 remained unchanged at 110.265 Cape Verde escudos to the euro. The exchange rate against the US dollar, at 31 December 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
1 USD	80.148	83.265

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

c) Financial assets

i) Financial assets

Financial assets are recognised at fair value at the agreement date, plus the costs directly attributable to the transaction. As the bank does not have any trading or other assets recognised at fair value through profit or loss, the financial assets were classified in one of the following IAS 39 categories at their time of initial recognition:

a) Loans and accounts receivable

These are financial assets with fixed or determinable payments, not listed on an active market. This category includes loans and advances to customers, (including corporate loans), amounts receivable from other credit institutions and other balances receivable, recognised in "Other assets". It also includes debt securities issued by the state of Cape Verde as they were acquired in a primary market by the bank, essentially to be held to maturity and with no active secondary market.

These assets are initially recognised at fair value, net of any commissions included in the effective rate, plus all incremental costs directly attributable to the transaction. The assets are subsequently recognised in the balance sheet at their amortised cost net of impairment losses.

*Interest recognition*

Interest is recognised on the basis of the effective interest rate method which enables the amortised cost to be calculated and the interest to be split over the period of the operations. The effective rate is the rate that, being used to discount the estimated future cash flows associated with the financial instrument, enables its present value to be matched to the value of the financial instrument at the date of initial recognition.

*Overdue credit and cancellations of capital and interest*

Interest on overdue credit not backed by real guarantees is cancelled three months after an operation's maturity date or first overdue payment. Unrecognised interest on the above referred to credit is only recognised in the period in which it is collected in "Interest and similar income".

According to the policies in force in the bank, the full amount of outstanding principal on operations in arrears is recognised as overdue credit 30 days from its due date. The bank periodically writes off its non-recoverable credit from assets by declaring impairment after a specific analysis has been performed by its structural bodies responsible for the oversight and recovery of loans and the board of director's approval. Eventual recoveries of credit written-off from assets are recognised in the income statement, in "Impairment of other financial assets, net of reversals and recoveries".

b) Available for sale financial assets

This category includes the following financial instruments not classified in "Loans and accounts receivable":

- ☐ Corporate equities;
- ☐ Consolidated financial investment certificates.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

Available for sale financial assets are measured at fair value, except for equity instruments not listed in an active market whose fair value cannot be reliably measured and which continue to be recognised at cost. Revaluation gains or losses are recognised directly in "Revaluation reserves" in shareholders' equity. At the time of sale or if impairment is determined, accrued fair value changes are transferred to income or costs for the year and recognised in "Income from available for sale financial assets" or "Impairment of other financial assets, net of reversals and recoveries" respectively.

Dividends and income from equity instruments recognised in this category are recognised as income in "Income from equity instruments", when the bank's right to receive them has been established.

Income receivable from consolidated financial investment certificates is recognised in the balance sheet in "Available for sale financial assets".

Fair value

As referred to above, financial assets recognised in "Available for sale financial assets" are measured at their fair value.

The fair value of a financial instrument comprises the amount at which an asset or financial liability can be sold or liquidated between independent, informed parties, interested in realising the transaction under normal market conditions.

The fair value of financial instruments is assessed on the basis of the following criteria:

- ☐ Closing price at the balance sheet date, for instruments traded on active markets;
- ☐ Internal valuation models and techniques are used for variable-income securities not traded in active markets (including unlisted securities or securities with low liquidity levels), taking into account the market data which would be used to define a price for the financial instrument, reflecting market interest rates and volatility, in addition to the liquidity and credit risk associated with the instrument.

d) Impairment of financial assets

Financial assets at amortised cost

The bank periodically analyses impairment on its financial assets recognised at amortised cost, notably loans and accounts receivable.

Signs of impairment on financial assets with an individually significant level of exposure are identified separately and collectively in the case of available assets whose debtor balances are not individually relevant.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

The following events may comprise signs of impairment:

- ☐ Breaches of contractual clauses, i.e. arrears of interest or principal;
- ☐ Incidents of defaults in the financial system;
- ☐ Any existing operations deriving from credit restructuring operations or from credit restructuring negotiations in progress;
- ☐ Difficulties in terms of the capacity of partners and management, i.e. when leading partners or principal senior staff leave the company and in the event of disagreements between partners;
- ☐ A debtor's or debt issuing entity's significant financial difficulties;
- ☐ Existence of a strong probability of a declaration of bankruptcy by the debtor or debt issuing entity;
- ☐ A decrease in the debtor's competitiveness;
- ☐ Historical records of collections suggesting that the nominal value will never be fully recovered.

The bank performs an individual analysis on customers with liabilities of more than CVE 20,000 thousand or when in default for more than 180 days.

Whenever signs of impairment are identified on separately analysed assets, the eventual impairment loss comprises the difference between the present book value of the expected future cash flows receivable (recoverable value), discounted on the basis of the asset's effective original interest rate and its book value at the time of the analysis.

Assets which have not been specifically analysed are included in a collective impairment analysis, having, for the said purpose, been classified in like-for-like groups with similar risk characteristics (based on counterparty and credit type). Future cash flows were estimated on the basis of historical information on defaults and recoveries of assets with similar characteristics.

The bank has defined the following credit sector portfolio segments for this purpose:

- ☐ Lending to companies
- ☐ Mortgage loans
- ☐ Consumer credit
- ☐ Loans to small businesses
- ☐ Loans and advances to the public sector
- ☐ Loans to group companies
- ☐ Guarantees provided
- ☐ Other loans and advances to individual customers

Assets evaluated individually and on which no objective signs of impairment have been identified were also subject to a collective impairment analysis, as described above.

Impairment losses calculated in the collective analysis incorporate the time effect of estimated discounted cash flows receivable on each operation, at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

The amount of impairment assessed is recognised in costs, in “Impairment of other financial assets net of reversals and recoveries” and separately in the balance sheet as a deduction from the amount of the respective credit.

Available for sale financial assets

As referred to in Note 2.2. available for sale financial assets are recognised at their fair value, with changes thereto being directly reflected in “Revaluation reserves” in shareholders’ equity.

The bank performs an analysis of any impairment losses on available for sale financial assets at each of the financial statement’s reference dates.

Whenever there is any objective evidence of impairment, accrued capital losses which have been recognised in reserves are transferred to costs for the year as impairment losses, in “Impairment of other financial assets net of reversals and recoveries”.

In addition to the above referred to signs of impairment on assets recognised at amortised cost, IAS 39 also provides for the following specific signs of impairment on equity instruments:

- ☐ Information on significant changes having an adverse impact on the technological, market, economic or legal environment in which the issuing entity operates, indicating that the cost of the investment may not be recovered;
- ☐ A significant or prolonged decline in market value at below cost.

Impairment losses on equity instruments cannot be reversed and any unrealised capital gains originated after the recognition of impairment losses are recognised in “Revaluation reserves”. Impairment is always considered to exist if additional capital losses are assessed at a later stage and is recognised in income for the period.

The bank also periodically performs impairment analyses on financial assets recognised at cost, notably unlisted equity instruments whose fair value cannot be reliably measured. The recoverable value, in this case, comprises the best estimate of future flows receivable from the asset, discounted at a rate which adequately reflects the risk associated with holding the asset.

The amount of the impairment loss is directly recognised in income for the period. Impairment losses on such assets cannot be reversed.

e) Financial liabilities

Financial liabilities are recognised at their respective fair value at the agreement date, net of the costs directly attributable to the transaction. Financial liabilities include credit institutions’ and customers’ resources, subordinated liabilities and liabilities incurred on the payment of services or purchase of assets, recognised in “Other liabilities”.

Sales operations with repo agreements, i.e. Treasury bonds and bills are recognised in “Customer resources and other loans”. The corresponding securities continue to be recognised in the bank’s portfolio.

These financial liabilities are measured at amortised cost, upon which any applicable interest is recognised in accordance with the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

f) Assets received on credit recoveries

Proceeds from property and other auctioned assets relating to the recovery of overdue loans when not available for immediate sale, are recognised at the bid price, upon completion of the respective legal procedures, in “Other assets”.

Such assets are not depreciated. The value of property received on credit recoveries is periodically assessed. Impairment losses are recognised if the property's value, net of the estimated sales costs, is less than its balance sheet value. To assess impairment, the bank also considers the length of time the property has been held in the portfolio.

The sale of auctioned property is written off from assets and its respective gains or losses recognised in “Other operating income and costs”.

g) Investment properties

Investment properties are properties held with the objective of obtaining income from rentals and/or their appreciation.

Investment properties are not depreciated and are recognised at fair value, annually assessed on the basis of experts' appraisals. Fair value changes are recognised in “Other operating income and operating costs” in the income statement.

This account heading, at 31 December 2013 and 2012 was entirely made up of land.

h) Other tangible assets

Other tangible assets are recognised at their acquisition cost, net of depreciation and accrued impairment losses. The costs of repair, maintenance and other expenses associated with their use are recognised as a cost for the year, in “General administrative expenditure”.

Depreciation is systematically calculated on an asset's estimated useful life, i.e. the period for which the asset is expected to be available for use, which is:

	<u>Years of useful life</u>
Property for own use	50
Equipment:	
Office furniture and equipment	8
Machinery and tools	5 - 6
IT Equipment	4
Interior installations	8
Transport material	3 - 5
Security equipment	8
Other equipment	5

Land is not depreciated.

Expenditure incurred on works and improvements to property occupied by the bank as a lessee under operating leases is capitalised in this heading and amortised over an average period of 10 years.

Amortisation is recognised as a cost for the year.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

Analyses designed to identify signs of impairment on tangible assets are periodically performed in accordance with IAS 36 – “Assets impairment”. An impairment loss is recognised in the income statement for the period in “Impairment of other assets” whenever the net balance sheet value of tangible assets exceeds their recoverable value (value in use or fair value - whichever the higher). Impairment losses may be reversed and also have an impact on income for the period if an asset’s recoverable value subsequently increases.

Depreciation, notably in the case of vehicles, is calculated on an item of equipment’s estimated residual value.

The bank periodically assesses the adequacy of the estimated useful life of its tangible assets.

i) Intangible assets

This account heading essentially comprises the costs of the acquisition, development or preparation for use of software used for the development of the bank’s activity.

Intangible assets are recognised at their acquisition cost, net of amortisation and accrued impairment losses.

Depreciation is recognised as a cost for the year, on a systematic basis, over the assets’ estimated useful lives for a period of 3 years.

Expenses on software maintenance are recognised as a cost for the year in which they are incurred.

j) Investments in subsidiaries, associates and jointly controlled entities

This account heading includes investments in companies over which the bank wields significant influence but whose management it does not effectively control (“Associates”). Significant influence is presumed to exist whenever the bank has a direct or indirect investment of 20%-50% in a company’s equity capital or voting rights or, when less than 20%, if the bank has a seat on the board of directors and a direct influence in defining the company’s relevant policies.

These assets are recognised by the equity accounting method. Under this method, investments are initially valued at their acquisition cost and latterly adjusted on the basis of the bank’s effective percentage of changes in its associates’ shareholders’ equity (including income).

k) Income tax

The bank, at 31 December 2013, was subject to the payment of “IUR” (“Income Tax”) at a rate of 25% plus a 2% fire tax on its tax bill, comprising an aggregate rate of 25.5%.

Total income tax recognised in the income statement includes current and deferred taxes.

Current tax

Current tax is calculated on the basis of taxable profit for the period, which is different from accounting income owing to adjustments to taxable income resulting from costs or income, which are not relevant for fiscal purposes or only for consideration in other accounting periods.

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Deferred tax

Total income tax recognised in the income statement includes current and deferred taxes.

Deferred tax comprises the impact of temporary deductible or taxable differences between the balance sheet value of assets and liabilities and their fiscal basis, used to assess taxable profit on tax recoverable or payable in future periods.

Whereas deferred tax liabilities are normally recognised for all temporary taxable differences, deferred tax assets are only recognised up to the amount of the probable existence of future taxable profit, permitting the use of the corresponding deductible tax differences or carry-back of fiscal losses. Neither are deferred tax assets recognised in cases in which their recoverability may be questioned owing to other situations, including issues related to the interpretation of current fiscal legislation.

Notwithstanding the above, deferred tax relating to temporary differences originating from the initial recognition of assets and liabilities in transactions which do not affect accounting income or taxable profit is not recognised.

The principal situations originating temporary differences, in bank terms, comprise the impact of the adoption of IFRS and valuation of available for sale financial assets.

Deferred taxes are calculated on the basis of the tax rates expected to be in force upon the temporary differences' reversal dates, comprising the approved or substantially approved rates, at the balance sheet date.

Income tax (current or deferred) is recognised in the income statement for the period, except for cases in which the originating transactions have been recognised in other shareholders' equity account headings (such as in the case of revaluations of available for sale financial assets). The corresponding tax, in such cases, is also recognised as a charge to shareholders' equity and does not affect the annual income statement.

I) Provisions and contingent liabilities

A provision is set up whenever there is a current (legal or constructive) obligation resulting from past events involving the probable future expenditure of resources and when this may be reliably assessed. The amount of the provision comprises the best estimate of the amount to be paid to liquidate the liability at the date of the balance sheet.

When not probable, the future expenditure of resources is considered to be a contingent liability. Contingent liabilities only require a simple disclosure procedure, unless the possibility of their payment is remote.

Provisions for other risks are for legal, fiscal and other contingencies resulting from the bank's activity.

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m) Employee benefits

Liabilities for employee benefits are recognised under the principles of IAS 19 – “Employee benefits”. The principal benefits granted by the bank include retirement and survivors’ pensions and healthcare costs.

i) Pensions and healthcare liabilities

The bank’s retirement pension liabilities continue to be regulated by the transitory regime set out in the Bank of Cape Verde’s Employees Statute of 1 December 1990. Under the terms of this statute, the bank assumes liability for the payment of retirement pensions to employees who meet the requirements set out in the document.

In accordance with the applicable regime, the bank and its employees contribute 11% and 6% of the wages bill, respectively (excluding holiday and Christmas subsidies). The bank is also liable for the appropriation of any additional amounts required to meet its liabilities in full.

The bank does not have any liabilities to its permanent employees taken on after 2001, who are covered by the general social security regime, under the terms of their employment contracts.

The bank has also agreed to pay a part of its employees’ healthcare costs. The bank and its employees make monthly payments of 4% and 2% of the wage bill for this purpose, respectively.

Balance sheet liabilities on defined benefit plans comprise the current value of liabilities. Total liabilities are assessed annually by specialised actuaries using the projected unit credit method and other adequate actuarial premises (Note 30). The discount rate used to revalue liabilities incorporates market interest rates on investment grade corporate bonds (or, in the absence thereof, public debt securities), denominated in the currency in which the liabilities are paid and with similar periods to maturity to the liabilities’ average settlement periods.

Up to 31 December 2012, gains and losses deriving from differences between actuarial premises and amounts effectively verified in terms of liabilities, in addition to the results of changes to actuarial premises were deferred in an assets or liabilities (“corridor”) account heading up to a limit of 10% of the current value of liabilities for past services, whichever the higher, relating to the end of the current year. If the actuarial gains and losses exceeded the corridor value, the referred to surplus was recognised in the income statement for the average time period up to the standard retirement age of employees covered by the plan.

The limits referred to in the preceding paragraph were calculated and applied separately for each defined benefit plan, i.e. the bank’s pension and healthcare plans.

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In 2013, following the entry into force of the revision of IAS 19 – Employee benefits (Note 2.2 r)), the bank recognised gains and losses directly in shareholders' equity. This change of accounting policy was applied retrospectively, as required by IAS 8 (Note 2.3).

To provide for these pension liabilities, the bank has a pension and similar costs provision, in "Provisions for the costs of employee benefits – retirement pensions" in liabilities.

The liabilities defined on the basis of the actuarial assessment of estimated healthcare costs are recognised in "Provisions for the costs of employee benefits - medical assistance" (Note 17).

The net amount of the cost of retirement pensions and healthcare costs for the period, including current service and interest costs, is recognised in "Employee costs".

The bank recognises the effect of curtailments to defined benefit plans, which incorporates any change resulting from the present value of the defined benefits liability, on an income and costs basis.

