

# Annual Report 2016

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NÔS BANCO NA NÔS TERA  
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## 1 – GOVERNING BODIES

The Ordinary General Meeting of Banco Comercial do Atlântico (BCA), held on October 25th 2015, elected, in accordance with article 13 of its Articles of Association, the following members that compose the Governing Bodies:

### General Meeting

Chairman: Miguel António Ramos

Vice-Chairman: Salomão Jorge Barbosa Ribeiro

Secretary: Dulce Patrícia Dias Lopes Chantre

### Board of Directors

The Board of Directors is appointed by the General Meeting and it includes a Chairman and six Board Members, four of whom are non-executive members:

Chairman: António José de Castro Guerra

Board Member: Fernando Jorge do Livramento Santos da Moeda

Board Member: Francisco Pinto Machado Costa

Board Member: David Hopffer Cordeiro Almada

Board Member: Carla Maria Moniz Brigham Gomes

Board Member: José Rui Cruz Lopes Gomes

Board Member: Manuel José Dias Esteves

### Audit Board

Chairman: António José Nascimento Ribeiro

Member: Maria de Fátima Oliveira de Melo Fernandes Sanchas

Member: José Ricardo Vaz Fernandes Benoliel

Deputy Member: Francisco Sebastião Correia Teixeira

Deputy Member: Adelino Vital Fonseca

The Executive Board is appointed by the Board of Directors and it includes three members:

António José de Castro Guerra – Chief Executive Officer

Fernando Jorge do Livramento Santos da Moeda

Francisco Pinto Machado Costa

## 2 – SHARE CAPITAL

BCA has a Share Capital of 1,324,765,000 CVE (one billion, three hundred and twenty four million, seven hundred and sixty five thousand Cabo Verdean escudos) held, as of December 31<sup>st</sup> 2016, by the shareholders set out in the following table, which shows that the equity stakes of Caixa Geral de Depósitos, SA/ Banco InterAtlântico, SA, INPS – Instituto Nacional de Previdência Social, Garantia – Companhia de Seguros de Cabo-Verde, SA and Caixa Geral de Depósitos were qualified:

### Share capital on 31/12/2016

Shareholder	Amount	CVE
		Percentage
CGD/INTERATLÂNTICO	697 446 000	52,65%
INPS	132 492 000	10,00%
CAIXA GERAL DE DEPOSITOS	89 504 000	6,76%
GARANTIA	76 322 000	5,76%
ASA - AEROPORTO E SEGURANÇA AÉREA, SA	28 780 000	2,17%
EMPLOYEES	37 146 000	2,80%
OTHER SHAREHOLDERS	263 075 000	19,86%
<b>TOTAL</b>	<b>1 324 765 000</b>	<b>100,00%</b>

### 3 – KEY INDICATORS

#### Main amounts and indicators – Activity and Net Income

Variáveis	Unit	2015	2016	Change
<b>BALANCE SHEET</b>				
Total assets	CVE million	80 825	84 520	4,6%
Total loans (net)	CVE million	48 450	49 507	2,2%
Total liabilities	CVE million	75 954	79 241	4,3%
Funds from customers	CVE million	69 097	72 703	5,2%
Shareholder's equity	CVE million	4 871	5 278	8,4%
<b>OPERATING INCOME</b>				
Net interest income	CVE million	1 938	1 978	2,1%
+Non-interest income	CVE million	710	588	-17,2%
=Total operating income	CVE million	2 647	2 566	-3,1%
-Administrative costs	CVE million	1 941	1 887	-2,8%
=Operating cash flow	CVE million	707	679	-3,9%
+ Income from subsidiaries excl. from consolidation	CVE million	40	45	12,7%
-Depreciation for period	CVE million	190	208	9,5%
-Impairment/provisions (net) for period	CVE million	188	98	-48,0%
-Income tax	CVE million	-	74	
=Net income for period	CVE million	369	344	-6,7%
<b>RATIOS</b>				
Non-performing loan/customer's loans	%	15,9%	13,8%	
+90 days Non-performing loan/customer's loans	%	14,9%	13,2%	
Impaired loan/Non-performing loan	%	65,6%	71,5%	
Impaired loan and bonds/non-performing loan	%	66,5%	72,5%	
customers' loans/customer deposits	%	55,8%	52,9%	
Net income/shareholders' equity (ROE)	%	7,6%	6,8%	
Net income/assets (ROA)	%	0,5%	0,4%	
Solvency ratio	%	15,70%	15,78%	
<b>OPERATING</b>				
(Cost-to-income) including pension fund	%	80,5%	81,6%	
(Cost-to-Income) excluding pension fund	%	69,4%	70,8%	
Total assets/total active employees	CVE million	187	187	-0,3%
Credit and total deposits/active employees	CVE million	244	243	-0,6%
Credit and total deposits/total branches	CVE million	3 126	3 235	3,5%
Total number of active employees	Unit	432	453	4,9%
Number of permanent active employees	Unit	382	396	3,7%
Number of branches	Unit	34	34	0,0%

## 4 – CHAIRMAN'S STATEMENT

Dear Shareholders, Customers, and Employees

After a period of low output growth in recent years, Cabo Verde's GDP growth estimates for 2016 and the projections for the following years point to a sustained recovery in the economic activity. Indeed, if the average annual economic growth was less than 1% between 2012-2015, the latest forecasts of the Quarterly Accounts point to the possibility of a 4% growth rate in 2016, a value within the projection range of the State Budget (3.5% -4.5%) and above the updated projection of the IMF (3.2%). It should be noted that, to a significant extent, this growth will be related to the GDP deflator (below 1) and the increase in tax collection. At the end of the year, at current prices, nominal GDP growth will have been lower than real growth, which is not desirable and will tend to disappear as the CPI grows.

For 2017, in the State Budget, it is expected an output growth rate of 5.5%, driven, on the Demand side, by Private Consumption and Investment and by Net Exports, mainly due to Exports services. On the Supply side, GDP growth is largely supported by growth in the Tertiary sector.

The IMF (Country Report No.16 / 366-Nov.2016) forecasts a growth projection for the current year of only 3.7%, but sets the level of growth for the coming years (2018-2020) above 4%.

The weak GDP growth rate in the period 2012-2015 is related with a weak growth rate of credit to the economy, which, on average, evolved at a rate of less than 1%. In the year 2016, the economic dynamism has already been reflected positively in the behaviour of credit. The estimates point to a growth rate of 2.9%, and it is possible to assume higher and probably increasing values, in the 2017-2020 period.

Since the end of 2015, the Cabo Verdean economy has started a recovery process after successive years of weak growth. However, the sustainability of the Cape Verdean economy trajectory depends on the evolution of its competitiveness factors, as well as its international environment. No less conditioning is the fact that a demanding budget consolidation program is under way, which involves reducing budget deficits and securing primary balances that free up resources to reduce public debt to levels less vulnerable to exogenous shocks.

It is commonly accepted that, in the medium and long term, Cabo Verde's dynamism crucially depend on increased competitiveness and productivity of both physical and human capital, taking advantage of existing infrastructures, reducing skills shortages, deepening reforms already initiated in the labour market, extending



the country's economic base, in particular with policy measures specifically geared towards the creation and sophistication of SMEs, solving, definitely, the weaknesses of some public enterprises, further integrating the internal market, improving the international integration of the country and, in general, the business environment.

According to the latest WEF report, the composite indicator of Cabo Verde's competitiveness improved 2 p.p. in the last year and the government includes in its program and budget for this year, some initiatives that point to an improvement of this indicator.

According to the WEO (IMF Feb-2017), in 2016, the World Economy grew by 3.1%, slightly lower than in 2015 (3.2%). However, for 2017-2018, the IMF's most recent projections point to growth rates of -3.6% per year - driven primarily by emerging and developing economies - 5.1% each year - In particular Asia - 6.6% and 6.3%, respectively.

In both 2017 and 2108, estimates of growth rates in world trade in goods and services are higher than in 2015 and 2016. It is estimated that this growth in international trade will occur both for countries with more advanced economies and Emerging countries and development, but more in these than in those.

In 2016 the US economy grew (1.9%) less than in 2015 (2.6%), however, with improvement trends for 2017 and 2018, but, without reaching the 2015 level.

In its winter forecast (Feb-2017), the European Commission predicts for the Eurozone economy a growth of 1.7% in 2016 and its projections for 2017 and 2018 point to rates of 1.6% and 1.8% % respectively, still below 2015 (2.0%). In Portugal, according to INE, one of Cabo Verde's main economic partners, forecasts for 2016 were revised up (1.4%) and the EU forecasts a growth of 1.7% in the current year. The behaviour of the GDP and the budget predicts that Portugal will be out of the excessive deficit situation in the near future.

Regarding these projections, there are uncertainties about the World Economy and, above all, the Eurozone, arising from not well known consequences of Brexit, the position of the new US government as a world great power and the results of the electoral consultations that, during the current year , will take place in France, the Netherlands, Germany and, probably, Italy. If protectionism and nationalism settles in, it is natural that there should be downward revisions in world commodity and trade projections, which may undermine the sustainability of growth in Cabo Verde and the ongoing budget consolidation.

If, as we all aspire to, the worst scenarios do not materialize and if the rates of growth of the World Output and the economies of the regions in which the Cape Verdean economy is most integrated remain the same, in the year 2107 and following, a virtuous cycle between credit and economic growth, abruptly broken in 2011,

may consolidate. This virtuous cycle will be fundamental to mitigate the very negative consequences, started in 2011, which had an impact on the banks' balance sheet - weak loan portfolio growth and the fast increase of non-performing loans – and the decrease of the profitability of the national banking system, in a context of increasing demands for behavioural and prudential supervision, which could be translated, in particular, into more administrative costs and improved banks' solvency. The accommodative monetary policy that is being followed can then be more effective in promoting growth by increasing demand and supply of credit to the economy, thereby reducing banks' liquidity excess and increasing their loan-to-deposit ratio.

As in previous years, customer resources in the system continued to grow, but at lower rates. In order to reduce its excess liquidity and the cost of its funding, BCA reduced the interest rates on deposits. Nonetheless, the balance of customer deposits increased by 5.4% compared to 2015, which demonstrates customer's continuous trust in BCA brand. This increase was sustained by the increase in demand deposits by 11% and by term deposits by 10.8%. Time deposits grew by only 1.3%. These changes in the balance sheet on the deposit side show a more balanced composition compared to the competition: higher weight of demand deposits, without loss of volume in remunerated deposits.

Most of the deposits in BCA belong to individual customers, corresponding to 81.5%, which is associated with an increase of 6.8% in 2016. Corporate deposits decreased slightly compared to 2015, driven by both demand deposits and time deposits. At BCA, emigrant deposits represent 49.4% of the total portfolio and grew 4.8% compared to December 2015.

The year 2016 began by reflecting the uncertainties of an election year - the year of all elections - which initially led to some risk aversion among investors. In the second part of the year, however, there was a gradual, albeit slow, improvement in market conditions, with some impact on banking activity. In the system, in 2016, the credit grew about 2.9%, mainly due to the credit granted to the State.

At BCA, in 2016, the total loan portfolio increased by approximately 1.064 billion, in other words, 2.2% more than in 2015, translating into the following main transactions: more credit to the State in the amount of 1.106 billion; Increase in regular loan by 778 million, against a decrease of 785 million of credit and accrued interest.

Excluding the securitized loans, the gross customer portfolio remained stable at around 38 billion, translating into a growth of 1.5% in the business segment and a reduction of 1.4% in the individual segment. In the regular portfolio there was a growth of 778 million, i.e., 2.4% compared to 2015: + 5.7% in the business segment; - 0.1% in the individual segment.

Excluding the restructured loans, the new credit was 7,822 million, i.e., 68 million (0.9%) less than the 2015 total amount, despite the high demand for the SMEs line of credit.

In 2016, BCA's strategic performance continued to pursue the following three final strategic goals: 1) -Increase in Business Profitability through: improving the net interest income of credit operations, increasing the loan-to-deposit ratio, and from a greater contribution of the non-interest income; 2) - Reduction of Cost-to-Income, through: the increase of the operating income; Improvement in technical and operational efficiency; 3) - Strengthening of Solvency based on: a commercial policy sensitive to risk and capital consumption of operations as well as a prudent dividend policy.

For this purpose, it has implemented four specific strategic goals: 1) - Growth of the Regular Portfolio, through: greater commercial proactivity without prejudice to risk weighting and capital consumption of operations, improvement of the quality of service at branches, better communication between the commercial network (branches) and operational services, reducing the response time for internal and external customers; 2) - reduction of the Non-Performing Loans Portfolio, through: particular attention to the first signs of default, more sustainable restructuring, better functional articulation between GRE and GJC; 3) - more Proactivity (internal and external) in the management and alienation of the assets in the portfolio (court proceedings and enforcement); 4) Improvement of Technical and Operational Efficiency, through: organizational improvements, control and reduction of operational costs, reduction of operational risk, improvement of internal control, new investments on a business-case basis, qualification of human resources .

With this strategic alignment, the bank's net interest income increased by 2.1%, despite the greater rigor we have imposed on the granting of new loans and the revolving of some large loans in the portfolio in 2016.

Due to factors beyond the control of the bank, the non-interest income decreased 17.2%, reflecting the low remuneration of the TCMF portfolio - applications in sovereign debt of European countries - and the reduction in income from operations in foreign currency, affecting the operating income, which fell 3.1% in 2016.

Administrative costs, although to a lesser extent, continued to fall, reflecting greater cost efficiency and improved operational efficiency: minus 1.7% in 2016.

The combined effect of the previous variables caused cost-to-income ratios to rise slightly - around 1.1 pp - and net depreciation results, impaired loans and taxes, stood at 344 million, 6.7% less than in the last year. ROE and ROA were respectively 6.7% and 0.4%, slightly below the levels achieved in 2015.

Noteworthy, however, is the reduction of non-performing loans and the increase in the coverage ratio for impaired loan - both credit, credit and bonds - as well as the strengthening of the bank's net worth. In fact, the non-performing loans decreased by 785 million, which translates into a ratio of non-performing loan and the total credit of 13.8% against 15.9% in December 2015, with an increasing level of the coverage ratio for impaired loans, representing the latter 71.5% of total loans overdue on 31 December 2016.

After five consecutive years of a highly adverse economic environment, these results were only possible due to the mobilization, professionalism and dedication of the bank's management staff and their teams which deserve our recognition and gratitude. We are certain that we will be able to continue to rely on the dedication and professionalism of our staff in overcoming the challenges to be faced in the future

On behalf of BCA's board of directors, we also wish to express our gratitude and appreciation to all of our shareholders, board of the general meeting, fiscal board, external auditor, Bank of Cabo Verde, Auditor-General of the Securities Market and the Cabo Verde's stock exchange for all of the collaboration and competence in overseeing the bank's current management.

We are grateful for the confidence of our customers who are our reason for existence and wish to reiterate our full commitment to meet their relationship expectations with BCA by strengthening our proximity approach with products and services compatible with their preferences, interests and needs, strengthening their loyalty to the bank, based on trust, reciprocal respect and interests

## 5 – INTERNATIONAL AND DOMESTIC ENVIRONMENT

### 5.1 – INTERNATIONAL

According to the World Economic Outlook – WEO of January 16 2016, the global growth for the year 2016 is estimated at 3.1% in line with the October 2016 forecast. Economic activity in advance economies and emerging and developing economies is expected to accelerate in 2017 and 2018, with global growth projected to 3.6% each year.

Advanced economies are projected to grow 1.8%, 1.9% and 2% in 2016, 2017 and 2018, respectively. As noted, this forecast is particularly uncertain due to possible changes in the political orientation of the United States under the new administration. However, the latest known forecast for the United States predicts a growth of 2.3% in 2017 and 2.5% in 2018.

The growth projections for 2017 were also revised upward for Germany, Japan, Spain and United Kingdom, mainly due to a stronger than expected performance during the latter part of 2016.

The main factor behind the strengthening of the global outlook for 2017/2018 is, however, the projected recovery in the growth of **emerging and developing economies**. As discussed in the October WEO, this projection reflects, to a large extent, the gradual normalization of conditions in several large economies that are currently facing macroeconomic tensions. The growth is currently estimated at 4.2% in 2016, and is expected to reach 5.1% for 2017 and 2018, respectively.

According to the January WEO, China's growth forecast for 2017 is 6.5% (6.6% in 2016), reflecting a slowdown compared to 2015. However, the continued reliance on policy stimulus measures, with fast credit expansion and the slowness in corporate debt treatment, especially with the tightening of budget constraints of State owned enterprises, increases the risk of a more accentuated slowdown. These risks can be aggravated by capital outflow pressures, especially in a more unstable environment.

With regards to the Eurozone, which is the most influential market for Cabo Verde, the final data indicate a slight slowdown of the economy, with the Gross Domestic Product falling by 0.4pp in 2016, reaching 1.6%, possibly due to the decrease of expectations of economic agents before the (BREXIT<sup>1</sup>), and the emergence of nationalisms.

2017 shall remain stagnant, although some countries are expected to grow, namely Germany 1.7% in 2016 (1.5% in 2015) and Italy 1% in 2016 (0.7% in 2015).

For Portugal, according to the 4th quarter accounts, GDP shall have grown beyond expectations allowing to assume that it will grow 1.4% during the year which is 0.2pp above the expected rate.

According to the Bank of Portugal, the Portuguese Public debt reached EUR 241.8 billion in November (or EUR 223.7 billion, excluding the Central Government Deposits). This is due to a monthly decrease of EUR 1.3 billion, mainly because of early repayment to the IMF (of EUR 2.1 billion) in November 2016.

The following table provides some international macroeconomics indicators:

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<sup>1</sup> On 23 June the United Kingdom decided, in a referendum, to leave the European Union, which cause some uncertainty in the world economy. The expected impacts are negative for the UK, the European Union itself and the global economy

## Indicators' evolution

	GDP		Inflation		Uemployment	
	2015	2016p	2015	2016p	2015	2016p
<b>US</b>	2,6%	1,6%	0,1%	1,2%	5,3%	4,9%
<b>Eurozone</b>	2,0%	1,7%	0,0%	0,2%	10,9%	10,3%
Portugal	1,4%	1,2%	0,5%	0,6%	12,4%	11,6%
Germany	1,5%	1,7%	0,1%	0,5%	4,6%	4,6%
<b>Japan</b>	1,2%	0,9%	0,8%	-0,2%	3,4%	3,2%
<b>Emerging economies</b>	4,1%	4,1%	4,7%	4,5%	9,6%	nd
<b>Brazil</b>	-3,8%	-3,5%	10,7%	7,2%	8,3%	10,9%
<b>Russia</b>	-3,7%	-0,6%	15,5%	7,2%	5,6%	5,8%
<b>Emerging Asia</b>	6,5%	6,3%	2,8%	nd	nd	nd
<b>India</b>	7,6%	6,6%	4,9%	5,5%	nd	nd
<b>China</b>	6,9%	6,7%	1,4%	2,1%	4,1%	4,1%
<b>Sub-Saharan Africa</b>	3,4%	1,6%	6,9%	7,3%	nd	nd
<b>Global economy</b>	3,2%	3,1%	2,8%	2,9%	nd	nd

Sources: OGE

WEO-World Economic Outlook Update - January 2017

## 5.2 – DOMESTIC

## 5.2.1– General Information

According to the General State Budget for 2016, approved in August 2016, it is likely that the Gross Domestic Product (GDP) will grow in the [3.5% 4.5%] range in 2016 and sustained by the increase in the external demand; increase of public and private investment; by the improvement of private transfers (remittances) and official transfers; by the greater productivity factors in the different sectors; by the improvement in access to credit and domestic and international price variation.

The inflation is expected to be between [0.2% and 1.2%] in 2016, reflecting the lagged effects of commodity price development and the impact of agricultural production.

In the External Sector there will be an improvement in the dynamic of the external world economic activity directed to the domestic economy and the export of services related to tourism. In 2016 the foreign reserves should be up 5 months from the import of goods and services.

The central government debt Stock in percentage of GDP has increased since 2009, about 51.6pp of GDP. Debt risk, measured by the ratio of its current value/GDP, is high and it should reach 123.7% in 2016.

The budgetary risks may be aggravated by the evolution in tax revenues below expectations, taking into account some factors, namely the evolution of economic activity in relation to the growth forecast [3.5% - 4.5%], tax efficiency, non-Implementation of the infrastructure concession contracts impacting the execution of "Other Revenues" item; non-execution of foreseen donations and, finally, the delay in the disbursement of external loans, with an impact on the implementation of the public investment program.

On the State Budget for 2017, it is expected a growth rate of the GDP of 5.5%, sustained by, on the demand side, the consumption, the private investments and the net exports, and, on the supply side, by the growth of the tertiary sector. The inflation is expected to be in the range of 0.2% to 1.2%.

The table below shows the evolution of some economic indicators of the domestic economy over the past two years.

### Domestic macroeconomic indicators

Indicators	Units	Forecast	
		2015	2016
Real GDP	%	1,5	[3,5 4,5]
Public debt ratio	% of GDP	120,3	123,7
Average annual exchange rate	USD/CVE	101,5	104,6
Inflation	average annual change	0,1%	[0,2 1,2]
Unemployment	%	12,0	9,0
Money supply	Annual change %	5,9	4,0
Foreign currency reserves	Import months	5,2	5,0
Lending to the economy	Change	2,0%	2,9

**BCV Stats - 3rd trimestre.**

**OGE - General State Budget 2016; NBR \_Economia Global Weekly**

## 5.2.2 – Financial System

During the year 2016, in order to bring national banking closer to the best international practices, Bank of Cabo Verde – BCV, placed several official notices in public consultation, namely the notice on the constitution of a Deposit Guarantee Fund, notices on Shareholder's Equity, TIER 1, Solvency Ratios and Financial

Institutions Risks. With these publications BCV intends that Cabo Verde be in compliance with the parameters set by Basel I and II. As a result of the entry into force of three of the four official notices mentioned above, it is anticipated that by 2017 the minimum Solvency Ratio required for commercial banks will increase from 10% to 12%, all this in a broader context that points to the need of Banks to capitalize above their current level of shareholder's equity.

In a year where economic growth was recovering at a slow pace, inflationary pressures and the absence of imminent and significant pressures on the balance of payments, Bank of Cabo Verde, in furthering its monetary easing policy implemented since 2015, which aimed at greater efficiency of the monetary policy, while at the same time, boosting the market to promote economic growth while safeguarding foreign exchange and price stability.

During the year 2016 there were issued and published several official notices and legislative regulations:

- Official notice 1/2016 – Establishes the principles and rules for risk management and internal control of insurance companies.
- Official notice 2/2016 – Approves the table of mediation and collection commission.
- Official notice 3/2016 – Establishes the minimum commission amounts.
- Official notice 4 thru 15/2016 – Regulate law No. 83/VII/2015, which establishes the legal regime for microfinance activities and respective institutions, on various matters:
- Official notice 16/2016 – Transitional Banks in the context of public intervention for bank crisis management, consists in the application of a resolution measure through partial or total transfer of the activity of banks to transition banks.

### 5.2.3 – BCA in the System

The Cape Verdean financial system continues to be increasingly more competitive, comprising eight commercial banks and six off-shores banks operating in the market in 2016.

Notwithstanding the adverse context, BCA continues to occupy its leading position in Cabo Verde's banking sector, retaining its status as the benchmark bank trusted by Cabo Verde's citizens. Reference should be made to its market share, both as regards of credit of 36, 3% (November 2016 data) and 39.2% in terms of Deposits (data for September 2016). In terms of national coverage, BCA maintained its branch network in 34, with emphasis on the existence of four Corporate Offices.



BCA remained strongly committed to electronic means of payment, in 2016, with Vinti4 cards accounting for 39% of all network production, an increase of 1.038 cards (3%), compared to 2015, however, far below from network production increase of 13%.

As far as active cards in circulation, at December 31 2016, BCA had 70.410 cards (67.280 cards in 2015), representing a market share of 35%.

BCA also produced 995 VISA credit cards, 758 of which were renewals or replacement cards and 237 new issuances. At 31 December the bank had a total number of 1.805 active Visa credit cards. The Prepaid Visa, BCA Visa Flex, continues to be the BCA Visa card with the highest number of issuances in 2016, with 3,353 cards, to a total sum of 5.081 cards.

## 6 – STRATEGIC VISION

The perspectives of relative stability of the international environment and improvement of the domestic environment, along with the acceleration of the rhythm of approach of the national supervision of BCV to the international standards, configure the framework in which BCA must adjust the strategy established in 2013.

In this context, the strategic performance of BCA continues through the following vectors:

### 1. Final Strategic Goals:

#### a. Increase of **Business Profitability** through:

- I. The improvement of **Net Interest Income** of loan operations
- II. The increase of **Loan-to Deposit Ratio**
- III. A greater contribution of **Non-Interest Income**

#### b. Reduction of **Cost-to-Income**, through:

- I. The Increase of the **Operating Income**
- II. The improvement of **Technical and Operational Efficiency**

#### c. Strengthening of Solvency based on

- I. A **Commercial Policy** sensitive to the capital risk and consumption of the operations
- II. A prudent **Dividend Policy**

### 2. Specific Strategic Goals

- a. Growth of the **Regular Portfolio**, through:
  - I. A greater **Commercial Proactivity** without prejudice to risk weighting and capital consumption of operations
  - II. The improvement of the **Quality of Service** at branches
  - III. A better **Communication** between the commercial network (branches) and operational services
  - IV. Reducing the **Response Time** for internal and external customers
- b. Reduction of the **Non-Performing Loans Portfolio**, through:
  - I. A particular attention to the **First Signs of Default**
  - II. More **Sustainable Restructuring**
  - III. Better **Functional Articulation** between GRE and GJC
- c. More **Proactivity (internal and external)** in the management and alienation of the assets in the portfolio (court proceedings and enforcement)
- d. Improvement of **Technical and Operational Efficiency**.
  - I. **Organizational Improvements**
  - II. Control and reduction of **Operational Costs**.
  - III. Reduction of **Operational Risk**
  - IV. Improvement of **Internal Control**
  - V. **New Investments**, on a business-case basis
  - VI. Qualification of **Human Resources**

## 7. – COMERCIAL ACTIVITY

### 7.1. – RESOURCES

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

In line with the proposed objective for the year 2016, the balance of Customer's Deposits reached 71.9 billion, which represents an increase of 5.4% compared with 2015, and it continues to show the trust placed in BCA brand. This evolution was based on an 11% increase of current accounts, 10.8% increase on savings accounts and 1.3% increase on Term Deposits account.

The following table illustrates the evolution of customer's resources:

Customers' funds				
Type	2015	2016	(CVE million)	
			Total	Percent
<b>Deposits</b>	<b>68 238</b>	<b>71 930</b>	<b>3 692</b>	<b>5,4%</b>
Demand Deposit	25 382	28 184	2 802	11,0%
Term Deposit	39 266	39 770	504	1,3%
Savings Accounts	3 590	3 976	386	10,8%

By customer segment, most deposits at BCA are held by individual customers, representing 81.5% (against 80.4% in December 2015), an increase of 6.8%. Corporate deposits faced slight decrease compared to 2015. Total emigrants' deposits account for 49.4% of BCA's Deposits Portfolio, and increased by 4.8% over December 2015.

Customer deposits by type				
Modalidades	2015	2016	(CVE million)	
			Total	Percent
<b>Demand Deposit</b>				
Residents	17 559	18 456	897	5,1%
Emigrants	5 506	6 708	1 202	21,8%
Non-residents	2 316	3 019	703	30,3%
<b>Total</b>	<b>25 382</b>	<b>28 184</b>	<b>2 802</b>	<b>11,0%</b>
<b>Term Deposit</b>				
Residents	11 927	13 379	1 452	12,2%
Emigrants	28 457	28 876	419	1,5%
Non-Residents	2 472	1 491	-981	-39,7%
<b>Total</b>	<b>42 856</b>	<b>43 746</b>	<b>890</b>	<b>2,1%</b>
<b>Total Deposits</b>	<b>68 238</b>	<b>71 930</b>	<b>3 692</b>	<b>5,4%</b>

Depósitos de Clientes por Segmento				
Segments	2015	2016	(CVE million)	
			Total	Percent
<b>Corporate</b>				
Demand Deposit	10 276	10 265	-11	-0,1%
Term Deposit	3 085	3 036	-49	-1,6%
<b>Total</b>	<b>13 361</b>	<b>13 301</b>	<b>-60</b>	<b>-0,5%</b>
<b>Individual Customers</b>				
Demand Deposit	15 105	17 918	2 813	18,6%
Term Deposit	36 181	36 735	554	1,5%
Savings Accounts	3 590	3 976	386	10,8%
<b>Total</b>	<b>54 876</b>	<b>58 629</b>	<b>3 753</b>	<b>6,8%</b>
<b>Total Deposits</b>	<b>68 238</b>	<b>71 930</b>	<b>3 692</b>	<b>5,4%</b>

## 7.2. – CREDIT

### 7.2.1 – Constraints on lending activity

The beginning of 2016 was marked by uncertainties surrounding the three elections held and which translated into some risk aversion among investors. However, in the last two quarters of the year there was a gradual, albeit slow, improvement in market conditions, with an impact on banking activity, with non-performing loans at BCA declining 13% compared to 2015. The concession of new credits in BCA decreased by 0.9% over the previous year, and was partially conditioned by the few projects that could be financed, due to the excess of indebtedness of both companies and families.

In this context, BCA decided to increase the SME credit line launched in September 2014 by more than one billion, for a total of 3 billion, at an even more attractive rate, contributing to an increase of 44, 1% (+ 463.2 million) of the new operations carried out in this product during the year 2016. Minimizing the existing risks was still a concern, trying to always, and in accordance with its strategic goals, protect the profitability of the Bank. It is expected for 2017, with the gradual recovery of the international economic partners, an improvement in the overall domestic growth.

### 7.2.2 – Analysis of Granted Loans

Total new loans in 2016, including restructured credit, amounted to approximately 8.3 billion, down -5.9% (- 523 million) over 2015, with a 8% decrease in corporate loans compared to 2015. It should be noted that the decrease is due to the decline in the restructured amount, since the new credit granted to companies increased by 0.9%. For individuals, the decrease was 2.3%. Home Loans for owner occupancy, increased by 2% against a 32% decrease in Home Loans for renting, a sub-segment with a higher default risk.

During 2016 33 Leasing credits were approved in the amount of 183.6 million, of which 26 were contracted, for a total of 164.2 million. Regarding Factoring, a new contract of 57.7 million was authorized.

Throughout 2016, 143 credits were renegotiated / restructured, in which 13 had the utilization or amortization period extended and 130 were rescheduled.

The following table provides information on the evolution of new credit by customer segments.

## Loans, including restructured loans by customer segments

(CVE million)

Segments	2015	2016	Change		Structure	
			Total	Percent	2015	2016
<b>Corporate</b>	<b>5 619</b>	<b>5 172</b>	<b>-447</b>	<b>-8,0%</b>	<b>63,1%</b>	<b>61,7%</b>
Short Term	2 104	2 692	588	27,9%	23,6%	32,1%
Medium/Long Term	3 515	2 480	-1 035	-29,4%	39,5%	29,6%
<b>Individual Customers</b>	<b>3 286</b>	<b>3 210</b>	<b>-76</b>	<b>-2,3%</b>	<b>36,9%</b>	<b>38,3%</b>
Mortgage Loans	1 124	1 090	-34	-3,1%	12,6%	13,0%
Consumer Loans	2 161	2 120	-42	-1,9%	24,3%	25,3%
<b>Total granted loans</b>	<b>8 904</b>	<b>8 382</b>	<b>-523</b>	<b>-5,9%</b>	<b>100,0%</b>	<b>100,0%</b>

## 7.2.3 Credit Portfolio Analysis

The performing credit portfolio, not including secure loans to companies, was up 32.7 billion, an increase of 2.4% (778 million) over the preceding year. This favourable 5.7% evolution in the stock of credit to companies is a reflection of the higher number of new operations, mainly comprising medium and long term loans. In the case of individual customers, and notwithstanding the 3.6% increase in credit for other purposes, the -6.7% decrease of lending for owner-occupied housing and buy-to-rent was a contributory factor in the 0.1% decline in the individual customers' balance.