The bank considers the existence of curtailment whenever:

- a) it is demonstrably committed to materially reducing the number of employees covered by a plan; or
- b) it changes the terms of a defined benefits plan in such a way as for a material element of the future service of present employees to cease to qualify for benefits, or only qualify for reduced benefits.

The impact of employees' retirement prior to the standard retirement age, defined in the actuarial study is directly recognised in costs.

ii) Short term benefits

Short term benefits, including productivity bonuses paid to employees, are recognised in "Employee costs" for the respective period, on an accrual basis.

The bank has not set up any provision for its employees' holiday subsidies owing to the fact that the right to such benefits is acquired in the year in which they are enjoyed/received by employees.

n) Commissions

Commissions relating to credit operations which essentially comprise commissions charged on the issue and management of credit, are recognised by the application of the effective interest rate method over the lifetime of the operations, notwithstanding the time when they are charged and are recognised in "Interest and similar income – commissions received associated with amortised cost".

Commissions associated with guarantees provided, documentary credit and card annuities, are deferred on a linear basis over the corresponding period, with other commissions being recognised in income when received.

Commissions for services performed are usually recognised as income over the period of performance of the service or as a lump sum if resulting from single acts.

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o) Securities and other items held under custody

Securities and other items held under custody, notably customers' securities, are recognised in off-balance sheet account headings at their nominal value.

p) Cash and cash equivalents

For the purposes of the preparation of cash flow statements, the bank considers "Cash and cash equivalents" to be the total amount of the "Cash and claims at central banks" and "Claims on other credit institutions" accounts.

q) Critical accounting estimates and most relevant judgemental aspects for the application of accounting policies

For the application of the above referred to accounting policies, the bank's board of directors must produce estimates. The estimates with the greatest impact in the bank's separate financial statements include those set out below.

Assessment of impairment losses on loans and other amounts receivable

Impairment losses on loans are assessed in accordance with the methodology defined in Note 2.2. d). The assessment of impairment on individually analysed assets accordingly derives from the bank's specific valuation based on knowledge of its customers' status and guarantees associated with the operations in question.

The assessment of impairment based on a collective analysis is made on the basis of specific historical parameters on types of comparable operations, taking default and recovery estimates into consideration.

The bank considers that the assessment of impairment on the basis of this methodology permits the adequate recognition of the risk associated with its loans portfolio, based on the rules defined in IAS 39.

Assessment of impairment losses on available for sale financial assets

As described in Note 2.2. c) i) b) , capital losses deriving from the valuation of such assets are recognised as a charge to "Revaluation reserves". Whenever objective evidence of impairment exists, accrued capital losses recognised in the revaluation reserve should be transferred to costs for the year.

In the case of equity instruments, the assessment of the existence of impairment losses may be subjective. The bank decides whether or not impairment exists on such assets through a specific analysis at each balance sheet date, based on the definitions of IAS 39 (see Note 2.2. d)).

Measurement of financial instruments not traded in active markets

The bank, under IAS 39, measures the value of several instruments recognised as available for sale financial assets at their fair value. Valuation models and techniques, as described in Note 2.2.c) are used to measure the value of financial instruments not traded on liquid markets. The valuations obtained comprise the best estimate of the fair value of the referred to instruments, at the date of the balance sheet.

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Employee benefits

As referred to in Note 2.2.m), the bank's liabilities for post employment and other employee benefits are assessed actuarially. These actuarial assessments incorporate, *inter alia*, financial and actuarial assumptions relating to mortality, disability, wage and pensions growth and the discount rate. The premises comprise the bank's and its actuaries' best estimates of the future performance of the respective variables.

Income tax assessment

Tax on profit (current and deferred) is assessed by the bank on the basis of the rules defined by the current fiscal environment. In several cases, however, fiscal legislation may not be sufficiently clear and objective and may give rise to different interpretations. The amounts recognised in such cases represent the responsible bank bodies' best understanding of the correctness of the bank's operations although this may be queried by the fiscal authorities.

As stated in Note 13, at 31 December 2013 no provision was made for contingencies relating to adjustments made to taxable profit for past years by the fiscal authorities, given that the bank considers that its procedures are in accordance with the legal and fiscal regulations in force in Cape Verde.

r) Adoption of new standards (IAS/IFRS) or revision of already issued standards

As referred to in Note 2.1, the bank, in preparing its financial statements, used the standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) of relevance to its operations and entering into force starting 1 January 2013.

The following standards, interpretations, amendments and revisions, mandatory in future financial years starting on or after 1 January 2013 were adopted for the first time in the year ended 31 December 2013.

Standard / Interpretation	Applicable in the years starting on or after	
Amendment to Standard IFRS 1 – First-time Adoption of International Financial Reporting Standards (Government Loans)	01-Jan-13	This Amendment exempts entities adopting IFRS for the first from the retrospective application of the dispositions of IAS 39 and paragraph 10A of IAS 20 on government loans
Amendment to Standard IFRS 7 – Financial Instruments: Disclosures (Netting of Financial Assets and Liabilities)	01-Jan-13	This Amendment requires additional disclosures on a level of financial instruments, particularly those related with the netting of financial assets and liabilities.



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Standard / Interpretation	Applicable in the years starting on or after	
Amendment to Standard IAS 1 – Presentation of Financial Statements (Other Comprehensive Income)	01-Jul-12	This Amendment comprises the following changes: (i) the items comprising other comprehensive income and which will, in the future, be recognised in the income statement for the period are now presented separately; and (ii) the comprehensive income statement is now referred to as the Results and Other Comprehensive Income Statement
Revision of Standard IAS 19 – Employee Benefits	01-Jan-13	The revision of this Standard comprised diverse changes, namely: (i) the recognition of actuarial and financial gains and losses deriving from the premises used to assess the liabilities and income expected from assets and the amounts effectively received, in addition to the results of changes to actuarial and financial premises occurring during the year as charge to reserves (other comprehensive income); (ii) a single interest rate is now applied for assessing the present value of liabilities and the expected return on the plan's assets; (iii) Expenditure recognised in the income statement corresponds solely to the current service cost and net interest expenditure; (iv) introduction of new disclosure requirements.
IFRS 13 – Fair Value Measurement (new Standard)	01-Jan-13	This Standard substitutes the current guidelines existing in the diverse IFRS Standards on fair value measurement. This Standard is applicable when another IFRS Standard requires or permits fair value measurement or disclosures.
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01-Jan-13	This Interpretation clarifies the recognition of certain costs incurred during the production phase of a surface mine.
Improvements in the International Financial Reporting Standards (cycle 2009-2011)	01-Jan-13	These improvements involve the revision of diverse Standards, namely IFRS 1 (repeated application of the Standard), IAS 1 (comparative information), IAS 16 (Accounting for Property, Plant and Equipment), IAS 32 (Fiscal effect of the appropriation of own equity instruments) and IAS 36 (segment reporting).
IFRS 10 – Consolidated Financial Statements	01-Jan-13	This Standard establishes the requirements for a parent company's presentation of consolidated financial statements, substituting, as regards such aspects Standard IAS 27 – Consolidated and Separate Financial Statements and SIC 12 – Consolidation-Special Purpose Entities. This Standard also brings in new rules on the definition of control and assessment of the consolidation perimeter.
IFRS 11 – Joint Arrangements	01-Jan-13	This Standard substitutes IAS 31 – Joint Ventures and SIC 13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers and eliminates the possibility of the use of the proportional consolidation method in accounting for interests in joint ventures.
IFRS 12 – Disclosure of Interests in Other Entities	01-Jan-13	This Standard establishes a new set of disclosures on interests in subsidiaries, joint arrangements, associates and non-consolidated entities.
IAS 27 – Separate Financial Statements (2011)	01-Jan-13	This Amendment restricts the scope of application of IAS to separate financial statements
IAS 28 – Investments in Associates and Joint Ventures (2011)	01-Jan-13	This amendment guarantees the consistency between IAS 28 – Investments in Associates and the new Standards adopted, particularly IFRS 11 – Joint Arrangements

The impacts of the adoption of the revised version of IAS 19 have been described in Note 2.3. The adoption of the other standards did not have a materially relevant impact on the bank's financial statements at 31 December 2013.

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The following standards, interpretations, amendments and revisions, mandatory in future financial years may be adopted in advance, upon the date of the approval of these financial statements.

Standard / Interpretation	Applicable in the years starting on or after	
Amendment to Standards: · IFRS 10 – Consolidated Financial Statements; · IFRS 12 – Disclosures of Interests in Other Entities (Investment Entities)	01-Jan-14	This Amendment introduces a consolidation dispensation for certain entities which can be defined as investment entities. It also establishes the measurement rules for investments held by such investment entities.
Amendment to Standard IAS 32 – Netting of Financial Assets and Liabilities	01-Jan-14	This Amendment clarifies certain aspects of the Standard related with the application of financial assets and liabilities clearing requirements.
Amendment to Standard IAS 36 – Impairment (Disclosures on the Recoverable Amount of Non-Financial Assets)	01-Jan-14	This Amendment eliminates the disclosure requirements on the recoverable amount of a cash generating unit with goodwill or intangibles having an undefined useful life allocated to periods in which no impairment loss or impairment revision has been recognised. It introduces additional disclosure requirements on assets for which an impairment loss or reversal has been recognised and when their recoverable amount has been assessed on the basis of fair value net of sales costs
Amendment to Standard IAS 39 – Financial Instruments: Recognition and Measurement (Reformulation of Derivatives and Continuation of Hedge Accounting)	01-Jan-14	This amendment permits, in certain circumstances, the continuation of hedge accounting when a derivative designated as a hedge instrument is reformulated.
IFRS 9 – “Financial Instruments” (2009) and latter Amendments	01-Jan-18	This Standard is part of the revision project of IAS 39 and establishes the requirements for the classification and measurement of financial assets.
IFRS 9 – “Financial Instruments” (2013) and IFRS 7 – “Financial Instruments - Disclosures”	01-Jan-18	The Amendment to IFRS 9 is part of the revision project of IAS 39 and establishes the requirements for the application of hedge accounting rule IFRS 7 was also revised as a result of this Amendment.

These standards, in spite of having been approved by the IASB were not adopted by the bank in the year ended 31 December 2013, as their application was not, as yet, mandatory. No significant impacts on the financial statements deriving from their adoption have been estimated.

### 2.3. Retrospective application of changes in accounting policies

As referred to in Note 2.2 m), the bank changed its accounting policy on the recognition of actuarial gains and losses, in 2013, having ceased to use the corridor method and recognising actuarial gains and losses in shareholders' equity, in the comprehensive income statement, for the respective period, as provided for in the revised version of IAS 19.

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As required by IAS 8, information on the effects of the accounting policy on shareholders' equity at 1 January 2012, income for 2012 and shareholders' equity at 31 December 2012 is set out below:

	31.12.2012		01.01.2012	
	Shareholders' equity exc. net income for period	Net income for period	Total shareholders' equity	Total shareholders' equity
Balances prior to retrospective evolution	3,401,605	339,088	3,740,693	3,021,314
Impact of retrospective application at 1 January 2012:				
Accrued actuarial deviations at 1 January 2012				
- Retirement pensions	365,105	-	365,105	365,105
- Healthcare	(117,331)	-	(117,331)	(117,331)
	247,774	-	247,774	247,774
Actuarial deviations recognised in 2012				
- Retirement pensions	299,335	-	299,335	-
- Healthcare	(33,803)	-	(33,803)	-
	265,532	-	265,532	-
Actuarial deviations amortised in 2012 (corridor surplus)				
- Healthcare	-	12,872	12,872	-
Fiscal effect	(134,175)	-	(134,175)	(63,183)
	379,131	12,872	392,003	184,591
Balance after retrospective application	3,780,736	351,960	4,132,696	3,205,905

### 3. CASH AND CLAIMS ON CENTRAL BANKS

This account heading comprises the following:

	2013	(pro forma) 2012
Cash		
. Domestic currency	542,680	545,534
. Foreign currency	652,435	658,428
Sight deposits with Bank of Cape Verde		
. Domestic currency	1,508,729	1,137,633
. Foreign currency	956	963
	2,704,800	2,342,558

The objective of sight deposits with the Bank of Cape Verde is to satisfy minimum cash reserve requirements. Under Bank of Cape Verde dispositions, such claims comprise 18% of average effective domestic and foreign currency liabilities to residents and emigrants.

No interest was paid on these deposits, in 2013 and 2012.

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#### 4. CLAIMS ON OTHER CREDIT INSTITUTIONS

This account heading comprises the following:

	2013	(pro forma) 2012
Sight deposits		
Credit institutions in Cape Verde		
. Caixa Económica de Cabo Verde	996	997
Credit institutions abroad		
. Citibank	42,832	79,931
. Caixa Geral de Depósitos, S.A.	41,624	65,894
. Banco Espírito Santo, S.A.	37,382	88,359
. JP Morgan Chase Bank	660	31,203
. Other	175,866	276,464
	<u>299,360</u>	<u>542,848</u>
Cheques pending collection:		
Domestic cheques	84,609	63,181
Foreign cheques	115,772	206,816
	<u>200,381</u>	<u>269,997</u>
Other claims	3,754	3,763
	<u>503,495</u>	<u>816,608</u>

Cheques pending collection comprise cheques drawn by customers of other banks and sent for clearing. These amounts are collected in the first few days of the following year.

#### 5. AVAILABLE FOR SALE FINANCIAL ASSETS

This account heading comprises the following:

	2013	(pro forma) 2012
Consolidated financial investment certificates		
. Fair value	6,818,523	6,626,466
. Income receivable	372,892	373,172
	<u>7,191,415</u>	<u>6,999,638</u>
Equity instruments	73,992	71,751
Impairment (Note 17)	( 10,841)	( 10,841)
	<u>7,254,566</u>	<u>7,060,548</u>
DF's	7,254,566	7,060,548

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Information on financial instruments classified in available for sale financial assets, at 31 December 2013 and 2012, is set out below:

Título	% investment	Acquisition cost	2013			2012 (pro forma)		
			Balance sheet value (net)	Revaluation reserve (Note 21)	Impairment (Note 17)	Balance sheet value (net)	Revaluation reserve (Note 21)	Impairment (Note 17)
<u>Equity instruments measured at fair value</u>								
Consolidated financial investment certificates	n.a.	6,433,170	7,191,415	385,353	-	6,999,638	193,296	-
Visa International Service Association	n.a.	1,314	7,906	6,593	-	5,665	4,351	-
		<u>6,434,484</u>	<u>7,199,321</u>	<u>391,946</u>	<u>-</u>	<u>7,005,303</u>	<u>197,647</u>	<u>-</u>
<u>Equity instruments measured at historical cost</u>								
A Promotora, Sociedade de Capital de Risco de Cabo Verde, S.A.R.L.	11.11%	50,000	39,159	-	( 10,841)	39,159	-	( 10,841)
Sociedade Cabo Verdiana de Tabacos, S.A.	0.65%	10,133	10,133	-	-	10,133	-	-
Fundo G.A.R.I.	0.19%	4,203	4,203	-	-	4,203	-	-
SITA - Sociedade Industrial de Tintas, S.A.R.L.	0.63%	1,750	1,750	-	-	1,750	-	-
		66,086	55,245	-	( 10,841)	55,245	-	( 10,841)
		<u>6,500,570</u>	<u>7,254,566</u>	<u>391,946</u>	<u>( 10,841)</u>	<u>7,060,548</u>	<u>197,647</u>	<u>( 10,841)</u>

TCMFs (consolidated financial investment certificates) were issued under the terms of Law 64/V/98 approving the creation of the “International Support for Cabo Verde Stabilization Trust Fund” (Fund). Under the terms of this statute, the fund is managed by the Bank of Portugal, which, owing to the autonomy of the fund’s assets, is, exclusively liable for the debts, costs and liabilities resulting from its existence, operation and organisation.

The fund’s investment policy is defined by a Cape Verde government representative, in conjunction with the management body with the objective of increasing asset value based on criteria of security and profitability.

TCMFs are the result of the conversion of matured Cape Verde Treasury bonds recognised at the nominal value of the securities delivered.