## Performing credit portfolio by segments

(CVE million)

Segments	2015	2016	Change		Structure	
			Total	Percent	2015	2016
<b>Corporate</b>	<b>13 836</b>	<b>14 623</b>	<b>787</b>	<b>5,7%</b>	<b>43,2%</b>	<b>44,6%</b>
Short Term	1 280	2 004	724	56,6%	4,0%	6,1%
Medium/Long Term	12 556	12 618	63	0,5%	39,2%	38,5%
<b>Individual Customers</b>	<b>18 176</b>	<b>18 166</b>	<b>-9</b>	<b>-0,1%</b>	<b>56,8%</b>	<b>55,4%</b>
Mortgage Loans	11 982	11 952	-30	-0,3%	37,4%	36,5%
Rent	1 960	1 828	-132	-6,7%	6,1%	5,6%
Consumer credit	4 234	4 387	153	3,6%	13,2%	13,4%
<b>Total performing credit</b>	<b>32 011</b>	<b>32 789</b>	<b>778</b>	<b>2,4%</b>	<b>100,0%</b>	<b>100,0%</b>

Including non-performing loans, Income Receivable and Bonds issued by Public and Private Entities, the Total Loans Portfolio granted to customers increased 2.2% compared to last year. The balance of public and private bonds declined by 78 million, justified by the liquidation of the instalments of certain bonds.

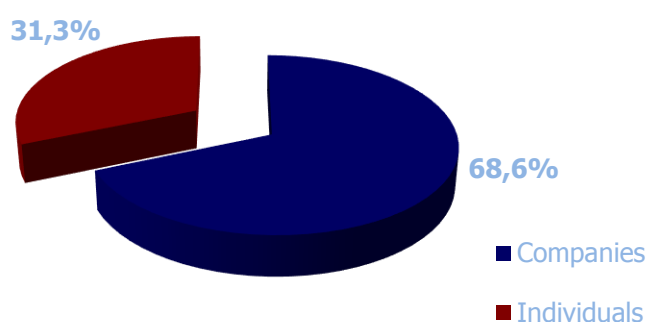
### Customers' Loan Portfolio

Loan	2015	2016	(CVE million) Change	
			Total	Percent
<b>Performing Loan</b>	<b>32 011</b>	<b>32 789</b>	<b>778</b>	<b>2,4%</b>
Short term	1 712	2 490	778	45,5%
Medium and long term	30 300	30 299	-1	0,0%
<b>Overdue credit and interest</b>	<b>6 050</b>	<b>5 265</b>	<b>-785</b>	<b>-13,0%</b>
<b>Public/Private Bonds</b>	<b>3 548</b>	<b>3 470</b>	<b>-78</b>	<b>-2,2%</b>
<b>Public Debt Securities</b>	<b>6 809</b>	<b>7 915</b>	<b>1 106</b>	<b>16,3%</b>
<b>Income receivable</b>	<b>274</b>	<b>301</b>	<b>28</b>	<b>10,1%</b>
<b>Deferred revenues</b>	<b>-244</b>	<b>-234</b>	<b>10</b>	<b>-4,3%</b>
<b>Total credit portfolio</b>	<b>48 448</b>	<b>49 507</b>	<b>1 058</b>	<b>2,2%</b>

Due to the efforts in terms of prudent risk management, the adoption of preventive measures, the permanent monitoring of customers with the highest exposure levels, with the aim of optimizing credit portfolio quality, non-performing loans were down 13% year-on-year to 5.2 billion, well above budget projection for 2016.

The decrease in Non-Performing loans occurred in both the Corporate segment, at a rate of 12.5%, and the Individual segment at 13.9%. The representativeness of each segment in 2016 is shown in the following chart

### Due Credit and Interests by Segment - 2016



The accumulated balance of the impaired credit, which includes the impairment of corporate bonds, totalled 3.8 billion, representing a variation of -5.1% and -203 million.

## 8 –OTHER ACTIVITIES

### 8.1 –HUMAN RESOURCES

BCA had a staff complement of 453 active employees at 31 December 2015 of whom 396 were permanent staff and 57 on fixed-term work contracts. It also had 164 retirees and 9 inactive employees (6 on unpaid leave 1 on public service and 2 on sick leave). There were 25 new recruitments in 2016.

#### Employees Distribution

	ACTIVE			INACTIVE	
	2015	2016		2015	2016
Permanent	382	396	Retirees	162	164
Fixed-term	50	57	Rescissions/indemnified	2	5
			On secondment	0	0
			On leave	13	6
			Sick leave	0	2
			Absence – other reasons	0	1
<b>TOTAL</b>	<b>432</b>	<b>453</b>	<b>TOTAL</b>	<b>177</b>	<b>178</b>

Women comprised 64% and men 36% of the total number of active workers.

In terms of distribution by functional groups, 44.1% of employees were engaged on technical functions, 22.12% held management positions, 15.9% in auxiliary and support roles, 10.8% multifunctional staff and 7.1% in administrative functions.

The level of academic qualifications witnessed an increase in the percentage of under graduate employees with a bachelor degree, who currently represent 45.7% of the total active employees. 28.9% of employees have high school qualifications, 16.6% elementary education, 2.2% higher educational (polytechnic) and 6.6% vocational qualifications.

### Educational Qualifications

	2015		2016	
	No.	%	No.	%
Primary	77	17,8%	75	16,6%
Secondary	126	29,2%	131	28,9%
Vocational	26	6,0%	30	6,6%
Polytechnic	13	3,0%	10	2,2%
University	190	44,0%	207	45,7%
<b>TOTAL</b>	<b>432</b>	<b>100%</b>	<b>453</b>	<b>100%</b>

### Training and professional advancement

During the year 2016, BCA invested in 33 training sessions totalling 6.561 hours for a total number of 773 participants. Training was carried out in several areas, of which the following stand out: Customer Service, Quality of service and Commercial Proactivity; Workshop - Risk mitigation instruments and project financing; Closing of accounts - Application of the new CIRPC; Deferred taxes - Accounting and tax effects; Archive and documentary management; Time management - personal organization for productivity; Elaboration, evaluation and financing of investment projects; Risk Management in Banking, Foundation Level; Workshop on Prevention, Money Laundering and Financing of Terrorism; Development of capital markets; Sustainability & Social Responsibility.

It is noteworthy the great investment made in "Customer Service, Quality of Service and Proactivity", practically covering all employees in the commercial area and operational support, aiming at strengthening skills in customer service and commercial proactivity.



Among the training sessions, thirty were carried out in country, in which five (In the Company) included 263 employees, with total 794 hours, while (Out of the Company) were carried out 25 sessions which included 506 employees, with a total of 5.620 hours.

As far as international trainings, four employees participated in three training sessions which took place at Caixa Geral de Depósitos and AATF – Luxembourg in areas such as Compliance - Filtering e Profiling, Workshop for CGD Group Compliance Officers as well as Risk Management in Banking, Foundation Level for a total of 147 hours.

Compared to the year 2015, there was an increase in terms of overall investment at about 42%, with highlight to an increased number of training hours.

During the year 2016 6 professional internships were provided, 1 being converted into a fixed term contract. It should be noted that of the 39 internship provided in 2015, twenty-two were converted into fixed-term contracts in 2016 and five continued the internship in 2016, renewing BCA's title as the country's development partner in job creation, especially in the youth sector.

Throughout the year, the bank co-funded the undergrad education and English language training for six employees.

### Social benefit for employees

In 2016, workers enrolled in the bank's private social security system and retirees, in addition to their family members, benefited, in Cabo Verde, from medical diagnoses, general and specialized medical consultations, eye, and dental prosthesis, out-patient treatment and hospital in-patient surgeries.

Under the agreement between BCA and SAMS - Serviços de Apoio Médico e Social dos Sindicatos dos Bancários do Sul e Ilhas de Portugal – there were issued 129 Declarations of Liability and 8 Prior Authorizations, totalling 681 treatments for employees (consultations, medical and clinical exams, surgery and hospital stays).

There were six medical evacuations abroad of beneficiaries of the Private System, one with a companion. The Bank continues to bear the costs of a medical evacuation with companion which has occurred since 2007.

Health care costs in the country totalled 31 million.

The bank continued to assist its workers and retirees thru its lending policy, namely for the acquisition or construction of owner-occupied houses and fiscal subsidies. It also advanced wages for education, healthcare, extraordinary costs, home repairs and improvements and acquisitions of vehicles for own use

## 8.2 – FINANCIAL AND INTERNATIONAL AREA

### Planning and Management Control and Accounting

DPG (Management Planning and Control Division) continued to endeavour to improve the quality of the management information supplied to the bank's executive board, with the implementation of a Management and Budgeting software at the end of 2015, which provided information faster and more reliable. In order to comply with all requests, both from the Financial System Supervisor and the main shareholder, additional efforts were made to prepare and produce timely statistical, prudential and accounting information to be sent monthly to the Bank of Cabo Verde, for supervisory purposes and to the Bank's main shareholder, for consolidation and follow-up purposes.

Efforts were also made with the fiscal authorities to clarify several aspects related with the determination of the Bank's taxable income.

### International

The international area continues to be one of the bank's top priorities, especially in the countries where the Cape Verdean community has a strong presence, and the Bank has adopted a selective internationalization strategy to respond to the needs of the diaspora and commercial operators.

In order to improve the services, preferential agreements with other financial institutions have been periodically revised, taking advantage of Caixa Geral de Depósitos's Group vast international network for customers' operations in the most varied markets.

### Relationship with the Correspondent Banks

BCA's correspondent banks' network has permitted the maintenance of and, in several cases, improvement of the conditions offered for the execution of business at an international level, seeking to ensure the coverage of the main markets in the shortest time and at the cheapest cost.

In 2016 BCA had a network of 25 correspondents covering 17 countries and multiple operations in currencies such as USD, EUR, CHF, GBP, CAD, DKK, SEK, NOK, JPY, ZAR.

During 2016, some correspondents requested the termination of relations with BCA, justifying this measure, basically, for the cost of maintaining the account, not compensated by the volume of operations, namely:

- Citibank Senegal NA, Dakar, in XOF currency;

- Commerzbank AG, Germany, in EUR currency;
- BNP Paribas, France, in EUR currency.

Therefore some operations were sent to other correspondents, in order to strengthen relations with them, trying not to compromise the quality of service provided to customers.

BCA ended the year with a network of 204 SWIFT correspondents, which allows it to cover the customer' intentions at the international business level.

This year, the International area was contacted by the following international entities:

- IMF, with the objective of analysing the country's economic evolution;
- INTL FCStone. A visit by its vice-chairman, with the aim of getting to know the bank and strengthening commercial relationships;
- World Bank to understand the impact of the monetary policy on the growth of the economy;
- Bankers Almanac to update the lay-out of the page.

The following activities were also observed:

- Signing of a contract with the Bank of China - Macao branch, for commercial operations in USD and EUR;
- Account opening at BNU-Banco Nacional ultramarino - Macau for commercial operations in RMB;
- Contacts with SWIFT – for the presentation of its new products.

## Liquidity management

The management of the Bank's liquidity was oriented towards strict compliance with the following basic principles:

- Definition and approval of liquidity management strategies
- Control of liquidity management in several currencies
- Definition of contingency Plans

Surplus funds management has always privileged the maximum profitability of cash funds, always seeking to minimize liquidity, market and foreign exchange risks.

The bank continued to focus in the correct identification of the various business opportunities, in the control of the net assets and in the acceleration of the process of transformation into foreign currency of foreign notes captured in the country.

During the year 2016, the Bank continued to have excess liquidity, which made it to seek its profitability in both the domestic and international markets.

The structure of the investment portfolio at December 31, 2016 is explained in the following table, with a negative variation of -5.5% and -1.727 million as compared to December 31, 2015

### Investment portfolio

	2015	2016	(CVE million)	
			Change Total	Percent
<b>Domestic money market</b>	<b>16 632</b>	<b>15 005</b>	<b>-1 627</b>	<b>-9,8%</b>
BCV investments - Overnight	15 350	14 000	-1 350	-8,8%
Other BCV investments (TIM)	1 000	738	-262	-26,2%
Other BCV investments (TRM)	282	267	-15	-5,3%
Capital Market - Public Debt Securities	<b>10 727</b>	<b>11 385</b>	<b>658</b>	<b>6,1%</b>
<b>Investments in correspondent banks</b>	<b>3 842</b>	<b>3 084</b>	<b>-758</b>	<b>-19,7%</b>
<b>TOTAL</b>	<b>31 201</b>	<b>29 474</b>	<b>-1 727</b>	<b>-5,5%</b>

This decrease was due to the balance of investments in correspondent banks and in the national money market, especially the applications in BCV, with variations of -19.7% and -8.8%, approximately -758 million and -1.350 million, respectively.

Interest rates on TIM's and TRM's remained at a low of 0.3125%, only 1/16 above the liquidity absorption rate of Banco de Cabo Verde, which since February 2015 is set at 0.25%. Treasury bills registered a negative setback, reaching 0.5%, and Treasury Bonds were traded at rates below 4.5%, which shows a reduction from previous quarters of -0.25%

## Capital Market

### BCA – Financial Intermediary

In 2016, BCA as a financial intermediary continue to play an active role, with emphasis on the Public Debt Market, since the secondary market remains little active.

In the primary market for Public Debt Securities (Treasury Bonds and Bills) there were 35 auctions, of which 14.55 billion escudos were placed in Competitive Bids and 57.57 million escudos in Non-Competitive Bids. BCA subscribed 2.5 billion escudos, representing about 18.12% of the total.

BCA shares depreciated by -3.33% compared to 2015, closing the year at 2,900.00.

In the Secondary Market, in 2016 BCA was the Operator Bank with the highest volume of transactions, reaching a volume of 1.3 billion escudos at the end of the year, representing around 96% of the global volume. It should be noted, however, that of the total transacted volume, about 94% has to do with securities transactions in the off-exchange market.

## 8.3 – RISK MANAGEMENT

### Credit Risk

From the credit stand point, the market was characterized, roughly, by the dispute between commercial banks in the placement of best quality credit, a low dynamics of economic agents due to the unfavourable economic environment experienced in 2016, which contributed for the new loans granted by the BCA did not compensate the natural amortizations of the active credit, resulting in an apparent stagnation of the Loan Portfolio.

In terms of organizational and risk management policies, it is worth highlighting the full functioning of the Risk Committee, a support and advisory body of the Board of Directors, in the areas of risk assumption and control, as well as the definition of risk limits and delegation of powers of BCA in the CGD context. In this framework, a further two decision levels (in terms of exposure) were defined for corporate / group clients for which, regardless of the type of transaction and the type of collateral attached, it's now required the opinion of the DGR / CGD and / or Decision of the CGD Extended Credit Council.

The Bank maintained its policy of continuous monitoring and anticipation of problems and solutions of performing credits as well as to act as soon as possible on non-performing operations through consistent restructuring.

In the process of recovery, BCA has received several real estate in the last two years under an accord and satisfaction agreement / auctioning, which naturally increased the real estate risk of the assets coming into the possession. In this context, measures are being developed to boost sales of these properties, in order to confirm the effective recovery of loans.

Once again, The Risk Factors underlying the impairment model (PI - Probability Indicator, PD - Default Probability and LGD - Loss Given Default) and the hair-cut study to be applied in the execution of Buildings, which led to a 2% increase, were updated.

In the Corporate scope, two technicians of the CGD Validation of Models core, travelled to Cabo Verde to verify the impairment model of BCA, having based on a set of tests to the algorithm of calculation of the collective analysis (PI, PD and LGD) and analysis of elements of characterization of the credit portfolio and its segmentation. In this sequence, the process of back-testing the parameters of the impairment model will be carried out in 2017.

Banco de Cabo Verde (BCV), as a supervisory entity, played an active role in 2016, namely through a "Special Inspection" to validate the impairment models used to calculate the impairments of the respective credit portfolio of Banking Institutions and, also, through the implementation of the Risk Assessment and Control System (SAR), which consisted on the application of a set of questionnaires that BCA responded in a fast and pragmatic manner.

It should be noted that in compliance with the Official Notice 2/2014, of October 17, regarding the exercise of supervision, BCA carried out resistance tests with reference to June 2016, and the data and respective conclusions were sent to the BCV for due consideration.

It's noteworthy that the Integrated Risk Report was prepared for the first time and with reference to June 2016, giving it a quarterly periodicity, which has provided a practical and systematic view of the Bank's activity.

## Market and Liquidity Risk

In 2016, liquidity remained in surplus, reflecting the continued growth in Customer Funds and the stagnation of the Loan Portfolio. However, the growth in Customer Funds, mainly the Time Deposits (DP), reduced, but did not influence the liquidity situation.

The provision of the Balance by buckets for reviewing interest rates of assets and liabilities, demonstrated by the evolution of Repricing Gaps, continued to show signs of stability compared to previous years.

Exchange Risk was monitored through the Value-at-Risk Reports, including the entire portfolio of foreign currencies, as well as through the USD Exchange Risk Report, currency that represents more than 80% of the Revaluation Results of the foreign exchange position. Currency positions continued to show signs of good control.

During the year 2016, the first Resolution and Recovery Plans of 2015 were prepared, which were sent to BCV within the stipulated deadlines, as well as Plans referring to the year 2016 itself, which also entered BCV before the deadline (November 30 ).

The year 2016 was marked by increased collaboration between the Risk Management Departments of Caixa Geral de Depósitos and BCA. In this sense, the questionnaires of the Internal Capital Self-Assessment Process (ICAAP), a process that transverse the various organizational units of BCA, were implemented, allowing a thorough self-assessment of the institution's main risks.

As part of the process of alignment of CGD Group's Risk Management framework, a process was set up to collect information for the centralized management of liquidity and balance sheet interest rates risk, a very complex process, taking into account the need for analysis and handling of a considerable amount of data.

## Recovery of Non-performing Loans

The monitoring and recovery of non-performing loans is one of the important concerns for commercial banks. BCA does not escape the rule and, since 2011, has been allocating employees and resources to organic units created for this purpose, one in the North and another in the South. In October 2015 BCA created the Office of Credit Recovery (GRE) which depends directly from the Board, and whose purpose is to essentially monitor the bank's entire non-performing portfolio and to promote its recovery, preferably through negotiation. All customers with at least one non-performing operation for more than 60 days are accompanied by GRE. It is also incumbent upon this office to propose judicial enforcement, when it is not possible to recover by negotiation.

In addition to the change in its structure, BCA also invested in computer programs that allowed the improvement of the monitoring of the portfolio and each process, and it became possible for each technician to make a computerized survey of the portfolio at each moment, as well as to collect, for each process, its development/ recovery attempts/ negotiations made and their position (in the recovery circuit).

The creation of a national office with technicians who specialize in the recovery of non-performing loans operations, as well as the involvement of all other organic units in the prevention and recovery of overdue credits, brought visible results for the year 2016

## 8.4 – COMPLIANCE

Deriving from legal dispositions and international recommendations, a Compliance Function has been established within BCA. The management of this important aspect of banking activity is the responsibility of all structural bodies, under the coordination of the Compliance Office (GFC), which is an autonomous structural body reporting directly to the board of directors and which is responsible for identifying, analysing and assessing compliance risks and reporting thereon.

This unit is also responsible for ensuring the good implementation of procedures concerning Anti-Money Laundering and terrorism financing, as well as preventing crimes of market abuse.

Among the legal and regulatory diploma published in 2016, the following stand out:

- Amendments to the Law on the Prevention of Money Laundering, Law No. 38 / VII / 2009, of April 27, by Law 120 / VIII / 2016, of March 24;
- Amendments to Law no. 27 / VIII / 2013, of 21 January, by Law 119 / VIII / 2016, which establishes preventive and repressive measures against terrorism and its financing, which also includes measures against the proliferation of Weapons of mass destruction;
- Amendment and Republishing of the Code of Tax Benefits, approved by Law no. 26 / VIII / 2013, of January 21 and consequent rectification of Law no. 102 / VIII / 2016, of January 6, amending the Code of Benefits Tax;

- The Governance Code of the Issuers of Securities admitted to Trading in Regulated Market, containing recommendations on corporate governance;

Also worthy of note is the approval by Law 5 / IX / 2016 of the State Budget for the 2017 Economic Year which regulates budgetary subject and makes some changes to the Code of Tax Benefits, the Tax Code on Income of Legal Persons and Income Tax Code for Individuals.

With the objective of guaranteeing compliance with legislation and regulations, in parallel with the internal disclosure of information on such diplomas, the necessary measures to be implemented to prevent the risk of non-compliance with their respective legal and regulatory duties were identified.

The big challenge for 2016 was the contracting and acquisition of control computer tools that will increase the technical skills of the office and update of the existing ones. It is still in the phase of parameterization of the rules in the application, and it is expected to go into production in the first quarter of 2017

## 8.5 – ORGANIZATION AND INNOVATION

In 2016, the Bank sought to ensure the transversal management of the organization's processes, in line with the defined strategy. Some aspects of the organizational model of BCA were analysed, with the objective to present transformation solutions, focused on the maximization of organizational efficiency. The evaluation and the reorganization of spaces were also done, through the analysis of functions / activities and the size of the structures.

Also noteworthy are the following specific activities:

- BCA's Corporate Document Management Project – Teams of CGD travelled twice to BCA to follow up on the project. The project scope and requirements were validated, namely, the governance model, the overall project plan (stage scheduling), the implementation methodology, i.e. the definition of business requirements and organizational model, development and implementation of the solution;
- Business Continuity Plan - at the level of the Business Continuity Plan, tests were carried out, with the support of a CGD team, to prove the feasibility of critical processes, the functionality of the solutions and the availability of access to information systems;
- Process Catalogue - the analysis of the current catalogue and the execution of updates resulting from the changes in the Organic Structure were carried out;
- Contact Centre - Work on the initial phase (Knowledge Base) was completed to support the operators; Organic;



## Operational Risk and Internal Control

Within the scope of the strategy for consolidating operational risk management and the internal control system, which was considered a strategic objective for the bank, the Operational Risk and Internal Control area improved service levels and achieved results, both in the different operational risk management instruments and methodologies - with emphasis on self-assessment of risks and controls and risk indicators - and in the area of synergistic actions among the different structure bodies in monitoring deficiencies in internal control, aiming to mitigating them.

### 8.6 – AUDIT AND INSPECTION

During the year 2016 several actions were carried out, in particular those of on-site audits of branches and central organizational units, as well as remote audits.

The follow-up was done at the Operational Risk and Internal Control level, as well as, the gradual resolution of the most critical situations and the suggestions to that effect. Still within the scope of the Operational Risk and Internal Control, the validation of the macro-process controls of BCA was concluded.

### 8.7 – IT SUPPORT

In the year 2016, there was a strong interaction with the Central Bank to comply with legal requirements that required several adaptations of the computer system, as well as the consolidation of the implementation of the report jobs, giving a broader perspective, providing rationalization of resources and consistency in the data provided, which was achieved by centralizing the work through a single entry point and treatment channel.

Another subject that was definitely launched in 2016 was the Digital Archive. With the support of CGD, a complete solution was developed for handling the Bank's Digital Archive, which will formulate the entire procedure of processing the customer's process and optimize the Bank's internal mail in all its breadth.

As a way to support all new platforms but at the same time rationalize investments and operating costs, follows a brief summary of project / process implemented during the year, specifically for the IT support area.

- a. Server Virtualization
- b. New communication technologies implemented in ATM's
- c. Implementation of MPLS technology in the communication circuits, providing twice the bandwidth and reduction of around 25% in monthly costs

- d. Implementation of a software that allows the registration of problems and requests, their treatment through an intelligent flow and interaction with the user, providing statistical data and information for the management..
- e. New phone system allowing a reduction of costs of about 25%.

## 8.8 – MARKETING AND PUBLIC RELATIONS

Transparency and openness to dialogue with all employees is one of the pillars of BCA's management, as it allows building more lasting relationships and establishing the values shared by all within the organization, thus

At the 2016 effective employees meeting, which was extended, for the first time, to all employees of the bank, it was possible to strengthen the relationship with the internal public, to perceive the opportunities that exist to improve the strategies and to address the priority topics for the business. For this purpose, the meetings took place in four islands, involving all of BCA Employees, the head of offices and departments and the members of the Executive Board.

The behaviours highlighted by the internal Campaign "*De Nós Manera*", our way, launched during the Employees Meeting have been an important tool to guide the internal relationship and its reflection on the external public.

In the face of new challenges of Claims Management and Customer Ombudsman, work was done throughout the year, to improve services in regards to customer complaints and suggestions, such as communication, clarification and awareness among internal services, and we believe that we are on the right track, knowing that this is a continuous improvement process. Goals and results are part of a larger agenda developed by BCA in order to better serve its customers. Therefore, we will continue to invest to improve services and reduce claims and the response time to customer requests.

Serving a diversified customer base, which comprises Corporate and Individual customers and within this last one, Emigrants, Residents and the Youth segment, BCA continues to be the market leader in all customer segments.

Regarding the products sold, in the Corporate segment, the greatest effort was directed to adding value to the SMEs Line of Credit through the increase of the Line by another billion escudos, totalling three billion escudos, since its creation in 2014, and, with this, it was possible to build a strong position in the corporate segment.

In November BCA participated in the Cabo Verde International Fair, where the campaign to promote the SME Credit Line was reinforced.

In the Individual segment, BCA continued its efforts to increase operational efficiency through the creation of alternative and more comfortable channels for customers, as well as a closer relationship with them.

BCA continued to be the Bank of choice for the Emigrants segment, wherefore, in addition to the network of branches and electronic channels, local services were made available through representatives in Portugal and the United States, who provide guidance to emigrants who want to carry out any transactions with the BCA. In the summer several initiatives were carried out with the emigrants who came to Cabo Verde on vacation, namely, games between emigrants and employees, lectures and a campaign to raise awareness among emigrants to update the supporting documents, so that they continue to enjoy the benefits provided by the State.

## Social Responsibility

Within the scope of social responsibility, the First Edition of "BCA Literature Award" was held in 2016 and the prize was awarded to the poet José Luiz Tavares for the work *"Rua antes do Céu"*, with the monetary value of 500 thousand CVE. The jury emphasized the high aesthetic quality of the work.

An addendum to the Protocol signed, in 2015, between BCA and "Academia Cabo-verdiana de Letras – ACL" was also signed aiming the change of the name and value of the Prize from 2018 onwards, which will be renamed Corsino Fortes Award, (BCA Literature Award), increasing the value of the prize to CVE 1,000,000.00 (one million Cape Verdean escudos). "To honour the memory of Corsino Fortes and to encourage Cape Verdean writers, particularly the younger ones, to draw inspiration from the life and work of Corsino Fortes, a poet, politician, diplomat, entrepreneur, bridge builder, citizen of the world, are reasons for the decision to rename the BCA Literature Award and to double its prize," said BCA President António de Castro Guerra in the closing speech of the BCA Literature Award in 2016.

Another edition of the Mathematics Olympiad was sponsored by BCA, and the Bank assigned a monetary prize, with the opening or increase of the Young Savings account, to the first winners of each category of education. This award recognizes the dedication of young Cape Verdeans to their studies.

## 8.9 – MEANS AND CHANNELS

### BCA Directo (Internet Banking)

In 2016 BCADirecto Telephone (Contact Centre) was launched, which allows current and potential customers to interact with BCA, through a land or mobile phone, both automatically and through direct operator connection. During this year, BCADirecto Telephone channel worked only with the information line, and in the near future, BCA will also provide the transactional option.

In the same year BCADirecto Mobile channel was also launched, which allows BCA customers to access and use their accounts through any mobile device with internet access, both through the Web Responsive environment, as well as through the App.

During the year there were more than 8 thousand new users of BCADirecto Multichannel service (Internet, Mobile and Telephone), representing a very positive growth of about 78% in relation to the previous year. BCADirecto Service closed the year with about 44 thousand active users.

The use of BCADirecto Channel was also very positive, with more than 453 thousand transactions, that requires movement of funds, being carried out, representing a 45% increase over the previous year, and transactions totalling more than 11.2 billion escudos, An increase of 37% over the previous year.

### Automatic Teller Machine (ATM`s)

BCA's owned ATM's remained unchanged in 2016, ending the year with 55 ATMs installed in the Vinti4 network, just as in the previous year.

In 2016, BCA maintained the policy of installing temporary ATMs in event venues, with a high impact in terms of BCA's image, and, therefore, placed an ATM machine at Cabo Verde International Fair (FIC 2016) in the city of Praia.

There was a slight decrease in the equipment installed in the Vinti4 network, with BCA having a market share of 32% (-1 p.p.). However, BCA improved its position in reference to the amounts transacted in the ATM machines installed in the Vinti4 network, ending the year 2016 with a market share of 36% (+1 pp) and maintaining the same share in relation to the volume of transactions carried out in this channel, remaining at 35%, as in the previous year.

### Point of Sale (POS)

In 2016, the number of POS terminals supported by BCA continued to grow, reaching 1,975 installed and active pieces of equipment, representing an increase of 24% over the previous year

BCA maintained the position registered in the previous year in relation to the equipment installed in the Vinti4 network remaining at 31% market share and the positioning was also maintained in relation to the amounts transacted in that channel, remaining at 27% of the market share.

It should also be noted that BCA improved its position in relation to the number of transactions carried out in this channel, since POSs supported by BCA made about 32% of the transactions performed in this channel in 2016, representing a growth of 1pp compared to the previous year.

### Direct Deposits

The invoicing service through bank transfers - Direct Debit, has maintained the trend of growth evidenced in recent years, and during the year 2016 were created about 3,500 new debts authorizations, representing a growth of 13% over the previous year.

As in previous years, this growth shows that there are more and more customers preferring the Direct Debit service, instead of paying their invoices at the service counters of the companies that provide the services.

## Deposit Machines

The Deposit Machines were launched in 2015 and had a very positive acceptance by customers, and during the year 2016 were made about 63 thousand deposits in this channel, totalling 1.2 billion escudos and representing a growth of 56% in number of deposits and 38% amount of deposits, compared to the same period of 2015.

It should be noted that the Deposit Machines were only placed in some BCA Branches, located in the islands of São Vicente, Sal and Santiago. These machines allow customers to deposit notes of different amounts at the same time, and the deposited amounts are credited to the beneficiary account after a few minutes.

## 8.10 – INVESTMENTS

Continuing the policy of requalification and remodelling of its areas in order to better serve its customers and employees, offering them greater convenience, safety and speed in carrying out their operations, the works were concludes for the remodelling of the spaces in Achada Grande - DAL , Avenida and Achada Stº António branches in the city of Praia, with exterior painting and new colours, alteration of the layout of the buildings of Plateau and Pharmacy; Remodelling of Assomada branch, in the interior of Santiago, and the Mindelo and Fonte Filipe branches on the island of S. Vicente.

Under the Bank's electronic security enhancement policy, new electronic security systems and replacement of obsolete systems were installed.

During 2016 BCA invested 292.8 million escudos, of which 255.3 million in Tangible Assets and 37.5 million in Intangible Assets. Of these investments 160.1 million escudos are still in progress.

## Investments in 2016

(CVE million)

Account Heading	Amounts
<b>OTHER INTANGIBLE ASSETS</b>	<b>37 562</b>
<b>OTHER TANGIBLE ASSETS</b>	<b>255 266</b>
<b>Properties</b>	<b>152 393</b>
<b>Equipment</b>	<b>102 873</b>
Office furniture and material	887
Machines and tools	1 175
IT equipment	34 251
Interior installations	9 261
Transport material	32 880
Security equipment	23 862
Other equipment	557
<b>Total Investment</b>	<b>292 828</b>

## 9 – ANALYSIS OF ECONOMIC-FINANCIAL SITUATION

### 9.1 – BALANCE SHEET

In December 2016, BCA's net assets reached 84.5 billion escudos, an increase of 4.6% (+3.7 billion escudos) compared to the amount registered in December 2015. This evolution was essentially due to the increase of the items Cash and required reserves at the Central Bank by 184.8% and 5 billion escudos, and in Net Credits to customers by 2.8% and 1.2 billion escudos, which greatly counterbalanced the decrease of the items Assets in other Credit Institutions, investments in credit institutions and available-for-sale financial assets.