In accordance with Law 70/V/98 of 17 August, these securities’ principal characteristics are listed below:

- TCMFs are perpetual securities issued by the Treasury department of the state of Cape Verde, entitling holders to receive 90% of the fund’s annual net income. The bank recognises the proceeds from the income received from TCMFs each year, in “Income from equity instruments” (Note 24);
- The state undertakes to acquire the TCMFs within a maximum period of twenty years from the law’s date of approval, pursuant to the government’s definition of the terms and conditions;
- TCMFs during their first three years of existence, could only be traded between credit institutions lawfully authorised to operate in Cape Verde. Between the fourth and seventh years, each credit institution could annually transfer 25% of the total number of TCMFs held by it at the end of the third year. There are no restrictions on the trading of TCMFs after the eighth year.

Income from TCMFs for 2011 and 2012 was received in January 2013 and February 2014, respectively.

The bank retained its equity investment in Promotora, Sociedade de Capital de Risco de Cabo Verde, S.A.R.L. recognised at historical cost. Impairment of CVE 10,841, thousand has been recognised to reduce the balance sheet carrying amount of its estimated realisation price.

The market value of Sociedade Caboverdiana de Tabacos, S.A.’s shares at 31 December 2013 and 2012, assessed on the basis of their respective listed prices in the Cape Verde stock exchange at the said date was CVE 5,387 thousand and CVE 2,415 thousand less than their balance sheet carrying amount respectively. The bank retained the shares at historical cost, in due consideration of the fact that the company has remained stable and has even paid out dividends in addition to the security’s reduced liquidity in Cape Verde’s stock exchange.

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The investments in the G.AR.I, Fund and SITA – Sociedade Industrial de Tintas, S.A.R.L. were recognised at their historical cost owing to their reduced balance sheet value.

6. INVESTMENTS IN CREDIT INSTITUTIONS

This account heading comprises the following:

	2013	(pro forma) 2012
Investments in Cape Verde:		
· Bank of Cape Verde:		
- Certificates of monetary regulation	535,000	227,000
- Certificates of monetary intervention	90,000	798,000
- Very short term investments	9,800,000	9,500,000
	<u>10,425,000</u>	<u>10,525,000</u>
Investments in credit institutions abroad		
· Very short term investments		
- Caixa Geral de Depósitos, S.A.	263,567	480,672
- Banco Espírito Santo, S.A.	230,487	-
· Term deposits		
- Caixa Geral de Depósitos	881,628	499,590
· Mandatory deposit accounts		
- Other credit institutions abroad	9,082	9,435
	<u>1,384,764</u>	<u>989,697</u>
Interest receivable	1	43
Deferred income	( 109)	( 1,380)
	<u>11,809,656</u>	<u>11,513,360</u>

7. PUBLIC DEBT SECURITIES

This account heading comprises the following:

	2013	(pro forma) 2012
<u>Treasury bonds</u>		
Nominal value	4,450,855	3,297,630
Interest receivable	75,728	59,618
	<u>4,526,583</u>	<u>3,357,248</u>

The nominal value of Treasury bonds sold under repurchase agreements totalled CVE 651,780 thousand and CVE 1,902,330 thousand, respectively, at 31 December 2013 and 2012 (Note 16).

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8. LOANS AND ADVANCES TO CUSTOMERS

This account heading comprises the following:

	2013	(pro forma) 2012
Short term domestic credit		
. Commercial discounts	53,290	29,300
. Current account loans	2,500,095	2,914,459
. Current account overdrafts	173,209	143,524
. Credit cards	114,988	114,946
Medium and long term domestic credit:		
. Loans	28,277,328	29,400,472
Short term foreign credit:		
. Commercial discounts	6,600	3,500
. Short term domestic loans	16,871	11,191
. Current account overdrafts	1,001	1,428
. Credit cards	10,829	9,637
Medium and short term foreign loans:		
. Loans	260,627	288,729
. Current account loans	90,137	81,767
Other loans and receivables (securitised)	3,852,024	3,918,378
Employee loans	1,943,893	1,870,277
	<u>37,300,892</u>	<u>38,787,608</u>
Interest receivable	188,392	215,829
Commissions and other deferred income	(234,475)	(266,498)
Deferred costs	2,711	3,043
Overdue credit and interest	5,811,623	4,754,991
	<u>43,069,143</u>	<u>43,494,973</u>
Impairment on loans and advances to customers (Note 17)	(3,901,594)	(3,057,309)
	<u>39,167,549</u>	<u>40,437,664</u>
DF's	39,167,549	40,437,664

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“Other credit and amounts receivable (securitised)” at 31 December 2013 and 2012 reflect the value of domestic corporate bonds recognised in “Loans and accounts receivable” (Note 2.2.c) a)). Information on these bonds is set out below:

Shares	2013	2012	Maturity
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche B	663,751	663,751	14/06/2017
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche C	1,458,220	1,458,220	14/06/2027
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche D	637,951	637,951	27/07/2020
Câmara Municipal da Praia	364,194	385,618	23/07/2030
Tecnici - Sociedade Imobiliária de Construções, S.A. - Series E	350,000	350,000	06/08/2015
Câmara Municipal do Sal	139,740	151,385	15/07/2025
Sociedade de Gestão de Investimentos, Lda.	66,569	99,854	18/02/2014
IFH - Imobiliária, Fundiária e Habitat, S.A. - Tranche A	65,547	65,547	06/01/2014
Cabo Verde Fast Ferry, S.A.	59,687	59,687	31/07/2019
ASA - Empresa Nacional de Aeroportos e Segurança Aérea, S.A.	40,147	40,147	11/10/2017
Tecnici Indústria, S.A.	6,218	6,218	23/04/2014
	<u>3,852,024</u>	<u>3,918,378</u>	

Bonds issued by Electra – Empresa de Electricidade e Águas, S.A.R.L. and IFH – Imobiliária, Fundiária e Habitat, S.A. are backed by the state of Cape Verde. Bonds issued by ASA – Empresa Nacional de Aeroportos e Segurança Aérea, S.A. are guaranteed by a comfort letter issued by the state of Cape Verde.

Bonds issued by Tecnici - Sociedade Imobiliária de Construções, S.A. and Cabo Verde Fast Ferry, S.A., at 31 December 2013, have been in default on the payment of coupon interest since February 2013.

Interest rates on employee loans, at 31 December 2013 and 2012, were subsidised.

Outstanding loans backed by a state of Cape Verde guarantee, at 31 December 2013 and 2012, totalled CVE 3,897,467 thousand and CVE 3,087,252 thousand respectively.



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The structure of loans and advances to customers, at 31 December 2013 and 2012, excluding “Other credit and amounts receivable (securitised)” and associated accrued interest, comprised the following by sectors of activity:

31.12.2013									
General government and state-owned companies			Private companies and individuals			Total			
Outstanding credit	Overdue credit	Total	Outstanding credit	Overdue credit	Total	Outstanding credit	Overdue credit	Total	
<b>Companies</b>									
Agriculture, animal husbandry, hunting and silviculture	-	-	8,244	7,029	15,273	8,244	7,029	15,273	
Fisheries	-	-	16,130	34,837	50,967	16,130	34,837	50,967	
Extractive industries	-	-	7,898	34,048	41,946	7,898	34,048	41,946	
Extractive industries exc. energy goods	-	-	7,898	34,048	41,946	7,898	34,048	41,946	
Manufacturing	-	-	1,464,908	114,020	1,578,928	1,464,908	114,020	1,578,928	
Food, beverages and tobacco industries	-	-	197,783	94,603	292,386	197,783	94,603	292,386	
Textiles industry	-	-	23,357	417	23,774	23,357	417	23,774	
Paper, board, publishing and printing	-	-	185,826	6,021	191,847	185,826	6,021	191,847	
Manufacturing of chemicals and synthetic or artificial fibres	-	-	73,743	-	73,743	73,743	-	73,743	
Manufacturing of basic pharmaceutical products and preparations	-	-	115,515	563	116,078	115,515	563	116,078	
Manufacturing of other non-metallic minerals	-	-	-	830	830	-	830	830	
Basic metallurgical and metallic products	-	-	71,601	4,204	75,805	71,601	4,204	75,805	
Manufacture of plant and machinery	-	-	783,589	3,285	786,874	783,589	3,285	786,874	
Manufacture of furniture and mattresses	-	-	13,494	4,097	17,591	13,494	4,097	17,591	
Generation and distribution of electricity, gas and water	-	-	610,026	19	610,045	610,026	19	610,045	
Construction	2	-	2	708,704	2,647,239	1,938,537	708,704	2,647,241	
Wholesale, retail, repair of motor vehicles, motorbikes and personal and domestic goods	-	-	2,326,161	484,167	2,810,328	2,326,161	484,167	2,810,328	
Hotels, restaurants and the like	-	-	778,204	318,044	1,096,248	778,204	318,044	1,096,248	
Transport, warehousing and communications	-	-	1,538,083	477,917	2,016,000	1,538,083	477,917	2,016,000	
Information and communication activities	-	-	926,371	36,142	962,513	926,371	36,142	962,513	
Financial activities	-	-	934	-	934	934	-	934	
Financial brokerage excluding insurance and pension funds	-	-	934	-	934	934	-	934	
Property, corporate hires and services	-	-	870,843	162,030	1,032,873	870,843	162,030	1,032,873	
Property activities	-	-	870,843	162,030	1,032,873	870,843	162,030	1,032,873	
Consultancy, scientific, technical and the like	-	-	412,423	608,613	1,021,036	412,423	608,613	1,021,036	
Administrative activities and support services	-	-	20,023	375	20,398	20,023	375	20,398	
Public administration, defence and mandatory social security	1,359,375	1	1,359,376	16,949	11	1,359,376	16,949	11	
Education	-	15	15	3,738	2	3,740	15	3,740	
Health and social security	1,600	-	1,600	292,182	15,768	307,950	293,782	15,768	
Other activities and collective, social and personal services	647,166	4	647,170	1,484,216	828,407	2,312,623	2,131,382	828,411	
Households with domestic servants	-	-	1,930	116	2,046	1,930	116	2,046	
International organisations and other extraterritorial institutions	-	-	27,412	3,847	31,259	27,412	3,847	31,259	
<b>2,008,143</b>	<b>20</b>	<b>2,008,163</b>	<b>12,745,210</b>	<b>3,834,096</b>	<b>16,579,306</b>	<b>14,753,353</b>	<b>3,834,116</b>	<b>18,587,469</b>	
<b>Individual customers</b>									
Housing	-	-	-	14,638,227	1,311,805	15,950,032	14,638,227	1,311,805	15,950,032
Other	-	-	-	4,057,288	665,702	4,722,990	4,057,288	665,702	4,722,990
<b>2,008,143</b>	<b>20</b>	<b>2,008,163</b>	<b>31,440,725</b>	<b>5,811,603</b>	<b>37,252,328</b>	<b>33,448,868</b>	<b>5,811,623</b>	<b>39,260,491</b>	

31.12.2012 (pro forma)									
General government and state-owned companies			Private companies and individuals			Total			
Outstanding credit	Overdue credit	Total	Outstanding credit	Overdue credit	Total	Outstanding credit	Overdue credit	Total	
<b>Companies</b>									
Agriculture, animal husbandry, hunting and silviculture	-	-	11,774	6,538	18,312	11,774	6,538	18,312	
Fisheries	-	-	11,691	34,811	46,502	11,691	34,811	46,502	
Extractive industries	-	-	12,124	22,254	34,378	12,124	22,254	34,378	
Extraction of energy products	-	-	-	-	-	-	-	-	
Extractive industries exc. energy goods	-	-	12,124	22,254	34,378	12,124	22,254	34,378	
Manufacturing	-	-	1,550,786	98,967	1,649,753	1,550,786	98,967	1,649,753	
Food, beverages and tobacco industries	-	-	277,866	86,767	364,633	277,866	86,767	364,633	
Textiles industry	-	-	25,154	2,543	27,697	25,154	2,543	27,697	
Leather and leather goods industry	-	-	36	1,239	1,275	36	1,239	1,275	
Manufacturing of chemicals and synthetic or artificial fibres	-	-	90,547	-	90,547	90,547	-	90,547	
Manufacturing of basic pharmaceutical products and preparations	-	-	311,815	563	312,378	311,815	563	312,378	
Manufacturing of other non-metallic minerals	-	-	16	830	846	16	830	846	
Basic metallurgical and metallic products	-	-	40,031	35	40,066	40,031	35	40,066	
Manufacture of plant and machinery	-	-	790,971	3,493	794,464	790,971	3,493	794,464	
Manufacture of furniture and mattresses	-	-	14,350	3,497	17,847	14,350	3,497	17,847	
Generation and distribution of electricity, gas and water	-	-	703,198	4	703,202	703,198	4	703,202	
Construction	2	-	2	2,385,025	18,125	2,385,027	18,125	2,385,027	
Wholesale, retail, repair of motor vehicles, motorbike and personal and domestic goods	-	-	2,690,306	268,900	2,959,206	2,690,306	268,900	2,959,206	
Hotels, restaurants and the like	-	-	731,370	309,419	1,040,789	731,370	309,419	1,040,789	
Transport, warehousing and communications	-	-	1,641,776	479,198	2,120,974	1,641,776	479,198	2,120,974	
Information and communication activities	-	-	18,135	37,090	55,225	18,135	37,090	55,225	
Financial activities	-	-	663	-	663	663	-	663	
Financial brokerage excluding insurance and pension funds	-	-	663	-	663	663	-	663	
Property, corporate hires and services	-	-	914,439	120,786	1,035,225	914,439	120,786	1,035,225	
Property activities	-	-	914,439	120,786	1,035,225	914,439	120,786	1,035,225	
Consultancy, scientific, technical and the like	-	-	418,609	633,067	1,051,676	418,609	633,067	1,051,676	
Administrative activities and support services	-	-	23,092	502	23,594	23,092	502	23,594	
Public administration, defence and mandatory social security	966,933	55	966,988	67,196	65	967,261	1,034,129	120	
Education	-	15	15	7,857	452	8,309	7,857	467	
Health and social security	2,358	-	2,358	297,750	9,428	307,178	300,107	9,428	
Other activities and collective, social and personal services	1,109,046	7	1,109,053	1,989,632	60,137	2,591,010	3,098,679	601,385	
Households with domestic servants	-	-	682	2,633	3,315	682	2,633	3,315	
International organisations and other extraterritorial institutions	-	-	32,700	3,488	36,188	32,700	3,488	36,188	
<b>2,078,339</b>	<b>77</b>	<b>2,078,416</b>	<b>13,508,805</b>	<b>2,810,195</b>	<b>16,319,000</b>	<b>15,587,144</b>	<b>2,810,272</b>	<b>18,397,416</b>	
<b>Individual customers</b>									
Housing	-	-	-	14,828,474	1,253,664	16,082,138	14,828,474	1,253,664	16,082,138
Other	-	-	-	4,453,611	691,056	5,144,667	4,453,611	691,056	5,144,667
<b>2,078,339</b>	<b>77</b>	<b>2,078,416</b>	<b>32,790,880</b>	<b>4,754,915</b>	<b>37,545,805</b>	<b>34,869,229</b>	<b>4,754,982</b>	<b>39,624,221</b>	

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
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## 9. INVESTMENT PROPERTIES

This account heading, at 31 December 2013 and 2012, comprised land owned by the bank, reclassified from “Other tangible assets” in the transition to IFRS. The bank sold a piece of land in Tarrafal for a total amount of CVE 3,001 thousand in 2012.

## 10. OTHER TANGIBLE ASSETS

Information on “Other tangible assets” movements for 2013 and 2012 is set out below:

	Balance at 31.12.2012		Increases	Transfers	Reclassi- fications	Depreciation for period	Sales and write-offs gross	Net amount in 2013
	Gross amount	Depreciation and accumulated impairment losses						
Property for own use								
Land	75,034	-	-	-	-	-	-	75,034
Buildings	1,788,207	(562,520)	32,604	120,025	-	(31,759)	-	1,346,557
Works on rented buildings	401,882	(179,449)	42,500	535	-	(31,815)	(33,921)	199,732
Equipment	-	-	-	-	-	-	-	-
Furniture and office material	247,389	(165,889)	4,528	720	-	(17,627)	(48)	69,073
Machinery and tools	54,738	(42,871)	2,202	-	-	(4,892)	-	9,177
IT equipment	434,840	(389,031)	14,367	3,906	61	(24,498)	-	39,645
Interior installations	161,249	(125,586)	4,271	-	-	(11,133)	-	28,801
Transport material	214,884	(113,930)	24,446	-	-	(33,866)	(4,769)	86,765
Security equipment	65,639	(35,309)	7,215	-	-	(4,956)	-	32,589
Other equipment	102,398	(93,028)	938	7,079	8,913	(6,803)	-	19,497
Tangible assets in progress	153,754	-	162,544	(132,265)	(8,974)	-	-	175,059
	<u>3,700,014</u>	<u>(1,707,613)</u>	<u>295,615</u>	<u>-</u>	<u>-</u>	<u>(167,349)</u>	<u>(38,738)</u>	<u>2,081,929</u>

2012 (pro forma)								
	Balance at 31.12.2011		Increases	Transfers	Reclassi- fications	Depreciation for period	Sales and write-offs gross	Net amount in 2012
	Gross amount	Depreciation and accumulated impairment losses						
Property for own use								
Land	75,034	-	-	-	-	-	-	75,034
Buildings	1,777,678	(533,590)	22,620	-	(12,617)	(28,930)	526	1,225,687
Works on rented buildings	356,003	(143,593)	33,315	-	12,564	(35,856)	-	222,433
Equipment	-	-	-	-	-	-	-	-
Furniture and office material	232,256	(146,554)	15,317	-	-	(19,335)	(184)	81,500
Machinery and tools	51,364	(37,314)	3,433	-	(51)	(5,557)	(8)	11,867
IT equipment	420,694	(354,153)	8,540	9,604	(3,998)	(34,878)	-	45,809
Interior installations	152,594	(113,398)	8,509	-	185	(12,188)	(39)	35,663
Transport material	170,178	(82,611)	40,694	8,393	-	(31,319)	(4,381)	100,954
Security equipment	48,873	(31,959)	6,856	10,023	(113)	(3,350)	-	30,330
Other equipment	100,009	(86,060)	798	-	1,595	(6,968)	(4)	9,370
Tangible assets in progress	101,800	-	84,824	(33,965)	2,435	-	(1,340)	153,754
	<u>3,486,483</u>	<u>(1,529,232)</u>	<u>224,906</u>	<u>(5,945)</u>	<u>-</u>	<u>(178,381)</u>	<u>(5,430)</u>	<u>1,992,401</u>

Fixed assets in progress, at 31 December 2013 and 2012, essentially refer to works in progress on the bank's branches and acquisition of IT equipment, which had not yet come into service at the end of the year.

The bank, recognised CVE 37,671 thousand in impairment on property for own use at 31 December 2013 and 2012 (Note 17).

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
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## 11. INTANGIBLE ASSETS

“Intangible assets” movements in 2013 and 2012, comprised the following:

	2013					
	Balance at 31.12.2012		Increases	Sales and write-offs (net)	Depreciation for period	Net amount in 2013
	Gross amount	Accumulated depreciation				
Automatic data processing equipment (software)	265,832	(219,883)	2,989	(1,707)	(24,458)	22,773
Other intangible assets	13	(11)	-	-	(2)	-
	<u>265,845</u>	<u>(219,894)</u>	<u>2,989</u>	<u>(1,707)</u>	<u>(24,460)</u>	<u>22,773</u>

	2012 (pro forma)					
	Balance at 31.12.2011		Increases	Transfers	Depreciation for period	Net amount in 2012
	Gross amount	Accumulated depreciation				
Sistemas de tratamento processing equipment (software)	238,177	(195,210)	21,710	5,945	(24,673)	45,949
Other intangible assets in progress	13	(7)	-	-	(4)	2
	<u>238,190</u>	<u>(195,217)</u>	<u>21,710</u>	<u>5,945</u>	<u>(24,677)</u>	<u>45,951</u>

## 12. INVESTMENTS IN ASSOCIATES

The balance of this account heading, at 31 December 2013 and 2012, comprised the following:

Entity	% equity stake	Acquisition cost	2013				2012 (pro forma)			
			Book value	Date	Net assets	Profit / (loss)	Equity	Book value	Date	Net assets
Garantia - Companhia de Seguros de Cabo Verde, S.A.R.L.	35%	70,000	192,861	31-12-2013 <sup>(1)</sup>	2,854,894	75,114	1,041,690	180,613	31/12/2012	2,861,619
SISP - Sociedade Interbancária e Sistema de Pagamentos, S.A.R.L.	10%	10,000	54,275	31-12-2013 <sup>(1)</sup>	765,040	149,301	542,438	45,559	31/12/2012	625,306
CVGARANTE - Sociedade de Garantia Mútua, S.A.	15%	15,000	15,000	31-12-2013 <sup>(1)</sup>	97,167	(4,033)	95,967	n.a	n.a	n.a
Promoleasing, Sociedade de Locação Financeira, Sociedade Unipessoal Anónima, S.A.	49%	14,700	6,184	31-12-2013 <sup>(1)</sup>	348,578	13,217	31,308	6,184	31/12/2012	350,166
			<u>109,700</u>		<u>268,320</u>		<u>232,356</u>			<u>(4,297)</u>

n.a. - not applicable

(1) Provisional financial statements

### Garantia - Companhia de Seguros de Cabo Verde, S.A.R.L.

Garantia - Companhia de Seguros de Cabo Verde, S.A.R.L. (Garantia) has a 12.5% equity investment in the bank. This cross investment is taken into consideration for the assessment of the value of the bank's investment in Garantia.

### SISP - Sociedade Interbancária e Sistema de Pagamentos, S.A.R.L.

The bank classified its SISIP investment as an investment in associates, notwithstanding the fact that the investment was only 10%, as the bank sits on the board. The board of directors considers that this gives it significant influence over SISIP's activity and therefore in conformity with the dispositions of IAS 28 – Investments in associates.

### Promoleasing – Sociedade de Locação Financeira, Sociedade Unipessoal Anónima, S.A.

The bank subscribed for 14,700 Promoleasing – Sociedade de Locação Financeira Unipessoal Anónima, S.A. (Sociedade) shares, representing 49% of its share capital in 2010, for a nominal amount of CVE 1 thousand per share. This company began to operate in 2010.

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CVGARANTE - Sociedade de Garantia Mútua, S.A.

The formation of CVGARANTE – Sociedade de Garantia Mútua, S.A. (Sociedade) with a share capital of CVE 100,000 thousand was authorised under the terms of the dispositions of article 1 of Ministerial Order 28/2013 of 15 May. This is a mutual guarantee company with the corporate object of performing financial operations for micro, small and medium-sized enterprises, with the aim of facilitating their access to funding both from the financial system and the capital market. The bank subscribed for 15,000 shares for the amount of CVE 15,000 thousand, comprising 15% of the company's share capital. Under the terms of the shareholders' agreement, the company's credit institution shareholders have given SPMG – Sociedade de Investimento, S.A. a sales option on the company's shares at their nominal value, to be exercised annually with reference to 31 December. At 23 December 2013, an application for a permit for the company to begin its operations was submitted to the Bank of Cape Verde and currently awaits approval. The bank has, accordingly, maintained its investment in the company recognised at its acquisition cost.

Information on the balance sheet value of these investments in 2013 and 2012 and respective impact in the bank's financial statements is set out below:

	Garantia	SISP	CVGARANTE	Promoleasing	Total
Balance at 31 December 2011	166,847	40,787	-	8,281	215,915
Movements recognised directly as a charge to shareholders' equity	5,377	-	-	-	5,377
Income generated by associates	23,250	9,293	-	(2,097)	30,446
Dividends received	(14,861)	(4,521)	-	-	(19,382)
Balance at 31 December 2012 (pro forma)	<u>180,613</u>	<u>45,559</u>	<u>-</u>	<u>6,184</u>	<u>232,356</u>
Acquisition cost	-	-	15,000	-	15,000
Income generated by associates	26,290	13,721	-	-	40,011
Dividends received	(14,042)	(5,005)	-	-	(19,047)
Balance at 31 December 2013	<u>192,861</u>	<u>54,275</u>	<u>15,000</u>	<u>6,184</u>	<u>268,320</u>

### 13. INCOME TAX

The bank is subject to the payment of "IUR" ("Income Tax") at a rate of 25% plus a 2% fire tax on its tax bill, comprising an aggregate rate of 25.50%.

Tax assets and liabilities balances, at 31 December 2013 and 2012, were as follows:

	2013	(pro forma) 2012
<u>Current tax assets</u>		
. IUR reimbursement for 2012	60,534	-
. IUR reimbursement for 2011	93,148	93,148
. IUR reimbursement for 2010	146,894	146,894
. IUR reimbursement for 2009	172,845	172,845
. IUR reimbursement for 2008	114,517	114,517
. IUR reimbursement for 2006	120,912	120,912
. IUR reimbursement for 2005	54,646	54,646
	<u>763,496</u>	<u>702,962</u>
. Deductions at source for period		
. 2013	24,681	-
. 2012	20,044	20,044
	<u>808,221</u>	<u>723,006</u>
<u>Deferred tax assets</u>		
. Temporary differences	2,448	97,117
<u>Deferred tax liabilities</u>		
. Temporary differences	(142,207)	(158,223)
	<u>(139,759)</u>	<u>(61,106)</u>

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2013  
(Amounts expressed in thousand Cape Verde escudos – CVE thousand.)

The following table provides details and information on deferred tax movements in 2013 and 2012:

	Balance at 31.12.2012 (pro forma)	Change in			Balance 31.12.2013
		Shareholders' equity	Income	Other	
Conversion adjustments to IFRS	78,221	-	(78,081)	(3)	
Movements charged to reserves					
Actuarial deviations in healthcare and medical assistance	(134,175)	-	-	-	(134,175)
Valuation of investments in associates	(4,040)	-	-	-	(4,040)
Valuation of available for sale financial assets	(1,112)	(571)	-	2	(1,112)
	<u>(61,106)</u>	<u>(571)</u>	<u>(78,081)</u>	<u>(1)</u>	<u>(139,258)</u>

	Balance at 31.12.2011	Change in			Balance at 31.12.2012
		Shareholders' equity	Income	Other	
Conversion adjustments to IFRS	156,301	-	(78,080)		78,221
Movements charged to reserves					
Actuarial deviations in healthcare and medical assistance	(63,183)	(70,992)	-		(134,175)
Valuation of investments in associates	(2,669)	(1,371)	-		(4,040)
Valuation of available for sale financial assets	(665)	(447)	-		(1,112)
	<u>89,784</u>	<u>(72,810)</u>	<u>(78,080)</u>		<u>(61,106)</u>

Under Decree Law 14/2010 of 26 April, the impacts of the transition to IFRS assessed with reference to 1 January 2008 with an effect on equity and considered to be fiscally relevant under IUR regulations, comprise taxable material in equal parts over a five year period. Deferred tax assets on the transition impacts at 31 December 2012 include CVE 64,870 thousand on the transition adjustments originated by pension and healthcare liabilities.

Information on the reconciliation between the nominal and effective tax rates in 2013 and 2012 is set out below:

	2013		2012 (pro forma)	
Income before tax		297,625		460,087
Income tax assessed at nominal rate	25.50%	75,894	25.50%	117,322
Fiscal benefits:				
· Income from consolidated financial investment certificates	-7.69%	(22,900)	-3.71%	(17,064)
· Income from bonds admitted to listing	-19.92%	(59,280)	-14.29%	(65,750)
· Income from secondary market public debt placements	-6.19%	(18,409)	-6.24%	(28,726)
· Donations	-0.55%	(1,623)	-0.31%	(1,418)
· Dividends	-0.02%	(53)	-0.01%	(53)
· Other	-0.53%	(1,569)	-0.02%	(79)
Costs disallowed for fiscal purposes	1.96%	5,830	2.49%	11,458
Fiscal losses	33.91%	100,911	14.27%	65,673
Corrections for past periods	0.00%	-	6.53%	30,046
Other	-0.24%	(720)	-0.71%	(3,282)
Income tax for period	<u>26.23%</u>	<u>78,081</u>	<u>23.50%</u>	<u>108,127</u>

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Under the terms of current legislation, the bank benefits from exemptions on the following income:

- consolidated financial investment certificates
- income received on securities issued by the Cape Verde Treasury and placed in the secondary market;
- dividends received; and
- income from bonds other than public debt bonds, admitted to Cape Verde's stock exchange's official list for three years beginning from their effective operational date. This income, depending on the year of issue, also benefited from reduced tax rates.

On account of the above and excluding the impact of the fiscal effects of the transition to IFRS which are being recognised over a five year period, the bank's tax burden in 2013 and 2012 is lower than the standard tax rate.

Under the terms of the General Tax Code approved by Law 37/IV/ 92 any losses are deductible from taxable profit for one of more of the following three years. Accrued tax losses in 2013, totalled CVE 195,217 thousand.

In September 2009, the bank was notified by the Directorate General for Tax of settlements relating to tax corrections for 2008. The bank contested the corrections relating to pension costs and healthcare liabilities. The appeal was rejected by the tax authorities in October 2010, with the bank having settled its tax liability. However, in considering that the procedures used are in accordance with the legal and fiscal regulations in force in Cape Verde, the bank recognised a deferred tax asset of CVE 114,517 thousand relative to its pension costs and healthcare liabilities.

In December 2010, the bank was notified by DGCI of settlements in respect of tax corrections on its income in 2009. Although contesting the corrections relative to pension costs and healthcare liabilities, it settled the outstanding amount in 2011, having recognised a deferred tax asset for the recovery of an amount of CVE 172,845 thousand.

In 2011 the bank received three notifications from DGCI, concerning settlements relating to tax corrections for 2005, 2006 and 2010, essentially related with pension costs and healthcare liabilities. Although having settled the additional amounts, the bank contested the corrections, having recognised a deferred tax asset of CVE 322,452 thousand.

In January 2012, the bank made a provisional settlement of CVE 60,510 thousand in income tax for 2011. In September 2012, the bank received a notification from DGCI fixing taxable income for 2011 and resulting in the payment of an additional amount of CVE 48,774 thousand. The bank contested the corrections in respect of pension costs and healthcare liabilities. In addition, the bank did not settle the outstanding amount having put up a bank guarantee of CVE 48,774 thousand to cover the amount fixed by DGCI.

In 2012 the bank received three notifications from DGCI on tax corrections for 2007. The bank contested the corrections relating to pension costs and healthcare liabilities. In addition, the bank did not settle the outstanding amount having put up a bank guarantee of CVE 180,500 thousand to cover the amount fixed by DGCI. DGCI accepted a part of the appeal filed by the bank on the October 2008 notification of CVE 22,634 thousand in settlements relating to income tax for 2007.

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In August 2013, the bank received a notification from DGCI, concerning settlements relating to tax corrections for 2012. The bank contested the corrections, including those in respect of pension costs and healthcare liabilities. In December 2013, the DGCI accepted some of the appeals filed by the bank, with essentially the costs related with pensions and healthcare continuing not to be accepted, originating a tax credit of CVE 18,869 thousand.

In 2012 the bank received a communication from DGT rejecting its appeal on the forced settlement of 2008, against which decision the bank took legal action. In December 2013, the bank was notified of the decision of the Western Fiscal and Customs Court which accepted the appeal in full and annulled the act of defining the taxable income and corresponding settlement. In February 2014, DGCI filed an appeal against this decision with the Supreme Court of Justice.

At 31 December 2013, the impact of the above referred to corrections on pensions and healthcare costs may be summarised as follows:

	2005	2006	2007	2008	2009	2010	2011	2012	Total
Pension and healthcare corrections	54,646	120,912	184,270	114,517	165,755	171,711	169,677		981,488
Other corrections	-	-	(3,710)	-	7,090	(24,817)	878		(20,559)
Fiscal losses	-	-	-	-	-	-	(28,633)		(28,633)
	<u>54,646</u>	<u>120,912</u>	<u>180,560</u>	<u>114,517</u>	<u>172,845</u>	<u>146,894</u>	<u>141,922</u>	<u>-</u>	<u>932,296</u>
Current tax assets	54,646	120,912	-	114,517	172,845	146,894	93,148		702,962
Guarantees provided	-	-	180,500	-	-	-	48,774		229,274
	<u>54,646</u>	<u>120,912</u>	<u>180,500</u>	<u>114,517</u>	<u>172,845</u>	<u>146,894</u>	<u>141,922</u>	<u>-</u>	<u>932,236</u>

At 31 December 2013 the total impact of the eventual risk associated with the above described situations totalled around CVE 993,845 thousand, including corrections for 2005 to 2012 for the amount of CVE 993,845 thousand, including around CVE 180,500 thousand and CVE 48,774 thousand relative to additional settlements in 2007 and 2011, respectively, for which the bank put up a bank guarantee. An amount of CVE 783,540 thousand was paid by the bank and recognised in "Current tax assets" as tax to be recovered in future periods.