## Consolidated balance sheet

	2015	2016	(CVE million)	
			Change	
			Total	Percent
<b>Assets</b>				
Cash and cash equivalents at Central Bank	2 754	7 845	5 090	184,8%
Cash equivalents at other credit institutions	830	652	-178	-21,4%
Available-for-sale financial assets (net)	6 852	6 654	-198	-2,9%
Investments in credit institutions	20 487	18 123	-2 365	-11,5%
Loans to customers (net)	44 427	45 687	1 260	2,8%
Other tangible assets (net)	2 129	2 176	47	2,2%
Intangible assets (net)	23	53	30	126,7%
Investments in subsidiaries/associates/ jointly controlled entities	309	337	28	9,2%
Current tax assets	895	902	7	0,8%
Deferred tax assets	3		-3	-100,0%
Other assets	2 116	2 092	-24	-1,1%
<b>Total</b>	<b>80 825</b>	<b>84 520</b>	<b>3 695</b>	<b>4,6%</b>
<b>Liabilities</b>				
Funds from other credit institutions	776	565	-210	-27,1%
Funds from customers and other loans	69 097	72 703	3 605	5,2%
Provisions for liabilities	5 300	5 219	-80	-1,5%
Current tax liabilities	0	73		
Deferred tax liabilities	156	197	41	26,5%
Other subordinated liabilities	198	99	-99	-49,9%
Other liabilities	428	385	-44	-10,2%
<b>Total liabilities</b>	<b>75 954</b>	<b>79 241</b>	<b>3 214</b>	<b>4,2%</b>
<b>Shareholders' equity</b>	<b>4 871</b>	<b>5 278</b>	<b>407</b>	<b>8,4%</b>
<b>Of which: net income</b>	<b>369</b>	<b>344</b>	<b>-25</b>	<b>-6,7%</b>
<b>TOTAL</b>	<b>80 825</b>	<b>84 520</b>	<b>3 695</b>	<b>4,6%</b>

## Loans to Customers

The Overall Loans Portfolio, excluding impaired loans, amounted to 45.6 billion escudos, higher than the 2.8% balance recorded in December 2015 and 1.2 billion escudos, reflecting some recovery, mainly in the last quarter of 2016. This growth was due to the Cape Verdean Public Debt Securities Portfolio, which grew 16.3% in 2016 and recorded a cumulative balance of 7.9 billion escudos, corresponding to 9% of BCA's net assets.

The accumulated balance of the Impaired Loans, which includes the impairment of the obligations of private companies, reached 3,8 billion escudos.

## Securities Portfolio

The balance of the Securities Investments portfolio, including Available-for-Sale Securities, namely the TCMF's, and the investments in Promotora and companies not supervised by the BCV - Sociedade Cabo-verdiana de Tabacos, Sita, Fundo Gari and Visa, amount to 6.5 billion escudos. The investments in consolidated financial mobilization securities - TCMF, in the amount of 6.4 billion escudos, represent 98.9% of this item.

## Customer Funds

The Customer Funds portfolio, compared to last year, increased by 5.4% and 3.6 billion escudos, reflecting the preference of its broad and stable customer base, reaching a cumulative balance of 71.9 billion escudos. The weight of Customer Funds in net assets in December 2016 was 86%, compared to 85% in 2015.

Emigrant deposits grew by 1.6 billion escudos (+ 4.8%) compared to 2015, going from 33.9 billion escudos to 35.6 billion escudos. This growth reflects the loyalty of our diaspora to BCA's Brand and reinforces the existing level of trust. The increase in the Demand Deposits by 21.8% and 1.2 billion escudos was decisive for the growth observed. It should be noted that the weight of the Emigrant's Deposits in the Bank's Total Deposits is 49.5% in 2016.

## Provision for Risks and Charges

The Provision for Charges with the Retirement and Survival Pension Fund totalled 4.9 billion escudos.

The normal contribution of the employees and BCA to the Charges with the Retirement and Survival Pensions amounts to 47.7 million escudos, of which 17.5 million escudos is paid by the employees and 30.1 million escudos is paid by the bank. The uses for payment to retired and pre-retired people totalled 210 billion escudos. It should be noted that the charges borne by the bank, which include the normal costs and those related to interest costs and current service costs, for the Pension and Survival Fund reached 279.2 billion escudos, with a direct impact on personnel costs.

## Shareholder's Equity

The Bank's Shareholders' Equity increased by 8.4% and 407 million escudos in 2016, as a result of the combined effect of the incorporation in reserves of 75% of the 2015 Net Profit and the positive actuarial deviations of the Retirement and Survival Pension Funds and Health occurred in the year 2016 in the amount of 198.8 million escudos.



## 9.2. – INCOME STATEMENT

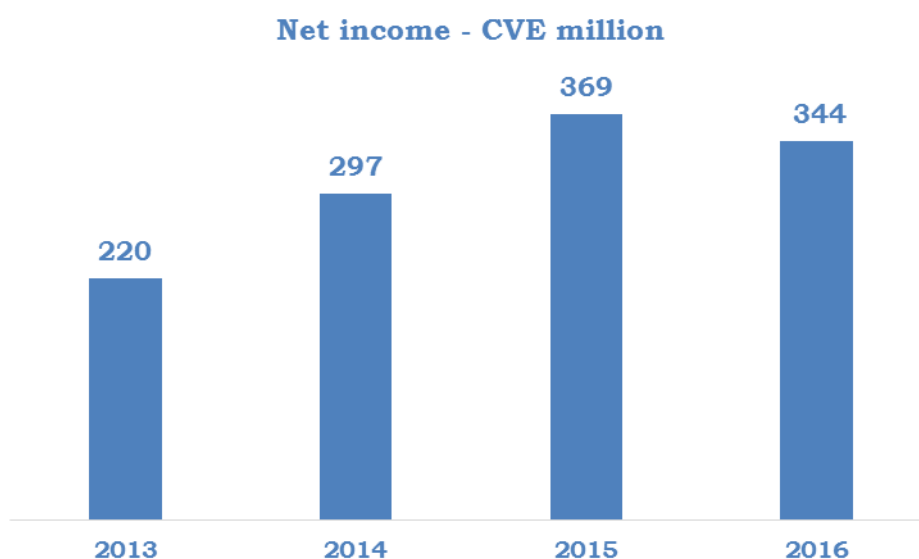
### Income statement

	2015	2016	(CVE million) Change	
			Total	Percent
Interest and similar income	3 771	3 635	(135)	-3,6%
Interest and similar costs	1 833	1 657	(176)	-9,6%
<b>Net interest income</b>	<b>1 938</b>	<b>1 978</b>	<b>40</b>	<b>2,1%</b>
Income from equity instruments	135	18	(117)	-86,5%
Income from services and commissions	401	424	23	5,8%
Costs of services and commissions	40	44	4	10,4%
Income from foreign exchange revaluations	141	113	(28)	-19,9%
Income from disposals of other assets	5	12	7	41,0%
Other operating income	68	64	(3)	-5,0%
<b>Non-interest income</b>	<b>710</b>	<b>588</b>	<b>(122)</b>	<b>-17,2%</b>
<b>Total operating income</b>	<b>2 647</b>	<b>2 566</b>	<b>(82)</b>	<b>-3,1%</b>
Employee costs	1 271	1 273	2	0,1%
General administrative expenditure	670	614	(55)	-8,3%
Depreciation for period	190	208	18	9,5%
<b>Operating costs</b>	<b>2 131</b>	<b>2 095</b>	<b>(36)</b>	<b>-1,7%</b>
Impairment of other financial assets (net)	188	98	(90)	-48,0%
Income from subsidiaries excluded from the consolid	40	45	5	12,7%
<b>Income before tax</b>	<b>369</b>	<b>418</b>	<b>50</b>	<b>13,4%</b>
Current tax	-	74	<b>74</b>	
<b>Net income</b>	<b>369</b>	<b>344</b>	<b>(25)</b>	<b>-6,7%</b>

### Net Income

BCA recorded a negative variation of 6.7%, approximately 25 million escudos, reaching a sum of 344 million escudos, negatively justified by the decrease of the Operating Income by 3.1% and by approximately 82 million escudos and by current taxes. On the positive side, it is noteworthy the variation in operating costs of -1.7% and -36 million escudos, combined with the variation of the Net Impairment in -90 million escudos. It should also be noted the variation of the non-interest income of -17.2% and -122 billion escudos, justified by the item Income from Capital Instruments. In fact, in 2016, investment in TCMF'S - Consolidated Financial Mobilization Securities of 6.4 billion escudos generated a rate of return of only 0.29% (17 million escudos) well below the 2.27% (133, 7 million escudos) registered in the year 2015. According to the management report of this Fund, this decrease in the rate of profitability of TCMF's is due to the context of generalized drop in yields and negative rates in core countries. The Net Impairment of loans to customers, including bonds and goods under the accord and

satisfaction agreement, was 98 million escudos against 188 million escudos in 2015. In 2016, the resolution of credits in compliance continued, which led to the annulment of the respective impairments which justifies to a great extent this decrease.



## Net Interest Income

The Net Interest Income increased by 40 million escudos and 2.1% over the same period of the previous year, to 1.978 billion escudos, justified by a more significant decrease in Interest and Similar Expenses than Interest and Similar Income. Thus, despite decreases in interest received by 3.6% and 135 million escudos, the decrease in interest paid on customer deposits was 9.6% and 176 million escudos, contributing to the favourable performance of the Net Interest Income. However, it should be noted that the interest rate variation of secured loans in -33.7% and interest and expense recoveries in -63.9%, contributed to the decrease in interest received. It's also worth mentioning the decrease affected by the price on the investments on Credit Institutions of 35.4%. What also contributed to the favourable evolution of this margin was the increases in interest rates on very short-term investments in the Central Bank at 12.1%, due to the volume effect.

Regarding the Liabilities Operations, there was a decrease of interest on Customer Funds by 9.6% and about 176 million escudos.

## Non-Interest Income

The Non-Interest Income totalled 588 million escudos, a decrease of 17.2% and 121.8 million escudos compared to December 2015. This unfavourable evolution is a result of the decrease in the rate of profitability of the TCMF's, which went from 2.27% in 2015 to 0.29% in 2016. The exchange rate management results also unfavourably evolved by -19.9% and -27.9 million escudos, which was not compensated by the increase in Net Commissions of 5.3% and 18.9 million escudos.

## Operating Income

The combination of the positive evolution of the net interest income, lower than the negative variation of the non-interest income, translated into an Operating Income of 2.565,800 million escudos in 2016, lower than the previous year by 3.1% and about 81.5 million escudos.

## Operating Costs

As a result of the pursuit of the operational rationalization policy and the increase in efficiency defined in BCA's strategy, Operating Costs maintained the downward trend already registered in the previous two years and decreased by 1.7%, totalling 2,095 million escudos, benefiting from the decrease in Administrative General Expenses of 8.3% and 55 million escudos. Personnel Costs presented a marginal increase of 0.1% (standing at 1,273 million escudos). Despite the fact that there was no wage increase in 2016, the employee career advance and the entry to the effective board of the bank of 31 employees (including employees on leave) and the leaving of 13 employees contributed to this evolution.

Depreciation and amortization for the year amounted to 208 million escudos, an increase of 9.5% and 18 million escudos compared to the amount registered in December 2015.

The following table provides the composition of Operating Costs, as well as its respective evolution:

### Operating costs

ACCOUNT HEADINGS	2015	2016	(CVE million)	
			Change Total	Percent
<b>Employee costs</b>	<b>1 271</b>	<b>1 273</b>	<b>2</b>	<b>0,1%</b>
Remuneration	831	850	19	2,3%
Mandatory social costs	416	398	-18	-4,3%
Pensões de Reforma e Sobrevivência	294	279	-15	-5,0%
Optional and other social costs	24	25	1	2,6%
<b>General administrative expenditure</b>	<b>670</b>	<b>614</b>	<b>-55</b>	<b>-8,3%</b>
<b>Depreciation</b>	<b>190</b>	<b>208</b>	<b>18</b>	<b>9,5%</b>
<b>TOTAL OPERATING COSTS</b>	<b>2 131</b>	<b>2 095</b>	<b>-36</b>	<b>-1,7%</b>

Return on Assets (ROA) and Return on Equity (ROE) reached 0.42% and 6.78%, respectively, against 0.5% and 7.6% in 2015, a direct consequence of the decrease in Net Income for the year.

The Cost-to-Income ratio, which relates Operating Costs to Operating Income, worsened to 81.6% in 2016 (80.5% in 2015), reflecting the decrease in Operating Income. Excluding the Pension Fund effect, Cost-to-Income would be 70.8% in 2016 (69.4% in 2015).

The ratio of Personnel Costs / Operating Income worsened, going from 48% to 49.6%.

In relation to Risk indicators, it should be noted that the ratio of Non-Performing Loans / Total Credit reached 13.8% in 2016, against 15.9% in 2015, due to the decrease in non-performing loan portfolio, and the coverage ratio by Impairments on Non-Performing Loans that reached a comfortable level of 71.5% in 2016 against 65.6% in 2015. 49.6%.

The loan to deposit ratio measured by Customer Loans in relation to Customer Funds remains very low and decreased to 52.9% (55.8% in 2015), due to the increase in the loan portfolio below the increase in deposits.

## 9.4 – PRUDENTIAL RATIOS

As far as prudential ratios, BCA has a good performance and solidity, with a shareholder's equity of 4,9 billion escudos. With these shareholder's equity, the Fixed Asset Coverage ratio remains fairly high, being 204.81% in 2016 (227.24% in 2015).

The Solvency Ratio, according to Bank of Cabo Verde regulations, reached 15.78%, well above the minimum of 10% required for the Cape Verdean commercial banks.

The ratio that relates Public Debt Securities to Deposits reached 11%, higher than that required by the BCV, which determines that the investments in Public Debt Securities of Financial Institutions may not be less than 5% of their total Deposits liabilities.

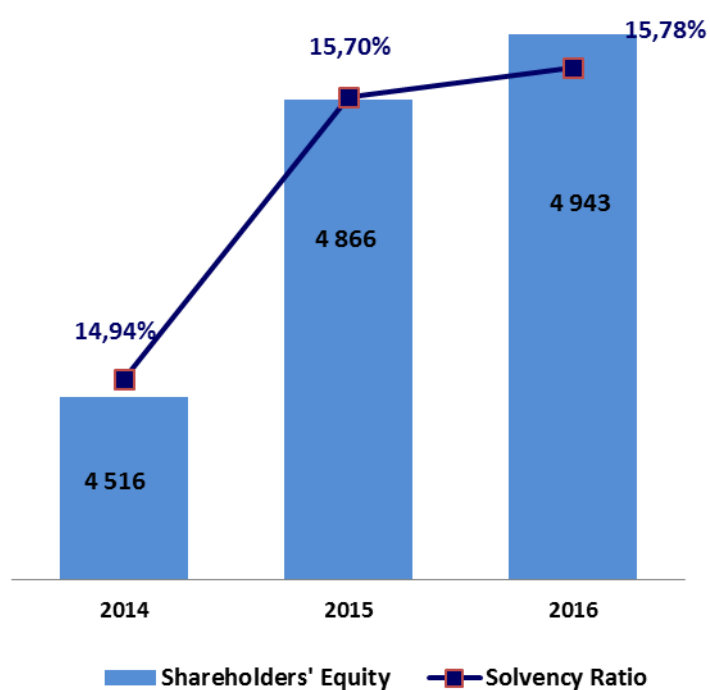
As regards the total amount of the credits, which are subject to Concentration Limits, BCA holds, in absolute terms, 3.5 billion escudos, which is also lower than that stipulated by the BCV, whose aggregate limit cannot exceed eight times its Shareholder's equity, or 39.5 billion escudos. The maximum concentration limit for an entity in December is 889 thousand escudos, lower than the 25% (1,236,000 escudos) of shareholder's equity required by the Central Bank.

The following table shows the evolution of Prudential Ratios over the last three years:

## Prudential ratios

CVE million

Ratios	Unit	2014	2015	2016
Shareholder's Equity	contos	4 515 998	4 865 904	4 942 827
Fixed assets coverage	%	215,68%	227,2%	204,81%
Solvency ratio	%	14,94%	15,70%	15,78%



## 10 – APPROPRIATION OF NET INCOME

The Board of Directors decided to propose to the shareholders the following appropriation of the net profit for the year, amounting 344,159,347 CVE (Three Hundred and Forty Four Million, One Hundred and Fifty-nine Thousand, Three Hundred and Forty-Seven escudos):

<b>Net income</b>	<b>344 159 347</b>
Legal reserve (10%)	34 415 935
Other reserves (65%)	223 703 575
Dividends (25%)	86 039 837

## 11 – LIST OF CORRESPONDENT BANKS

### Portugal

Caixa Geral de Depósitos SA – Lisbon  
NOVO BANCO – Lisboa  
Banco Português de Investimento SA – Porto  
Banco Santander Totta SA – Lisbon  
Banco do Brasil SA – Lisbon

### Netherlands

ING 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

### Austria

Bank of Austria Creditanstalt – Vienna

### Sweeden

Nordea Bank AB (publ) – Stockholm

### Norway

DnB NOR Bank ASA – Oslo

### Unites States

Citibank NA – New York  
Bank of América— New York

### France

Caixa Geral de Depósitos SA – Paris

### Italy

Intesa Sanpaolo SPI – Milan  
UniCrédito Italiano SPA – Milan

### Belgium

IngBelgium SA/NV – Brussels

### China

BNU-banco National Ultramarino – Macao

### Switzerland

UBS Swiss Bank Corporation AG – Zurich

### Spain

Banco Sabadell SA TSB – Sabadell

### Denmark

JyskeBank A/S – Copenhagen

### Japan

Bank of Tokyo Mitsubishi UFJ Ltd – Tokyo

## 12 – DEPARTMENTS AND BRANCH OFFICE NETWORK

### **Northern Commercial Department – DCN**

Gilda Monteiro

**Director**

### **Financial and International Department – DFI**

Amélia Figueiredo

**Director**

### **Means and Channels Department – DMC**

Américo Andrade

**Director**

### **IT Systems Department – DSI**

Luís Barbosa

**Director**

### **Operational Support Department - DSO**

Aníbal Moreira

**Director**

### **Human Resources Department – GRH**

Níva Barbosa – **Head of Division**

Jacqueline Cruz – **Head of Division**

### **Audit Office – GAI**

Francisco Ramos

**Coordinator**

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

Paula Martins

**Coordinator**

### **Compliance Office – GFC**

Monica Sanches

**Coordinator**

### **Southern Commercial Department - DCS**

Herminalda Rodrigues

**Director**

### **Risk Management Department - DGR**

Filomena Figueiredo

**Director**

### **Organization and Innovation Department – DOI**

Águeda Monteiro

**Director**

### **Security and Logistics Department – DSL**

Adalberto Melo

**Director**

### **Credit Recovery Office - GRE**

Nuno Cabral

**Coordinator**

### **Legal and Pre-Legal Office - GJC**

Dulce Lopes

**Coordinator**

## CORPORATE OFFICES NORTH

### **Northern Corporate Office – GEN**

Virginia Correia

**Coordinator**

### **Corporate Office Sal – GESA**

Vera Zego

**Coordinator**

## CORPORATE OFFICES SOUTH

### **Southern Corporate Office I – GES I**

Sofia Barbosa

**Coordinator**

### **Southern Corporate Office II – GES II**

Nelson Moreira

**Coordinator**



## NORTHERN AREA BRANCHES

Elisa Santos  
**Coordinator**

### Type I branches

**São Vicente Branch – ASV**

Maísa Sancha Crisóstomo  
**Manager**

### Type II branches

**Boa Vista Branch – ABV**

Cláudio Mendonça  
**Manager**

**Praça Nova Branch - PNA**

Lidia Pereira  
**Manager**

**Porto Novo Branch – APN**

Elder Rodrigues  
**Manager**

**Ribeira Grande Branch – ARG**

Osvaldina Espírito Santo G. Brito  
**Manager**

**Sal Branch – ASA**

**Aeroporto Internacional Amílcar Cabral Counter**

Carla Santos  
**Manager**

**São Nicolau Branch – ASN**

Augusta Benilde Cruz  
**Manager**

### Type III Branches

**Fonte Filipe Branch – AFF**

António Evora  
**Manager**

**Monte Sossego Branch – AMS**

Nelson Gomes  
**Manager**

**Ponta do Sol Branch – APS**

## SOUTHERN AREA BRANCHES

Luis Ramos  
**Coordinator**

### Type I branches

**Praia Branch – APA**

Janira Barbosa Andrade  
**Manager**

**Santa Catarina Branch – ASC**

**Assomada Extension – ADA**

Miguel Landin  
**Manager**

### Type II branches

**Achada Santo António I Branch – ASTI**

Dulce Santos  
**Manager**

**Avenida Branch – AVE**

Zara Vicente  
**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**

Celmira Cardoso  
**Manager**

**Brava Branch – ABR**

Ângela Rosa  
**Manager**

**Maio Branch – AMA**

**Paúl Counter – APL (Prolong. ARG)**  
Osvaldina Espirito Santo G. Brito  
**Manager**

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

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

**Achada S. Filipe Branch - ASF**  
**São Domingos Branch - PSD**  
Maria Borges  
**Manager**

Alexandrino Anes  
**Manager**

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

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

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

**Chã de Areia Branch – ACA**  
Neusa Melo  
**Manager**

# Anexos

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NÔS BANCO NA NÔS TERA  
[www.bca.cv](http://www.bca.cv)

## 13 – NOTES

## Banco Comercial do Atlântico, S.A

## Balance Sheet on 31/12/2016

CVE

Account headings	Value before Provisions, Impairment and Depreciation	Provisions, Impairments and Depreciation	Net Value
<b>Asset</b>			
Cash and cash equivalents at Central Bank	7 844 629 145		7 844 629 145
Cash equivalents at other credit institutions	652 322 064		652 322 064
Available-for-sale financial assets	6 664 459 525	10 841 439	6 653 618 086
Investments in credit institutions	18 122 621 697		18 122 621 697
Loans to customers	49 506 593 216	3 819 549 059	45 687 044 157
Investment properties	1 529 000	103 600	1 425 400
Other tangible assets	4 060 056 149	1 884 215 149	2 175 841 000
Intangible assets	333 588 578	280 607 783	52 980 795
Investments in subsidiaries/associates/ jointly controlled entities	336 963 171		336 963 171
Current tax assets	901 641 476		901 641 476
Deferred tax assets	55 900		55 900
Other assets	2 336 939 063	246 463 150	2 090 475 913
<b>Total Assets</b>	<b>90 761 398 983</b>	<b>6 241 780 180</b>	<b>84 519 618 803</b>

dez/16

**Liabilities**

Funds from other credit institutions	565 333 287
Funds from customers and other loans	72 702 613 395
Provisions for employees' benefits and others	5 219 114 726
Current tax liabilities	73 219 829
Deferred tax liabilities	197 341 643
Other subordinated liabilities	99 088 207
Other liabilities	384 550 745
<b>Total Liabilities</b>	<b>79 241 261 832</b>

**Capital**

Capital	1 318 647 814
Revaluation reserves	10 073 571
Outras reservas e resultados transitados	3 605 476 239
Other reserves and retained earnings	344 159 347
<b>Total Capital</b>	<b>5 278 356 971</b>

**Total Liabilities + Capital** **84 519 618 803**

Head Accountant

Financial and International Director

Chairman

.....  
Maria de Fátima N.Évora.....  
Amélia Figueiredo.....  
António de Castro Guerra

## Banco Comercial do Atlântico, S.A

### Income Statement on 31/12/2016

CVE

Description	Amount
Interest and similar income	3 635 144 367
Interest and similar costs	1 657 016 554
<b>Net interest income</b>	<b>1 978 127 813</b>
Income from equity instruments	18 255 677
Income from services and commissions	423 864 379
Costs of services and commissions	43 913 411
Income from available-for-sale financial assets	
Income from foreign exchange revaluations	112 740 022
Income from disposals of other assets	12 370 326
Other operating income	64 446 907
<b>Total operating income</b>	<b>2 565 891 712</b>
Employee costs	1 272 607 430
General administrative expenditure	614 278 466
Depreciation for period	207 902 415
Provisions net of recoveries and cancellations	
Impairment of other financial assets net of reversals/recoveries	82 010 850
Impairment of other assets net of reversals/recoveries	15 796 440
Income from subsidiaries exc. from consolidation, associates and jointly controlled entities	45 025 036
<b>Income before tax</b>	<b>418 321 147</b>
Income tax	74 161 800
Current	74 161 800
Deferred	
<b>Net income</b>	<b>344 159 347</b>

Head Accountant

Financial and International Director

Chairman

.....

.....

.....

Maria de Fátima N.Évora

Amélia Figueiredo

António de Castro Guerra

## Banco Comercial do Atlântico, S.A

### Cost to Income - operating costs / total operating income

#### Total operating income

CVE

Account headings	2015	2016	Change	
			Percent	Total
Net interest income	1 937 866 021	1 978 127 813	2,1%	40 261 792
+ Non-interest income	709 585 022	587 763 899	-17,2%	-121 821 123
<b>= Total operating income</b>	<b>2 647 451 043</b>	<b>2 565 891 712</b>	<b>-3,1%</b>	<b>-81 559 331</b>

#### Operating costs

CVE

Account headings	2015	2016	Change	
			Percent	Total
Administrative costs	1 940 652 286	1 886 885 897	-2,8%	-53 766 389
Depreciation	189 911 977	207 902 415	9,5%	17 990 438
<b>= Operating cost</b>	<b>2 130 564 263</b>	<b>2 094 788 312</b>	<b>-1,7%</b>	<b>-35 775 951</b>

#### Cost-to- Income

Account headings	2015	2016
<b>Cost to Income - inc. pension fund</b>	80,5%	81,6%
<b>Cost to Income - exc. pension fund</b>	69,4%	70,8%

## Banco Comercial do Atlântico, S.A

## Structural ratios

CVE

Account headings	2015		2016	
	Amounts	%	Amounts	%
Short term loans to customers	<u>2 311 091 447</u> 38 061 814 487	<b>6,1%</b>	<u>2 997 054 747</u> 38 053 976 749	<b>7,9%</b>
Medium/long term loans to customers	<u>35 750 723 040</u> 38 061 814 487	<b>93,9%</b>	<u>35 056 922 002</u> 38 053 976 749	<b>92,1%</b>
3-Non-performing loan/loan to customers	<u>6 050 325 702</u> 38 061 814 487	<b>15,9%</b>	<u>5 264 844 517</u> 38 053 976 749	<b>13,8%</b>
4-Impairment on non-performing loan/non-performing loan	<u>3 851 460 165</u> 6 050 325 702	<b>63,7%</b>	<u>3 762 068 016</u> 5 264 844 517	<b>71,5%</b>
5-Loan to customers/Deposits	<u>38 061 814 487</u> 68 237 589 303	<b>55,8%</b>	<u>38 053 976 749</u> 71 929 552 606	<b>52,9%</b>
6-Loan to customers/Term Deposits	<u>38 061 814 487</u> 42 855 696 148	<b>88,8%</b>	<u>38 053 976 749</u> 43 746 022 960	<b>87,0%</b>
7-Performing loan/Term deposit	<u>32 011 488 785</u> 42 855 696 148	<b>74,7%</b>	<u>32 789 132 232</u> 43 746 022 960	<b>75,0%</b>
8-Short term loan/Term deposit	<u>2 311 091 447</u> 42 855 696 148	<b>5,4%</b>	<u>2 997 054 747</u> 43 746 022 960	<b>6,9%</b>
9-Medium-long term credit//term deposits	<u>35 750 723 040</u> 42 855 696 148	<b>83,4%</b>	<u>35 056 922 002</u> 43 746 022 960	<b>80,1%</b>
10-Demand deposits/total deposits	<u>25 381 893 155</u> 68 237 589 303	<b>37,2%</b>	<u>28 183 509 646</u> 71 929 552 606	<b>39,2%</b>
11-Term deposits/total deposits	<u>42 855 696 148</u> 68 237 589 303	<b>62,8%</b>	<u>43 746 022 960</u> 71 929 552 606	<b>60,8%</b>

## Performance ratios

CVE

Account headings	2015		2016	
	Amounts	%	Amounts	%
1-ROE=Net income/shareholder's equity	<u>368 829 514</u> 4 859 908 885	<b>7,6%</b>	<u>344 159 347</u> 5 074 610 152	<b>6,8%</b>
2-ROA=Net income/average assets	<u>368 829 514</u> 77 813 011 761	<b>0,5%</b>	<u>344 159 347</u> 82 679 178 706	<b>0,4%</b>
3-ML = Net income/income	<u>368 829 514</u> 6 717 809 467	<b>5,5%</b>	<u>344 159 347</u> 6 399 901 722	<b>5,4%</b>
4-RA = Income/assets	<u>6 717 809 467</u> 80 825 026 631	<b>8,3%</b>	<u>6 399 901 722</u> 84 519 618 803	<b>7,6%</b>
6-MF=(Interest income-interest costs) / assets	<u>1 937 866 021</u> 80 825 026 631	<b>2,4%</b>	<u>1 973 274 258</u> 84 519 618 803	<b>2,3%</b>

ROE = Return on equity

ROA = Return on assets

ML = Profit margin

RA = Assets turnover

MF = Net interest income

## Banco Comercial do Atlântico, S.A

## Liquidity ratios

CVE

Account headings	2015		2016	
	Amounts	%	Amounts	%
<b>1-Total deposits/assets</b>	<u>68 237 589 303</u> 80 825 026 631	<b>84,4%</b>	<u>71 929 552 606</u> 84 519 618 803	<b>85,1%</b>
<b>2-Loans to customers / assets</b>	<u>38 061 814 487</u> 80 825 026 631	<b>47,1%</b>	<u>38 053 976 749</u> 84 519 618 803	<b>45,0%</b>
<b>3-Short term loans/assets</b>	<u>2 311 091 447</u> 80 825 026 631	<b>2,9%</b>	<u>2 997 054 747</u> 84 519 618 803	<b>3,5%</b>
<b>4-Medium-long term loans/assets</b>	<u>35 750 723 040</u> 80 825 026 631	<b>44,2%</b>	<u>35 056 922 002</u> 84 519 618 803	<b>41,5%</b>
<b>5-Loans to customers/ total deposits</b>	<u>38 061 814 487</u> 68 237 589 303	<b>55,8%</b>	<u>38 053 976 749</u> 71 929 552 606	<b>52,9%</b>

## Productivity indicators

Account headings	2015		2016	
	Amounts	CVE thousands	Amounts	CVE thousands
<b>1-Loans and deposits/active employees</b>	<u>106 299 404</u> 432	<b>246 063</b>	<u>109 983 529</u> 453	<b>242 789</b>
<b>2-Total operating income/active employees</b>	<u>2 647 451</u> 432	<b>6 128</b>	<u>2 565 892</u> 453	<b>5 664</b>
<b>3-Loans and deposits/no. branches</b>	<u>106 299 404</u> 34	<b>3 126 453</b>	<u>109 983 529</u> 34	<b>3 234 810</b>



## Banco Comercial do Atlântico, S.A

### Key indicators

Key indicators	Unit	2015	2016
1. ROE	%	7,6%	6,8%
2. ROA	%	0,5%	0,4%
3. Cost/income exc. pension fund	%	69,4%	70,8%
4. Volume of non-performing loan	Thousands	6 050 326	5 264 845
5. Solvency ratio	%	15,70%	15,78%
6. TIER 1 (base shareholder's equity/weighted assets)	%	15,29%	16,31%
7. Loans-to-deposits ratio	%	55,80%	52,90%
8. Productivity per employee (Net income/number of employees)	Thousands	854	760
8.1. Business revenue (loan and deposits)/no. employees	Thousands	246 063	242 789
8.2. Total operating income/no. employees	Thousands	6 128	5 664
9. Fixed assets coverage	%	227,20%	204,81%
10. Shareholders' equity	Thousands	4 865 904	4 942 827

**BOARD OF DIRECTORS**

**2016**

Chairman      **António José de Castro Guerra**

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

Board Member   **Francisco Pinto Machado Costa**

Board Member   **David Hopffer Cordeiro Almada**

Board Member   **Carla Maria Moniz Brigham Gomes**

Board Member   **José Rui Cruz Lopes Gomes**

Board Member   **Manuel José Dias Esteves**

## REPORT AND OPINION OF THE AUDIT BOARD 2016 FISCAL YEAR

*DEAR SHAREHOLDERS*

*BANCO COMERCIAL DO ATLÂNTICO, S.A.*

### I- ACTIVITY REPORT OF THE AUDIT BOARD

Under the terms of the legislation in force, the regulations of Banco de Cabo Verde (BCV) and the mandate conferred upon it, the Audit Board hereby submits its report on the audit activity developed during the year ended 12.31.16, as well as its Opinion on the Management Report, Accounts and proposal for the appropriation of net income, as submitted by the board of directors of Banco Comercial do Atlântico, S.A (BCA).

During the year 2016, the Audit Board regularly monitored the activity of the Bank, checking to the extent deemed necessary, the equity amounts, accounting records and supporting documents, which comply with the legal provisions and bylaws of the company.

During the period, the Audit Board held five formal meetings and participated in four meetings of the Board of Directors, at the invitation of its Chairman.

The Board took note of, analysed and issued an Opinion on the Report on the Internal Control System, prepared pursuant to Banco de Cabo Verde notices No. 2/1995 and No. 5/1999 and no. 5/2008 of Banco de Portugal, the Supervisory Board of the majority shareholder, and monitored the progress of BCA's Internal Control System.