As regards 2013, in light of the pension fund movements in the period, the board of directors considers that any corrections related with pensions and healthcare to be made by the tax authorities would not give rise to any additional settlement and therefore considers that there was no additional contingency other than the one referred to above.

Under the terms of the General Tax Code approved by Law 37/IV/92, the fiscal authorities are entitled to review the bank's fiscal situation for a period of five years. Different interpretations of fiscal legislation may result in eventual corrections to taxable income. For this reason, 2009 is still subject to revision and correction as regards the above referred to situation. The board of directors does not foresee any significant correction to the bank's financial statements, at 31 December 2013.

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#### 14. OTHER ASSETS

This account heading comprises the following:

	2013	(pro forma) 2012
<u>Other assets</u>		
Auctioned goods	163,716	192,468
Works of art	10,828	10,458
Gold, precious metals, coins and medallions	588	693
Debtors and other loans and advances		
Miscellaneous debtors		
. State	209,027	207,999
. Other entities	67,030	70,374
Subsidies receivable		
. From the state	814,432	785,114
. From other entities	4,460	4,265
. Other	-	2,311
Advances to suppliers of fixed assets	10,780	2,025
<u>Deferred expenses</u>		
. Insurance	10,800	19,622
. Other	16,006	18,956
	<u>1,307,667</u>	<u>1,314,285</u>
Impairment of other assets (Note 17):		
. Property received in kind	(48,436)	(44,680)
. Other assets	(84,365)	(86,373)
	<u>(132,801)</u>	<u>(131,053)</u>
	<u>1,174,866</u>	<u>1,183,232</u>

Subsidies to be received from the state of Cape Verde are for credit and deposits and calculated in accordance with the legislation in force in Cape Verde. The balances recognised comprise the amounts claimed by the bank since early 2003. The reimbursement of these amounts is being negotiated with DGT (Directorate General for the Treasury), as, pursuant to the scope of an external audit on the application of a subsidised credit regime, DGT had queried the eligibility of a series of operations. In November 2012, DGT informed the bank that it would accept payment of CVE 168,133 thousand on mortgage subsidies applied for between 2000 and 2007, having considered claims for subsidies for the amount of CVE 102,098 thousand to be ineligible. DGT also confirmed the amount of CVE 208,504 thousand in mortgage subsidies for the period between 2008 and 2011 against claims of CVE 277,728 thousand. The bank opted to recognise the cost relative to the operations identified as being ineligible for a period of 5 years starting 2012, having recognised a total amount of CVE 68,505 thousand in "Interest and similar income – Interest on loans and advances to customers" as expenditure for 2013 and 2012 and maintaining recognition of CVE 102,758 thousand.

As regards mortgage loan operations subsidies for 2012 and 2013, whose application and impairment totalled CVE 125,423 thousand and CVE 33,409 thousand, respectively, and other subsidies, totalling CVE 209,553 thousand, negotiations are still being held between the parties with the aim of quantifying the eligible operations.

An amount of around CVE 26,000 thousand, in respect of the "Miscellaneous debtors – state" account heading has still not been confirmed.



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The following table provides information on properties received as payment in kind, at 31 December 2013 and 2012 in accordance with the date of acquisition by the bank:

Year of acquisition	2013			2012		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
prior to 2010	32,956	(27,494)	5,462	38,589	(29,415)	9,174
2010	17,351	(8,676)	8,675	62,542	(11,849)	50,693
2011	30,778	(7,172)	23,606	34,158	(3,416)	30,742
2012	50,943	(5,094)	45,849	57,179	-	57,179
2013	31,688	-	31,688	-	-	-
	<u>163,716</u>	<u>(48,436)</u>	<u>115,280</u>	<u>192,468</u>	<u>(44,680)</u>	<u>147,788</u>

Net capital losses on disposals of repossessed property in 2013, totalled CVE 230 thousand (net capital losses of CVE 4,190 thousand in 2012 – Note 27).

#### 15. OTHER CREDIT INSTITUTIONS' RESOURCES

This heading comprises the following:

	2013	(pro forma) 2012
Sight deposits		
. Credit institutions in Cape Verde	142,871	69,382
. Credit institutions abroad	303,470	289,225
. Other resources	-	4,083
Term deposits		
. Credit institutions in Cape Verde	64,000	35,000
Loans		
. From international financial organisations	218,988	142,615
Deferred interest	1,042	1,414
	<u>730,371</u>	<u>541,719</u>

The bank, Banco Interatlântico, Caixa Económica de Cabo Verde and Banco Caboverdiano de Negócios took out a line of credit with the French Development Agency for a maximum amount of €5,000,000 on 14 October 2005, for municipal economic and social development projects, repayable over a ten year period starting 30 April 2010, in half yearly payments of principal and interest. Interest at a rate of 1.83% is payable on the loan. The bank, at 31 December 2013 and 2012, had used an amount of €1,131,713 and €1,293,385 (CVE 124,788 thousand and CVE 142,615 thousand, respectively), recognised in the "Loans from international financial organisations" account heading.

The bank, Banco Interatlântico and Banco Caboverdiano de Negócios took out a line of credit with the French Development Agency for a maximum amount of €10,000,000 on 9 December 2009, for municipal economic and social development projects, repayable over a ten year period starting 30 June 2014, in half yearly payments of principal and interest. Interest indexed to the 6 month Euribor rate plus a spread of 0.68% is payable on the loan. The bank, at 31 December 2013, had used an amount of €854,306 (CVE 94,200 thousand), recognised in "Loans from international financial organisations".

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16. OTHER CREDIT INSTITUTIONS' RESOURCES

This heading comprises the following:

	2013	(pro forma) 2012
Savings accounts		
. Emigrants	2,452,857	2,523,320
. Residents	862,928	827,950
	<u>3,315,785</u>	<u>3,351,270</u>
<u>Other deposits repayable on demand</u>		
Sight deposits		
. Residents	14,369,406	14,596,579
. Emigrants	4,134,031	3,857,346
. Non-residents	2,074,624	2,056,240
	<u>20,578,061</u>	<u>20,510,165</u>
Mandatory deposits	190,092	129,312
	<u>20,768,153</u>	<u>20,639,477</u>
<u>Other term deposits</u>		
Term deposits		
. Emigrants	23,698,242	22,333,081
. Residents	8,934,844	8,439,826
. Non-residents	839,477	794,450
	<u>33,472,563</u>	<u>31,567,357</u>
<u>Other resources:</u>		
Securities lending operations with repo agreements		
. Treasury bonds (Note 7)	651,780	1,902,330
Cheques and orders payable	50,385	31,305
	<u>58,258,666</u>	<u>57,491,739</u>
Deferred interest	709,033	684,006
	<u>58,967,699</u>	<u>58,175,745</u>

Except for specific situations defined under board of directors' guidelines, no interest was paid on sight deposits at 31 December 2013 and 2012.

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## 17. PROVISIONS AND IMPAIRMENT

Information on movements in the bank's provisions and impairment accounts for the years 2013 and 2011 is set out below:

	2013					Recoveries of credit write-offs
	Balances at 31.12.2012	Net appropriations in income statements	Employee costs (Note 29)	Use	Other (Note 30)	
<b>Impairment</b>						
Impairment of loans and advances to customers (Note 8)	3,057,309	1,012,139	-	(167,854)	-	(32,431)
Impairment of available for sale financial assets (Note 5)	10,841	-	-	-	-	10,841
Impairment of other tangible assets (Note 10)	37,671	-	-	-	-	37,671
Impairment of other assets (Note 14)	131,053	3,579	-	(1,831)	-	132,801
	<u>3,236,874</u>	<u>1,015,718</u>	<u>-</u>	<u>(169,685)</u>	<u>-</u>	<u>4,082,907</u>
<b>Provisions</b>						
Provisions for the costs of employee benefits: (Note 30)						
Retirement pensions	5,379,187	(914,405)	424,457	(163,886)	39,866	4,765,219
Healthcare	259,766	-	8,996	(19,754)	47,776	296,784
	<u>5,638,953</u>	<u>(914,405)</u>	<u>433,453</u>	<u>(183,640)</u>	<u>87,642</u>	<u>5,062,003</u>
Fiscal contingencies	49,723	-	-	-	-	49,723
	<u>5,688,676</u>	<u>(914,405)</u>	<u>433,453</u>	<u>(183,640)</u>	<u>87,642</u>	<u>5,111,726</u>
	<u>8,925,550</u>	<u>101,313</u>	<u>433,453</u>	<u>(353,325)</u>	<u>87,642</u>	<u>9,194,633</u>

	2012 (pro forma)					Recoveries of credit write-offs
	Balances at 31.12.2011	Net appropriations in income statements	Employee costs (Note 29)	Use	Other (Note 30)	
<b>Impairment</b>						
Impairment of loans and advances to customers (Note 8)	2,887,257	170,052	-	-	-	(55,075)
Impairment of available for sale financial assets (Note 5)	10,841	-	-	-	-	10,841
Impairment of other tangible assets (Note 10)	37,671	-	-	-	-	37,671
Impairment of other assets (Note 14)	203,199	3,182	-	(75,328)	-	131,053
	<u>3,138,968</u>	<u>173,234</u>	<u>-</u>	<u>(75,328)</u>	<u>-</u>	<u>3,236,874</u>
<b>Provisions</b>						
Provisions for the costs of employee benefits: (Note 30)						
Retirement pensions	5,367,123	-	440,316	(148,845)	(279,407)	5,379,187
Healthcare	5,367,123	-	440,316	(148,845)	(279,407)	5,379,187
	<u>5,416,846</u>	<u>-</u>	<u>440,316</u>	<u>(148,845)</u>	<u>(279,407)</u>	<u>5,428,910</u>
Fiscal contingencies	49,723	-	-	-	-	49,723
	<u>5,416,846</u>	<u>-</u>	<u>440,316</u>	<u>(148,845)</u>	<u>(279,407)</u>	<u>5,428,910</u>
	<u>8,555,814</u>	<u>173,234</u>	<u>440,316</u>	<u>(224,173)</u>	<u>(279,407)</u>	<u>8,665,784</u>

## 18. OTHER SUBORDINATED LIABILITIES

The bank issued 500,000 subordinated bonds with a nominal value of CVE 1 thousand each in 2010. Under the terms and conditions defined in the issuance, the loan has a maturity of 7 years and bears interest at a nominal interest rate starting at 5.75% for the 1st and 2nd coupon and rising to 6.25% for the 7th coupon. The principal is reimbursed in half yearly instalments of CVE 50,000 thousand from the 5th half year (inclusive). However, there is an early repayment option two years after the date of issuance and every six months following the said date, with the payment of a premium of 0.5% on the nominal value of the bonds to be redeemed.

At 26 December 2012, the bank repurchased subordinated bonds for a nominal amount of CVE 1,511 thousand.

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Interest payable at 31 December 2013 and 2012, totalled CVE 787 thousand and CVE 1,812 thousand, respectively. Commissions for the amounts of CVE 537 thousand and CVE 809 thousand, were being deferred on the said dates, respectively.

## 19. OTHER LIABILITIES

This account heading comprises the following:

	2013	(pro forma) 2012
<u>Creditors</u>		
Resources - active account	138,963	131,317
Resources - mandatory deposit account	44,897	13,043
Consigned resources	-	2,490
<u>Other liabilities</u>		
Deduction of tax at source	56,608	53,699
Social welfare	11,827	11,099
Other	8,579	1,204
<u>Deferred costs</u>		
Employee costs		
. Productivity bonuses	27,183	37,744
. Untaken holidays	2,790	5,000
General administrative expenditure	7,424	7,503
Other	57,149	139,891
<u>Deferred income</u>		
Card annuities	18,271	16,934
Commissions on the issue of short term domestic loans	12,943	9,673
Guarantees provided	7,749	6,801
Other	416	346
Lending operations pending settlement	2,976	1,217
Other accruals and deferred income accounts	87,858	164,369
	<u>485,633</u>	<u>602,330</u>

## 20. CAPITAL

The bank's share capital, at 31 December 2013 and 2012, comprised 1,324,765 shares with a nominal value of 1 thousand Cape Verde escudos each, fully subscribed for and paid up as follows:

- i) 875,000 class A nominative shares
- ii) 449,765 class B bearer shares, which may be held by domestic or foreign singular and/or collective persons whether or not domiciled on national territory. Class A shares may only be transferred with government authorisation. Any resolutions on the following matters, whatever the number of shares involved, shall not be considered, when in opposition to the express vote of state-owned shares:
  - a) Changes to the company's articles of association when entailing the state shareholder's loss of prerogatives attached to its "Golden Share";
  - b) Merger, demerger, transformation and dissolution of the bank;
  - c) Approval of the strategic plan.

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A resolution was passed to increase the bank's capital by CVE 324,765 thousand, at its general meeting of 25 March 2009, through the issuance of 324,765 type B shares with a nominal value of 1 thousand Cape Verde escudos each, fully paid up in cash. The bank incurred expenses of CVE 6,117 thousand, which, under IAS 32 were directly recognised in shareholders' equity, to be deducted from the "Capital" account heading.

Information on the bank's shareholding structure, at 31 December 2013 and 2012, is set out below:

Entity	No. Shares	%
Caixa Geral de Depósitos, S.A. and Banco Interatlântico, S.A.R.L.	697,446	52.65%
Garantia, Companhia de Seguros de Cabo Verde, S.A.R.L.	165,826	12.52%
State of Cape Verde ("Golden Share")	132,476	10.00%
Other shareholders	329,017	24.84%
	<u>1,324,765</u>	<u>100.00%</u>

## 21. RESERVES, RETAINED EARNINGS AND PROFIT FOR YEAR

The composition of the reserves, retained earnings and profit accounts for the year, at 31 December 2013 and 2012, was as follows

	2013	(pro forma) 2012
Revaluation reserves		
· Fair value reserves		
- Available for sale financial assets (Note 5)	391,946	197,647
- Other	2	-
	<u>391,948</u>	<u>197,647</u>
· Deferred tax reserves		
- Temporary differences resulting from fair value recognition (Note 13)	(1,681)	(1,110)
	<u>390,267</u>	<u>196,537</u>
Other reserves and retained earnings		
· Legal reserve	726,508	692,599
· Other reserves:		
- Actuarial deviations on pension and healthcare liabilities (Note 30)	470,162	526,177
- Deferred tax reserves - actuarial deviations (Note 13)	(134,175)	(134,175)
- Other reserves	<u>2,673,877</u>	<u>2,355,826</u>
	3,009,864	2,747,828
· Retained earnings	<u>(1,174,876)</u>	<u>(1,174,876)</u>
	2,561,496	2,265,551
Net income for period	<u>219,544</u>	<u>351,960</u>
	<u>3,171,307</u>	<u>2,814,048</u>

### Legal reserve

Under current Cape Verde legislation (Law no. 3/V/96), a minimum amount of 10% of annual net income must be paid into the legal reserve. This reserve may not be distributed unless the bank is liquidated but may be used to increase share capital or to offset losses, after other reserves have been used up.