The Audit Board proceeded to the Quarterly Follow-up of the deficiencies maps of the Internal Control System, with special focus on the areas of greater risk.

In order to contribute to the improvement of the control environment, one of the key variables of the internal control system, the Chairman of the Audit Board, with the agreement and full support of the Chief Executive Officer (CEO), made a presentation to all the Departments about The Internal Control System in the banking sector, referring in detail to EBA's GL 44.

The Board met periodically with the various BCA bodies, the offices of Compliance and Internal Audit, and departments of DFI, DOI, DSI and DGR, and reviewed the adequacy of the policies and processes in force in Corporate Governance and Internal Control matters.

Under the terms of AGMVM regulation 1/2016, the Audit Board issued its opinion on the Corporate Governance Report approved by the Board of Directors.

The Corporate Governance Report was prepared by BCA, in accordance with the legal framework in force, namely article 131 of the Securities Market Code, article 133 of Law 61 / VIII2014, paragraph 4 of Notice 4/2014, article 5 of the Regulation 1/2009 of AGMVM, the Code of Government of Securities Issuers admitted to trading and the aforementioned AGMVM Regulation No. 1/2016.

In order to have a reasoned opinion on the state of the Company's governance and its adequacy to the aforementioned legal framework, the Audit Board, in addition to the aforementioned regular meetings with the various Departments, in particular the Control Functions, carried out the following steps:

- Has become aware of the applicable internal regulations.
- Asked clarifications on the issues it deemed pertinent at the meetings of the Board of Directors, or in direct contacts with the CEO.
- Analysed the provisions of the Corporate Governance Report and confronted it with the Annex to Regulation 1/2016.

As part of its audit action, the Audit Board analysed the work area that deals with the reconciliation of the accounts of BCA's Correspondent Banks, which is part of the Financial and International Department, and has developed the following actions:

- Obtaining the listing of all BCA accounts opened in the corresponding banks, mentioned 25 opened accounts with movement, as of December 31, 2016;
- Obtaining statements from said accounts, with evidence of values of movements and balances on that date;
- Dialogue with the two associates working in this area, as well as with the respective head of accounting.

As part of the follow-up of the Internal Audit Function, the Audit Board had access to the Evaluation Report on the adequacy of BCA's Internal Audit Functions, and discussed the recommendations contained in the aforementioned report with the CEO.

The Audit Board analysed the correspondence exchanged with regulators and read the minutes of the Executive Board.

At the request of DFI, the Audit Board collaborated in the response given by BCA to BCV under the Risk Assessment System (SAR) process.

The Audit Board led the process of choosing the new Auditor, within the scope of the rotation required by BCV. To this end it developed a set of minimum requirements to make the choice and defined a set of duly weighted evaluation parameters, in line with the same process carried out by the majority shareholder CGD. The reputation, responsiveness and knowledge of the Cape Verdean market was privileged. The five competitors were interviewed. Finally, a proposal was prepared and was submitted to the General Shareholders' Meeting of 04.07.2016, which approved it unanimously.

The Audit Board met several times with the previous External Auditors (Deloitte) and with the new ones (PricewaterhouseCoopers).

During the course of 2016, the Audit Board, in consonance with the external audit company PricewaterhouseCoopers & Associados, SROC, Lda., followed, with special attention, the following most relevant matters in the Bank's activity, namely: (i) impairment losses, (ii) valuation of real estate received for credit recovery (iii) adjustments to the tax base, (iv) contingent liabilities arising from the change in the employees' pension plan, and (v) confirmation of balances related to the subsidized housing loan

The Bank Services provided all the clarifications and information requested of them.

## II - OPINION ON THE REPORT AND ACCOUNTS

The Board reviewed the Financial Statements, as of December 31, 2016, which include Balance Sheet; Income Statement, Statement of Changes in Shareholders' Equity, Statement of Comprehensive Income, Statement of Cash Flows and the respective Annexes, which, in compliance with the legal and statutory provisions, reflect the position of the accounting records at the end of the financial year, presenting the Bank's financial position, as set out in the External Auditor's Report and Opinion, only with an emphasis on "Other Assets" and "Current Tax Assets", which present high-value balances receivable from the State of Cabo Verde, and some of which have significant antiquity.

The Auditor justifies the emphasis by stating that "Although the balances recorded in the "Other assets" account heading have been confirmed by Direção Geral do Tesouro in response to the independent confirmation request we made with reference to December 31, 2016, and the Bank has received a confirmation by Direção Nacional de Receitas do Estado of the balances recorded in the account heading "Current tax assets" with reference to the same date, the terms and the timetable for their adjustment to the Bank continue pending to be defined.

The valuation criteria adopted in the preparation of the accounts correspond to the correct valuation of the corporate assets.

The Board also reviewed the Management Report presented by the Bank's Board of Directors, as well as its proposal Appropriation of Net Income. The Report that accurately reflects the activity developed in the achievement of the defined strategy allows highlighting the following:

### II.1- Management indicators

In terms of Profit and Loss Accounts, the Bank's net income was CVE 344,159 thousand, showing a negative variation of 6.7% in relation to the same period of the previous year, influenced by Current Taxes, since the Profit before Taxes registered a Growth of 13.4%.

In this context, the following account heading should be noted:

- Net interest income	+2,1%
- Non interest income	-17,2%
- Total operating income	-3,1%
- Operating costs	-1,7%

The indicators that characterize BCA's profitability and solvency have the following values:

- Return on Equity (ROAE)	6,78%,
- Return on Assets (ROAA)	0,42%
- Cost-to-income	81,6%
- Solvency ratio	15,78% (legal minimum 10%)

This led to an improvement in the Bank's equity position, reflected in the growth rates of the following items:

- Total Assets	4,6%
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- Net Loans to Customers	2,8%
- Customers Resources	5,2%
- Shareholders' Equity	8,4%

The total credit portfolio increased by 2.2%, and non-performing loans totalled CVE 5.2 billion, representing a year-on-year decline of 13%. The decrease in non-performing loans occurred in both the corporate and private segments. In turn credit at risk reached CVE 6.6 billion, a reduction of 12% over the previous year.

Likewise, there is a change in the periodicity of the external audit process to the model of impairments, from annual to half-yearly, which will certainly give greater integrity to the tool to calculate impairment losses.

As of October 2015, BCA started to work on non-performing loans in a centralized way in a single office created for this purpose, the Credit Recovery Office, which became directly dependent on BCA's Administration.

## II.2- Risk Management and Control Functions

In the scope of Risk Management, it is worth highlighting the full functioning of the Risk Commission, support and advisory Board of the Board of Directors in the field of risk assumption and control, as well as the definition of risk limits and delegation of BCA competencies, in the context of the majority shareholder. During the year the bank updated the risk factors underlying the impairment model. The creation of the credit recovery office in 2015 brought visible results to BCA in 2016.

Regarding the Risk of Compliance, it was verified that the Compliance Support Office, despite having registered significant improvements in its processes and working methods, at the date of this Report and Opinion, does not yet have in normal production the computer tool Of Filtering & Profiling, acquired in 2016.

The Irregular Practices Communication System was prepared in 2016, and is currently in the final phase of assessment, as provided for in Law No. 62 / VIII / 2014.

The Function is not yet Fully Compliant, despite significant advances.

With respect to Operational Risk and Internal Control, the respective area improved service levels and results achieved, both in the different risk management instruments and methodologies, and in the area of synergistic actions between different structure bodies in the monitoring and correction of internal control deficiencies.

Within the scope of the Internal Audit Function, it's worth emphasizing the transformation of the Internal Audit Office into Internal Audit Department, and the hiring of a Director in 2017, which is now responsible for the function. The Internal Audit Department began to centralize operational risk management, in line with the guidelines set by the shareholder Caixa Geral de Depósitos. These changes aim to significantly improve the performance of this crucial Control Function of BCA's Activity.

## II.3-Technologies and Innovation

It is highlighted due to its impact on cost reduction and quality of service provided, the implementation of MPLS technology in the communication circuits and the launch of BCADirecto telephone and BCADirecto Mobile.

## OPINION AND PROPOSALS

The legal formalities and the articles of association were complied with on the rendering of accounts and supervision of the Bank.

In this context, and based on the information provided by the Management Board of BCA, the Audit Board is of the opinion that the Financial Statements referred to above and the Management Report, as well as the Proposal for the Appropriation of Net Income, are in accordance with the accounting provisions and statutory, for the approval of the General Meeting of Shareholders.

In accordance with the foregoing, the Audit Board is of the opinion that the General Shareholders' Meeting:

- a) Approve the Annual Report for the year 2016, presented by the Board of Directors;
- b) Approve the Appropriation of Net Income proposal;
- c) Conduct a general appraisal of the Company's Management and Supervisory bodies, and draw the necessary conclusions.

The Board also wishes to express its appreciation to the Board of Directors, the Bank Services and the External Auditor for the helpful cooperation.

City of Praia, March 16th 2016

The Audit Board

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António José do Nascimento Ribeiro  
Chairman

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Maria de Fátima Oliveira de Melo Fernandes Sanchas

Member

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José Ricardo Vaz Fernandes Benoliel

Member



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

### ***Opinion***

We have audited the accompanying financial statements of Banco Comercial do Atlântico, SA (the Bank), which comprise the balance sheet as of December 31, 2016 (which shows a total of CVE 84,519,619 thousand and a total shareholder's equity of CVE 5,278,357 thousand , Including net income of CVE 344,159 thousand), the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year ended and the notes to the financial statements which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly and appropriately, in all material respects, the financial position of Banco Comercial do Atlântico, SA as of December 31, 2016 and its financial performance and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards (IFRS) in force.

### ***Bases for opinion***

Our audit was conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under these standards are described in the section "Auditor's Responsibilities for the Audit of Financial Statements" below.

We are certain that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Bank in accordance with the requirements of the IESBA Code of Ethics and with the ethical requirements in accordance with the code of ethics of Professional Association of Certified Auditors and Accountants of de Cabo Verde, relevant to auditing financial statements in Cabo Verde and we fulfil the remaining ethical responsibilities provided for in these requirements and in the IESBA Code of Ethics.

### ***Emphasis***

On December 31, 2016, the Bank recorded in the account headings "Other assets" and "Current tax assets" balances receivable from the State of Cabo Verde in the amount of CVE 1,093,251 thousand and CVE 997,294 thousand, respectively (2015: CVE 1,040,003 thousand and CVE 894,857 thousand, respectively), some of which have significant seniority. Although the balances recorded under "Other assets" have been confirmed by the General Directorate of Treasury in response to the independent confirmation appeal we requested with reference to December 31, 2016, and the Bank has received confirmation from the National Directorate of State Revenue on the balances recorded under the account heading "Current tax assets" with reference to the same date, the terms and the timetable for their adjustment to the Bank are still to be defined. According to information obtained, negotiations are under way with the State of Cabo Verde with a view to establishing a plan for the repayment of these balances, and the Bank's Board of Directors is convinced that the conclusion of these negotiations will not have materially relevant impacts on the Bank's equity.

Our opinion is unchanged in this regard.

### ***Relevant audit topics***

The relevant audit topics are those that, in our professional judgment, were of greater importance in auditing the financial statements of the current year. These topics were considered in the context of the audit of the financial statements as a whole, and in the formation of our opinion, and we do not express a separate opinion on these topics.

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**Relevant audit topics**

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**Synthesis of the audit approach**

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***Impairment losses on loans to customers***

*Disclosures related to impairment losses on customer's loans presented on notes 2.2. C) i) a), 2.2. E), 7, 16 and 35 of the Bank's financial statements*

The significant expression of customer loans and associated impairment losses, which requires the application of a set of assumptions and judgments by the Bank's Management regarding the identification of both the moment of recognition and the corresponding amount, justify that it has constituted a material matter for the purpose of our audit. As of December 31, 2016, the gross amount of this account heading amounts to CVE 49,506,593 thousand (2015: CVE 48,450,395 thousand) and impairment losses recognized at that date amount to CVE 3,819,549 thousand (2015: CVE 4,023,047 thousands).

Impairment losses are determined by the Bank's Management in individual terms for the most significant individual operations, and for the remainder of the portfolio, impairment is determined in a collective analysis.

- For customers' that present more significant exposures in terms of the amount of their liabilities, the Bank has developed an individual review process. In these cases, impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) estimating the cash flows that may be generated by the customer in the future to fulfil his responsibilities or (ii) The valuation of the collateral received in the scope of the loan concession, whenever the recovery is anticipated by means of the delivery / execution of these same collaterals. When the individual analysis did not result in any impairment loss, these exposures are transferred to the collective analysis and an

The audit procedures we have carried out included a review of the controls established by the Bank with regard to the approval, registration and monitoring of loan granted to customers, as well as the assessment of the methodologies, data and assumptions adopted by Management in determining impairment losses. These procedures covered, among others, the detailed test checks on credit risk management controls and procedures by the Bank, with particular emphasis on internal controls underlying timely identification, correct measurement and recording of impairment.

In this context, the procedures and controls tested included those related to: (i) the timely identification of customers with signs of impairment or in default; (ii) the calculation of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iii) the estimated recoverable value of the collateral, when applicable; And (iv) the internal policies associated with the process of calculating and approving impairment losses.

In addition, by sampling, we analysed a number of customer's (including some that were not identified by Management as having signs of impairment or in default), with the purpose of obtaining our own judgment on the existence of signs of impairment, and evaluate how the impairment losses were identified in a timely manner and recognized by Management.

Regarding the customers individually analysed by the Bank, for a representative sample of the customer loan portfolio as of December 31, 2016, the procedures developed consisted of: (i) reviewing the documentation associated with the credit granting process; (ii) analyse the contractual support and the most relevant collaterals, and confirm the registration of these collaterals in



<i>Relevant audit topics</i>	<i>Synthesis of the audit approach</i>
<p>IBNR ("incurred but not reported") impairment loss is applied to them.</p> <ul style="list-style-type: none"> <li>For exposures not covered by the individual analysis, the Bank applies a collective analysis model to determine impairment losses. When a group of financial assets is evaluated together, the future cash flows of this group are estimated based on the contractual flows of these assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank deems it necessary, historical information is updated based on observable current data, so that it reflects the effects of current conditions.</li> </ul>	<p>favour of the Bank; (iii) question the evaluations of collaterals that were available; (iv) assess the evolution of exposures; and (v) challenge the Bank's vision regarding the economic and financial situation of the customers and the expected cash flows expected from the customers' business, as well as the prospects of collectability of credits. Whenever we conclude about the need to review some input or assumption used by Management, we proceed to a new calculation of the amount of impairment and compared the results in order to assess the existence of any discrepancies.</p> <p>For the portfolio whose impairment is assessed in a collective analysis, we tested a sample of inputs from the model defined by the Bank and evaluated the calculation methodology itself. For this purpose, we developed a set of specific procedures to evaluate how the assumptions considered by Management for the purposes of the impairment model included all risk variables by comparison to the performance history and recoveries of the Bank's customer loan portfolio, the macroeconomic conditions to which each customer is exposed to, as well as our knowledge of current practices in the sector. The procedures developed consisted of: (i) evaluating the information contained in the loan portfolio at December 31, 2016; (ii) review and test the classification of loans as to the existence of signs of impairment or non-compliance; (iii) review and test the risk parameters used in the calculation of impairment; (iv) to challenge the main assumptions and sources of information used in future recoveries incorporated in the determination of the risk parameters (by sampling) and (v) to review and test the historical recoveries incorporated in the determination of the risk parameters (by sampling).</p>

### ***Valuation of real estate received by credit recovery***

*Disclosures related to real estate received by credit recovery presented in the attached notes 2.2. g), 13 and 16 of the Bank's financial statements*

## Relevant audit topics

Given the significant expression of the real estate in the Bank's balance sheet as well as the low liquidity of the same in Cabo Verde, these constituted a relevant matter for the purposes of our *audit because it requires the application* of a set of assumptions and judgments by the administration with regard to valuation and the determination of both the recognition date and the amount of the corresponding impairment losses. As of December 31, 2016, the gross value of these properties under Other assets amounted to CVE 1,131,980 thousand (2015: CVE 1,170,596 thousand) and impairment losses amounted to CVE 187,790 thousand (2015: CVE 172,131 thousand).

According to the policies in force at the Bank, the properties are subject to periodic appraisals, carried out by expert appraisers registered in Auditoria Geral do Mercado de Valores Mobiliários ("AGMVM") of Banco de Cabo Verde, which give rise to the recording of losses by impairment whenever the value resulting from such evaluations is lower than its book value.

## Synthesis of the audit approach

The audit procedures we have developed included assessing the key controls instituted by the Bank and conducting specific detail tests to ensure that property records on entry and exit are properly carried out and that the property valuation process is adequate .

We have analysed the valuation for all the properties in portfolio and, where applicable, the subsequent impairment loss recorded based on the evaluations of expert appraisers registered in the AGMVM. Whenever necessary, we held meetings to understand the judgments and assumptions adopted in the valuation attributed to the properties under analysis. In cases where there were doubts as to the adequacy of the assumptions considered or the quality of the remaining information used, a further evaluation was requested from other real estate appraisers, also registered at Banco de Cabo Verde, more specifically, AGMVM, in order to compare the results.

In addition, we tested the properties that were sold during 2016, comparing the sale value with the last appraisal obtained, in order to assess the reasonableness of the appraisals obtained by the Bank.

## Corrections to the taxable amount of Corporate Income Tax (IRPC) related to pension costs and medical care

*Disclosures related to corrections to the IRPC taxable amount related to pension and medical care costs presented in note 12 attached to the Bank's financial statements*

The Tax Authorities of Cabo Verde made a set of corrections to the Bank's taxable income for 2005 to 2014, which included the non-acceptance of the costs of the financial year with pensions and medical care and the corresponding equity variations from 2009 to 2013 arising from adjustments to the transition to the International Financial Reporting Standards. The Bank did not recognize any costs related to these corrections, since it was the understanding of the Board of

The audit procedures we developed included the understanding and appreciation of the methodologies, data and assumptions adopted by Management in assessing the referred tax contingencies and in recognizing the costs incurred as current tax assets.

We have carried out an exhaustive and critical analysis of all relevant correspondence up to the date of this report between the Bank, the Tax Authorities of Cabo Verde, National Directorate of State Revenue, Tax and

<i>Relevant audit topics</i>	<i>Synthesis of the audit approach</i>
<p>Directors that the procedures adopted were in accordance with the legal and fiscal framework in force in Cabo Verde, and consequently filed a formal complaint regarding such corrections.</p> <p>The complaints concerning the additional payments relating to the years 2008 and 2013 were rejected, at first, by the Tax Authorities, and the Bank judicially contested these decisions. In this follow-up, Tax and Customs Court of Sotavento decided to consider both appeals to be pertinent, thus annulling the acts of fixing the taxable income for 2008 and 2013 and respective settlements.</p> <p>For the fiscal year 2008, the Tax Authorities submitted in February 2014 an appeal against the decision to the Supreme Court of Justice, and the process is pending on this date. Regarding the fiscal year 2013, since the Tax Authorities did not file an appeal against the decision of November 2016 to the Supreme Court of Justice, within the legal deadline, the additional settlement received for the year 2013 was considered null and void, so it is the Board of Director's understanding that such decision will make case law on the remaining outstanding fiscal years.</p> <p>In these situations, the Bank's management is forced to make complex judgments about the likelihood of materialization and quantification of the amounts of liabilities that may result from litigation and tax contingencies with which the Bank is confronted and to that extent this was a matter considered relevant for the purposes of our audit.</p> <p>At December 31, 2016, the total impact of contingency not provisioned associated with these corrections amounts to CVE 1,291,839 thousand, and the Bank has already paid IRPC in the amount of CVE 901,643 thousand, recognized under "Current tax assets" and Two bank guarantees in the amount of CVE 233,044 thousands.</p> <p>Bearing in mind the recent developments in this area described in Note 12, the Board of Directors is convinced that the outcome of this proceeding will be favourable to the Bank, which is why no costs related to this contingency were recorded in the Bank's financial statements as of December 31, 2016.</p>	<p>Customs Court of Sotavento and the Supreme Court of Justice of Cabo Verde.</p> <p>With the assistance of our tax specialists, we appreciated the Bank's assessment in terms of the nature and status of the existing litigation processes and discussed with the head of Legal Office and the Bank's management about the basis and the assumptions adopted.</p>

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**Contingent liabilities arising from the amendments in employees' pension plan**

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**Relevant audit topics**

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*Disclosures related to the amendment of the employees' pension plan presented in the accompanying notes 12 and 29 of the Bank's financial statements*

In November 2013 the Board of Directors decided to change the pension plan in force at the Bank with a view to its sustainability and introduced new rules for the calculation of the benefits granted. These changes resulted in a reduction of CVE 914,405 thousand in liabilities. Two lawsuits were filed in 2014 with a view to declaring the nullity of the changes introduced. Also in 2014, the Bank presented its appeal to these lawsuits, and is currently awaiting decision of the Tribunal da Praia. The Bank's Board of Directors, based on the information of its lawyers, considers the risk of sentencing remote, which is why no costs related to this contingency were recorded in the Bank's financial statements as of December 31, 2016.

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**Synthesis of the audit approach**

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The audit procedures we developed included the understanding and evaluation of the methodologies, data and assumptions adopted by Management in assessing these contingencies arising from the change to the pension plan at the end of 2013. In this context, given the relevance of the required judgments we have examined in detail the disputes relating to the amendment and, where necessary, we have sought additional audit evidence.

We have also carried out, until the date of issue of this audit report, an exhaustive and critical analysis of opinions and correspondence exchanged between the Bank, lawyers and the competent Court.

We appreciated the Bank's assessment in terms of the nature and status of the judicial process referred to above and discussed with the head of the legal office and the Bank's Management about the basis and grounds for its defence.

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**Confirmation of balances related to the subsidized housing loan regime**

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*Disclosures concerning the balances related to the subsidized housing loan regime presented in note 13 of the Bank's financial statements*

At December 31, 2016, the Bank has recorded subsidies receivable from the State of Cabo Verde in the amount of CVE 875,623 thousand (2015: CVE 823,725 thousand), resulting from the application of the subsidized housing loan regime since 2000. The Bank has, in the last years, worked with the General Directorate of Treasury (DGT) in order to confirm the eligibility of these amounts. Until December 31, 2015, DGT had only notified the subsidies considered eligible until 2011, pending confirmation at this same date (i) house loan subsidies between 2012 and 2015, in

The audit procedures we have carried out included the understanding and evaluation of the methodologies, data and assumptions adopted by Management in the determination and recognition of the global balances related to the subsidized home loan regime, including those that are pending confirmation by the DGT. On December 31, 2015.

We analysed the Bank's assessment in terms of the nature and recoverability of these balances and discussed with the head of the legal office and the Bank's Management about the bases and the grounds for their recognition by DGT. We obtained with



<i>Relevant audit topics</i>	<i>Synthesis of the audit approach</i>
which the amounts claimed and the impairments recorded by the Bank amounted to CVE 243.099 thousands and CVE 33.409 thousands respectively, (ii) other subsidies in the amount of CVE 203,929 thousand and (iii) other amounts receivable from the State of Cabo Verde in the amount of CVE 29,561 thousand. As the Bank and the previous auditors did not receive the DGT's response to the request for confirmation of balances as of December 31, 2015, and bearing in mind the significant expression of the balances above, this was considered material for the purposes of our audit.	satisfactory results the confirmation by DGT of the balances related to housing loans covered by the subsidized regime accumulated as of December 31, 2016.



### ***Other information – Management's report***

The management body is responsible for the preparation of the management report. The other information comprises the management report but does not include the financial statements and the auditor's report thereon.

Our opinion on the financial statements does not cover the information contained in the management report and we do not express any guarantee of reliability regarding this other information.

In the scope of the audit of the financial statements, it is our responsibility to read the management report and, consequently, to consider whether the information contained in the management report is materially inconsistent with the financial statements, with the knowledge we obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work done, we conclude that there is material distortion in this other information, we are required to report on it. We have nothing to report on this.

### ***Responsibilities of the management body and the supervisory body for the financial statements***

The management body is responsible for the preparation and presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) in force and for the internal control it determines to be necessary to enable the preparation of financial statements free of material misstatement due to fraud or error.

When preparing financial statements, the management body is responsible for assessing the Bank's ability to continue operations, disclosing, where applicable, matters relating to continuity and using the assumption of continuity unless the management body intends to liquidate the Bank or cease operations, or have no realistic alternative but to do so.

Those in charge of the management are responsible for overseeing the Bank's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue a report stating our opinion. Reasonable safety is a high level of safety, but it is not a guarantee that an audit performed in accordance with ISAs will always detect material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, alone or together, they can reasonably be expected to influence economic decisions made on the basis of those financial statements.

As part of an audit in accordance with ISAs, we make professional judgments and maintain professional scepticism during the audit and also:

- a) we identify and assess the risks of material misstatement of the financial statements, due to fraud or error, we prepare and implement audit procedures that respond to those risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting material misstatement due to fraud is greater than the risk of not detecting material misstatement due to error, since fraud may involve collusion, counterfeiting, intentional omissions, false statements or overlapping of internal control;



- b) we acquire an understanding of the internal control relevant to the audit for the purpose of preparing audit procedures that are appropriate for the circumstances, but not to express an opinion on the effectiveness of the Bank's internal control;
- c) we evaluate the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by the management body;
- d) we conclude on the management's appropriate use of the assumption of continuity and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could raise significant doubts about the Bank's ability to continue its activities. If we conclude that there is material uncertainty, we should draw attention in our report to the related disclosures included in the financial statements or, if these disclosures are not appropriate, to modify our opinion. Our findings are based on audit evidence obtained as of the date of our report. However, future events or conditions may cause the Bank to discontinue its activities;
- e) we evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in order to achieve an appropriate presentation;
- f) we communicate with the persons in charge, including the supervisory body, inter alia, the scope and planned schedule of the audit, and the significant findings of the audit including any significant deficiencies in internal control identified during the audit.

March 23 2017

PricewaterhouseCoopers & Associados  
- Sociedade de Revisores Oficiais de Contas, Lda.  
Represented by:

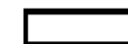
Carlos José Figueiredo Rodrigues, R.O.C.



BANCO COMERCIAL DO ATLÂNTICO, S.A.

BALANCE SHEET ON DECEMBER 31 2016 AND 2015

(Amounts is thousand of Cabo Verde Escudos)



ACTIVO	Notes	2016		2015		LIABILITIES AND SHAREHOLDER'S EQUITY	Notes	2016	2015
		Gross Asset	Impairment and Depreciation	Net Asset	Net Asset				
Cash and cash equivalent at Central Banks	3	7,844,629		7,844,629	2,754,231	Funds from other credit institutions	14	565,333	775,677
Cash equivalent at other credit institutions	4	652,322		652,322	830,451	Customer funds and other loans	15	72,702,613	69,097,136
Available-for-sale financial assets	5	6,664,460	10,841	6,653,619	6,851,891	Provisions	16	5,219,115	5,299,542
Investments in credit institutions	6	18,122,622		18,122,622	20,487,143	Current tax liabilities	12	73,220	-
Customer's loans	7	49,506,593	3,819,549	45,687,044	44,427,348	Deferred tax liabilities	12	197,342	155,963
Investment property	8	1,529	104	1,425	1,425	Other subordinate liabilities	17	99,088	197,704
Other tangible assets	9	4,060,056	1,884,215	2,175,841	2,129,004	Other liabilities	18	384,551	428,141
Intangible assets	10	333,589	280,608	52,981	23,375	Total liabilities		79,241,262	75,954,163
Investments in subsidiaries, associates and joint ventures	11	336,963		336,963	308,576	Capital	19	1,318,648	1,318,648
Current tax assets	12	901,641		901,641	894,857	Reserves and fair value	20	10,074	15,620
Deferred tax assets	12	56		56	2,504	Other reserves	20	4,780,353	4,342,643
Other assets	13	2,336,939	246,463	2,090,476	2,114,222	Retained earnings	20	(1,174,877)	(1,174,877)
Total assets		<u>90,761,399</u>	<u>6,241,780</u>	<u>84,519,619</u>	<u>80,825,027</u>	Income for the year	20	344,159	368,830
						Total shareholder's equity		<u>5,278,357</u>	<u>4,870,864</u>
						Total liabilities and shareholder's equity		<u>84,519,619</u>	<u>80,825,027</u>

The accompanying notes are an integral part of the balance sheets.



## BANCO COMERCIAL DO ATLÂNTICO, S.A.

## STATEMENTS OF INCOME FOR THE FISCAL YEARS ENDING

## ON DECEMBER 2016 AND 2015

(Amounts in thousands of Cabo Verde Escudos)

	Notes	2016	2015
Interest and similar income	21	3,635,144	3,770,607
Interest and similar expenses	22	(1,657,017)	(1,832,741)
NET INTEREST INCOME		1,978,128	1,937,866
Income from equity instrument	23	18,256	134,859
Income from services and fees	24	423,864	400,749
Expenses with services and commissions	24	(43,913)	(39,784)
Income from available-for-sale assets			58
Income from foreign exchange revaluation	25	112,740	140,720
Income from the sale of other assets	26	12,370	5,133
Other operating income	27	64,447	67,850
OPERATING INCOME		2,565,892	2,647,451
Employee expenses	28	(1,272,607)	(1,271,035)
General administrative expenses	30	(614,278)	(669,617)
Depreciation and amortizations for the year	9 e 10	(207,902)	(189,912)
Provisions net of cancellations and recoveries	16		
Impairment of their financial assets net of cancellations and recoveries	16	(82,011)	(116,971)
Impairment of their assets net of cancellations and recoveries	16	(15,796)	(71,037)
Income from subsidiaries and associates measured thru MEP	11	45,025	39,950
INCOME BEFORE TAXES		418,321	368,830
Taxes			-
Current	12	(74,162)	-
Deferred	12		-
		(74,162)	-
<b>Income for the Year</b>		<b>344,159</b>	<b>368,830</b>
Average number of ordinary shares issued	31	1,324,765	1,324,765
Earnings per Share	31	0.26	0.28

The accompanying notes are an integral part of the balance sheets.



BANCO COMERCIAL DO ATLÂNTICO, S.A.  
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE FISCAL YEARS ENDING ON DECEMBER 31 2016 AND 2015  
 (Amounts in thousands of Cabo Verdean Escudos)

	Notes	Capital	Fair value reserves	Other reserves and retained earnings			Income for the Year	Total shareholder's equity	
				Legal reserves	Other Reserves	Retained earnings			
Balances on December 31 2014	19,20	1,318,648	360,713	748,463	3,309,645	(1,174,876)	2,883,232	297,315	4,859,908
Distribution of income for the year 2014:									
Incorporation of reserves				29,732	193,254		222,986	(222,986)	-
Dividend distribution							-	(74,329)	(74,329)
Comprehensive income for the year			(345,093)		61,548		61,548	368,830	85,285
Balances on December 31 2015	19,20	1,318,648	15,620	778,195	3,564,447	(1,174,876)	3,167,766	368,830	4,870,864
Distribution of income for the year 2015:									
Incorporation of reserves		-	-	36,883	239,739	-	276,622	(276,622)	-
Dividend distribution		-	-	-	-	-	-	(92,207)	(92,207)
Other transactions		-	-	-	12,940	-	12,940	-	12,940
Other comprehensive income									-
Changes in fair value, net of taxes		-	(5,546)	-	-	-	-	-	(5,546)
Remeasurements of defined benefits plan		-	-	-	148,148	-	148,148	-	148,148
Net income for the year		-	-	-	-	-	-	344,159	344,159
Balances on December 31 2016	19,20	1,318,648	10,074	815,078	3,965,274	(1,174,876)	3,605,476	344,159	5,278,357

The accompanying notes are an integral part of the balance sheets.

BANCO COMERCIAL DO ATLÂNTICO, S.A.

STATEMENT OF COMPREHENSIVE INCOME FOR FISCAL YEARS ENDING

ON DECEMBER 31 2016 AND 2015

(Amounts in thousands of Cabo Verde Escudos)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Other comprehensive income			
Account headings which will not be reclassified on the statement of income			
Remeasurements of defined benefits plan (Note 2.3)			
Change in period	29	198,856	82,615
Fiscal effect	12	(50,708)	(21,067)
 Account headings which may be reclassified on the statement of income			
Changes to the fair value of available-for-sale financial assets			
Change in period	20	(7,444)	(342,108)
Fiscal effect	12	1,898	(2,985)
Other comprehensive income		<u>142,602</u>	<u>(283,545)</u>
Income for the year		344,159	368,830
Total comprehensive income for the year		<u>486,762</u>	<u>85,285</u>

The accompanying notes are an integral part of the balance sheets.

BANCO COMERCIAL DO ATLANTICO, S.A.

STATEMENTS OF CASH FLOW FOR THE YEARS ENDING

ON DECEMBER 31, 2016 AND 2015

(Amounts expressed in thousands of Cape Verdean Escudos)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b><u>Cash flows from operating activities</u></b>			
Income from interest and commissions		3,920,277	3,927,145
Payment of interest and commissions		(1,795,766)	(1,851,304)
Recovery of overdue credit and interest		161,287	294,829
Foreign exchange income		145,027	140,720
Payments to employees and suppliers		(1,517,802)	(1,541,123)
Pensions and medical assistance payments		(218,411)	(218,571)
Other income / (payments) for operating activity		(7,726)	124,720
Payments of income tax		-	(48,631)
<b>Operating income before changes in operating assets</b>		<b>686,885</b>	<b>827,785</b>
<b>(Increases) decreases in operating assets:</b>			
Investments in credit institutions		2,349,985	(8,513,995)
Loans and advances to customers		(247,660)	156,242
Public debt securities		(1,106,487)	(508,993)
Other assets		38,687	(979,888)
		<b>1,034,524</b>	<b>(9,846,634)</b>
<b>Increases (decreases) in operating liabilities</b>			
Funds from Central banks and other credit institutions		(203,486)	(196,158)
Funds from customers		3,694,052	6,205,539
Other liabilities		(24,920)	9,172
		<b>3,465,646</b>	<b>6,018,553</b>
<b>Net cash from operating activities</b>		<b>5,187,055</b>	<b>(3,000,296)</b>
<b><u>Cash flows from investing activities</u></b>			
<b>(Increases) decreases in investment assets:</b>			
Investments in subsidiaries, associates and joint ventures			(15,300)
Intangible assets		(37,848)	(11,381)
Other tangible assets		(234,480)	(247,732)
Dividends received		188,654	216,170
<b>Net cash from investing activities</b>		<b>(83,674)</b>	<b>(58,243)</b>
<b><u>Cash flows from financing activities</u></b>			
Dividends distributed		(92,207)	(74,329)
Other subordinate liabilities		(98,904)	(98,893)
<b>Net cash from financing activities</b>		<b>(191,112)</b>	<b>(173,222)</b>
<b>Increase (decrease) net of cash and equivalents</b>		<b>4,912,269</b>	<b>(3,231,761)</b>
Cash and equivalents at start of period	3	3,584,682	6,816,444
Cash and equivalents at end of period	3	8,496,951	3,584,683

The accompanying notes are an integral part of the balance sheets.

## 1. INTRODUCTORY NOTE

Banco Comercial do Atlântico, S.A. (Bank) is a commercial bank, constituted by a separation of the assets of the Bank of Cabo Verde, under the terms of Decree-Law no. 43/93, of July 16. As part of the privatization process of credit institutions and financial companies with public capital, and in accordance with Resolution No. 46/99 of September 27 of the Council of Ministers, the Group comprised of Caixa Geral de Depósitos, SA and Banco Interatlântico, SARL held the majority of the Bank's share capital. As of December 2005, the Bank's shares were listed on the Cabo Verde Stock Exchange.

The Bank's corporate object is the exercise of banking activities, including all accessory, related or similar operations compatible with these activities and permitted by law.

The Bank is headquartered in the city of Praia, Republic of Cabo Verde, with a network of 34 branches to carry out its operations.

The Bank's financial statements as of December 31, 2016 were approved by the Board of Directors on February 27, 2017 and are pending approval by the General Shareholders' Meeting. However, the Board of Directors of the Bank believe that they will be approved without any significant changes.

## 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

### 2.1. Basis of presentation

The Bank's financial statements have been prepared under the assumption of operations continuity, based on books and accounting records maintained in accordance with the principles set forth in International Financial Reporting Standards (IFRS), pursuant to Notice No. 2/2007, of 19 November, issued by the Bank of Cabo Verde.

### 2.2. Accounting Policies

#### a) Accrual Basis

Income and expenses are recognized in accordance with the accrual basis principle and are recorded as they are generated, regardless of when they are paid or received.

#### b) Translation of balances and transactions into foreign currencies

The items included in the Bank's financial statements are measured using the currency of the economic environment in which it operates (functional currency). The Bank's individual financial statements and the notes attached are presented in escudos of Cabo Verde, unless otherwise stated, the functional and presentation currency of the Bank.

Monetary assets and liabilities denominated in foreign currency are translated into Cape Verdean Escudos at the Bank's average exchange rate on the last business day of each month. Transactions in currencies other than the Cape Verdean escudo are converted into the functional currency using the exchange rates at the date of the transactions. Exchange differences determined in the exchange rate translation are reflected in the income statement for the year, except for those arising from non-monetary amounts, such as shares, classified as available for sale, whose fair value changes are recorded in shareholder's equity.

Changes in the fair value of equity instruments in foreign currency classified as available-for-sale financial assets are distinguished between exchange variations resulting from changes in the amortized cost of the instrument and other changes in the book value of the instrument. Exchange differences on changes in amortized cost are recognized in the income statement, while other differences in accounting value are recognized in other comprehensive income.

In 2016 and 2015 fiscal years, the Cabo Verde Escudo exchange rate against the Euro remained flat at 1 Euro / 110,265 Cabo Verde Escudos. At December 31, 2016 and 2015, the exchange rate against the US Dollar (USD) was as follows:

	<u>2016</u>	<u>2015</u>
1 USD	105,633	101,067

c) Financial Instruments

i) Financial assets

Financial assets are recognized at their respective fair value at the agreement date added the costs directly attributable to the transaction. The Bank has no trading assets or other assets recorded at fair value through profit or loss, so that upon initial recognition financial assets are classified in one of the following IAS 39 categories:

a) Loans and accounts receivable

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

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

These financial assets are not recognized on the balance sheet when (i) the contractual rights of the Bank in respect of the respective contractual cash flows expire, (ii) the Bank transfers (substantially) all risks and rewards associated with the holding of these financial instruments; or (iii) Although the bank retained a portion, but not substantially all the risks and rewards associated with its detention, control over financial assets was transferred.

*Interest recognition*

Interest is recognized by the effective interest rate method, which enables amortized cost to be calculated and interest to be split up over the period of the operations. The effective interest rate is the rate used to discount the estimated future cash flows associated with the amount of the financial instrument, enabling its present value to be matched to the value of the financial instrument on the initial recognition date.

*Non-performing loans and cancellations of capital and interest*

Interest on non-performing loans not supported by a real guarantee is cancelled three months after an operation's maturity date or first overdue payment. Unrecognized

interest on the above mentioned credits is only recognized in the period in which they are collected being registered under the item "Interest and similar income".

According to the policies in force in the bank, the total amount of principal owed on operations with instalments in arrears is classified as non-performing loans 30 days after its due date. The bank periodically writes off uncollectible loan loans by use of impairment after a specific assessment by the department responsible for loans monitoring and recovery and the approval by the Board of Directors. Any recoveries of loans previously written-off are recognized in the income statement under "Impairment of other financial assets, net of reversals and recoveries". Thus, loan write-off only occurs after i) the entire loan has been due; (li) the collection efforts considered adequate have been developed; And (iii) expectations of credit recovery are very low, leading to an extreme scenario of total impairment.

b) Financial assets available for sale

This category includes the following financial instruments not classified in "Loans and accounts receivable", which are initially designated as financial assets available for sale, or that the Bank may intend to maintain for an indefinite period:

- Corporate stocks;
- Consolidated Financial Investment Securities.

Available-for-sale financial assets, are measured at fair value, except for equity instruments not listed in an active market and whose fair value cannot be reliably measured, which are recorded at cost. Gains or losses from the change of the fair value are recorded directly in equity under "Reserves of fair value." At the time of sale, or if impairment is determined, the accumulated changes at fair value are transferred to income or expense for the year and are recorded under "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 classified in this category are recorded as income under "Income from equity instruments" when the bank's right to receive them has been established. The interest income from these financial instruments are recognized thru the effective interest rate method.

Income receivable from Consolidated Financial Investment Securities is recognized in the balance sheet in "Available-for-sale financial assets".

Fair Value

As referred to above, financial assets recorded as "Available-for-sale financial assets" are measured at their fair value.

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

The fair value of financial instruments is determined based on the following criteria:

- The closing price at the balance sheet date, for instruments traded in active markets;
- For non-traded variable-yield securities in active markets (including unlisted or

low liquidity securities), internal valuation models and techniques are used, which take into account the market data that would be used to define a price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and credit risk associated with the instrument.

c) Transfers among categories

The Bank proceeds to the transfer of non-derivative financial assets with fixed or determinable payments and defined maturities from the category of available-for-sale financial assets to the category of held-to-maturity financial assets provided that it has the intention and ability to hold these assets until maturity.

d) Clearing of Financial Instruments

Financial liabilities are not recognized when the underlying obligation is settled, expired or is cancelled.

Financial assets and liabilities are presented in the balance sheet at their net value when there is a legally enforceable right to offset the amounts recognized and there is an intention to settle them at their net value or to realize the asset and settle the liability simultaneously. The enforceable legal right cannot be contingent on future events, and must be enforceable in the normal course of the BCA activity, as well as in case of default, bankruptcy or insolvency of the Group or the counterparty.

e) Impairment of financial assets

Financial assets at amortized cost

The Bank periodically performs impairment tests on its financial assets at amortized cost, i.e. loans and amounts receivable.

Signs of impairment are assessed separately in the case of financial assets with significant individual exposure and collectively when the available assets, whose debtor balances are not individually relevant.

The following events are considered to be signs of impairment:

- A breach of contractual clauses such as interest or principal in arrears;
- A record of defaults in the financial system;
- Existence of operations in force resulting from credit restructuring or credit restructuring negotiations in progress;
- Difficulties on a level of the capacity of partners and management, i.e. when leading partners or key employees leave the company or in the event of disputes between partners;
- A debtor's or debt issuing entity's significant financial difficulties;
- The strong probability of a debtor's or debt issuing entity's bankruptcy;
- The worsening of a debtor's competitive position;
- A track record of collections suggesting that the nominal value will not be fully recovered.



The bank performs individual tests for customers with liabilities greater than a mCve. 20.000 or companies which are overdue for more 180 days.

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

Assets which are not included in a specific analysis are included in a collective impairment analysis and classified in like-for-like groups with similar risk characteristics (based on the characteristics of the counterparty and credit type). Future cash flows are estimated on historical information on defaults on and recoveries of assets with similar characteristics.

These assets are impaired when i) there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of the financial instruments, and ii) when this event (or events) has an impact on the level of future cash flows of these instruments, which can reasonably be estimated.

For this purpose, the bank has defined the following segments for its loan portfolio:

- Corporate loans
- Mortgage loans
- Consumer loans
- Loans to small businesses
- Loans to the public sector
- Loans to companies of the Group
- Guarantees provided
- Other individual loans

Separately analysed assets on which no objective signs of impairment have been identified were also included in collective impairment assessments, as described in the preceding paragraph.

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

The amount of the impairment assessed is recognized in costs in "Impairment of other financial assets net of reversals and recoveries" and recognized separately in the balance sheet as a deduction from the amount of the respective assets.

#### Available-for-sale financial assets

As referred to in note 2.2. c), available-for-sale financial assets are recognized at fair value with changes in fair value being recognized in the "Fair value reserve" equity account heading.

At each reporting date of the balance sheet, the Bank analyses the existence of impairment losses on available-for-sale financial assets.

Whenever there is objective evidence of impairment, accumulated capital losses recognized in reserves are transferred to costs for the year in the form of impairment losses and recognized in "Other financial asset impairment net of reversals and recoveries".

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

- Information on significant changes having an adverse effect 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 below cost.

As impairment losses on equity instruments cannot be reversed, any unrealized capital gains arising after the recognition of impairment losses are recognized in the "Fair value reserve". Impairment, recognized in profit and loss for the year, is always considered to exist on any additional capital losses. Impairment losses on debt instruments are reversed by income for the period, whenever the fair value of these instruments increases in the future, and provided that this increase is due to events occurring after the events that led to the recognition of impairment losses.

The Bank also performs periodic impairment analyses on financial assets recognized at cost, i.e. unlisted equity instruments whose fair value cannot be reliably measured. The recoverable value, in this case, is the best estimate of the future cash flows receivable on the asset, discounted at a rate which adequately reflects the risk attached to holding the asset.

The amount of the impairment loss is recognized directly in profit and loss for the year. Impairment losses on such assets cannot be reversed.

Impairment losses recorded by the Bank are reversed against the results of the year, in future periods, when assessments of the estimated losses are reduced, or even when they are no longer verified.

f) Financial Liabilities

The Bank classifies its financial instruments as financial liabilities when there is a contractual obligation for its liquidation to be made through the delivery of money, or another financial asset, regardless of its legal form. Financial liabilities are not recognized when the underlying obligation is settled, expires or is cancelled.

Financial liabilities are recognized on their agreement dates, at their respective fair value, net of the costs directly attributable to the transaction. Financial liabilities include funds from credit institutions and customers and subordinated and incurred liabilities for payment of services or purchase of assets, recognized under "Other liabilities."

Sale operations with repurchase agreements, namely Treasury Bonds and Treasury Bills, are recognized under "Funds from customers and other loans," with the corresponding securities being recognized under the Bank's portfolio.

Financial liabilities are valued at amortized cost being the interests, recognized in accordance with the effective interest method.

If the Bank repurchases debt issued, it is not recognized on the the Balance Sheet, being the difference between the book value of the balance and the repurchase value recognized in the period results.

g) Assets received through credit recovery

Properties and other auctioned assets acquired through recovery of non-performing loans and that are not available for immediate sale are recorded at auction value when the legal proceedings have been completed, under the "Other assets" item.

These assets are not amortized. Valuations of properties received by credit recovery are conducted periodically. If the appraised value is less than the book value, impairment losses are recorded. In determining impairment, the Bank also considers the age of the properties in portfolio. When the book value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to level 3.

Upon the sale of auctioned assets, these are written-off, with any gains or losses recognized under "Other operating income".

h) Investment Properties

These are properties held for the purpose of obtaining income through lease and/or revaluation.

Investment properties are initially recognized at acquisition cost, and the transaction costs directly related and incurred with their acquisition are included in their valuation. Investment properties are not depreciated and are subsequently valued at fair value, determined periodically based on expert valuations. Changes in fair value are recognized in the income statement under "Other operating income".

At December 31, 2016 and 2015, this item was entirely comprised of lands.

i) Other tangible assets

Other tangible assets are recognized at their acquisition cost, net of accumulated depreciation and impairment losses. The acquisition cost includes the purchase price of the asset, the expenses directly attributable to its acquisition and the costs incurred with the preparation of the asset so that it is placed in its condition of use. The costs of repair, maintenance and other expenses associated with their use are recognized as a cost for the year, in "General Administrative Expenses".

Depreciation is recognized on a straight line basis over the assets' estimated useful lives, comprising the period in which the asset is expected to be available for use, which is:

	Years of useful life
Property for own use	50
Equipment:	

Furniture and office material	8
Machines and tools	5 - 6
Computer equipment	4
Interior fittings	8
Transport material	3 a 5
Security equipment	8
Other equipment	5

For assets acquired after 2015, the applicable rates are those set out in the Official Bulletin No. 52 of August 28 2015, namely:

	Years of useful life
Property for own use	33
Transport material	3 e 7
Computer equipment	3
Security equipment	3 e 10

Land is not depreciated.

The cost of works on and improvements to property used by the Bank under operating leases is capitalized in this account heading and depreciated over an average period of 10 years.

Expenses incurred with the dismantling or removal of assets installed in third-party properties are considered as part of the initial cost of the respective assets, when they constitute significant amounts.

Depreciation is recognized as a cost for the period.

Tests are periodically carried out to identify signs of impairment on other tangible assets, in accordance with the IAS36 standards – “Impairment of Assets”. Impairment losses are recognized in profit and loss in “Impairment of other assets net of reversals and recoveries” whenever the net book value of tangible assets is higher than their recoverable value (greater than the value in use, calculated based on the present value of the estimated future cash flows, arising from the continued use and disposal of the asset at the end of the defined useful life, and the fair value less estimated costs of sale). Impairment losses may be reversed and also have an impact on profit and loss in the event of a subsequent increase in an asset’s recoverable value, up to the limit of the value of the asset if it had never been imputed impairment losses.

The calculation of depreciation takes into account an estimate of the residual value of the equipment, particularly in the case of vehicles. The useful lives of the assets are reviewed in each financial report so that the depreciation practiced is in accordance with the consumption patterns of the assets. Changes to useful lives are treated as a change in accounting estimates and are applied prospectively.

The Bank makes an annual assessment of the adequacy of its tangible assets’ estimated useful lives.

#### j) Intangible Assets

This account heading essentially comprises the cost of acquiring, developing or preparing software used to further the Bank’s activities.

Internally generated assets, including internal development expenditure, are recorded as expenses when incurred, whenever it is not possible to distinguish the research phase from the

development phase, or it is not possible to reliably determine the costs incurred at each stage or the probability of economic benefits to the entity.

Intangible assets are recognized at their acquisition cost, net of accumulated amortization and impairment losses.

Depreciation is recognized on a straight line basis over the assets' estimated useful lives, which is normally 3 years.

Software maintenance costs are recognized as a cost for the period in which they are incurred.

k) Investments in subsidiaries, associates and joint ventures

This account heading includes investments in subsidiaries. Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when it is exposed to, or has rights over, variable returns through the power it exercises over the relevant activities of the entity. This item also includes companies in which the Bank has significant influence but over which it does not exercise effective control over its management ("associates"). Significant influence is assumed whenever the Bank's share is between 20% and 50% of the capital or voting rights or, if less than 20%, the Bank is a member of the management board and has a direct influence on the definition of relevant company policies.

These assets are recognized under the equivalent equity method. Under this method, investments are initially valued at acquisition cost, which is subsequently adjusted based on the effective percentage of the Bank in changes in equity (including results) of associates / subsidiaries.

When the share of losses attributable to the Bank is equivalent to or exceeds the amount of financial participation in subsidiaries and associated companies, the latter recognizes additional losses if it has assumed obligations or if it has made payments to these entities.

Unrealized gains and losses between the Bank and its subsidiaries and associates are eliminated in proportion to the Bank's interest in these entities. Unrealized losses are also eliminated unless the transaction gives additional evidence of impairment of the transferred asset.

The accounting policies of subsidiaries and associates are amended, whenever necessary, to ensure that they are applied consistently with those of the Bank.

l) Income Taxes

At December 31, 2016, the Bank is subject to the Corporate Income Tax Code (IRPC Code) at a rate of 25% and a fire rate of 2% on the calculated tax, which corresponds to an aggregate tax rate of 25.5%.

As of December 31, 2015, the Bank was subject to the Single Income Tax (IUR), with an aggregate tax rate of 25.5%.

The total of taxes on profits recognized in the income statement includes current and deferred taxes.

Current taxes

Current tax is calculated based on taxable profit for the year, which differs from accounting income due to adjustments made to taxable income resulting from costs or income that are not relevant for tax purposes or that will only be considered in other accounting periods, based on taxes rules in force.

#### Deferred taxes

Deferred tax consists of the impact on tax recoverable/payable in future periods resulting from temporary deductible or taxable differences between the book value of assets and liabilities and their fiscal basis, used to assess taxable profit.

Whereas deferred tax liabilities are normally recognized for all temporary taxable differences, deferred tax assets are only recognized to the extent that it is probable that sufficient future taxable profit allowing the use of the corresponding deductible tax differences or carry-back of tax losses will be generated. Deferred tax assets are not recognized in cases in which their recoverability may be questioned on account of other situations, including issues regarding the interpretation of current tax legislation.

Notwithstanding, deferred taxes relating to the initial recognition of goodwill and temporary differences that do not result from concentrations of business activities and which have not originated in the initial recognition of assets and liabilities in transactions that do not affect the accounting income or taxable profit, are not recognized.

The main situations originating temporary differences at the Bank level are the recognition of liabilities with employee benefits and the valuation of available-for-sale financial assets.

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

Income tax (current or deferred) is recognized in profit and loss for the year, except for cases in which the originating transactions have been recognized in other shareholders' equity accounts (for example, in the case of revaluation of financial assets available for sale). The corresponding tax, in these situations, is also recognized as a charge to equity, not affecting the year's result.

#### m) Provisions and contingent liabilities

A provision is set up whenever there is a present (legal or constructive) obligation resulting from past events likely to entail a future outflow of resources and when this may be reliably assessed. The amount of the provision comprises the best estimate of the amount of the liability to be paid at the balance sheet date. Provisions are measured at the present value of estimated costs to pay the obligation using a pre-tax interest rate, which reflects the market valuation for the discount period and the risk of the provision in question.

Whenever one of the criteria is not met, or the existence of the obligation is conditional on the occurrence (or non-occurrence) of a future event, the Bank shall disclose such fact as a contingent liability, unless the assessment required of the withdrawal of funds for payment is considered remote. If it is not probable the future expenditure of resources, it is a contingent liability. Contingent liabilities are only subject to disclosure, unless the possibility of their realization is remote.

The provisions related to legal proceedings, opposing the Bank to third parties, are set up in accordance with the internal risk assessments carried out by Management, with the support and advice of its legal advisors.

The Bank recognizes a provision for onerous contracts, on the date on which, for the current contract, it is determined that the cost of meeting the obligation assumed exceeds the estimated economic benefits. This analysis is carried out contract by contract according to the information provided by the project managers.

The Bank recognizes a provision, whenever it has assumed the obligation to return premises leased to third parties, in which it has made works or implemented assets, according to the conditions in which they were at the date of the beginning of the lease. The provision is calculated based on the estimate of the costs to be incurred with the dismantling, and the period in which it is estimated to be carried, considering the negotiated lease term.

Reinforcements and reversals of provisions related to lawsuits are recognized under "Provisions net of reversals and annulment".

n) Financial guarantees

Contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of breaches of the contractual terms of debt instruments, namely the payment of their principal and / or interest, are considered as financial guarantees.

The financial guarantees issued are initially recognized at fair value. Subsequently, these guarantees are measured at the higher of the fair value initially recognized and (ii) the amount of any obligation arising from the guarantee agreement, measured at the balance sheet date. Any variation in the amount of the obligation associated with financial guarantees issued is recognized in the income statement.

o) Employee benefits

Liabilities for employee benefits are recognized in accordance with IAS 19 – “Employee benefits”. The main benefits granted by the Bank include retirement and survivors’ pensions and healthcare costs.

i) Pension and healthcare liabilities

The Bank’s retirement pension liabilities are regulated, yet under a transitional regime, by the Banco de Cabo Verde Staff Regulations of December 1, 1990, with the changes introduced in 2013 (Note 29). Pursuant to these statutes, the Bank assumes responsibility for the payment of retirement pensions to employees who meet the conditions set forth in this document.

In accordance with the applicable regime, the Bank and its employees contribute 11% and 6%, respectively, of the payroll (excluding holiday and Christmas allowances). It is also the responsibility of the Bank to allocate the additional amounts necessary to fully cover the liabilities.

The Bank does not have responsibilities with the employees who became effective as of July 1998, since these are covered by the general social security regime, under the terms of the labour contracts entered into.

The Bank also assumed a commitment to pay a portion of the health care costs of its employees, the employees who became effective until June 1998. For this purpose, the Bank and its employees contribute monthly amounts of 4% and 2%, respectively, of the payroll.

The liability recognized in the balance sheet relating to defined benefit plans corresponds to the present value of the liabilities. Total liabilities are calculated annually by specialized actuaries, using the Unit Credit Projected method and adequate actuarial assumptions (Note 29). The rate used for liabilities discounting procedures is based on market interest rates on investment grade corporate bonds (or, in their absence, public debt securities), denominated in the currencies in which the liabilities are paid and with similar periods to maturity to the average settlement period on liabilities.

In 2013, following the entry into force of the revision of IAS 19 - Employee benefits, the Bank began to recognize actuarial gains and losses directly in equity.

In order to cover pension liabilities, the Bank has a provision for pensions and similar charges, recognized under "Provisions for employee benefits expenses - retirement pensions" in liabilities.

The liabilities defined based on the actuarial valuation of the estimated expenses with health expenses are recognized under "Provisions for employee benefits expenses - medical care" (Note 16).

The year's cost of retirement and health care costs, including the cost of current services and the cost of interest, is recognized in the net amount under "Personnel costs".

The Bank recognizes through income and costs the effect of curtailments occurred in defined benefit plans, which incorporates any change resulting from the present value of the defined benefit obligation.

The Bank considers the existence of a 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 recognized in costs.

Gains and losses generated by the settlement of a defined benefit plan are recognized in the income statement when the settlement occurs.

Expenses for past liabilities resulting from the implementation of a new plan or from accrued benefits are recognized immediately in the Bank's results.

ii) Short-term benefits

Short-term benefits, including employees' productivity bonuses, are recognized on an accrual basis in "Employee costs".

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

Termination benefits are recognized when the Bank ceases employment before the normal retirement date, or when an employee accepts termination of employment in exchange for these benefits. The Bank recognizes liability for termination benefits on



the latest of the following dates: in which the Bank can no longer withdraw the benefit offer; Or in which the Bank recognizes the costs of a restructuring in the context of the recording of provisions. Benefits due for more than 12 months after the end of the reporting period are discounted to their present value.

p) Commissions

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

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

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

q) Securities and other items held under custody

Securities and other items held under custody, i.e. customers' securities, are recognized in off-balance sheet accounts, at nominal value.

r) Cash and cash equivalents

For the preparation of its cash flow statements, the Group considers "Cash and cash equivalents" as the "Cash and claims on central banks" and "Claims on other credit institutions" total, corresponding to financial instruments that can be immediately mobilized, or with maturities equal to or less than 3 months, and with a reduced risk of change in fair value.

s) Shareholder's Equity

The common shares are classified in equity, when realized.

The unrealized portion of the capital is not subject to registration. When there are, the costs inherent to the issuance of new shares are presented in equity, as a deduction from capital inflows.

In the case of a capital increase, the issue premium corresponds to the difference between the subscription value and the nominal value.

Supplementary capital contributions are recognized in Shareholders' Equity, when there is no defined repayment period, are not subject to interest and comply with the other recognition conditions in the equity account heading.

t) Distribution of dividends

The distribution of dividends is recognized as a liability in the Company's financial statements, in the period in which the dividends are approved by the shareholder at a General Meeting.

u) Operating Segments

On an annual basis, the Bank prepares segment information for the purpose of reporting to the accounts of the consolidated activity of Caixa Geral de Depósitos. The operating segments defined for this reporting are as follows:

-Corporate Finance - includes the activity related to the management of Public Debt securities, domestic corporate bonds, equity instruments and Consolidated Financial Mobilization Securities.

-Trading and sales – comprises the activity related to the management of investments and availability at other credit institutions.

-Payment and settlement – includes the activity related to credit and debit transactions.

-Commercial Bank – Includes the activity of raising funds from companies. This segment includes loans, current accounts, discounts of bills, as well as credit to the public sector.

-Retail Bank – Comprises banking activity with individuals. Included in this segment are consumer credit, housing loans, as well as deposits raised with individuals.

-Others – Other activities not included in any of the previous categories.

v) Critical accounting estimates and more relevant judgmental issues for the application of accounting policies

The application of the above described accounting policies requires the Bank's Board of Directors to make estimates. The following are the estimates with the greatest impact in the Bank's financial statements

Assessment of impairment losses on loans and other amounts receivable

The assessment of impairment losses on loans is based on the methodology defined in note 2.2. e). Impairment on separately analysed assets, is, accordingly, based on a specific assessment by the Bank, based on its knowledge of a customer's situation and the guarantees associated with the operations in question.

The assessment of impairment on a collective basis is based on historical parameters for comparable types of operations, considering default and recovery estimates. The use of alternative methodologies and other assumptions and estimates could imply recognition of impairment losses, other than those currently recorded.

The Bank considers that impairment assessed by this methodology, presented in Note 7) enables the risks on its loan portfolio to be adequately recognized, in line with the rules defined by 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 recognized as a charge to "Revaluation reserves". Whenever objective evidence of impairment exists, accrued capital losses recognized in revaluation reserves should be transferred to costs for the year.

Assessments of impairment losses on equity instruments measured at historical cost may be subjective. The bank decides whether or not impairment exists on such assets based on a specific analysis at each balance sheet date, pursuant to the definitions of IAS 39 (see note 2.2. d)). The impairment on financial assets available for sale is presented in Note 5.

Measurement of financial instruments not traded in active markets

Under IAS 39, the Bank measures some financial instruments recognized as financial assets available for sale at fair value. The valuation models and techniques described in note 2.2. c), in accordance with IFRS 13 – fair value, are used to measure financial instruments not traded in liquid markets. The measurements obtained comprise the best estimate of the fair value of the referred to instruments at the balance sheet date (see note 5).

Employee benefits

As referred to in note 2.22. o), the Bank's liabilities for its employees' postemployment and other long term benefits are assessed on an actuarial basis. The actuarial appraisals incorporate, inter alia, financial and actuarial assumptions on mortality, disability, salary and pension growth, respective asset yields and discount rates. The assumptions adopted are the Bank's and its actuaries' best estimates of the future performance of the respective variables (see Note 29).

Assessment of income tax

Income tax (current and deferred) is assessed by the Bank on the basis of the rules defined by the current tax legislation in force. In some cases, however, tax legislation may not be sufficiently clear and objective and may give rise to different interpretations. Although the amounts recognized, in such cases, represent the best understanding of the bank, on the correctness of their operations, they may be questioned by the Tax Authorities.

With the entry into force on January 1, 2015 of the Corporate Income Tax Code (IRPC Code), the Bank considered its interpretation of the changes imposed by the IRPC Code, namely with respect to the deductibility of costs with impairment for Loan and employee benefits, considering that, for tax purposes, the impairments calculated in accordance with IAS 39 and the impact of the transition to the new Code would be accepted. It is the Board of Directors' understanding that the criteria and assumptions adopted are in accordance with the legislation in force and that any differences in interpretation would only result in reclassifications between current and deferred taxes, without impact on the Bank's results and shareholders' equity as of December 31 2016 and 2015.

As mentioned in Note 12, at December 31, 2016, there are non-provisioned contingencies related to corrections made by the Tax Authorities to the taxable income of previous years, since the Bank considers that the procedures it has adopted are in accordance with the legal and fiscal framework in force in Cabo Verde.

Deferred tax assets are recognized to the extent that future taxable income is expected to exist. Both deferred tax assets and deferred tax liabilities are calculated based on Cape Verdean tax legislation - changes in management's interpretation of this legislation may influence the deferred taxes recognized in the Bank's accounts.

w) Earnings per share - basic and diluted

Basic earnings per share are calculated by dividing net income attributable to shareholders of the Bank by the weighted average number of common shares in circulation, excluding the average number of own shares held by the Bank.

For the calculation of diluted earnings per share, the weighted average number of common shares in circulation is adjusted to reflect the effect of all potential dilutive common shares, such as those resulting from convertible debt and stock options granted to employees. The dilution effect results in a reduction in earnings per share, resulting from the assumption that the convertible instruments are converted or that the options granted are exercised.

#### **IFRS Disclosures - New standards as of December 31, 2016:**

##### **1. Impact of adopting the amendments to the standards that became effective on January 1, 2016:**

#### **Standards**

- a) **IAS 1** (amendment), 'Review of disclosures'. The amendment gives indications as to materiality and aggregation, the presentation of subtotals, the structure of the financial statements, the disclosure of accounting policies, and the presentation of Other comprehensive income generated by investments measured by the equity method. Materially material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- b) **IAS 16 e IAS 38** (amendment), 'Acceptable methods of depreciation and amortization. This amendment clarifies that the use of methods of calculating depreciation / amortization of assets based on the revenue obtained is not normally considered adequate for measuring the consumption pattern of the economic benefits associated with the asset. It is of prospective application. Materially relevant impacts on the Bank's financial statements are not expected with the adoption of this standard.
- c) **IAS 19** (amendment), 'Defined benefit plan – Employee's Contribution'. The amendment to IAS 19 applies to contributions of employees or third parties to defined benefit plans and intends to simplify their accounting when contributions are not associated with the number of years of service. Materially relevant impacts on the Bank's financial statements are not expected with the adoption of this standard.
- d) **IAS 27** (amendment), 'Equity method in separate financial statements'. This amendment allows an entity to apply the equity method in the measurement of investments in subsidiaries, joint ventures and associates in the separate financial statements. This amendment applies retrospectively. Materially relevant impacts on the Bank's financial statements are not expected with the adoption of this standard.
- e) **Amendments to IFRS 10, 12 e IAS 28**, 'Investment Entities: Applying the Consolidation Exception'. This amendment clarifies that the exemption from the obligation to consolidate an "Investment Entity" applies to an intermediate holding company which is a subsidiary of an investment entity. In addition, the option to apply the equity method, in accordance with IAS 28, extends to an entity that is not an investment entity but which holds an interest in an associate or joint venture that is an "Investment Entity". Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- f) **IFRS 11** (amendment), 'Acquisition of an interest in a joint operation'. This amendment introduces guidance on accounting for the acquisition of interest in a joint venture that qualifies as a business, and the principles of IFRS 3 - business combinations are applicable. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.