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## 22. INTEREST AND SIMILAR INCOME

This account heading comprises the following:

	2013	(pro forma) 2012
Interest on loans and advances to customers		
. Domestic credit	2,792,143	2,973,925
. Foreign loans	37,898	46,583
. Employee loans	51,718	48,395
. Overdue credit	22,072	33,122
Interest on other loans and receivables (securitised)	472,610	446,578
Recovery of interest and expenses on overdue credit	73,909	68,087
Interest on investments in the Bank of Cape Verde		
. Certificates of monetary intervention	16,810	3,651
. Certificates of monetary regulation	1,764	21,104
. Treasury securities	169	-
. Very short term investments	17,938	8,364
Interest on Investments in credit institutions abroad	6,801	9,445
Other interest and similar income	338	9,100
Commissions received associated with amortised cost	117,529	83,721
	<u>3,611,699</u>	<u>3,752,075</u>

## 23. INTEREST AND SIMILAR COSTS

This account heading comprises the following:

	2013	(pro forma) 2012
Interest on deposits with the Bank of Cape Verde	-	7,185
Interest on sales operations with repo agreements		
. Treasury bonds	72,194	112,652
Interest on savings accounts		
. Emigrants	104,241	109,792
. Residents - Young People's Savings Accounts	45,313	42,369
Interest on term deposits		
. Emigrants	1,034,439	916,664
. Residents	366,405	348,818
. Non-residents	32,293	28,386
. Other credit institutions in Cape Verde	1,582	3,318
Other interest and similar costs	41,753	43,156
Commissions paid associated with amortised cost	484	343
	<u>1,698,704</u>	<u>1,612,683</u>

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## 24. INCOME FROM EQUITY INSTRUMENTS

This account heading comprises the following:

	2013	(pro forma) 2012
Income from consolidated financial investment certificates	186,600	185,452
Dividends:		
. Sociedade Caboverdiana de Tabacos, S.A.	974	974
. SITA - Sociedade Industrial de Tintas, S.A.R.L.	69	69
. Visa International Service Association	24	22
	<u>187,667</u>	<u>186,517</u>

Income from consolidated financial investment certificates, in 2013 and 2012, included adjustments related to estimates of CVE 2,268 thousand and CVE 11 thousand, respectively, recorded in the preceding year for the amounts of CVE 2,268 thousand and CVE 11 thousand, respectively.

## 25. INCOME AND COSTS OF SERVICES AND COMMISSIONS

These accounts are made up as follows:

	2013	(pro forma) 2012
<u>Income from services and commissions</u>		
Payment orders received	87,054	84,010
Guarantees and sureties	74,722	62,893
Commissions for payment orders issued	56,837	60,025
Annuities for ATM network (Vint4 and Visa)	37,939	36,373
Western Union commissions	22,898	24,881
Collections	15,119	14,041
Documentary credit	12,380	14,117
Other	71,384	83,655
	<u>378,333</u>	<u>379,995</u>
 <u>Costs of services and commissions</u>		
SISP - Sociedade Interbancária e Sistemas de Pagamentos, S.A.R.L.	(19,374)	(20,091)
Visa International Service Association	(16,618)	(15,983)
Correspondent banks' commissions	(8,687)	(9,648)
Other	(37)	(61)
	<u>(44,716)</u>	<u>(45,783)</u>

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## 26. INCOME FROM FOREIGN EXCHANGE REVALUATIONS

This account heading comprises the following:

	2013			2012 (pro forma)		
	Profit	Loss	Net	Profit	Loss	Net
Income from currency	106,675	(9,466)	97,209	126,207	(14,913)	111,294
Income from banknotes and coins	51,385	(19,617)	31,768	62,230	(26,171)	36,059
	<u>158,060</u>	<u>(29,083)</u>	<u>128,977</u>	<u>188,437</u>	<u>(41,084)</u>	<u>147,353</u>

## 27. INCOME FROM THE DISPOSAL OF OTHER ASSETS

This account heading comprises the following:

	2013	(pro forma) 2012
Gains and losses on disposals of other tangible assets	(1,801)	4,551
Gains and losses on disposals of property received in kind (Note 14)	(230)	(4,190)
	<u>(2,031)</u>	<u>361</u>

## 28. OTHER OPERATING INCOME

These accounts are made up as follows:

	2013	(pro forma) 2012
<u>Other operating income</u>		
Provision of miscellaneous services		
. Service charge	1,441	3,080
. Other	12,243	10,867
Reimbursement of expenses		
. Postal	26,896	29,136
. Other	25,015	24,019
Other	<u>45,404</u>	<u>30,444</u>
	<u>110,999</u>	<u>97,546</u>
<u>Other operating costs</u>		
Other taxes	(9,835)	(9,429)
Losses on misplacements, thefts or falsifications	(589)	(1,651)
Fines and other legal penalties	(10,341)	(770)
Subscriptions and donations	(691)	(696)
Other	<u>(19,166)</u>	<u>(8,805)</u>
	<u>(40,622)</u>	<u>(21,351)</u>
	<u>70,377</u>	<u>76,195</u>



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29. EMPLOYEE COSTS AND AVERAGE NUMBER OF EMPLOYEES

This account heading comprises the following:

	2013	(pro forma) 2012
Remuneration paid to employees	755,652	748,390
Remuneration paid to board of directors and audit bodies	18,960	19,543
Productivity bonuses	24,000	43,653
Social costs/charges		
· Retirement pensions (Notes 17 and 30)	424,457	440,316
· Healthcare (Note 30)	42,732	59,118
· Social welfare	51,727	48,725
· Other	10,044	4,519
Other employee costs	26,526	31,454
	<u>1,354,098</u>	<u>1,395,718</u>

The balance on the “Productivity bonuses” account heading, in 2012, includes an amount of CVE 5,910 thousand for the deficit on the preceding year’s estimate.

Information on the bank’s employees and directors complement, in 2013 and 2012, is set out below:

	2013	2012
Board members	5	5
Directors	9	9
Line management	88	84
Technical staff	171	166
Administrative staff	83	88
Auxiliary staff	84	84
	<u>440</u>	<u>436</u>

The above numbers, at 31 December 2013 and 2012, included 47 and 31 employees with fixed-term work contracts, respectively.

30. RETIREMENT PENSIONS AND OTHER EMPLOYEE BENEFITS

30.1 Retirement pensions

The bank has agreed to pay retirement pensions to its employees, assessed on the basis of their salary on retirement (Note 2.2m)). Actuarial studies, in respect of 31 December 2013 and 2012, were carried out by Fidelidade Companhia de Seguros, S.A. to assess retirement pension liabilities on current employment and the past services of active employees. Information on the premises and technical bases used in these studies is set out below.

	2013	2012
Actuarial method	Project United Credit	Project United Credit
Mortality table	TV 73/77	TV 73/77
Disability table	EVK 80	EVK 80
Discount rate	5.5%	6%
Wages growth rates	3.0%	3.0%
Pension growth rates	1.0%	1.5%
Retirement age	62 years of age or 39 years of service	58 years of age or 35 years of service

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A comparison between the actuarial and financial premises used to assess the bank's pensions costs, for 2013 and 2012, and the amounts effectively verified is set out in the following table:

	2013		2012	
	Premises	Real	Premises	Real
Wages growth rate	3.0%	2.06%	3.0%	3.20%
Pensions growth rate	1.0%	-0.09%	1.5%	0.76%

In November 2013, the bank's board of directors decided to change the bank's workers' current pension plan, for sustainability purposes, introducing new rules to assess retirement benefits:

- Change in the retirement age from age 58 or 35 years of service to 62 or 39 years of service, considering a transition period for participants who, up to 2017, reach their 58th birthday;
- Pensionable wage of basic wage plus seniority payments;
- Amount of retirement pension calculated on the basis of the average pensionable wage of the last 5 years;
- Amount of pension equal to 90% of the average pensionable wage of the last 5 years.

The impact of the changes to the pension plan resulted in a reduction of CVE 914,405 thousand in liabilities with reference to 31 December 2013, recognised in income for the period.

Liabilities for past services to the bank, at 31 December 2013 and 2012, in accordance with the actuarial studies totalled:

	2013		2012	
	Number of persons	Liabilities	Number of persons	Liabilities
Workers and former workers	213	2,267,744	223	3,036,113
Retirees and pre-retirees	136	2,288,724	124	2,202,139
Pensioners	16	199,681	18	129,497
Restructuring fund	4	9,070	7	11,438
Total	369	4,765,219	372	5,379,187

The actuarial studies do not consider workers with fixed-term employment contracts as the bank does not have any retirement liabilities for such employees who are covered by the National Social Welfare Institute.

Information on pension funds liabilities, in 2013 and 2012, is set out below:

**Banco Comercial Atlântico, S.A.**

Note 30 b)

<b>Balance at 31 December 2011</b>	<b>5,367,123</b>
Employee contributions	19,928
Cost recognised by bank (Note 29)	440,316
Pensions paid	(148,845)
Actuarial deviations (Note 21)	(299,335)
<b>Balance at 31 December 2012 - pro forma</b>	<b>5,379,187</b>
Employee contributions	19,383
Cost recognised by bank (Note 29)	424,457
Impact of change of benefits on pension plan (Note 17)	(914,405)
Pensions paid	(163,886)
Actuarial deviations (Note 21)	20,483
<b>Balance at 31 December 2013</b>	<b>4,765,219</b>

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### 30.2 Healthcare services

To assess its post-employment healthcare liabilities, the bank commissioned an actuarial report from a specialised entity in respect of 31 December 2013 and 2012. Information on the hypotheses and technical bases used in the study is set out below

	2013	(pro forma) 2012
Mortality table	TV 73/77	TV 73/77
Technical rate	5.5%	6%
Wages growth rate	3.0%	3.5%
Healthcare expenses inflation rate	3.0%	3.0%

Based on this study, healthcare liabilities relating to medical assistance for the bank's employees and respective family members after retirement age, at 31 December 2013 and 2012, totalled CVE 296,784 thousand and CVE 259,766 thousand respectively (Note 17).

The following table provides information on healthcare movements in 2013 and 2012:

<b>Balance at 31 December 2011</b>	<b>222,180</b>
Employee contributions	11,248
Cost recognised by bank (Note 29)	59,118
Medical expenses paid	(66,583)
Actuarial deviations	33,803
<b>Balance at 31 December 2012 - pro forma</b>	<b>259,766</b>
Employee contributions	12,244
Cost recognised by bank	8,996
Medical expenses paid	(19,754)
Actuarial deviations	35,532
<b>Balance at 31 December 2013</b>	<b>296,784</b>

### 30.3 Actuarial deviations

Information on deferred actuarial deviations movements for 2013 and 2012 is set out below:

	Pensions	Healthcare	Total
Balances at 31 December 2011	(365,105)	117,332	(247,773)
Actuarial deviations in period	(299,335)	20,931	(278,404)
Balances at 31 December 2012 - pro-forma (Note 21)	(664,440)	138,263	(526,177)
Actuarial deviations in period	20,483	35,532	56,015
Balances at 31 December 2013 (Note 21)	(643,957)	173,795	(470,162)

With the change in the accounting policy referred to in Note 2.2.m), accrued actuarial deviations, at 31 December 2012 have been deducted in the "Revaluation reserves" account heading.

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### 31. GENERAL ADMINISTRATIVE EXPENDITURE

This account heading comprises the following:

	2013	(pro forma) 2012
SISP costs	111,856	106,088
Conservation and repairs	102,054	99,642
Water, gas and electricity	91,577	105,958
Advertising and printing	85,056	75,625
Communications and postal costs	63,738	62,688
Valuables transport	37,134	32,958
Rents and leases	31,831	31,284
Security and surveillance	29,234	32,193
Stationery and consumables	26,240	27,061
Consultants and external auditors	23,029	12,418
Employee training	12,630	20,478
Fuel	11,926	18,104
Insurance	11,827	10,525
Technical assistance	7,860	8,584
Transport	7,550	8,819
Allowances	5,883	7,438
Expense account items	3,475	3,312
Accommodation expenses	3,643	4,154
Other	92,657	70,185
	<u>759,200</u>	<u>737,514</u>

### 32. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities associated with banking activity are recognised in off-balance sheet account headings as follows:

	2013	(pro forma) 2012
<u>Contingent liabilities</u>		
. Guarantees and sureties	3,976,560	3,547,352
. Documentary credit	600,899	459,752
	<u>4,577,459</u>	<u>4,007,104</u>
Securities custodial services	11,728,555	11,237,206
	<u>16,306,014</u>	<u>15,244,310</u>

### 33. OPERATING SEGMENTS

The board of directors prepares annual information on segments for reporting purposes in relation to the accounts on the consolidated activities of Caixa Geral de Depósitos. The operating segments defined for the said report are set out below:

- Corporate finance - includes activities related with the management of public debt securities, domestic corporate bonds, equity instruments and consolidated financial investment certificates.
- Trading and sales – comprises activities related with the management of investments and claims on other credit institutions.
- Payments and settlements – includes activity related with credit and debit operations.

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- Commercial banking – includes corporate deposit-taking operations. This segment includes loans, current accounts, discounted bills and loans and advances to the public sector.
- Retail banking – comprises banking activities geared to individual customers. This segment includes consumer credit, mortgage loans and deposits taken from individual customers.
- Other – Other activities outside the scope of any of the above referred to categories.

The following tables provide information on the bank's operating segments at 31 December 2013 and 2012:

	2013					
	Corporate finance	Trading and sales	Payments and settlements	Commercial banking	Retail banking	Other
Interest and similar income	472,610	43,820	-	1,417,431	1,677,838	-
Interest and similar costs	(72,950)	(4,628)	-	(278,308)	(1,342,818)	-
<b>NET INTEREST INCOME</b>	<b>399,660</b>	<b>39,192</b>	<b>-</b>	<b>1,139,123</b>	<b>335,020</b>	<b>-</b>
Income from equity instruments	187,667	-	-	-	-	-
Income from services and commissions	-	101,238	56,371	37,893	182,831	-
Costs of services and commissions	-	(28,061)	(16,618)	-	(37)	-
Income from foreign exchange revaluations	-	128,977	-	-	-	-
Income from disposals of other assets	-	-	-	-	-	(2,031)
Other operating income	-	-	-	-	-	70,377
<b>NET OPERATING INCOME</b>	<b>587,327</b>	<b>241,346</b>	<b>39,753</b>	<b>1,177,016</b>	<b>517,814</b>	<b>68,346</b>
Provisions and impairment net of reversals and recoveries	(106,837)	-	-	(392,165)	(480,706)	910,826
	480,490	241,346	39,753	784,851	37,108	979,172
Other expenditure and income						(2,343,177)
<b>Net income for period</b>						<b>219,543</b>
Cash and claims at central banks	-	2,704,800	-	-	-	-
Claims on other credit institutions	-	503,495	-	-	-	-
Available for sale financial assets	-	7,254,566	-	-	-	-
Investments in credit institutions	-	11,809,656	-	-	-	-
Loans and advances to customers	3,725,823	-	-	15,923,334	19,518,392	-
Other credit institutions' resources	-	730,371	-	-	-	-
Customer resources and other loans	-	-	-	10,123,313	48,844,386	-

	2012 (pro forma)					
	Corporate finance	Trading and sales	Payments and settlements	Commercial banking	Retail banking	Other
Interest and similar income	446,578	51,663	-	1,462,948	1,790,886	-
Interest and similar costs	(113,269)	(14,026)	-	(270,852)	(1,214,536)	-
<b>NET INTEREST INCOME</b>	<b>333,309</b>	<b>37,637</b>	<b>-</b>	<b>1,192,096</b>	<b>576,350</b>	<b>-</b>
Income from equity instruments	186,517	-	-	-	-	-
Income from services and commissions	-	107,145	54,585	39,799	178,466	-
Costs of services and commissions	-	(29,738)	(15,983)	-	(62)	-
Income from foreign exchange revaluations	-	147,353	-	-	-	-
Income from disposals of other assets	-	-	-	-	-	361
Other operating income	-	-	-	-	-	76,195
<b>NET OPERATING INCOME</b>	<b>519,826</b>	<b>262,397</b>	<b>38,602</b>	<b>1,231,895</b>	<b>754,754</b>	<b>76,556</b>
Provisions and impairment net of reversals and recoveries	(32,659)	-	-	(61,773)	(75,620)	51,892
	487,167	262,397	38,602	1,170,122	679,134	128,448
Other expenditure and income						(2,413,910)
<b>Net income for period</b>						<b>351,960</b>
Cash and claims at central banks	-	2,342,558	-	-	-	-
Claims on other credit institutions	-	816,608	-	-	-	-
Available for sale financial assets	-	7,060,548	-	-	-	-
Investments in credit institutions	-	11,513,360	-	-	-	-
Loans and advances to customers	3,913,987	-	-	16,421,317	20,102,360	-
Other credit institutions' resources	-	541,719	-	-	-	-
Customer resources and other loans	-	-	-	10,607,997	47,567,748	-

All of the bank's activity is performed in Cape Verde.

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### 34. RELATED ENTITIES

CGD group and its associates and the bank's management bodies are considered to be entities related with the bank.

The bank's financial statements, at 31 December 2013 and 2012, include the following balances and transactions with related entities, excluding management bodies:

	2013				
	Caixa Geral de Depósitos Group				
	State of Cape Verde	CGD	Associates	Banco Interatlântico	Promotora Associates
<b>Assets:</b>					
Claims at central banks and other credit institutions	1,509,685	48,795	-	-	-
Investments in credit institutions	10,424,891	1,145,195	-	-	-
Public debt securities	4,526,583	-	-	-	-
Available for sale financial assets	7,191,415	-	-	-	50,000
Loans and advances to customers	-	-	308,101	-	97,136
Other assets	1,023,459	19,318	3,933	12,732	536
Impairment	(33,409)	(19,267)	(11,459)	-	(10,841)
<b>Liabilities:</b>					
Other credit institutions' resources	-	-	(135,207)	(21,735)	-
Customer resources and other loans	(339,514)	-	(61,743)	-	(35,064)
Other liabilities	(114,840)	-	(11,989)	-	-
<b>Off-balance sheet:</b>					
Guarantees received	1,763,130	-	-	-	150,000
<b>Income:</b>					
Interest and similar income	36,681	6,513	-	-	-
Income from equity instruments	186,600	-	-	-	-
<b>Expenditure:</b>					
Interest and similar costs	-	-	(2,205)	-	-
Costs of services and commissions	-	(3,011)	(19,374)	-	-
General administrative expenditure	-	-	(111,856)	-	(41,815)
Impairment of other financial assets net of reversals and recoveries	-	961	1,308	-	-

	2012 (pro forma)				
	Caixa Geral de Depósitos Group				
	State of Cape Verde	CGD	Promotora	Banco Interatlântico	Promotora Associates
<b>Assets:</b>					
Claims at central banks and other credit institutions	1,138,596	71,618	-	-	-
Investments in credit institutions	10,523,620	980,304	-	-	-
Public debt securities	3,357,248	-	-	-	-
Available for sale financial assets	6,999,638	-	50,000	-	50,000
Loans and advances to customers	-	-	75,557	-	75,557
Other assets	995,424	20,228	67	12,322	67
Impairment	(33,409)	(20,228)	(10,841)	-	(10,841)
<b>Liabilities:</b>					
Other credit institutions' resources	-	-	-	(16,040)	-
Customer resources and other loans	(461,742)	-	(5,512)	-	(5,512)
Other liabilities	(54,523)	-	-	-	-
<b>Off-balance sheet:</b>					
Guarantees received	2,016,460	-	150,000	-	150,000
<b>Income:</b>					
Interest and similar income	33,119	9,420	-	-	-
Income from equity instruments	185,452	-	-	-	-
<b>Expenditure:</b>					
Interest and similar costs	-	-	-	-	-
Costs of services and commissions	-	(3,329)	-	-	-
General administrative expenditure	-	-	(41,384)	-	(41,384)
Impairment of other financial assets net of reversals and recoveries	-	-	-	-	-

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Transactions with related entities are generally made on the basis of market values on the respective dates.

Management bodies

Costs relating to remuneration and other benefits attributed to the bank's board of directors, incurred in 2013, totalled CVE 24,960 thousand (CVE 26,625 thousand in 2012).

Loans made to members of the board of directors, at 31 December 2013 and 2012, totalled CVE 88,419 thousand and CVE 86,842 thousand, respectively.

35. DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

Management policies for financial risks pertaining to the bank's activity

Authorised risk limits and exposure levels are defined and approved by the board of directors, based on the bank's overall strategy and market position.

Foreign exchange risk

The Financial and International Division monitors the bank's foreign exchange position on a daily basis, always pursuant to the objective of eliminating losses.

The Cape Verde escudo to euro exchange rate was fixed at €1 = 110.265 Cape Verde escudos, resulting from a convertibility agreement between Cape Verde and Portugal and is therefore not considered by the Bank of Cape Verde for foreign exchange purposes.

The following disclosures on the main types of risks pertaining to the bank's activity are required under IFRS 7.

Market, liquidity and interest rate risk

The Market Risk and Liquidity Office is responsible for the implementation of methods and techniques for improving the management quality of the risks involved in the bank's balance sheet.

Market risk

As the financial sector in Cape Verde does not, as yet, have a developed capital market and there is no over the counter market, investment alternatives to financial instruments essentially comprise bonds and shares.

The bank has a portfolio of financial assets with a certain level of representativeness in asset terms, set up more from an investment rather than a trading objective.

Liquidity and interest rate risk

Liquidity control is the responsibility of DFI (Financial and International Division) which monitors the balances of correspondent bank branches and with the Bank of Cape Verde.

DFI is responsible for performing operations in financial markets, selling foreign currency assets and the operations necessary to refinance the bank or for the investment of liquidity surpluses. Careful management is required to avoid situations of default with the Bank of Cape Verde.

As the minimum cash requirements ratio in Cape Verde's banking sector is 18%, banks, in the event of difficulties, have a greater capacity to meet their commitments to customers.

In accordance with *Official Notice* 8/2007 of 19 November, issued by the Bank of Cape Verde, DFI also calculates the liquidity ratios required to hedge its liabilities over periods of seven, thirty, ninety days and one year.

The Risk Management Division also produces one-off analyses on interest rates and the assets and liabilities structure, in the form of the loans and advances to customers portfolio with indexed interest rates.

Information on the contractual periods to maturity of financial instruments, at 31 December 2013 and 2012, is set out below:

	2013							
	Contractual periods to maturity							
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years
								Total
<b>Assets</b>								
Cash and claims at central banks	2,704,800	-	-	-	-	-	-	2,704,800
Claims on other credit institutions	503,495	-	-	-	-	-	-	503,495
Investments in credit institutions	11,809,656	-	-	-	-	-	-	11,809,656
Public debt securities	101,701	-	69,248	-	981,225	1,655,864	1,718,545	4,526,583
Loans and advances to customers (gross)	6,804,098	2,332,869	1,924,832	773,227	3,943,256	4,000,280	7,683,192	15,607,389
	21,923,750	2,332,869	1,994,080	773,227	4,924,481	5,656,144	9,401,737	62,613,677
<b>Liabilities</b>								
Central banks' and other credit institutions' resources	(446,414)	(29,061)	(35,073)	-	-	(219,823)	-	(730,371)
Customer resources and other loans	(24,427,739)	(6,041,926)	(7,059,313)	(15,822,288)	(5,616,331)	(102)	-	(58,967,699)
	(24,874,153)	(6,070,987)	(7,094,386)	(15,822,288)	(5,616,331)	(219,925)	-	(59,698,070)
Difference	(2,950,403)	(3,738,118)	(5,100,306)	(15,049,061)	(691,850)	5,436,219	9,401,737	2,915,607

Credit risk is one of the most relevant risks for the bank's activity and is closely linked with the possibility of the occurrence of financial losses deriving from counterparty defaults, notably large enterprises, small and medium sized enterprises, small business developers, individual customers and financial institutions.

DGR (Risk Management Division) analyses the credit risk attached to companies and individual customers with accrued liabilities of more than CVE 20.000 thousand.

DGR is responsible for issuing risk opinions on proposals produced by the commercial area, which are sent for the appraisal of the executive committee. DGR also performs a six monthly analysis of the bank's credit portfolio, with a view to comprehending the behaviour of risk categories, mortgage loans and customer deposits.

	2012							
	Contractual periods to maturity							
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years
								Total
<b>Assets</b>								
Cash and claims at central banks	2,342,558	-	-	-	-	-	-	2,342,558
Claims on other credit institutions	816,608	-	-	-	-	-	-	816,608
Investments in credit institutions	11,513,360	-	-	-	-	-	-	11,513,360
Public debt securities	509,039	-	-	610,848	741,253	931,542	564,566	3,357,248
Loans and advances to customers (gross)	6,285,857	1,788,399	2,142,428	2,040,092	3,241,743	3,397,742	7,792,723	43,494,973
	21,467,152	1,788,399	2,142,428	2,650,940	3,982,996	4,329,284	8,357,289	61,524,747
<b>Liabilities</b>								
Central banks' and other credit institutions' resources	(362,690)	(35,000)	-	-	-	(144,029)	-	(541,719)
Customer resources and other loans	(24,484,091)	(5,179,696)	(6,017,278)	(17,295,302)	(5,199,277)	(101)	-	(58,175,745)
	(24,846,781)	(5,214,696)	(6,017,278)	(17,295,302)	(5,199,277)	(144,130)	-	(58,717,464)
Difference	(3,379,629)	(3,426,297)	(3,874,850)	(14,644,362)	(1,216,281)	4,185,154	8,357,289	2,807,283



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Credit risk

Maximum exposure to credit risk

Information on the bank's maximum exposure to credit risk, at 31 December 2013 and 2012, is set out below:

	2013	(pro forma) 2012
Public debt securities	4,256,583	3,357,248
<b>Investments in credit institutions</b>	11,809,656	11,513,360
Available for sale financial assets	7,254,566	7,060,548
Loans and advances to customers	39,167,549	40,437,664
	<u>58,231,771</u>	<u>59,011,572</u>
Guarantees and sureties	3,976,560	3,547,352
Documentary credit	600,899	459,752
	<u>4,577,459</u>	<u>4,007,104</u>
Maximum exposure	<u>67,065,813</u>	<u>66,375,924</u>

Quality of loans and advances to customers

Information on the gross balance sheet value of loans and advances to customers, guarantees provided and documentary credits, excluding other credit and amounts receivable (securitised) and accrued interest, at 31 December 2013 and 2012, is set out below:

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	Collective credit analysis			Other balances	Total
	Performing credit	Non-performing credit	Credit in default		
<b>Companies</b>					
Lending to companies					
Outstanding	8,867,162	2,372,339	2,393,734	97,521	13,730,756
Overdue	5,116	8,572	2,835,169	-	2,848,857
	<u>8,872,278</u>	<u>2,380,911</u>	<u>5,228,903</u>	<u>97,521</u>	<u>16,579,613</u>
Guarantees and documentary credit to companies					
Outstanding	4,362,835	182,161	1,092	-	4,546,088
	<u>4,362,835</u>	<u>182,161</u>	<u>1,092</u>	<u>-</u>	<u>4,546,088</u>
<b>Retail</b>					
Housing credit					
Outstanding	14,100,843	241,747	1,314,751	-	15,657,341
Overdue	5,894	7,546	222,988	-	236,428
	<u>14,106,737</u>	<u>249,293</u>	<u>1,537,739</u>	<u>-</u>	<u>15,893,769</u>
Consumer credit					
Outstanding	1,138,918	8,284	45,169	-	1,192,371
Overdue	618	920	34,947	-	36,485
	<u>1,139,536</u>	<u>9,204</u>	<u>80,116</u>	<u>-</u>	<u>1,228,856</u>
Small businesses					
Outstanding	870,643	45,130	200,074	-	1,115,847
Overdue	490	3,661	129,104	-	133,255
	<u>871,133</u>	<u>48,791</u>	<u>329,178</u>	<u>-</u>	<u>1,249,102</u>
Other credit					
Outstanding	1,586,497	210,624	328,551	-	2,125,672
Overdue	20,234	6,100	148,984	-	175,318
	<u>1,606,731</u>	<u>216,724</u>	<u>477,535</u>	<u>-</u>	<u>2,300,990</u>
Guarantees provided					
Outstanding	31,371	-	-	-	31,371
	<u>31,371</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,371</u>
<b>Public sector</b>					
Outstanding	2,007,850	291	-	-	2,008,141
Overdue	-	-	20	-	20
	<u>2,007,850</u>	<u>291</u>	<u>20</u>	<u>-</u>	<u>2,008,161</u>
Total outstanding credit	<u>32,966,119</u>	<u>3,060,576</u>	<u>4,283,371</u>	<u>97,521</u>	<u>40,407,587</u>
Total overdue credit	<u>32,352</u>	<u>26,799</u>	<u>3,371,212</u>	<u>-</u>	<u>3,430,363</u>
Total credit	<u>32,998,471</u>	<u>3,087,375</u>	<u>7,654,583</u>	<u>97,521</u>	<u>43,837,950</u>

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2012					
	Collective credit analysis			Other balances	Total
	Performing credit	Non-performing credit	Credit in default		
<b>Companies</b>					
Lending to companies					
Outstanding	10,322,259	1,909,185	2,020,315	75,708	14,327,467
Overdue	4,322	10,428	1,976,849	-	1,991,599
	<u>10,326,581</u>	<u>1,919,613</u>	<u>3,997,164</u>	<u>75,708</u>	<u>16,319,066</u>
Guarantees and documentary credit to companies					
Outstanding	3,869,175	9,353	16,454	-	3,894,982
	<u>3,869,175</u>	<u>9,353</u>	<u>16,454</u>	<u>-</u>	<u>3,894,982</u>
<b>Detail</b>					
Housing credit					
Outstanding	14,527,762	336,995	931,940	-	15,796,697
Overdue	7,097	9,993	195,618	-	212,708
	<u>14,534,859</u>	<u>346,988</u>	<u>1,127,558</u>	<u>-</u>	<u>16,009,405</u>
Consumer credit					
Outstanding	1,174,051	12,044	54,728	-	1,240,823
Overdue	960	2,261	41,916	-	45,137
	<u>1,175,011</u>	<u>14,305</u>	<u>96,644</u>	<u>-</u>	<u>1,285,960</u>
Small businesses					
Outstanding	1,185,708	32,426	153,525	-	1,371,659
Overdue	681	3,503	189,593	-	193,777
	<u>1,186,389</u>	<u>35,929</u>	<u>343,118</u>	<u>-</u>	<u>1,565,436</u>
Other credit					
Outstanding	1,738,476	177,006	291,644	-	2,207,126
Overdue	19,141	3,902	136,491	-	159,534
	<u>1,757,617</u>	<u>180,908</u>	<u>428,135</u>	<u>-</u>	<u>2,366,660</u>
Guarantees provided					
Outstanding	45,924	-	-	-	45,924
<b>Public sector</b>					
Outstanding	2,077,750	588	66,198	-	2,144,536
Overdue	-	-	77	-	77
	<u>2,077,750</u>	<u>588</u>	<u>66,275</u>	<u>-</u>	<u>2,144,613</u>
Total outstanding credit	<u>34,941,105</u>	<u>2,477,597</u>	<u>3,534,804</u>	<u>75,708</u>	<u>41,029,214</u>
Total overdue credit	<u>32,201</u>	<u>30,087</u>	<u>2,540,544</u>	<u>-</u>	<u>2,602,832</u>
Total credit	<u>34,973,306</u>	<u>2,507,684</u>	<u>6,075,348</u>	<u>75,708</u>	<u>43,632,046</u>

The following classifications were used for the preparation of the above tables:

- “Performing loans”
  - Corporate: loans without any overdue payments or with balances overdue up to 30 days
  - Individual customers: loans without any overdue payments or with balances overdue up to 7 days
- “Non-performing loans”
  - Corporate: loan balances overdue between 30-90 days;
  - Individual customers: loan balances overdue between 7-90 days;
- “Loans in default” – loans with balances overdue more than 90 days. In the case of corporate loans, if a customer has at least one operation with overdue payments for more than 90 days, the full amount of the customer’s exposure to the bank is reclassified to this category.

In addition, overdue credit only includes the amounts of the operations or payments due and unpaid on the reference date. The “overdue credit” account heading, in Note 8, includes the full amount receivable on operations with overdue amounts.

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The credit balance upon which specific impairment was declared at 31 December 2013 on the basis of a separate analysis totalled CVE 16,402,775 thousand, with impairment of CVE 2,629,934.

As described in Note 2.2. d) separately analysed credit upon which no specific impairment was declared was included in a collective analysis.

The gross balance sheet value of lending to group entities not included in the impairment model analysis developed by the bank was considered in the “Other balances” account heading.