- g) **Improvements to the 2010 - 2012 standards.** This cycle of improvements affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24. No Relevant material impacts are expected on the Bank's financial statements with the adoption of this standard.
- h) **Improvements to the 2012 – 2014 standards.** This cycle of improvements affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. No Relevant material impacts are expected on the Bank's financial statements with the adoption of this standard.

**2. Published standards, the application of which is mandatory for annual periods beginning on or after 1 January 2017, which the European Union has already endorsed:**

- a) **IFRS 9 (new), 'Financial Instruments'** (To be applied in fiscal years beginning on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39 for: (i) the classification and measurement of financial assets and liabilities; (ii) recognition of impairment on receivables (through the expected loss model); And (iii) the requirements for recognition and classification of hedge accounting. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- b) **IFRS 15 (new), "Revenue from contracts with customers".** (To be applied in fiscal years beginning on or after 1 January 2018). This new standard applies only to contracts for the delivery of products or services, and requires the entity to recognize revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration to which the entity is entitled, as provided for in the "5 step methodology". Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.

**3. Standards (new and amended) and published interpretations, the application of which is mandatory for annual periods beginning on or after 1 January 2017, but which the European Union has not yet endorsed:**

**3.1 – Standards**

- a) **IAS 7 (amendment), 'Disclosure initiative'** (To be applied in fiscal years beginning on or after 1 January 2017). This amendment is still subject to the process of endorsement by the European Union. This amendment introduces an additional disclosure about changes in funding liabilities, separated between transactions that gave rise to cash flows and those that do not, and how this information reconciles with the cash flows from the financing activities of the Statement of the Cash Flow. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- b) **IAS 12 (amendment), 'Income Tax – Recognition of deferred taxes assets of unrealized losses'** (To be applied in fiscal years beginning on or after 1 January 2017). This amendment is still subject to the process of endorsement by the European Union. This amendment clarifies how to account deferred tax assets related to assets measured at fair value, such as estimating future taxable profits when there are deductible temporary differences and how to assess the recoverability of deferred tax assets when there are restrictions in the tax law. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.

- c) **IAS 40** (amendment) 'Transfers of investment property' (To be applied in fiscal years beginning on or after 1 January 2018). This amendment is still subject to the process of endorsement by the European Union. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in use. Only the change of management intention is not enough to effect the transfer. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- d) **IFRS 2** (amendment), 'Classification and measurement of share based payment transactions' (To be applied in fiscal years beginning on or after 1 January 2018). This amendment is still subject to the process of endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled share-based payment transactions and the accounting for changes to an equity-based payment plan that change its cash-settled classification to equity-settled. In addition, it introduces an exception to the principles of IFRS 2, which requires that a share based payment plan be treated as if it were fully equity-settled, when the employer is required to withhold an employee's tax amount and to pay this amount to the tax authority. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- e) **IFRS 4** (amendment), 'Insurance contracts (applying IFRS 9 with IFRS)' (To be applied in fiscal years beginning on or after 1 January 2018). This amendment is still subject to the process of endorsement by the European Union. This amendment gives the entities that negotiate insurance contracts the option to recognize in the Other comprehensive income, instead of recognizing in the Profit and Loss Account, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. In addition, a temporary exemption is granted to the application of IFRS 9 until 2021 to entities whose predominant activity is that of insurance company. This exemption is optional and does not apply to consolidated financial statements that include an insurance entity. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- f) **Amendments IFRS 15**, ), "Revenue from contracts with customers" (To be applied in fiscal years beginning on or after 1 January 2018). This amendment is still subject to the process of endorsement by the European Union. These amendments refer to the additional requirements to be followed for determining the performance obligations of a contract, the recognition of the return on an intellectual property license, the review of the indicators for the classification of the principal versus agent relationship, and the new previewed regimes to simplify the transition. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- g) **IFRS 16** (new), 'Leases' (To be applied in fiscal years beginning on or after 1 January 2019). This amendment is still subject to the process of endorsement by the European Union. This new standard replaces IAS 17 with a significant impact on accounting by lessees who are now required to recognize a lease liability reflecting future lease payments and a "right of use" asset for all leases, except certain short term and low value asset leases. The definition of a lease agreement has also been modified and is based on the "right to control the use of an identified asset." Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.
- h) **Improvements to the 2014 - 2016 standards** (to be applied, in general, for periods beginning on or after 1 January 2017). This cycle of improvements is still subject to the process of endorsement by the European Union. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.

**3.2 - Interpretations**

- a) **IFRIC 22** (new), 'Foreign Currency Transactions and Advance Consideration' (To be applied in fiscal years beginning on or after 1 January 2018). This interpretation is still subject to the process of endorsement by the European Union. This is an interpretation of IAS 21 'The effects of changes in foreign exchange rates' and refers to determining the 'transaction date' when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert the transactions into foreign currency. Relevant material impacts on the Bank's financial statements are not expected with the adoption of this standard.

**3. CASH AND CASH EQUIVALENTS AT CENTRAL BANKS**

This account heading comprises the following:

	<u>2016</u>	<u>2015</u>
Cash		
. Domestic currency	572,391	510,295
. Foreign currency	488,263	524,501
Demand deposit at Banco de Cabo Verde		
. Domestic currency	6,782,946	1,718,419
. Foreign currency	<u>1,029</u>	<u>1,016</u>
	<u>7,844,629</u>	<u>2,754,231</u>

Demand deposits at Bank of Cabo Verde aim at meeting the minimum cash reserve requirements. In accordance with Bank of Cabo Verde's provisions, these assets correspond to 15% of the average actual liabilities in domestic and foreign currency for residents and emigrants. As of 2014, it was fixed a minimum daily rate of 20% of the amount of minimum reserves that financial institutions should keep in the demand deposits account.

In the years 2016 and 2015, these deposits were not remunerated.

**4. CASH BALANCES AT OTHER CREDIT INSTITUTIONS**

This account heading comprises the following:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
(Amounts expressed in thousands of Cabo Verde Escudos - mCve.)

	<u>2016</u>	<u>2015</u>
Demand deposits		
At credit institutions in Cabo Verde		
. Caixa Económica de Cabo Verde	994	996
At credit institutions abroad		
. Novo Banco, S.A.	84,321	84,396
. Caixa Geral de Depósitos, S.A.	126,575	177,837
. Unicredito Italiano SpA	19,699	20,550
. Citibank	26,504	66,851
. Others	255,423	295,394
	<u>513,514</u>	<u>646,023</u>
Cheques pending settlement:		
Domestic cheques	108,718	71,053
Foreign cheques	<u>26,259</u>	<u>109,557</u>
	<u>134,977</u>	<u>180,611</u>
Other funds	3,831	3,817
	<u>652,322</u>	<u>830,451</u>
	652,322	830,451

Cheques pending settlement comprise the cheques of customers of other banks sent for clearing. These amounts are collected in the first few days of the subsequent month.

5. FINANCIAL ASSETS AVAILABLE FOR SALE

This account heading comprises the following:

	<u>2016</u>	<u>2015</u>
Consolidated financial investment securities		
. Fair value	6,433,170	6,441,341
. Income receivable	<u>150,369</u>	<u>341,197</u>
	<u>6,583,539</u>	<u>6,782,538</u>
Equity instruments	80,921	80,194
Impairment (Note 16)	<u>(10,841)</u>	<u>(10,841)</u>
	<u>6,653,618</u>	<u>6,851,891</u>

At December 2016 and 2015, the financial instruments recognized under the category of financial assets available for sale comprised the following:



NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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Security	% de equity stake	Acquisition cost	2016			2015		
			Balance sheet		Fair value reserve	Balance sheet		Fair value reserve
			value (net)	Impairment		value (net)	Impairment	
				(Note 20)	(Note 16)		(Note 20)	(Note 16)
<u>Equity instruments valued at fair value</u>								
Consolidated financial investment securities	56,49%	6 433 170	6 583 539	-	-	6 782 538	8 171	-
Visa International Service Association	n.d.	1 314	14 835	14 139	-	14 108	12 794	-
		6 434 484	6 598 374	14 139	-	6 796 646	20 965	-
<u>Equity instruments valued at historical cost</u>								
A Promotora, Sociedade de Capital de Risco de Cabo Verde, S.A.R.	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	-	-	10 134	-	-
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)
		6 500 570	6 653 619	14 139	( 10 841)	6 851 891	20 965	( 10 841)

The Consolidated Financial Mobilization Securities (TCMF) were issued following the 64 / V / 98 law, which approved the creation of the "International Support for Cabo Verde Stabilization Trust Fund". Under the terms of this law, the Fund is managed by the Bank of Portugal and constitutes an autonomous asset and as such is the only entity to be liable for the debts, burdens and liabilities resulting from its existence, operation and organization.

The investment policy of the Fund is defined by a representative of the Government of Cabo Verde, together with the management entity, with the purpose of valuing its assets and being guided by criteria of security and profitability.

The TCMF resulted from the conversion of Cabo Verde's Treasury Bonds that were past due and recorded at the nominal value of the securities delivered.

According to Law No. 70 / V / 98 of August 17, the main characteristics of these securities are as follows:

- TCMFs are perpetual notes issued by the State of Cabo Verde through the Treasury and incorporate the right to receive 90% of the Fund's annual net income. In this regard, the Bank records in each year the income relating to income receivable from TCMF, under "Income from equity instruments" (Note 23);
- The State compromises to acquire the TCMF within a maximum period of twenty years from the date of approval of the Law, in terms and conditions to be defined by the Government;
- During the first three years of existence, TCMF could only be transacted between credit institutions duly authorized to carry out their activity in Cabo Verde. Between the fourth and seventh year, each credit institution could annually transmit 25% of the total TCMF it held at the end of the third year. From the eighth year, TCMF can be transacted without restrictions.

6. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This account heading comprises the following:

	<u>2016</u>	<u>2015</u>
Investments in Cabo Verde		
· In the Banco de Cabo Verde:		
- Monetary regularization securities	267,000	282,000
- Monetary intervention securities	738,000	1,000,000
- Very short term investments	14,000,000	15,350,000
	<u>15,005,000</u>	<u>16,632,000</u>
Investments in credit institutions abroad		
· Very short term investments		
- Caixa Geral de Depósitos, S.A.	381,296	202,134
- Novo Banco, S.A.		463,113
· Term deposits		
- Caixa Geral de Depósitos	1,820,954	2,889,830
- Novo Banco, S.A	882,120	275,663
· Escrow accounts		
- Other credit institutions abroad	27,392	11,452
	<u>3,111,762</u>	<u>3,842,192</u>
Interest receivable	6,112	13,231
Deferred income	( 252)	( 280)
	<u>18,122,622</u>	<u>20,487,143</u>

7. CUSTOMER'S LOANS

This account heading comprises the following:

	2016	2015
Short term domestic loans:		
. Commercial discounts	-	17,020
. Current account credit	1,924,842	1,518,999
. Overdrafts in Demand deposit	117,509	141,776
. Credit cards	128,122	126,874
Medium and long term domestic loans		
. Loans	28,449,890	27,931,585
Short term foreign loans		
. Commercial discounts	-	-
. Current account credit	-	700
. Overdrafts in Demand deposit	724	2,078
. Credit cards	5,678	6,341
Medium and long term foreign loans		
. Loans	268,732	263,477
. Current account credit	59,119	49,992
Other loans amounts receivable (securitised)	3,469,639	3,547,854
Employee loans	1,834,516	1,952,646
	<u>36,258,771</u>	<u>35,559,342</u>
Interest receivable	180,087	166,729
Commissions and other deferred income	( 233,607)	( 244,013)
Deferred costs	1,934	2,241
Overdue credit and interest	<u>5,264,845</u>	<u>6,050,326</u>
	<u>41,472,030</u>	<u>41,534,626</u>
Impairment on loans and advances to customers (Note 16)	( 3,819,549)	( 4,023,047)
	<u>37,652,481</u>	<u>37,511,579</u>
Public debt securities		
Nominal value	7,915,424	6,808,937
Interest receivable	<u>119,139</u>	<u>106,832</u>
	<u>8,034,563</u>	<u>6,915,769</u>
	<u>45,687,044</u>	<u>44,427,348</u>

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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At December 31, 2016 and 2015, the account heading "Other loans and receivables (securitized)" reflects the value of domestic companies corporate bonds of recognized under "Loans and receivables" (Note 2.2.c) i) a)). These obligations are as follows:

Securities	2016	2015	Maturity
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Installment B	663,751	663,751	14-06-2017
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Installment C	1,458,220	1,458,220	14-06-2027
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Installment D	637,951	637,951	27-07-2020
Câmara Municipal da Praia	299,925	321,348	23-07-2030
IFH - Imobiliária, Fundiária e Habitat, S.A. - Installment C	178,731	178,731	06-01-2019
Câmara Municipal do Sal	104,805	116,450	15-07-2025
Sociedade de Gestão de Investimentos, Lda.	66,569	66,569	18-02-2017
Cabo Verde Fast Ferry, S.A.	59,687	59,687	31-07-2024
ASA - Empresa Nacional de Aeroportos e Segurança Aérea, S.A.	-	45,147	11-10-2017
	<u>3,469,639</u>	<u>3,547,854</u>	

The 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 Cabo Verde. Bonds issued by ASA – Empresa Nacional de Aeroportos e Segurança Aérea, S.A., presented on December 31 2015, had as guarantee a comfort letter issued by the state of Cabo Verde.

At 31 December 2016, the bonds issued by Sociedade de Gestão de Investimentos, Lda. and Cabo Verde Fast Ferry, S.A. were in default on their coupon payments since August 2013 and August 2011, respectively. However, in 2016 the restructuring of the bond loan of CVFF was negotiated, maturing in 2024, with a significant reduction in interest rates.

Regarding the issuer SOGEI, a project was presented for the conversion of bonds into investment units a Closed Investment Fund to be created, which is still under discussion.

Loans to employees on December 31, 2016 and 2015 are remunerated at low interest rates.

At 31 December 2016 and 2015, performing loans and bonds guaranteed by the state of Cabo Verde totalled mCVE 3,122,986 and mCVE 3,165,135 respectively, and the performing loan guaranteed by a letter of comfort totalled mCve 385.130 e mCve 512.477, respectively.

At December 31, 2016 and 2015, gross credit to customers, including loans and interest overdue and excluding "Other loans and receivables - securitized", public debt, accrued interest, commission and deferred costs, presented the following structure by sectors of activity:

## BANCO COMERCIAL DO ATLÂNTICO, S.A.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
(Amounts expressed in thousands of Cabo Verde Escudos - mCve.)

31.12.2016								
General government and state-owned companies			Private companies and individuals			Total		
Outstanding Loan	Overdue Loan	Total	Outstanding Loan	Overdue Loan	Total	Outstanding Loan	Overdue Loan	Total
<b>Companies</b>								
Agriculture, animal husbandry, hunting and forestry	-	-	22.884	367	23.251	22.884	367	23.251
Fisheries	-	-	11.566	8.004	19.571	11.566	8.004	19.571
Extractive industries	-	-	49.948	14.064	64.011	49.948	14.064	64.011
Extractive industries exc. energy goods	-	-	49.948	14.064	64.011	49.948	14.064	64.011
Manufacturing	78.440	-	1.137.205	184.663	1.321.868	1.215.645	184.663	1.400.308
Food, beverages and tobacco industries	-	-	508.565	123.086	631.651	508.565	123.086	631.651
Textile industry	-	-	19.237	483	19.720	19.237	483	19.720
Leather and leather goods	-	-	-	-	-	-	-	-
Production of chemicals and synthetic or artificial fibres	-	-	44.059	-	44.059	44.059	-	44.059
Manufacture of basic pharmaceutical products and preparations	-	-	-	-	-	-	-	-
Manufacture of other non-metallic minerals	-	-	27.500	-	27.500	27.500	-	27.500
Basic metallurgical and metallic products industries	-	-	56.568	8.695	65.263	56.568	8.695	65.263
Manufacture of machines and tools	-	-	-	-	-	-	-	-
Manufacture of furniture and mattresses	-	-	14.031	14.199	28.230	14.031	14.199	28.230
Production and distribution of electricity, water and gas	48.767	48.767	385.661	-	385.661	434.428	-	434.428
Construction	84.111	84.111	1.018.419	149.614	1.168.033	1.102.530	149.614	1.252.144
Wholesale, retail, repairs of motor vehicles/bikes and personal and domestic	-	-	2.488.884	572.516	3.061.400	2.488.884	572.516	3.061.400
Accommodation and restaurants	-	-	1.796.289	26.234	1.822.523	1.796.289	26.234	1.822.523
Transport, warehousing and communications	33.291	33.291	1.305.581	521.446	1.827.027	1.338.873	521.446	1.860.319
Information and communication activities	-	-	-	-	-	-	-	-
Financial activities	-	-	394.692	-	394.692	394.692	-	394.692
Financial brokerage excluding insurance and pension funds	-	-	392.404	-	392.404	392.404	-	392.404
Insurance, pension funds and complementary social security activities	-	-	2.288	-	2.288	2.288	-	2.288
Real estate, rentals and service provider companies	-	-	1.483.050	1.987.606	3.470.657	1.483.050	1.987.606	3.470.657
Real estate	-	-	1.483.050	1.987.606	3.470.657	1.483.050	1.987.606	3.470.657
Scientific, technical consultancy and other similar activities	-	-	261.529	72.139	333.669	261.529	72.139	333.669
Administrative activities and support services	-	-	-	-	-	-	-	-
Public administration, defence and mandatory social security	1.553.698	117	1.553.815	4.089	-	1.557.787	117	1.557.904
Education	-	-	19.172	28	19.201	19.172	28	19.201
Health and social security	-	-	320.041	6.452	326.493	320.041	6.452	326.493
Other activities and collective, social and personal services	1.187.570	1.187.570	935.533	72.104	1.007.637	2.123.103	72.104	2.195.208
Households with maids	-	-	2.226	782	3.009	2.226	782	3.009
International organisations and other extraterritorial institutions	-	-	-	-	-	-	-	-
<b>2.985.877</b>	<b>117</b>	<b>2.985.994</b>	<b>11.636.771</b>	<b>3.616.021</b>	<b>15.252.792</b>	<b>14.622.648</b>	<b>3.616.138</b>	<b>18.238.786</b>
<b>Individuals</b>								
Housing	-	-	13.779.514	1.159.815	14.939.328	13.779.514	1.159.815	14.939.328
Others	-	-	4.386.971	488.891	4.875.862	4.386.971	488.891	4.875.862
-	-	-	18.166.484	1.648.706	19.815.191	18.166.484	1.648.706	19.815.191
<b>2.985.877</b>	<b>117</b>	<b>2.985.994</b>	<b>29.803.256</b>	<b>5.264.727</b>	<b>35.067.983</b>	<b>32.789.132</b>	<b>5.264.845</b>	<b>38.053.977</b>

31.12.2015								
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 forestry	-	-	6,039	5,411	11,450	6,039	5,411	11,450
Fisheries	-	-	9,500	8,027	17,527	9,500	8,027	17,527
Extractive industries	-	-	44,334	27,006	71,340	44,334	27,006	71,340
Extractive industries exc. energy goods	-	-	44,334	27,006	71,340	44,334	27,006	71,340
Manufacturing	-	-	734,029	403,250	1,137,279	734,029	403,250	1,137,279
Food, beverages and tobacco industries	-	-	176,737	126,255	302,992	176,737	126,255	302,992
Textile industry	-	-	21,436	473	21,909	21,436	473	21,909
Leather and leather goods	-	-	1,332	92	1,424	1,332	92	1,424
Production of chemicals and synthetic or artificial fibres	-	-	57,534	-	57,534	57,534	-	57,534
Manufacture of basic pharmaceutical products and preparations	-	-	90,894	830	91,724	90,894	830	91,724
Manufacture of other non-metallic minerals	-	-	6,989	8,565	15,554	6,989	8,565	15,554
Basic metallurgical and metallic products industries	-	-	78,753	34,757	113,510	78,753	34,757	113,510
Manufacture of machines and tools	-	-	285,537	218,185	503,722	285,537	218,185	503,722
Manufacture of furniture and mattresses	-	-	14,817	14,093	28,910	14,817	14,093	28,910
Production and distribution of electricity, water and gas	-	-	453,211	241,655	694,866	453,211	241,655	694,866
Construction	81,844	81,844	1,021,629	548,851	1,570,480	1,103,473	548,851	1,652,324
Wholesale, retail, repairs of motor vehicles/bikes and personal and domestic goods	-	-	2,410,670	249,110	2,659,780	2,410,670	249,110	2,659,780
Hotels, restaurants and the like	-	-	1,217,353	75,604	1,292,957	1,217,353	75,604	1,292,957
Transport, warehousing and communications	329	329	1,289,621	2,355,837	3,645,458	1,289,950	2,355,837	3,645,787
Information and communication activities	-	-	392,329	83,955	476,284	392,329	83,955	476,284
Financial activities	-	-	347,864	-	347,864	347,864	-	347,864
Financial brokerage excluding insurance and pension funds	-	-	345,864	-	345,864	345,864	-	345,864
Insurance, pension funds and complementary social security activities	-	-	2,000	-	2,000	2,000	-	2,000
Property, corporate hires and services	-	-	1,881,675	5,051	1,886,726	1,881,675	5,051	1,886,726
Property activities	-	-	1,881,675	5,051	1,886,726	1,881,675	5,051	1,886,726
Consultancy, scientific, technical activities and the like	-	-	418,998	3,228	422,226	418,998	3,228	422,226
Administrative activities and support services	-	-	15,073	32,410	47,483	15,073	32,410	47,483
Public administration, defence and mandatory social security	1,628,645	233	1,628,878	5,638	10	1,634,283	243	1,634,526
Education	-	15	15	2,887	82,043	84,930	2,887	82,058
Health and social security	-	-	265,165	4,188	269,353	265,165	4,188	269,353
Other activities and collective, social and personal services	766,077	2	766,079	840,467	9,649	1,606,544	9,651	1,616,195
Households with domestic employees	-	-	2,278	-	2,278	2,278	-	2,278
International organisations and other extraterritorial institutions	-	-	23	-	23	23	-	23
<b>2,476,895</b>	<b>250</b>	<b>2,477,145</b>	<b>11,358,783</b>	<b>4,135,285</b>	<b>15,494,068</b>	<b>13,835,678</b>	<b>4,135,535</b>	<b>17,971,213</b>
<b>Individuals</b>								
Housing	-	-	13,884,735	1,314,131	15,198,866	13,884,735	1,314,131	15,198,866
Other	-	-	4,291,075	600,660	4,891,735	4,291,075	600,660	4,891,735
-	-	-	18,175,810	1,914,791	20,090,601	18,175,810	1,914,791	20,090,601
<b>2,476,895</b>	<b>250</b>	<b>2,477,145</b>	<b>29,534,593</b>	<b>6,050,076</b>	<b>35,584,669</b>	<b>32,011,488</b>	<b>6,050,326</b>	<b>38,061,814</b>

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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## 8. INVESTMENT PROPERTIES

On December 31, 2016 and 2015, this account heading is comprised of land held by the Bank, reclassified as "Other tangible assets" in the transition to the IFRS.

## 9. OTHER TANGIBLE ASSETS

The movement in "Other tangible assets" in the years 2016 and 2015 was as follows:

2016								
	Balance on 31.12.2015							
	Gross	Depreciation and accumulated impairment losses	Increases	Transfers	Reclassifications	Depreciation for period	Sales and write-offs (net)	Net Amount in 2016
Property for own use								
Land	75,034	-	-	-	-	-	-	75,034
Buildings	2,090,996	(661,650)	84,236	108,708	-	(37,084)	3,772	1,588,977
Works on rented buildings	408,732	(271,557)	-	-	-	(31,202)	-	105,973
Equipment								
Office furniture and material	251,780	(181,746)	887	-	-	(17,990)	(151)	52,780
Machines and tools	46,992	(40,108)	1,175	-	-	(2,896)	-	5,162
IT equipment	559,350	(460,820)	6,650	17,269	(275)	(49,213)	(60)	72,901
Interior installations	177,282	(138,307)	890	-	-	(14,267)	(135)	25,464
Transport material	195,028	(134,569)	32,880	2,720	-	(22,442)	(2,249)	71,369
Security equipment	128,127	(58,769)	3,419	8,662	45	(15,569)	-	65,914
Other equipment	135,613	(111,890)	557	5,137	-	(8,998)	-	20,419
Tangible assets in progress	119,487	-	124,571	(142,782)	(45)	-	(9,384)	91,847
	<u>4,188,421</u>	<u>(2,059,417)</u>	<u>255,266</u>	<u>(287)</u>	<u>(275)</u>	<u>(199,660)</u>	<u>(8,208)</u>	<u>2,175,841</u>
								2,175,841
2015								
	Balance on 31.12.2014							
	Gross	Depreciation and accumulated impairment losses	Increases	Transfers	Reclassifications	Depreciation for period	Sales and write-offs (net)	Net Amount in 2015
Property for own use								
Land	75,034	-	-	-	-	-	-	75,034
Buildings	2,081,521	(626,280)	13,434	-	-	(35,394)	(3,936)	1,429,345
Works on rented buildings	408,732	(240,356)	-	-	-	(31,202)	-	137,174
Equipment								
Office furniture and material	267,365	(180,403)	256	4,553	-	(20,345)	(1,391)	70,035
Machines and tools	57,332	(48,825)	2,315	-	-	(3,494)	(445)	6,883
IT equipment	482,560	(433,458)	67,219	13,709	-	(31,585)	84	98,529
Interior installations	183,213	(130,055)	1,892	33	-	(16,105)	(1)	38,977
Transport material	197,843	(129,951)	21,930	-	-	(24,876)	(4,487)	60,459
Security equipment	108,059	(47,289)	16,267	4,025	-	(11,700)	(5)	69,357
Other equipment	126,641	(105,227)	8,490	1,804	-	(7,834)	(150)	23,724
Tangible assets in progress	35,048	-	108,563	(24,124)	-	-	-	119,487
	<u>4,023,348</u>	<u>(1,941,844)</u>	<u>240,366</u>	<u>-</u>	<u>-</u>	<u>(182,535)</u>	<u>(10,331)</u>	<u>2,129,004</u>

As of December 31, 2016 and 2015, tangible assets in progress refer mainly to works underway at the Bank's branches and to the acquisition of computer equipment that had not yet been operational at the end of the year.

As of December 31, 2016 and 2015, the Bank has recorded impairment for own-real estate properties in the amount of mCve. 37,671 (Note 16).

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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The movement in "Intangible assets" in the years 2016 and 2015 was as follows:

	2016					
	Balance on 31.12.2015		Increases	Transfers	Depreciation for period	Net Amount in 2016
	Gross Amount	Accumulated Depreciation				
Automatic data						
processing equipment (software)	286,630	(272,353)	1,957	15,228	(8,242)	23,221
Other intangible assets	13	(13)	-	-	-	-
Intangible assets in progress	9,097	-	35,605	(14,941)	-	29,760
	<u>295,740</u>	<u>(272,366)</u>	<u>37,562</u>	<u>287</u>	<u>(8,242)</u>	<u>52,981</u>

	2015					
	Balance on 31.12.2014		Increases	Transfers	Depreciation for period	Net Amount in 2016
	Gross Amount	Accumulated Depreciation				
Automatic data						
processing equipment (software)	278,655	(264,976)	2,415	5,561	(7,377)	14,278
Other intangible assets	13	(13)	-	-	-	-
Intangible assets in progress	5,691	-	8,967	(5,561)	-	9,097
	<u>284,359</u>	<u>(264,989)</u>	<u>11,382</u>	<u>-</u>	<u>(7,377)</u>	<u>23,375</u>

11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As of December 31, 2016 and 2015, the balance of this account heading was as follows:

Entity	% equity stake	Acquisition cost	Book value	2016			
				Date	Net assets	Profit / (loss)	Shareholder's Equity
Garantia - Companhia de Seguros de Cabo Verde, S.A.R.L.	25%	100 000	225 188	31-12-2016 <sup>(1)</sup>	2 900 377	115 184	1 102 031
SISP - Sociedade Interbancária e Sistema de Pagamentos, S.A.R.L.	10%	10 000	67 612	31-12-2016 <sup>(1)</sup>	1 231 774	168 313	676 120
CVGARANTE - Sociedade de Garantia Mútua, S.A.	15%	15 000	11 466	31-12-2016 <sup>(1)</sup>	77 153	(6 510)	76 445
Promoleasing, Sociedade de Locação Financeira, Sociedade Unipessoal Anónima, S.A.	100%	30 000	32 697	31/12/2016	364 034	314	32 697
		<u>155 000</u>	<u>336 963</u>				

(1) Provisional financial statements

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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% equity stake	Acquisition cost	Book value	2015		Profit / (loss)	Shareholder's Equity
			Date	Net assets		
25%	100 000	203 180	31-12-2015 <sup>1</sup>	2 929 318	106 613	1 079 461
10%	10 000	61 117	31-12-2015 <sup>1</sup>	874 956	139 921	610 857
15%	15 000	12 382	31-12-2015 <sup>1</sup>	83 435	(6 402)	82 551
100%	30 000	31 896	31-12-2015 <sup>1</sup>	302 762	725	32 839
	<u>155 000</u>	<u>308 576</u>				

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

On 30 April 2014, the bank disposed of 20,000 shares comprising 10% of the share capital of Garantia – Companhia de Seguros de Cabo Verde, S.A.R.L. (Garantia), for the amount of mCVE 123,497 giving it an equity stake of 25%, and the operation generated a capital gain of mCVE 66,884.

On 8 May 2014, Garantia sold 89,504 of the bank's shares comprising 6.576% of its share capital to Caixa Geral de Depósitos, S.A. (CGD) for the amount of mCVE 313,635, reducing its equity stake in the bank from 12.5% to 5.76%. The operation reduced the value of the balance sheet by mCVE 22,376, recognized as a charge to shareholder's equity. The disposal of the equity investment also originated capital gains in Garantia's accounts, recognized by the bank as a charge to shareholders' equity in proportion to its equity stake in Garantia amounting to around mCVE 56,000.

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 SISP investment as an investment in associates, notwithstanding the fact that it was only 10%, as the board of directors considers that the fact that the bank sits on the board gives it significant influence over SISP's activity and is 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. (company) shares, representing 49% of its share capital in 2010, for a nominal amount of mCVE 1 per share. This company began to operate in 2010.



In 2015, the Bank acquired 15,300 shares of Promoleasing for mCve 15,300, and held the entire capital stock on December 31, 2015 and 2016.

#### CVGARANTE - Sociedade de Garantia Mútua, S.A.

Pursuant to the provisions of Article 1 of Ordinance No. 28/2013 of May 15, was authorized the creation of CVGARANTE - Sociedade de Garantia Mútua, S.A. (Company) with the capital stock of mCve 100,000. It is a mutual guarantee society whose corporate object is to carry out financial operations for the benefit of micro, small and medium-sized enterprises with a view to promoting and facilitating their access to finance both within the financial system and in capital market. The Bank subscribed 15,000 shares with a value of mCve.15,000, corresponding to 15% of the Company's capital. Under the terms of the Shareholders Agreement, the shareholders of the Company's credit institutions grant SPMG - Sociedade de Investimento, S.A., with a put option on the company's shares at their nominal value, to be exercised annually with reference to 31 December. On 23 December 2013, an application for a permit for the company to begin its operations, dated 18 December 2014, was submitted to the Banco de Cabo Verde.

Information on the balance sheet value of these investments in 2016 and 2015 and respective impact in the bank's financial statements is set out below:

	Garantia	SISP	CVGARANTE	Promoleasing	Total
Balance on 31 December 2014	193 999	58 362	13 314	15 871	281 546
Movements recognised directly as a charge to shareholders' equity	-	-	-	15 300	15 300
Income generated by associates	26 270	13 886	(931)	725	39 950
Dividends received	(17 090)	(11 129)	-	-	(28 219)
Balance on 31 December 2015	203 179	61 119	12 383	31 896	308 577
Movements recognised directly as a charge to shareholders' equity	-	-	-	-	-
Income generated by associates in reference to previous years	9 203	(1 733)	-	487	7 957
Income generated by associates for the fiscal year	28 796	16 830	(916)	314	45 024
Dividends received	(15 991)	(8 604)	-	-	(24 595)
Balance on 31 December 2016	225 187	67 612	11 467	32 697	336 963

## 12. INCOME TAX

On December 31, 2015, the Bank was subject to the Income Tax Code for Corporates (IRPC Code) at the rate of 25%, and a fire brigade tax of 2% of the calculated tax, which corresponds to an aggregate tax rate of 25.5%

As of December 31 2014, the Bank was subject to the Single Income Tax (IUR), at the aggregate tax rate of 25.5%.

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The balances income taxes of assets and liabilities and deferred tax assets and liabilities at December 31, 2016 and 2015 were as follows:

	2016	2015
<u>Current tax assets</u>		
. IUR recoverable in 2016	2 470	-
. IUR recoverable in 2015	38 719	38 719
. IUR recoverable in 2014	9 913	9 913
. IUR recoverable in 2013	16 519	16 519
. IUR recoverable in 2012	60 534	60 534
. IUR recoverable in 2011	60 522	60 522
. IUR recoverable in 2010	146 894	146 894
. IUR recoverable in 2009	172 845	172 845
. IUR recoverable in 2008	114 517	114 517
. IUR recoverable in 2006	120 912	120 912
. IUR recoverable in 2005	54 646	54 646
	<u>798 491</u>	<u>796 021</u>
. Withholdings for the year		
. Fiscal Year 2016	4 314	-
. Fiscal Year 2014	21 485	21 485
. Fiscal Year 2013	24 682	24 682
. Fiscal Year 2012	20 044	20 044
. Fiscal Year 2011	32 626	32 626
	<u>901 641</u>	<u>894 857</u>
<u>Current tax liabilities</u>	<u>73 220</u>	<u>-</u>
<u>Deferred tax assets</u>		
. For temporary differences	56	2 504
<u>Deferred tax liabilities</u>		
. For temporary differences	(197 342)	(155 963)
	<u>(197 286)</u>	<u>(153 459)</u>

The detail and movement in deferred taxes in the years 2016 and 2015 were as follows:

	2016		
	Change in		
	Balance on 31.12.2015	Shareholder's Equity	Balance on 31.12.2016
<u>Conversion adjustments to IFRS</u>	137	-	137
<u>Movements recognised in reserves</u>			
Actuarial deviations for healthcare and medical assistance	(143 265)	(50 710)	(193 975)
Valuation of investments in associates	(4 985)	4 985	-
Valuation of available-for-sale financial assets	(5 346)	1 898	(3 448)
	<u>(153 459)</u>	<u>(43 827)</u>	<u>(197 286)</u>

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	2015		
	Balance on 31.12.2014	Change in Shareholder's Equity	Balance on 31.12.2015
<u>Conversion adjustments to IFRS</u>	<u>137</u>		<u>137</u>
<u>Movements recognised in reserves</u>			
Actuarial deviations for healthcare and medical assistance	(122 198)	(21 067)	(143 265)
Valuation of investments in associates	(4 985)		(4 985)
Valuation of available-for-sale financial assets	(2 360)	(2 986)	(5 346)
	<u>(129 406)</u>	<u>(24 053)</u>	<u>-</u>
			<u>(153 459)</u>

Pursuant to Decree-Law no. 14/2010, of April 26, the transition impacts to the IFRS, calculated with reference to January 1, 2008, with effects on equity, which are considered fiscally relevant under the IUR regulation, contributed to the formation of the taxable income in equal parts for a period of five years.

The reconciliation between the nominal rate and the effective tax rate verified in the years 2016 and 2015 can be demonstrated as follows:

	2016		2015	
Income before tax		<u>418 321</u>		<u>368 830</u>
Income tax assessed at nominal rate	25,50%	106 672	25,50%	94 052
Fiscal benefits:				
. Income from Consolidated Financial Investment Securities	-1,04%	(4 358)		
. Capital gains on disposals of equity stakes				
. Income from bonds admitted to listing	-8,63%	(36 108)	-8,25%	(30 444)
. Donations	-0,16%	(657)	-0,26%	(962)
. Dividends	-2,78%	(11 635)		
. Other	-0,16%	(654)	-0,13%	(496)
. Income from Public Debt securities placed in the secondary market	4,45%	18 611		
Expenses not accepted for fiscal purposes	0,07%	275	2,98%	10 978
Autonomous Taxation	0,48%	2 016	0,25%	928
Tax loss / (Deduction of tax loss)	0,00%	-	-20,08%	(74 056)
Income tax for the year	<u>17,73%</u>	<u>74 162</u>	<u>0,00%</u>	<u>-</u>

With the entry into force on January 1, 2015 of the Corporate Income Tax Code (IRPC Code), the Bank considered its interpretation of the changes imposed by the IRPC Code, namely with respect to the deductibility of costs with impairment for Credit and employee benefits, considering that, for tax purposes, the impairments calculated in accordance with IAS 39 and the impact of the transition to the new Code would be accepted. It is the Board of Directors' understanding that the criteria and assumptions adopted are in accordance with the legislation in force and that any differences in interpretation would only result in reclassifications between current and deferred taxes, without impact on the Bank's results and shareholders' equity as of December 31 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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Under the legislation in force until December 31, 2014, the Bank benefited from exemptions related to the following income:

- income from Consolidated Financial Mobilization Securities;
- dividends received; and
- income from bonds, other than public debt, admitted to listing on the Cabo Verde Stock Exchange, for three years after its effective start. These yields, depending on the year of issue, also benefit from reduced tax rates.

For this reason, the tax burden presented by the Bank up to the year ended December 31, 2014 was lower than the normal tax rate.

With the entry into force of the IRPC Code in fiscal year 2015, the Bank no longer benefited from exemptions on certain income, except for the Consolidated Financial Mobilization Securities, whose income remained exempt, as these securities were obtained before 31 Of December 2014.

The IRPC Code foresees that tax losses carried forward from previous years calculated in the scope of the IUR could be deducted in the following three years under the previous regime in force. Thus, in the tax estimate for the year ended December 31, 2015, the Bank deducted part of its reportable losses that it had obtained in previous years. As of December 31, 2016, the Bank still maintains unrecovered tax losses of mCve 19,603 relating to 2014, for which the Bank did not record deferred tax assets.

DGCI (Cape Verdean tax authorities) made a series of corrections to the bank's taxable income for the years 2005 to 2013, summarized as follows:

- Between 2009 and 2012 the bank received several notifications from the DGCI, regarding settlements in respect of corrections to income tax for the years 2005 to 2012. A large part of these corrections is related with the non-acceptance of pension costs and healthcare liabilities for fiscal purposes. The bank, however, considers that the procedures adopted are in accordance with the legal and fiscal framework in Cabo Verde and therefore contested the corrections made. Notwithstanding, for several of the years, it made payment of the additional settlements having recognized such amounts as a current tax asset to be recovered.
- In 2012 the bank received two notifications from the DGCI regarding settlements in respect of corrections to income tax for the years 2007 and 2011, for the amounts of CVE 180,500 thousand and CVE 48,775 thousand, respectively, essentially related with pension costs and healthcare liabilities, in respect of which it took out bank guarantees to cover the amount of tax fixed by DGCI.

In December 2012, the bank judicially contested the additional settlement for 2008, in respect of which BCA had already submitted an appeal which had been rejected. In December 2013, Tax and Customs Court of Sotavento accepted the contestation in full, cancelling the act involving the definition of taxable income for 2008 and corresponding settlement. In February 2014, the fiscal authorities appealed against the ruling to the Supreme Court of Justice. the case is still pending.

- In August 2013, the bank received a notification from the DGCI, concerning settlements in respect of tax corrections for 2012. The bank contested the corrections, including those in respect of pension costs and healthcare liabilities. In December 2013, DGCI accepted several of the appeals filed by the bank, with, in essence, the costs related with pensions and healthcare continuing not to be accepted, originating a tax credit of mCVE 18,869. It should be noted that DGCI's notification implies the acceptance of around CVE 144,000 thousand related with pension payments made during the year

as a cost. This understanding was not consistent with that of previous notifications in which no amount was accepted.

- In August 2014 the bank received a notification from DGCI, in respect of settlements relating to tax corrections for 2013, essentially related with pension and healthcare liabilities. The bank, on 22 September 2014 exercised its right to a hearing in which it contested most of the corrections proposed by the fiscal authorities. DGCI accepted several of the appeals made by the bank, with the costs of pensions and healthcare liabilities essentially continuing not to be accepted. Reference should, however, be made to the fact that around CVE 115,154 thousand in costs related with pension payments during the year were accepted.

On 14 October 2014, DGCI assessed taxable income of mCVE 138,776 for 2013 with an amount of income tax payable on the associated income of mCVE 35,388. BCA used the tax credit of mCVE 18,869, having settled the difference on 24 October 2014.

On 25 February 2015, the bank appealed against the ruling rejecting its claims on the corrections in respect of pensions and medical assistance for 2013. The appeal was rejected on 20 August 2015.

- On 05 December 2014, the bank received a notification from DGCI in respect of the confirmation of taxable income of mCVE 757,016 for 2009, resulting in an additional tax payment of mCVE 27,019. At 30 December 2014, following the bank's exercising of its right to a hearing, DGCI assessed taxable income for 2009 at mCVE 742,428, resulting in an additional tax payment of mCVE 23,300. On 27 January 2015, the bank received a notification from the DGCI in respect of the reconsideration of the appeal over the taxable amount for 2009, resulting in a tax credit of mCVE 3,104. In its notifications confirming taxable income for 2009, an amount of around mCVE 78,829 related with pension payments made during the year was accepted.
- In November 2015 the bank received a notification from DGCI on its right to a hearing in respect of the proposal defining taxable amount for 2014 of mCVE 174,234, with an associated amount of single tax of mCVE 33,813. At 30 December 2015, following the bank's exercising of its right to a hearing, DGCI set the amount of taxable material for 2014 at mCVE 32,291, resulting in a tax credit of mCVE 2,383. On 22 January 2016, the bank contested the corrections in respect of pension costs.
- In January 2016, the Bank appealed against the assessed taxable material for fiscal year 2014 and received in December 2015. On November 4, 2016, the Tax and Customs Court of Sotavento considered that BCA's objection to the fixing of the 2013 taxable amount was fully appropriate..

As of December 31, 2016, the total impact of any risk associated with the situations described above totals to the approximate amount of mCve. 1,291,839, and the Bank has already settled mCve. 997,294, which are recognized under "Current tax assets" as a tax to be recovered. The amount already paid adds two guarantees provided in 2007 and 2011, in the total amount of mCve. 233,044, as shown below:

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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Pension and healthcare adjustments	54 646	120 912	184 270	115 646	146 168	171 711	169 677	150 628	141 359	36 822	-	-	1 291 839
Other adjustments	-	-	(3 770)	-	7 090	(24 817)	878	8 481	22 414	-	-	-	10 276
	54 646	120 912	180 500	115 646	153 258	146 894	170 555	159 109	163 773	36 822	-	-	1 302 115
Current tax assets													
- IUR recoverable	54 646	120 912	-	115 646	172 845	146 894	60 522	60 534	16 519	9 913	29 014	2 470	789 915
- Withholdings for the year	-	-	-	-	-	-	32 626	20 044	24 682	21 485	9 705	4 314	112 856
	54 646	120 912	-	115 646	172 845	146 894	93 148	80 578	41 201	31 398	38 719	101 307	997 294
Guarantees provided	-	-	184 270	-	-	-	48 774	-	-	-	-	-	233 044
Tax credit	-	-	-	-	-	-	-	(18 869)	18 869	-	-	-	-
	54 646	120 912	184 270	115 646	172 845	146 894	141 922	61 709	60 070	31 398	38 719	101 307	1 230 338

On March 8, 2017 the Bank received a communication from National Directorate of State Revenue (DNRE) where it is stated that, considering the existence of grounds in the tax law that support BCA's claim of deductibility of the costs of pensions and health incurred and presented in the above period, grants BCA the right to deduct them. It should be noted that this communication reinforces the decision of Tax and Customs Court of Sotavento, of November 4, 2016, when it considered BCA appeal totally valid, nullifying the act of fixing the taxable amount of 2013 and corresponding settlement, as above Mentioned.

Considering that the Bank has already paid taxes to the State in the above terms, BCA and DNRE are negotiating to resolve this matter through accounts settling.

The corrections to pensions and health charges presented in the table above include, in 2009, mCve. 71,200 which is pending confirmation by National Directorate of State Revenue (DNRE), but the Bank's Management estimates that it will be recovered through the negotiation process between the two parties.

Under the terms of the General Tax Code approved by Law 37 / IV / 92, the tax authorities have the possibility to review the fiscal situation of the Bank over a period of five years and may result, due to different interpretations of tax legislation, of a possible correction of the taxable profit income. For this reason, the years 2012 to 2016 can still be revised and corrected. In the opinion of the Board of Directors, no further correction is expected to be significant for the Bank's financial statements as of December 31, 2016.

### 13. OTHER ASSETS

This account heading comprises the following:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
(Amounts expressed in thousands of Cabo Verde Escudos - mCve.)

	2016	2015
<u>Other assets</u>		
Auctioned goods	1 131 980	1 170 596
Works of art	10 923	10 923
Gold, precious metals, coins and medallions	761	833
<u>Debtors and other investments</u>		
Sundry debtors		
. State	213 364	212 013
. Other entities	41 348	69 791
Subsidies receivable		
. State	875 623	823 725
. Other entities	6 138	4 652
Advances to suppliers of fixed assets	5 949	6 027
Deferred expenses		
. Insurance	37 968	37 104
. Other	12 885	18 343
	<u>2 336 939</u>	<u>2 354 007</u>
<u>Impairment of other assets (Note 17):</u>		
. Property received in kind	(187 790)	(172 131)
. Other assets	(58 673)	(67 654)
	<u>(246 463)</u>	<u>(239 785)</u>
	<u>2 090 476</u>	<u>2 114 222</u>
DF's	2 090 476	2 114 221

Subsidies to be received from the state of Cabo Verde are for credit and deposits and have been calculated in accordance with the legislation in force in Cabo Verde. The balances recognized comprise the amounts claimed by the bank since early 2000. The reimbursement of these amounts is being negotiated with General Directorate of Treasury, which have confirmed the total balance as of December 31 2016, in the total amount of mCve 1.093.247, distributed as follows:

- Subsidies of home loan operations from 2012 to 2016, in which the claimed value and impairment recorded amount to mCve. 295,406 and mCve. 33,409, respectively, to home loan subsidies from 2003 to 2011 and other mortgage loan subsidies, amounting to mCve. 398,863, to Other subsidies, amounting to mCve 185,614, and other amounts receivable from the State in the amount of mCve. 213,364.

Negotiations are under way with the State with a view to establishing a payment plan.

The following table provides information on property received as payment in kind, at 31 December 2016 and 2015, in accordance with its date of acquisition by the bank:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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Year of acquisition	2016			2015		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
prior to 2012	60 457	(60 457)	-	62 491	(55 297)	7 194
2012	-	-	-	5 034	(2 517)	2 517
2013	26 823	(13 411)	13 411	26 737	(6 684)	20 053
2014	54 714	(13 679)	41 036	61 414	(6 141)	55 273
2015	968 430	(96 843)	871 587	1 014 920	(101 492)	913 428
2016	21 555	(3 400)	18 155			-
	<u>1 131 980</u>	<u>(187 790)</u>	<u>944 190</u>	<u>1 170 596</u>	<u>(172 131)</u>	<u>998 465</u>

The following table sets out Information on movements in recovered properties in 2016:

	Balance on 31.12.2015		Recoveries	Disposals	Transfers	Impairment Losses	Balance on 31.12.2016	
	Gross amount	Impairments					Gross amount	Impairments
Land	875 696	(94 142)	6 960				882 656	(104 725)
Residential buildings	161 164	(33 877)	90 098	58 776	71 885		120 601	(72 166)
Other buildings	133 736	(44 112)	-	5 013	0		128 723	(10 899)
Vehicles		-						
	<u>1 170 596</u>	<u>(172 131)</u>	<u>97 058</u>	<u>63 788</u>	<u>71 885</u>	<u>-</u>	<u>1 131 980</u>	<u>(187 790)</u>

DF's 1 131 980

In the year 2015, the Bank recovered by kind payment of securitized loan the amount of mCve. 957,846 of real estate located in the city of Praia and São Vicente.

The net book value of these properties at December 31, 2016 and 2015 amounts to mCve944.190 and mCve 998.463, respectively.

In 2016, net losses on the sale of properties obtained by credit recovery amounted to mCve. 1,765 (capital gains of mCve 743 in 2015 - Note 26).

#### 14. RESOURCES OF OTHER CREDIT INSTITUTIONS

This account heading comprises the following:

	2016	2015
Demand deposits		
. Credit institutions in the country	80 973	137 133
. Credit institutions abroad	92 586	47 366
Term deposits		
. Credit institutions in the country	80 170	175 000
Loans		
. From international financial organizations	310 977	408 694
Interest payable	628	7 484
	<u>565 334</u>	<u>775 677</u>



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 2014, to finance 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 fixed rate of 1.83% is payable on the loan. At 31 December 2016 and 2015, the bank had used €646,693 and €808,371 (mCVE 71,308 and mCVE 89,135) respectively, of this line of credit, recognized in "Loans from international financial organizations".

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 09 December 2009, to finance 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 2016 and 2015, had used an amount of €2,173,579 and 2.898.109 (mCVE 239,6670 and 319.560, respectively), recognized in "Loans from international financial organizations".

#### 15. CUSTOMER RESOURCES AND OTHER LOANS

This account heading comprises the following:

	2016	2015
<u>Savings accounts</u>		
. Emigrants	2 866 901	2 600 185
. Residents	1 108 863	989 535
	<u>3 975 763</u>	<u>3 589 721</u>
<u>Other demand deposits</u>		
Demand deposits		
. Residents	18 308 328	17 396 430
. Emigrants	6 708 186	5 506 038
. Non-Residents	3 006 292	2 316 363
	<u>28 022 806</u>	<u>25 218 832</u>
Mandatory deposits	160 703	163 062
	<u>28 183 510</u>	<u>25 381 893</u>
<u>Other term deposits</u>		
Term deposits		
. Emigrants	26 009 366	25 856 694
. Residents	12 269 814	10 937 545
. Non-Residents	1 491 080	2 471 737
	<u>39 770 260</u>	<u>39 265 975</u>
<u>Other funds</u>		
Securities sold under repurchase agreements:		
. Treasury bonds (Note 7)	100	100
Cheques and orders payable	27 059	24 950
	<u>71 956 692</u>	<u>68 262 640</u>
Interest payable	745 922	834 497
	<u>72 702 613</u>	<u>69 097 136</u>

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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Except for specific situations defined under board of directors' guidelines, no interest was paid on demand deposits, at 31 December 2016 and 2015.

## 16. PROVISIONS AND IMPAIRMENT

The movement in provisions and impairment of the Bank during the years 2016 and 2015 was as follows:

	2016					Written-off loan recoveries
	Balance on 31.12.2015	Net appropriation in income	Employee costs (Note 28)	Uses	Others (Note 29)	Balance on 31.12.2016
<u>Impairment</u>						
Impairment of loans to customers (Note 8)	4 023 047	130 216		(333 713)		3 819 549
						48 205
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)	239 785	15 796	-	(9 118)		246 463
	4 311 344	146 012	-	(342 831)	-	4 114 525
						48 205
<u>Provisions</u>						
Provisions for the costs of employee benefits: (Note 29)						
Retirement pensions	4 962 620	-	326 995	(209 936)	(170 958)	4 908 721
Medical assistance	287 199	-	7 716	(6 346)	(27 898)	260 671
	5 249 819	-	334 711	(216 282)	(198 856)	5 169 392
Fiscal contingencies	49 723	-	-	-	-	49 723
	5 299 542	-	334 711	(216 282)	(198 856)	5 219 115
	9 610 886	146 012	334 711	(559 113)	(198 856)	9 333 640
						48 205
	2015					Write-off loan recoveries
	Balances at 31.12.2014	Net appropriations in income	Employee costs (Note 28)	Uses	Others (Note 29)	Balances at 31.12.2015
<u>Impairment</u>						
Impairment of loans to customers (Note 7)	4.176.717	140.292	-	(243.861)	(50.101)	4.023.047
						(23.321)
Impairment of available-for-sale financial assets (Note 5)	10.841	-	-	-	-	10.841
Impairment of other tangible assets (Note 9)	37.671	-	-	-	-	37.671
Impairment of other assets (Note 13)	126.130	71.036	-	(7.482)	50.101	239.785
	4.351.359	211.328	-	(251.343)	-	4.311.344
						(23.321)
<u>Provisions</u>						
Provisions for the costs of employee benefits: (Note 29)						
Retirement pensions	4.899.738	-	324.653	(204.153)	(57.618)	4.962.620
Medical assistance	293.941	-	10.496	(20.123)	2.885	287.199
	5.193.679	-	335.149	(224.276)	(54.733)	5.249.819
Fiscal contingencies	49.723	-	-	-	-	49.723
	5.243.402	-	335.149	(224.276)	(54.733)	5.299.542
	9.594.761	211.328	335.149	(475.619)	(54.733)	9.610.886
						(23.321)

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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As described in note 13, in 2015 the Bank recovered by payment in kind of loans to customers and securitized loans to Tecnici - Sociedade Imobiliária de Construções, S.A. an amount of mCve. 957.846 in real estate. In this context, the Bank reclassified the impairment as of December 31, 2014, in the amount of mCve. 50,101, recognized under "Impairment of loans and advances to customers" to "Impairment of other assets".

17. OTHER SUBORDINATED LIABILITIES

The bank issued 500,000 subordinated bonds with a nominal value of mCVE 1 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 payments of mCVE 50,000 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.

An amount of mCVE 100,000 in subordinated bonds was redeemed in 2016 (in 2015 the amount was also mCVE 100,000).

18. OTHER LIABILITIES

This account heading comprises the following:

	<u>2016</u>	<u>2015</u>
<u>Creditors</u>		
Funds - active account	134 783	150 537
Funds - Escrow account	17 495	9 033
<u>Other liabilities</u>		
Tax withholdings at source	42 652	54 586
Social welfare	14 266	13 566
Other	8 680	2 699
<u>Expenses payable</u>		
Employee costs		
. Productivity bonuses	42 442	36 442
. Untaken vacation		4 148
General administrative expenditure	13 115	14 058
Others	36 986	59 895
<u>Deferred income</u>		
Card annuities	21 332	19 936
Loan commissions issued on current account	13 036	8 837
Guarantees provided	6 610	8 684
Others	-	191
<u>Liabilities to be settled</u>	4 870	2 777
<u>Other settlement accounts</u>	28 283	42 752
	<u>384 551</u>	<u>428 141</u>

The account heading "Other settlement accounts" includes interbank compensation made on the last day of 2016, which is cleared the following month.

## 19. CAPITAL

The bank's share capital, at 31 December 2016 and 2015, comprised 1,324,765 shares with a nominal value of CVE 1 thousand each, fully subscribed for and paid up.

Information on the bank's equity structure, at 31 December 2016 and 2015, is set out below:

Entity	2016		2015	
	Number of shares	%	Number of shares	%
Caixa Geral de Depósitos, S.A. e Banco Interatlântico, S.A.R.L.	697 446	52,65%	697 446	52,65%
Caixa Geral de Depósitos, S.A.	89 504	6,76%	89 504	6,76%
Estado de Cabo Verde ("Golden Share")	-	0,00%	-	0,00%
INPS- Instituto Nacional de Previdência Social	132 492	10,00%	132 492	10,00%
Garantia, Companhia de Seguros de Cabo Verde, S.A.R.L.	76 322	5,76%	76 322	5,76%
Other shareholders	329 001	24,83%	329 001	24,83%
	<u>1 324 765</u>	<u>100,0%</u>	<u>1 324 765</u>	<u>100,00%</u>

A resolution was passed at the general meeting of stockholder of 25 March 2009, increasing the bank's share capital by mCVE 324,765, through an issuance of 324,765 category B shares with a nominal value of one thousand Cabo Verde escudos each, fully paid up in cash. The bank incurred expenses of mCVE 6,117, which, under IAS 32 were recognized directly in shareholders' equity to be deducted from the "Capital" account heading.

### Main Shareholders with special rights

Until 16 December 2014, the 132,476 shares owned by the state of Cabo Verde constituted a "golden share" that (whatever their number) entitled their holders the right of veto on resolutions on the company's affairs relative to amendments to its articles of association when implying a loss of the state shareholder's prerogatives under its "golden share", merger, demerger, transformation and dissolution of the company and the approval of its strategic plan.

The special rights attributed to these shares owned by the state of Cabo Verde were eliminated with the approval of decree law 67/2014, with the shares being classified as ordinary and freely tradable.

### Transferability of shares

Up to 16 December 2014, 525,000 of the 1,324,765 shares comprising the share capital were nominative, i.e. they could only be held by the purchasers of the indivisible block (Caixa Geral de Depósitos/Banco Interatlântico group). These shares could not be assigned, disposed of or encumbered by CGD/BI, in any way, with also any legal agreement to transfer or tending to transfer the ownership thereof without the permission of the government. Under resolution 077/2014 of 07 October, the status of these shares was changed and also culminated with a change of BCA's articles of association. Accordingly, BCA's share capital then comprised 1,324,765 (one million three hundred and twenty four thousand seven hundred and sixty five) nominative and bearer shares, with a nominal value of CVE 1,000 (1 thousand) each, distributed as follows: a) 525,000 (five hundred and twenty five thousand) nominative shares; b) 799,765 (seven hundred and ninety nine thousand seven hundred and sixty five) bearer shares.

Both bearer and nominative shares can now be owned by national or international singular or collective persons whether or not domiciled on national territory.

At 20 February 2015 the state ceased to have any qualified investment following the disposal of its shareholding in the Cabo Verde stock exchange

## 20. RESERVES, RETAINED EARNINGS AND PROFIT FOR THE YEAR

On December 31 2016 and 2015, the account headings reserves, retained earnings and profit for the year comprised of:

	<u>2016</u>	<u>2015</u>
Fair value reserves		
. Reserves resulting from fair value measurement of		
- Available-for-sale financial assets (Note 5)	13 522	20 966
- Others		
	<u>13 522</u>	<u>20 966</u>
. Deferred tax reserves		
- Temporary differences resulting from fair value measurement (Note 12)	(3 448)	(5 346)
	<u>10 074</u>	<u>15 620</u>
Other reserves and retained earnings		
. Legal reserve	815 077	778 194
. Other reserves		
. Actuarial deviations for pension fund and medical assistance liabilities (Note 30)	760 680	561 824
. Deferred tax reserves for actuarial deviations (Note 12)	(193 973)	(143 265)
. Other reserves	3 398 569	3 145 888
	<u>3 965 276</u>	<u>3 564 447</u>
. Retained earnings	(1 174 877)	(1 174 877)
	<u>3 605 476</u>	<u>3 167 765</u>
Net income for period	344 159	368 830
	<u>3 959 710</u>	<u>3 552 215</u>

### Legal Reserves

Under the legislation in force in Cabo Verde (Law No. 62/VIII of April 23, Article 42), a minimum of 10% of annual net income must be appropriated to legal reserve. This reserve is not distributable, except in case of the Bank's liquidation, and it may be used to increase capital or to cover losses when other reserves are exhausted

**21. INTEREST AND SIMILAR INCOME**

This account heading is comprised of:

	2016	2015
Interest on loans to customers		
. Domestic credit	2 660 434	2 608 125
. Foreign loans	29 886	33 896
. Employee loans	56 835	56 065
. Non-performing loans	21 344	19 396
Interest on other loans and receivables (securitised)	588 266	638 821
Recovery of interest and expenses on non-performing loans	113 082	271 507
Interest on investments at Banco de Cabo Verde		
. Monetary intervention securities	2 758	5 489
. Monetary regulation securities	721	1 334
. Treasury bills	14	48
. Very short terms investments	26 811	20 152
Interest on investments in other credit institutions abroad	11 266	16 609
Other interest and similar income	115	997
Commissions received associated with amortised cost	123 612	98 167
	<u>3 635 144</u>	<u>3 770 607</u>

In 2015, account heading "Interest on loans to customers - Domestic credit" is deducted from mCve. 68,506, respectively, relating to the recognition of the cost of subsidies from previous years, considered as ineligible by General Directorate of Treasury (Note 13).

**22. INTEREST AND SIMILAR EXPENSES**

This account heading is comprised of:

	2016	2015
Interest on demand deposits		
. Banco de Cabo Verde	1	76
Interest on sale operations with repurchase agreement		
. Treasury bonds	6	6
Interest on saving accounts		
. Emigrants	108 922	103 286
. Residents - Youth saving	52 328	48 672
Interest on term deposit		
. Emigrants	1 033 094	1 098 396
. Residents	400 353	450 895
. Non-residents	38 580	88 248
. Other credit institutions in the country	2 354	12 889
Other interests and similar costs	21 072	30 027
Paid commissions associated with the amortized cost	308	246
	<u>1 657 017</u>	<u>1 832 741</u>

**23. INCOME FROM EQUITY INSTRUMENTS**

This account heading comprises the following:

	<u>2016</u>	<u>2015</u>
Income from consolidated financial investment securities	17 089	133 768
Dividends:		
. Sociedade Caboverdiana de Tabacos, S.A.	974	974
. SITA - Sociedade Industrial de Tintas, S.A.R.L.	121	117
. Visa International Service Association	71	
	<u>18 256</u>	<u>134 859</u>

**24. INCOME AND COSTS OF SERVICES AND COMMISSIONS**

These account headings comprise the following:

	<u>2016</u>	<u>2015</u>
<u>Income from services and commissions</u>		
Payment orders received	83 662	83 894
Guarantees and sureties provided	61 910	68 804
Commissions on payment orders issued	71 405	54 291
Annuities on ATM network (Vinti4 and Visa	46 463	42 146
Western Union commissions	23 637	24 028
Collections	15 355	19 363
Documentary credit	13 001	8 952
Other	108 431	99 271
	<u>423 864</u>	<u>400 749</u>
<u>Expenses with services and commissions</u>		
SISP - Sociedade Interbancária		
e Sistemas de Pagamentos, S.A.R.L.	(9 525)	(11 944)
Visa International Service Association	(21 203)	(16 938)
Correspondent banks' commissions	(12 916)	(10 852)
Other	(269)	(50)
	<u>(43 913)</u>	<u>(39 784)</u>

**25. INCOME FROM FOREIGN CURRENCY REVALUATION**

This account heading comprises the following:

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	2016			2015		
	Profit	Losses	Net	Profit	Losses	Net
Foreign exchange income	90 916	(15 398)	75 518	120 082	(28 692)	91 390
Income from banknotes and coin	59 266	(22 044)	37 222	85 533	(36 203)	49 330
	<u>150 182</u>	<u>(37 441)</u>	<u>112 740</u>	<u>205 615</u>	<u>(64 895)</u>	<u>140 720</u>

26. INCOME FROM SALE OF OTHER ASSETS

This account heading comprises the following:

	2016	2015
Profits and losses on the sale of real estate received in kind (Note 13)	(1 765)	743
Profits and losses on the sale of other tangible assets	14 136	4 390
	<u>12 370</u>	<u>5 133</u>

27. OTHER OPERATING INCOME

These account headings comprise the following:

	2016	2015
<u>Other operating income</u>		
Miscellaneous services		
. Service fee	72	20
. Others	15 768	12 056
Reimbursement of expenses		
. Postage	1 723	1 730
. Others	34 705	31 223
Others	26 304	45 162
	<u>78 573</u>	<u>90 191</u>
<u>Other operating expenses</u>		
Other taxes	(11 516)	(11 081)
Contributions and donations	(509)	(385)
Losses on misplacements, robbery or falsification of money	(356)	(969)
Fines and other legal penalties	(12)	(10)
Others	(1 733)	(9 896)
	<u>(14 126)</u>	<u>(22 341)</u>
	<u>64 447</u>	<u>67 850</u>

28. EMPLOYEE COSTS AND AVERAGE NUMBER OF EMPLOYEES

This account heading comprises the following:



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	2016	2015
Remuneration of employees	795 030	779 708
Remuneration of management and fiscal bodies	28 916	25 123
Productivity bonuses	25 846	25 911
Social costs/charges		
. Retirement pensions (Note 29)	309 398	324 652
. Medical assistance	21 092	27 195
. Social welfare	64 513	60 734
. Others	3 252	3 771
Other employee costs	24 559	23 941
	<u>1 272 607</u>	<u>1 271 035</u>

Account heading "Social charges - Medical care" includes health expenses incurred by the Bank with its employees in the assets and the cost related to healthcare liabilities with employees at retirement age (Note 29).