#### Fair value

The following table sets out a comparison between the fair and balance sheet value of the main financial assets and liabilities, maintained at amortised cost at 31 December 2013 and 2012.

	2013			Non-analysed amounts	
	Analysed balances			Book	Total
	Book	Fair		Book	Total
	value	value	Difference	value	book value
<i>Assets</i>					
Cash and claims at central banks	2,704,800	-	-	-	2,704,800
Claims on other credit institutions	503,495	-	-	-	503,495
Available for sale financial assets	7,199,321	-	-	55,245	7,254,566
Investments in credit institutions	11,809,656	-	-	-	11,809,656
Public debt securities	4,526,583	4,467,829	(58,754)	-	4,526,583
Loans and advances to customers	39,167,549	38,042,124	(1,125,425)	-	39,167,549
	<u>65,911,404</u>	<u>42,509,953</u>	<u>(1,184,179)</u>	<u>55,245</u>	<u>65,966,649</u>
<i>Liabilities</i>					
Central banks' and other credit institutions' resources	730,371	726,642	(3,729)	-	730,371
Customer resources and other loans	58,967,699	58,981,787	14,088	-	58,967,699
Other subordinated liabilities	399,577	368,163	(31,414)	(537)	399,040
	<u>60,097,647</u>	<u>60,076,592</u>	<u>(21,055)</u>	<u>(537)</u>	<u>60,097,110</u>
	2012 (pro forma)			Non-analysed amounts	
	Analysed balances			Book	Total
	Book	Fair		Book	Total
	value	value	Difference	value	book value
<i>Assets</i>					
Cash and claims at central banks	2,342,558	2,342,558	-	-	2,342,558
Claims on other credit institutions	816,608	816,608	-	-	816,608
Available for sale financial assets	7,005,303	7,005,303	-	55,245	7,060,548
Investments in credit institutions	11,513,360	11,513,360	-	-	11,513,360
Public debt securities	3,357,248	3,359,819	2,571	-	3,357,248
Loans and advances to customers	39,003,437	37,800,153	(1,203,284)	1,434,227	40,437,664
	<u>64,038,514</u>	<u>62,837,801</u>	<u>(1,200,713)</u>	<u>1,489,472</u>	<u>65,527,986</u>
<i>Liabilities</i>					
Central banks' and other credit institutions' resources	541,719	537,478	(4,241)	-	541,719
Customer resources and other loans	58,175,745	58,275,355	99,610	-	58,175,745
Other subordinated liabilities	500,301	538,743	38,442	(809)	499,492
	<u>59,217,765</u>	<u>59,351,576</u>	<u>133,811</u>	<u>(809)</u>	<u>59,216,956</u>

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Fair value was assessed on the following premises:

- Balance sheet value in the case of balances payable on demand and short term investments with credit institutions comprise fair value;
  - In the case of available for sale financial assets:
    - The bank assessed the fair value of consolidated financial investment certificates on the basis of the amount of shareholders' equity disclosed in the annual report of the "International Support for Cabo Verde Stabilization Trust Fund" adjusted for the difference between the market value of bonds held by the Fund;
    - VISA shares were valued at their stock market price;
    - The investment in Promotora, Sociedade de Capital de Risco de Cabo Verde, S.A.R.L. was recognised at historical cost, with impairment of CVE 10,841 thousand having been declared to reduce the balance sheet value of its estimated realisation price.
    - The value of Sociedade Caboverdiana de Tabacos shares, assessed on the basis of their respective price in the Cape Verde stock exchange at the said date was CVE 5,387 thousand and CVE 2,415 thousand less than their balance sheet value, at 31 December 2013 and 2012. The bank retained the shares at historical cost, in due consideration of the fact that the company has remained stable and has even paid out dividends in addition to the security's reduced liquidity in Cape Verde's stock exchange.
- The investments in the G.A.R.I, Fund and SITA – Sociedade Industrial de Tintas, S.A.R.L. were recognised at their historical cost owing to their reduced balance sheet value;
- The bank assessed the fair value of the remaining instruments using discounted cash flow models, taking into consideration the operations' contractual terms and using interest rates appropriate to the type of instrument, taking into consideration the rates charged on similar instruments issued or contracted for close to the end of the year;
  - The "unanalysed balances" column essentially includes overdue credit net of provisions.

Sensitivity analysis – Interest rate

The impact of parallel movements of the reference interest rates yield curve for 50, 100 and 200 basis points (bps), respectively, on the fair value of financial instruments sensitive to interest rate risk, excluding derivatives, at 31 December 2013 and 2012, is set out in the following tables:

	2013					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Loans and advances to customers (gross)	1,453,534	691,751	337,702	(322,401)	(630,464)	(1,207,066)
<b>Total sensitive assets</b>	<b>1,453,534</b>	<b>691,751</b>	<b>337,702</b>	<b>(322,401)</b>	<b>(630,464)</b>	<b>(1,207,066)</b>

	2012					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Loans and advances to customers (gross)	920,628	426,614	205,459	(189,671)	(367,891)	(684,391)
<b>Total sensitive assets</b>	<b>920,628</b>	<b>426,614</b>	<b>205,459</b>	<b>(189,671)</b>	<b>(367,891)</b>	<b>(684,391)</b>

The impact of a movement of 50, 100 and 200 bps on the reference interest rate yield curves for sensitive assets and liabilities corresponds to the internal scenarios used by management bodies in monitoring exposure to interest rate risk.

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The following table demonstrates the effect of a parallel movement of interest rate yield curves of 50, 100 and 200 bps, which index financial instruments sensitive to changes in interest rates, on the projection of net interest income for 2013 and 2012, respectively:

	Net interest income projection					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
2013	(343,953)	(171,977)	(85,988)	85,988	171,977	343,953
2012	(323,996)	(161,998)	(80,999)	80,999	161,998	323,996

The assessment of the impacts set out in the above table takes into consideration that assets and liabilities sensitive to interest rate in the balance sheet on the calculation's reference date would remain stable over the years 2013 and 2012, respectively, with the renewal thereof, whenever applicable, considering the market conditions in force on the referred to renewal dates and average spread on performing operations, at 31 December 2013 and 2012.

The information set out in the above tables refers to a static scenario, not taking into consideration changes in strategy and interest rate risk management policies which the bank may adopt as a consequence of changes in reference interest rates.

Foreign exchange risk

Breakdown of financial instruments by currency

Financial instruments were broken down into the following currencies, at 31 December 2013 and 2012:

	2013				
	Cape Verde escudos	Euros	US dollars	Other	Total
<u>Assets</u>					
Cash and claims at central banks	2,080,438	506,686	70,692	46,984	2,704,800
Claims on other credit institutions	85,605	238,224	167,033	12,633	503,495
Available for sale financial assets (gross)	7,254,566	-	-	-	7,254,566
Investments in credit institutions	10,424,892	253,610	1,131,154	-	11,809,656
Public debt securities	4,526,583	-	-	-	4,526,583
Loans and advances to customers (gross)	41,202,274	1,866,869	-	-	43,069,143
Investments in subsidiaries, associates and jointly controlled entities	268,320	-	-	-	268,320
Other assets	1,122,612	6	52,248	-	1,174,866
Accumulated impairment	(4,082,907)	-	-	-	(4,082,907)
	<u>62,882,383</u>	<u>2,865,395</u>	<u>1,421,127</u>	<u>59,617</u>	<u>67,228,522</u>
<u>Liabilities</u>					
Other credit institutions' resources	(509,590)	(218,988)	(1,793)	-	(730,371)
Customer resources and other loans	(56,416,464)	(1,177,058)	(1,365,777)	(8,400)	(58,967,699)
Other subordinated liabilities	(399,040)	-	-	-	(399,040)
Other liabilities	(197,604)	(254,935)	(24,197)	(8,897)	(485,633)
	<u>(57,522,698)</u>	<u>(1,650,981)</u>	<u>(1,391,767)</u>	<u>(17,297)</u>	<u>(60,582,743)</u>
Net exposure	<u>5,359,685</u>	<u>1,214,414</u>	<u>29,360</u>	<u>42,320</u>	<u>6,645,779</u>

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	2012 (pro forma)				
	Cape Verde escudos	Euros	US dollars	Other	Total
<b>Assets</b>					
Cash and claims at central banks	1,703,168	502,036	91,291	46,063	2,342,558
Claims on other credit institutions	64,178	410,195	315,729	26,506	816,608
Available for sale financial assets (gross)	7,060,548	-	-	-	7,060,548
Investments in credit institutions	10,523,620	330,795	658,945	-	11,513,360
Public debt securities	3,357,248	-	-	-	3,357,248
Loans and advances to customers (gross)	41,630,240	1,857,671	7,062	-	43,494,973
Investments in subsidiaries, associates and jointly controlled entities	232,356	-	-	-	232,356
Other assets	1,452,945	-	-	-	1,452,945
Accumulated impairment	(3,199,203)	-	-	-	(3,199,203)
	<u>62,825,100</u>	<u>3,100,697</u>	<u>1,073,027</u>	<u>72,569</u>	<u>67,071,393</u>
<b>Liabilities</b>					
Central banks' and other credit institutions' resources	(393,649)	(144,309)	(3,761)	-	(541,719)
Customer resources and other loans	(55,728,913)	(1,363,966)	(1,075,513)	(7,353)	(58,175,745)
Other subordinated liabilities	(499,492)	-	-	-	(499,492)
Other liabilities	(974,094)	(84,918)	(203,785)	(4,371)	(1,267,168)
	<u>(57,596,148)</u>	<u>(1,593,193)</u>	<u>(1,283,059)</u>	<u>(11,724)</u>	<u>(60,484,124)</u>
Net exposure	<u>5,228,952</u>	<u>1,507,504</u>	<u>(210,032)</u>	<u>60,845</u>	<u>6,587,269</u>

### 36. CAPITAL MANAGEMENT

Capital management, in BCA, is based on the following general principles:

- ☐ Compliance with the regulatory requirements of the Bank of Cape Verde, as the supervisory body for banking activities in Cape Verde;
- ☐ To generate an adequate level of return, creating value for its shareholder and return on capital employed;
- ☐ To sustain the development of activity, maintaining a solid capital structure, capable of providing for the bank's strategy;
- ☐ To maintain the bank's reputation, maintaining the integrity of the operations performed during the course of its activity.

The capital adequacy of the bank's risk profile is monitored and controlled by the application of laws which regulate Cape Verde's financial system, particularly *Official Notice 4/2007* issued by the Bank of Cape Verde, defining the calculation bases for the solvency ratio and which incorporates market and operational risk, in addition to its reformulation of the procedures for assessing the contribution made by credit risk.

Under *Official Notice 4/2007*, the solvency ratio is calculated by the application of the following formula:

$$[FP/(VAPRC+VAPRTC+VEAPRO)] \times 100$$

In which:

FP – Value of own funds, assessed under *Official Notice 3/2007*.

VAPRC – Value of assets weighted by credit risk.

VAPRTC – Value of assets weighted by foreign exchange risk.

VEAPRO – Equivalent value in assets weighted by operational risk.

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The solvency ratio is calculated by DFI (Financial and International Division) and more specifically by DPG (Planning and Management Control Division), with the contribution of DIL (International and Liquidity Division) as regards the assessment of the value of assets weighted by foreign exchange risk.

Information on the procedures used to define this ratio's variables has been published in *Official Notice 3/2007* (own funds) and Annexes 1, 2 and 3 of *Official Notice 4/2007* (assets weighted by credit, market and operational risk).

*Official Notice 3/2007* defines the negative and positive components for the calculation of own funds, obtained from the sum of basis own funds and complementary own funds and respective adjustments, in the form of deductions defined by the Bank of Cape Verde.

Information on the bank's regulatory capital, at 31 December 2013, is set out in the following table:

Paid up capital	1,318,648		
Share issue premiums and other securities	-		
Legal, statutory and other reserves comprising non-appropriated income	3,400,385		
Retained earnings from past years	-		
Retained earnings from last year	-		
Positive income from current year	219,544		
Positive actuarial deviations (corridor method) - not recognised in income statement or reserves	470,164		
Minority shareholders' interests <sup>(1)</sup>	-		
<b>SUB-TOTAL</b>		5,408,741	
Intangible assets	22,773		
Retained losses from past years	1,174,877		
Losses from last year	-		
Provisional losses for this year	-		
Additional provisions	308,819		
Negative revaluation reserves	-		
Negative actuarial deviations (corridor method) and costs of past services not recognised in the income statement	-		
Treasury shares	-		
Positive differences from the first consolidation <sup>(1)</sup>	-		
Positive revaluation differences in first application - equity accounting method <sup>(1)</sup>	-		
<b>SUB-TOTAL</b>		1,506,469	
<b>BASIS OWN FUNDS PRIOR TO THE PUBLICATION OF THE TRANSITIONAL REGIME</b>			3,902,272
Transitional regime of item 4 of no. 5 of <i>Official Notice 3/2007</i> - impact on transition to basis own funds still to be recognised	-		
<b>ELIGIBLE BASIS OWN FUNDS</b>			3,902,272
Legal revaluation reserves for tangible fixed assets	-		
Foreign exchange translation reserves and investment hedges on investments in operating units abroad	-		
Subordinated loans and preference shares	398,790	398,790	
Other revaluation reserves	2,456		
Other elements	-		
<b>COMPLEMENTARY OWN FUNDS</b>		401,246	401,246
<b>OWN FUNDS PRIOR TO DEDUCTIONS</b>			4,303,518
Investments to be deducted:			
More than 10% of capital		45,343	
Less than or equal to 10% of capital	62,180	-	45,343
Fixed assets received in payment for own credit	7,936	-	7,936
Own funds to be used as specific hedges (sub-paragraph 12 of no. 11 of <i>Official Notice 9/99</i> )	-		
Liquidity deficit (item 2 no. 15 of <i>Official Notice 8/2007</i> )	-		
<b>OWN FUNDS FOR THE CALCULATION OF CONCENTRATION RISK</b>			4,250,239
Part exceeding the risk concentration limits (sub-paragraph d) no.12 <i>Official Notice 3/2007</i> )	-		
<b>OWN FUNDS</b>			4,250,239

<sup>(1)</sup> Only for the assessment of own funds on a consolidated and an adjusted consolidation basis.

The above table shows that the final value of own funds derives from the sum of the two major aggregates referred to, i.e. basis own funds and complementary own funds, excluding several deductions provided for by the Bank of Cape Verde.

Basis own funds comprise the bank's most stable capital. Its main components are share capital, reserves, retained earnings, net income for the period and the transition's impacts comprising the costs of workers' benefits, resulting from the adoption of the International Financial Reporting Standards (IFRS), or more precisely IAS 19 - Employee benefits;

The assimilation of the referred to standards required the adoption of a transitory regime for the assessment of basis own funds, in the quest for a harmonious change from the former to the current accounting rules, without major interference to prudential rules.

Complementary own funds are essentially made up of positive or negative revaluation reserves on several assets and subordinated liabilities subject to the Bank of Cape Verde's advance approval.



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One of the positive components of the value of own funds is share capital whose minimum amount fixed by the government at the proposal of the Bank of Cape Verde in the form of Ministerial Order 19/2005 of 14 March, is CVE 300 million. Total own funds cannot, under any circumstances, be less than the minimum amount of capital.

In addition to stipulating that the value of own funds should be more than the minimum share capital required by law, *Official Notice 4/2007* also rules that an adequate ratio between shareholders' equity and assets and off-balance sheet elements, weighted by their respective risks should be permanently observed. This relationship is defined by the solvency ratio, whose minimum value is 10%.

As the above table shows, the bank had total own funds of CVE 4.25 million at 31 December 2013, which amount was higher than the legally required minimum share capital and sufficient to maintain an adequate ratio between assets and off-balance sheet elements weighted by risk translating into a solvency ratio of 13.27%.

As the Bank of Cape Verde's regulations on capital adequacy are based on the Basel I Accord, several practices brought in under Basel II are not, as yet, required. These include the implementation of a self-assessment system and the assessment of an internal capital level in line with the risk profile or even the use of external ratings for an assessment of credit risk weighting factors.

However, taking into consideration that the supervisory authority has decided to adopt international best practice, the main Basel II recommendations applicable to the situation in Cape Verde, are likely to be assimilated in the near future.