In 2016 and 2015, the Bank had the following staff and Board Members:

	2016	2015
Board members	7	7
Directors	9	13
Line management	91	90
Technical Staff	200	182
Administrative Staff	81	77
Auxilliary Staff	72	73
	<u>460</u>	<u>442</u>
Permanent employees	396	384
Term contract	57	51
	<u>453</u>	<u>435</u>

As of December 31, 2016 and 2015, the numbers presented above include 57 and 51 employees with a fixed-term contract, respectively.

## 29. RETIREMENT PENSIONS AND OTHER EMPLOYEE BENEFITS

### 29.1 Retirement Pensions

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016  
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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 to 31 December 2016 and 2015, 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. The hypotheses and technical bases used in these studies were as following

	2016	2015
Actuarial method	Project Unit Credit	Project Unit Credit
Mortality table	TV 73/77	TV 73/77
Disability table	EVK 80	EVK 80
Discount rate	5,25%	5,25%
Wages growth rate	2,50%	3,00%
Pension growth rate	0,5%	0,5%
Retirement age	62 years of age or 39 years of service	62 years of age or 39 years of service

In 2015 the bank maintained the discount rate used in the actuarial study which was 5.25%.

A comparison between the actuarial and financial assumptions used to assess the Bank's pension's costs, for 2016 and 2015, and the effective amounts is set out in the following table:

	2016		2015	
	Assumptions	Actuarial	Assumptions	Actuarial
Growth rate of salaries	2.50%	1.59%	3.00%	1.42%
Growth rate of pensions	0.50%	-0.06%	0.50%	0.04%

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 58 or 35 years of service to 62 or 39 years of service, considering a transition period for members having reached the age of 58 by 2017;
- Pensionable wage of basic wage plus seniority payments;
- Amount of 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 pension plan changes resulted in a reduction of mCVE 914,405 in liabilities with reference to 31 December 2013, recognized in profit and loss for the period.

Liabilities for past services to the bank, at 31 December 2016 and 2015, in accordance with the actuarial studies, amounted to:

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	2016		2015	
	Number of people	Liabilities	Number of pessoas	Liabilities
Active and former employees	179	2 134 358	182	2 128 865
Retirees and pre-retirees	186	2 627 902	183	2 696 482
Pensioners	19	141 036	19	130 856
Restructuring fund	2	5 425	2	13 349
Total	386	4 908 721	386	4 969 552

The actuarial studies do not consider workers with fixed-term employment contracts and employees subscribed with Instituto Nacional de Previdência Social, as the bank does not have any retirement liabilities with such employees.

The movement in the amount of pension liabilities during 2016 and 2015 was as follows:

<b>Balance on December 31 2014</b>	<b>4 899 738</b>
Employee contributions	18 060
Cost recognized by the bank (Note 29)	324 656
Pensions paid	(204 156)
Actuarial deviations (Note 21)	(75 678)
<b>Balance on December 31 2015</b>	<b>4 962 620</b>
Employee contributions	17 597
Cost recognized by the bank (Note 29)	309 398
Pensions paid	(209 936)
Actuarial deviations (Note 21)	(170 958)
<b>Balance on December 31 2016</b>	<b>4 908 721</b>

The following is a breakdown of actuarial deviations in 2016:

Change of actuarial assumptions:	
. Change in discount rate	-
. Change in pensions growth rate	(62.061)
Difference between assumptions and amounts realised:	
. Growth of pensions/w ages	(108.897)
. Other	(170.958)

## 29.2 Healthcare

To assess its post-employment healthcare liabilities, the Bank obtained actuarial assessments from a specialized entity in respect of 31 December 2016 and 2015. The hypotheses and technical bases used in this study were as follows:

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	2016	2015
	TV 73/77	TV 73/77
Mortality table		
Technical rate	5,25%	5,25%
Wages growth rate	2,5%	3,0%
Medical expenses inflation rate	3,0%	3,0%

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 58 or 35 years of service to 62 or 39 years of service, considering a transition period for members having reached the age of 58 by 2017;
- Pensionable wage of basic wage plus seniority payments;
- Amount of 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 in the medical plan deriving from the change in the retirement age from 58 or 35 years of service to 62 or 39 years of service resulted in a reduction of mCVE 28,513 in liabilities in respect of 31 December 2014.

Based on these studies, healthcare liabilities relating to healthcare for the Bank's employees and respective family members after retirement age, at 31 December 2016 and 2014, totaled mCVE 260,671 and mCVE 287,199 respectively (Note 16).

The following table provides information on healthcare liability movements in 2016 and 2015:

<b>Balance on December 31 2014</b>	<b>293 941</b>
Employee contributions	9 821
Cost recognized by the bank	19 328
Impact of change of medical assistance plan (Note 17)	
Medical expenses paid	(12 201)
Actuarial deviations	(23 690)
<b>Balance on December 31 2015</b>	<b>287 199</b>
Employee contributions	13 738
Cost recognized by the bank	(6 346)
Impact of change of medical assistance plan (Note 17)	
Medical expenses paid	(6 022)
Actuarial deviations	(27 898)
<b>Balance on December 31 2016</b>	<b>260 671</b>

### 29.3 Actuarial deviations

Information on deferred actuarial deviations movements for 2016 and 2015 is set out below:

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Balances on December 31 2014	<u>(677 387)</u>	<u>198 180</u>	<u>(479 209)</u>
Actuarial deviations in period	(75 678)	(6 936)	(82 614)
Balances on December 31 2015	<u>(753 065)</u>	<u>191 244</u>	<u>(561 823)</u>
Actuarial deviations in period	(170 958)	(27 898)	(198 856)
Balances on December 31 2016	<u>(924 023)</u>	<u>163 346</u>	<u>(760 680)</u>

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 "Other reserves and retained earnings" account heading.

#### 29.4 Sensitivity analysis

The sensitivity analysis to a variation of 0.25% in the rate of assumptions used and a year in the mortality table, results in the following variations in the current value of liabilities:

(thousand of escudos)		
Assumptions	Change in value of liabilities resulting from change:	
	+ 0,25% of used rate	- 0,25% of used rate
Discount rate	(15 295)	16 020
Wage growth rate	3 385	(3 315)
Pensions growth rate	10 807	(10 443)
	from 1 year +	from less than a year
Mortality table	(14 603)	14 251

#### 30. GENERAL ADMINISTRATIVE EXPENSES

This item breaks down as follows:

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	2016	2015
SISP expenses	99 684	100 655
Conservation and repair	99 902	100 129
Water, gas and electricity	72 849	89 205
Communications and postage costs	52 336	55 010
Advertising and publishing	30 007	41 587
Security and surveillance	35 512	34 263
Valuables transport	38 072	38 666
Consultants and external auditors	22 040	21 194
Rents and leases	27 777	29 912
Stationery and consumables	20 721	21 202
Fuel	7 366	9 635
Insurance	11 241	11 155
Transport	5 523	6 783
Staff training	10 785	14 037
Technical assistance	3 108	13 480
Allowances	4 062	4 614
Accommodation expenses	2 600	2 182
Representation expenses	1 485	2 319
Cleaning services	9 317	9 017
Condo expenses	10 773	10 770
Expenses with Promoleasing	2 980	3 207
MSCC(Medit Smart Cards Compan)	16 703	15 330
External Evaluators	6 892	5 554
Publications	889	2 205
Judicial and litigation	3 220	9 350
Subcontractors and fees	5 726	2 713
Periodic maintenance	806	3 204
Others	11 901	12 236
	<u>614 278</u>	<u>669 617</u>

### 31. EARNINGS PER SHARE

#### Basic earnings per share

Basic earnings per share are calculated by dividing the income attributable to the Bank's shareholders by the weighted average number of common shares circulating during the year / period.

	(thousand of escudos)	
	31.12.2016	31.12.2015
Income for the year	<u>344 159</u>	<u>368 830</u>
Average number of ordinary shares issued	<u>1 324 765</u>	<u>1 324 765</u>
Income per share	0,26	0,28

## Diluted earnings per share

Diluted earnings per share are calculated by adjusting the effect of all potential dilutive common shares to the weighted average number of circulating common shares and net income attributable to the Bank's shareholders.

Diluted earnings per share do not differ from basic earnings per share.

32. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2016	2015
<u>Any contingent liabilities</u>		
. Guarantees and sureties	3 892 247	4 652 330
. Active documentary credit	513 376	509 098
	4 405 623	5 161 428
Deposit and custody of securities	25 514 067	25 776 546
	29 919 690	30 937 974

Contingent Liabilities

Several legal actions involving the bank, for contingent liabilities, were pending at 31 December 2016. Reference should be made to the action resulting from the November 2013 change to the employees' pension plan in force in the bank, with the aim of ensuring its sustainability, with the introduction of the new rules on the assessment of retirement benefits. These changes originated a reduction of mCVE 914,405 in liabilities with reference to 31 December 2013 (note 29). In 2014 two legal actions were brought against the bank by one of its employees and Union of Financial Institution Workers of Cabo Verde, for the purpose of declaring the nullity of the changes made to its employee statutes as regards post-retirement benefits. The bank contested these actions in July 2014 and currently awaits the ruling of the Praia labour court. The bank's Board of Directors, based on information provided by its lawyers and the arguments and reasoning set out in the contestation, considers it will win the referred actions.

33. OPERATING SEGMENTS

On an annual basis, the Bank prepares segment information for the purpose of reporting to the accounts of the consolidated activity of Caixa Geral de Depósitos. The operating segments defined for this reporting, which are in accordance with IFRS 8 and are voluntarily presented:

-Corporate Finance - includes the activity related to the management of Public Debt securities, domestic corporate bonds, equity instruments and Consolidated Financial Mobilization Securities.

-Trading and sales – comprises the activity related to the management of investments and availability at other credit institutions.

-Payment and settlement – includes the activity related to credit and debit transactions.

-Commercial Bank – Includes the activity of raising funds from companies. This segment includes loans, current accounts, discounts of bills, as well as credit to the public sector.

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-Retail Bank – Comprises banking activity with individuals. Included in this segment are consumer credit, housing loans, as well as deposits raised with individuals.

-Others – Other activities not included in any of the previous categories.

The following tables provide information on the Bank's operating segments at 31 December 2016 and 2015:

	2016					
	Corporate Finance	Trading and sales	Payments and settlements	Commercial banking	Retail banking	Other
Interest and similar income	588 266	41 683	-	1 355 174	1 650 021	-
Interest and similar costs	(421)	(8 263)	-	(302 908)	(1 345 425)	-
<b>NET INTEREST INCOME</b>	<b>587 846</b>	<b>33 420</b>	<b>-</b>	<b>1 052 266</b>	<b>304 596</b>	<b>-</b>
Income from equity instruments	18 256	-	-	-	-	-
Income from services and commissions	-	107 307	70 417	45 232	200 908	-
Costs of services and commissions	-	(22 441)	(21 203)	-	(269)	-
Income from available-for-sale financial assets	-	112 740	-	-	-	-
Income from foreign exchange revaluations	-	-	-	-	-	12 370
Income from disposals of other assets	-	-	-	-	-	64 447
Other operating income	-	-	-	-	-	-
<b>TOTAL OPERATING INCOME</b>	<b>606 102</b>	<b>231 026</b>	<b>49 214</b>	<b>1 097 498</b>	<b>505 235</b>	<b>76 817</b>
Provisions and impairment net of reversals and recoveries	(907)	-	-	(36 573)	(44 530)	(15 796)
	<b>605 194</b>	<b>231 026</b>	<b>49 214</b>	<b>1 060 925</b>	<b>460 705</b>	<b>61 021</b>
Other expenditure and income						(2 123 925)
<b>Income for the year</b>						<b>344 159</b>
Cash and cash equivalents at central banks	-	7 844 629	-	-	-	-
Cash and cash equivalents at other credit institutions	-	652 322	-	-	-	-
Available-for-sale financial assets	-	6 653 618	-	-	-	-
Investments in credit institutions	-	18 122 622	-	-	-	-
Loans and advances to customers	11 327 582	-	-	15 550 615	18 808 847	-
Funds from other credit institutions	-	565 333	-	-	-	-
Funds from customers and other loans	-	-	-	13 360 284	59 342 330	-

	2015					
	Corporate Finance	Trading and sales	Payments and settlements	Commercial banking	Retail banking	Other
Interest and similar income	638.821	44.628	-	1.356.042	1.731.116	-
Interest and similar costs	(417)	(20.554)	-	(352.484)	(1.459.286)	-
<b>NET INTEREST INCOME</b>	<b>638.404</b>	<b>24.074</b>	<b>-</b>	<b>1.003.558</b>	<b>271.830</b>	<b>-</b>
Income from equity instruments	134.859	-	-	-	-	-
Income from services and commissions	-	104.241	63.552	45.322	187.634	-
Costs of services and commissions	-	(22.796)	(16.938)	-	(50)	-
Income from available-for-sale financial assets	58	-	-	-	-	-
Income from foreign exchange revaluations	-	140.720	-	-	-	-
Income from disposals of other assets	-	-	-	-	-	5.133
Other operating income	-	-	-	-	-	67.850
<b>TOTAL OPERATING INCOME</b>	<b>773.321</b>	<b>246.239</b>	<b>46.614</b>	<b>1.048.880</b>	<b>459.414</b>	<b>59.651</b>
Provisions and impairment net of reversals and recoveries	(3.138)	-	-	(51.549)	(62.283)	(71.037)
	<b>770.183</b>	<b>246.239</b>	<b>46.614</b>	<b>997.331</b>	<b>397.131</b>	<b>(11.386)</b>
Other expenditure and income						(2.090.614)
<b>Income for the year</b>						<b>368.830</b>
Cash and cash equivalents at central banks	-	2.754.231	-	-	-	-
Cash equivalents at other credit institutions	-	830.451	-	-	-	-
Available-for-sale financial assets	-	6.851.891	-	-	-	-
Investments in credit institutions	-	20.487.143	-	-	-	-
Loans and advances to customers	3.535.222	-	-	14.910.342	19.066.015	-
Funds from other credit institutions	-	775.677	-	-	-	-
Funds from customer and other loans	-	-	-	13.442.995	55.654.141	-



The Bank's entire activity is carried out in the Republic of Cabo Verde.

### 34. RELATED ENTITY

CGD Group, INPS – Instituto Nacional de Previdência Social, associates, and Management Bodies (Board of Directors) are considered to be entities related with the bank.

The bank's financial statements, at 31 December 2016 and 2015, include the following balances and transactions with related entities, excluding management bodies:

	2016				
	Caixa Geral de Depósitos Group				
	Banco				
	INPS	CGD	Interatlântico	Promotora	Associates
<b>Assets</b>					
Cash and cash equivalents at central banks and other credit institutions	-	146,857	-	-	-
Investments in credit institutions	-	2,206,779	-	-	-
Public debt securities	-	-	-	-	-
Available-for-sale financial assets	-	-	-	50,000	-
Loans and advances to customers	-	-	-	65,896	325,359
Other assets	-	-	1,918	809	7,211
Impairment	-	-	-	(10,841)	(13,558)
<b>Liabilities:</b>					
Funds from other credit institutions	-	(90,629)	(7,138)	-	(135,289)
Funds from customers and other loans	(1,886,751)	-	-	(14)	(92,601)
Other liabilities	-	-	-	(2,828)	(9,627)
<b>Off-balance sheet:</b>					
Guarantees received	-	59,626	-	150,000	-
Guarantees provided	-	-	-	-	-
<b>Income:</b>					
Interest and similar income	-	(9,551)	-	-	-
Income and similar costs	-	-	-	-	-
<b>Expenditure:</b>					
Interest and similar costs	(19,821)	-	-	-	(2,348)
Costs of services and commissions	-	3,466	-	-	9,525
General administrative expenditure	-	-	-	11,607	102,664
Impairment of other financial assets net of reversals and recoveries	-	-	-	-	3,184

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	2015				
	Caixa Geral de Depósitos Group				Subsidiaries and associates
	INPS	CGD	Banco Interatlântico	Promotora	
<b>Assets:</b>					
Cash and cas equivalents at central banks and other credit institutions	-	194.641	-	-	-
Investments in credit institutions	-	3.380.849	-	-	-
Public debt securities	-	-	-	-	-
Available-for-sale financial assets	-	-	-	50.000	-
Loans and advances to customers	-	-	-	78.623	266.337
Other assets	-	-	1.918	682	6.931
Impairment	-	-	-	(10.841)	(9.034)
<b>Liabilities:</b>					
Funds from other credit institutions	-	(40.457)	(3.521)	-	(259.495)
Funds from customers and other loans	(1.881.033)	-	-	(2.667)	(72.458)
Other liabilities	-	-	-	(49.744)	(60.139)
<b>Off-balance sheet:</b>					
Guarantees received	-	55.347	-	150.000	-
Guarantees provided	(1.640)	-	-	-	(101.067)
<b>Income:</b>					
Interest and similar income	-	16.390	-	-	-
Interest and similar costs	(54.100)	-	-	-	-
<b>Expenditure:</b>					
Interest and similar costs	-	-	-	-	(12.688)
Costs of services and commissions	-	(3.414)	-	-	(11.944)
General administrative expenditure	-	-	-	(1.646)	(103.862)
Impairment of other financial assets net of reversals and recoveries	-	-	-	-	2.020

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

### Management Bodies

In 2016, the costs incurred relating to remuneration and other benefits granted to members of the Bank's Board of Directors amounted to mCVE. 34,916 (mCVE. 31,123 for year 2015).

On December 31, 2016 and 2015, loans granted to the members of the Board of Director amounted to mCVE. 49.049 and mCVE. 74,969, respectively.

## 35. DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

### Management policies for the financial risks involved in the Bank's activity

BCA's activities are exposed to a variety of financial risk factors, including the effects of changes in market prices: exchange rate risk, credit risk, liquidity risk and cash flow risk associated with interest rates, among others.

The Bank's risk management is controlled by the financial department in accordance with policies approved by the Board of Directors. In this sense, the Board of Directors has defined in writing the main principles of global risk management, as well as specific policies for some areas, such as the coverage of interest rate risk, liquidity risk and credit risk coverage.

The Board of Directors defines the principles for risk management as a whole and policies covering specific areas such as exchange rate risk, interest rate risk, credit risk, the use of derivatives and other non-derivative financial instruments, as well as the investment of excess liquidity.

The risk limits and exposure levels are defined and approved by the Board of Directors taking into account the Bank's global strategy and market position.

#### Foreign exchange risk

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

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

Following are the disclosures required by IFRS 7 for the main types of risk inherent to the Bank's activity

#### 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 Cabo 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 for investment rather than a trading objective.

#### Liquidity and interest rate risk

Liquidity control is the responsibility of DFI (Financial and International Department) which oversees the balances of correspondent banks and those of the Bank of Cabo Verde.

DFI is responsible for performing operations in financial markets, selling assets denominated in foreign currency and the operations necessary to refinance the bank or for the investment of liquidity surpluses with a careful management approach in order to avoid situations of default with the Bank of Cabo Verde.

As the minimum Cash Requirements ratio in Cabo Verde's banking sector is 15%, banks, in the event of difficulties, are more able to meet their commitments to customers.

Also, and in accordance with official notice 8/2007 of 19 November, issued by the Bank of Cabo Verde, DFI also calculates the liquidity ratios required to hedge its liabilities over the periods of seven, thirty, ninety days and one year.

The Risk Management Department also produces, once in a while, analyses on interest rates and the assets and liabilities structure, in particular the loans and advances portfolio granted to customers with indexed interest rates.

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As of December 31, 2016 and 2015, the contractual residual terms of the financial instruments are as follows:

		2016							
		Residual periods to maturity							
		Up to 1 mês	Up to 3 meses	Up to 6 meses	Up to 1 ano	Up to 3 anos	Up to 5 anos	Up to 10 anos	More than 10 anos
		Total							
<b>Assets</b>									
Cash and cash equivalents at central banks		7 844 629							7 844 629
Cash and cash equivalents at other credit institutions		652 322							652 322
Investments in credit institutions		15 651 338	2 443 883		27 401				18 122 622
Loans to customers (gross)		813 785	1 598 154	2 042 830	4 600 380	6 943 962	9 195 542	10 444 177	49 506 593
		<u>24 962 074</u>	<u>4 042 037</u>	<u>2 042 830</u>	<u>4 627 781</u>	<u>6 943 962</u>	<u>9 195 542</u>	<u>10 444 177</u>	<u>76 126 166</u>
<b>Liabilities</b>									
Funds from Central banks and other credit institutions		(173 751)	(8 923)	(39 989)	(48 913)	(293 757)			(565 333)
Funds from customers and other loans		(32 693 780)	(7 494 962)	(7 152 882)	(5 959 437)	(19 401 552)			(72 702 613)
Other subordinated liabilities				(49 544)	(49 544)				(99 088)
		<u>(32 867 531)</u>	<u>(7 503 885)</u>	<u>(7 242 415)</u>	<u>(6 057 894)</u>	<u>(19 695 309)</u>	-	-	<u>(73 367 034)</u>
Difference		<u>(7 905 457)</u>	<u>(3 461 848)</u>	<u>(5 199 585)</u>	<u>(1 430 113)</u>	<u>(12 751 347)</u>	<u>9 195 542</u>	<u>10 444 177</u>	<u>13 867 763</u>
									<u>2 759 132</u>
		2015							
		Residual 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 cash equivalents at central banks		2.754.231	-	-	-	-	-	-	2.754.231
Cash equivalents at other credit institutions		830.451	-	-	-	-	-	-	830.451
Investments in credit institutions		17.266.654	2.955.496	-	253.540	11.453	-	-	20.487.143
Public debt securities		172.474	-	345.335	238.687	1.948.258	1.407.686	2.803.329	6.915.769
Loans and advances to customers (gross)		<u>6.649.678</u>	<u>1.080.985</u>	<u>1.974.796</u>	<u>1.329.114</u>	<u>4.637.494</u>	<u>4.882.434</u>	<u>6.716.686</u>	<u>41.534.626</u>
		<u>27.673.488</u>	<u>4.036.481</u>	<u>2.320.131</u>	<u>1.821.341</u>	<u>6.597.205</u>	<u>6.290.120</u>	<u>9.520.015</u>	<u>72.522.220</u>
<b>Liabilities</b>									
Funds from central banks and other credit institutions		(180.498)	(103.749)	(130.913)	(48.951)	(195.803)	(115.763)	-	(775.677)
Funds from customers and other loans		(29.831.324)	(5.785.192)	(7.937.422)	(18.318.110)	(7.224.987)	(101)	-	(69.097.136)
Other subordinated liabilities		152	-	(48.309)	(49.849)	(99.698)	-	-	(197.704)
		<u>(30.011.670)</u>	<u>(5.888.941)</u>	<u>(8.116.644)</u>	<u>(18.416.910)</u>	<u>(7.520.488)</u>	<u>(115.864)</u>	-	<u>(70.070.517)</u>
Difference		<u>(2.338.182)</u>	<u>(1.852.460)</u>	<u>(5.796.513)</u>	<u>(16.595.569)</u>	<u>(923.283)</u>	<u>6.174.256</u>	<u>9.520.015</u>	<u>14.263.439</u>
									<u>2.451.703</u>

### Credit risk

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 promoters, individual customers and financial institutions.

The Risk Management Department (DGR) analyses the credit risk of companies and individual customers with accrued liabilities of more than mCVE 20,000.

DGR is responsible for issuing risk assessments on proposals prepared by the commercial area, which are sent for the consideration 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 evolution of customer deposits.

Credit riskMaximum exposure to credit risk

Information on the bank's maximum exposure to credit risk, at 31 December 2016 and 2015, is set out below:

	<u>2016</u>	<u>2015</u>
Investments in credit institutions	18 122 622	20 487 143
Loans to customers	<u>45 687 044</u>	<u>44 427 348</u>
	<u>63 809 666</u>	<u>64 914 491</u>
Guarantees and sureties	3 892 247	4 652 330
Active documentary credit	<u>513 376</u>	<u>509 098</u>
	<u>4 405 623</u>	<u>5 161 428</u>
Maximum exposure	<u>68 215 289</u>	<u>70 075 919</u>

Quality of loans granted to customers

Information on the gross balance sheet value of loans granted to customers, guarantees provided and documentary credit, excluding other credit and amounts receivable - securitised and accrued interest, at 31 December 2016 and 2015, is set out below:

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2016					
	Classification according to the impairment model				
	Performing	Non-performing	Credit in		
	Loan	Loan	Default	Other balances	Total
Companies					
Corporate Loans					
Outstanding	8 439 089	2 617 230	1 165 836	-	12 264 455
Overdue	5 914	16 612	3 593 493	-	3 616 020
	8 487 303	2 633 843	4 759 329	-	15 880 475
Corporate guarantees and documentary credit					
Outstanding	4 363 268	9 317	223	-	4 372 808
	4 363 268	9 317	223	-	4 372 808
Retail					
Mortgage					
Outstanding	13 272 424	142 457	296 805	-	13 711 687
Overdue	4 180	36 575	1 122 560	-	1 163 315
	13 276 605	179 032	1 419 365	-	14 875 001
Consumer loans					
Outstanding	1 519 227	20 957	22 593	-	1 562 777
Overdue	429	1 254	12 604	-	14 288
	1 519 656	22 211	35 197	-	1 577 064
Small businesses					
Outstanding	673 195	2 533	20 234	-	695 961
Overdue	250	1 111	226 158	-	227 519
	673 445	3 644	246 391	-	923 480
Other Loans					
Outstanding	1 881 376	228 235	87 006	-	2 196 617
Overdue	28 167	11 100	204 318	-	243 585
	1 909 542	239 335	291 324	-	2 440 202
Guarantees provided					
Outstanding	32 586	-	-	-	32 586
Public sector					
Outstanding	2 358 136	204	-	-	2 358 340
Overdue	117	-	-	-	117
	2 358 253	204	-	-	2 358 457
Guarantees provided					
Outstanding	228	-	-	-	228
Total outstanding loans	32 581 829	3 020 933	1 592 697	-	37 195 230
Total overdue loans	39 058	66 653	5 159 133	-	5 264 844
Total off-balance sheet	4 396 083	9 317	223	-	4 405 623
Total loans	32 620 887	3 087 586	6 751 830	-	42 460 074

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2015					
	Classification according to the impairment model			Other balances	Total
	Performing Loan	Non-performing Loan	Credit in Default		
<b>Companies</b>					
Corporate loans					
Outstanding	8 597 142	1 240 297	2 568 643	79 550	12 485 632
Overdue	5 149	1 760	3 001 722	-	3 008 631
	8 602 291	1 242 057	5 570 365	79 550	15 494 263
Corporate guarantees and documentary credit					
Outstanding	4 806 306	-	11 310	229 275	5 046 891
	4 806 306	-	11 310	229 275	5 046 891
<b>Retail</b>					
Mortgage					
Outstanding	13 384 689	414 853	1 085 086	-	14 884 628
Overdue	4 302	8 837	319 654	-	332 793
	13 388 991	423 690	1 404 740	-	15 217 421
Consumer loan					
Outstanding	1 439 938	21 606	36 898	-	1 498 442
Overdue	561	1 227	25 425	-	27 213
	1 440 499	22 833	62 323	-	1 525 655
Small businesses					
Outstanding	472 720	7 625	148 954	-	629 299
Overdue	512	359	127 745	-	128 616
	473 232	7 984	276 699	-	757 915
Other loans					
Outstanding	1 886 216	214 705	285 590	-	2 386 511
Overdue	24 708	5 593	172 603	-	202 904
	1 910 924	220 298	458 193	-	2 589 415
Guarantees provided					
Vincendo	112 897	-	-	-	112 897
<b>Public Sector</b>					
Outstanding	2 476 724	170	-	-	2 476 894
Overdue	72	161	18	-	251
	2 476 796	331	18	-	2 477 145
Guarantees provided					
Vincendo	1 640	-	-	-	1 640
<b>Total outstanding loans</b>	<b>28 257 429</b>	<b>1 899 256</b>	<b>4 125 171</b>	<b>79 550</b>	<b>34 361 406</b>
<b>Total overdue loans</b>	<b>35 304</b>	<b>17 937</b>	<b>3 647 167</b>	<b>-</b>	<b>3 700 408</b>
<b>Total off-balance sheet</b>	<b>4 920 843</b>	<b>-</b>	<b>11 310</b>	<b>229 275</b>	<b>5 161 428</b>
<b>Total loans</b>	<b>28 292 733</b>	<b>1 917 193</b>	<b>7 772 338</b>	<b>79 550</b>	<b>43 223 242</b>

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

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- 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 payment for more than 90 days, the full amount of the customer’s exposure to the bank is reclassified to this category. Also included are restructured loans classified as “Credit in default” on the restructuring date and which have still not gone through the quarantine period.
- In addition, overdue credit only includes the amounts of the operations or payments due and unpaid on the reference date. The “Non-performing loan” account heading, in note 7, includes the full amount receivable on operations with overdue amounts.

2016					
	Companies	Individual - Mortgage	Individual - Others	Public Sector	Total
Net of individual overdues nor impairment	9 664 087 202	13 573 923 030	4 451 720 908	2 356 271 934	30 046 003 074
With overdues but net of individual impairment	266 849 098	1 047 541 660	407 477 035	-	1 721 867 793
Less than 30 days					-
30 to 90 days	30 721 540	38 326 173	13 939 819		82 987 532
91 to 180 days	21 196 580	54 652 741	12 241 253		88 090 573
181 to 360 days	42 010 025	81 537 250	48 003 143		171 550 418
more than 360 days	172 920 953	873 025 497	333 292 820		1 379 239 270
Loans with individual impairments	10 322 346 957	253 536 647	114 134 410	2 413 296	10 692 431 310
Less than 30 days	7 027 631 162	144 248 463	95 947 538	2 413 296	7 270 240 459
30 to 90 days	41 908 284				41 908 284
91 to 180 days	28 024 118		983 363		29 007 481
181 to 360 days	17 136 234	50 374 546	22		67 510 801
more than 360 days	3 207 647 159	58 913 638	17 203 487		3 283 764 284
Total	20 253 283 257	14 875 001 337	4 973 332 353	2 358 685 230	42 460 302 177

2015					
	Companies	Individual - Mortgage	Individual - Others	Public Sector	Total
Net of individual overdues nor impairment	6 818 626 772	13 779 033 331	4 210 989 858	2 396 922 815	27 205 572 775
With overdues but net of individual impairment	560 276 335	1 193 368 081	526 478 550	17 947	2 280 140 913
Less than 30 days					-
30 to 90 days	13 279 406	109 650 212	32 781 164		155 710 782
91 to 180 days	82 644 787	50 942 782	40 747 931		174 335 500
181 to 360 days	54 745 101	116 177 244	61 007 378		231 929 723
more than 360 days	409 607 041	916 597 843	391 942 076	17 947	1 718 164 907
Loans with individual impairments	13 162 252 830	245 020 254	248 969 232	81 844 017	13 738 086 334
Less than 30 days	9 628 149 684	129 762 452	236 195 105	81 844 017	10 075 951 258
30 to 90 days	46 616 788	51 425 376			98 042 164
91 to 180 days	168 268 326				168 268 326
181 to 360 days	474 296 994				474 296 994
more than 360 days	2 844 921 038	63 832 426	12 774 128		2 921 527 592
Total	20 541 155 937	15 217 421 667	4 986 437 639	2 478 784 779	43 223 800 022

### Fair Value

Assets and Liabilities at the fair value of the Bank are valued according to the following fair value hierarchy set forth in IFRS 13 - Fair Value Measurement:

#### Market Quotation Values (Level 1)

This category includes financial instruments with quotations available in official markets and those in which there are entities that regularly disclose transaction prices for these instruments traded in liquid markets.



The priority in prices used is given to those observed in official markets, in cases where there is more than one official market the option falls on the main market where these financial instruments are transacted.

The Bank considers as market prices those disclosed by independent entities, assuming that they act in their own economic interest and that such prices are representative of the active market, whenever possible use prices provided by more than one entity (for a Determined assets and / or liabilities).

### Valuation methods with observable market parameters / prices (level 2)

In this category, financial instruments valued using internal models, such as discounted cash flow models and option valuation models, are considered, which require the use of estimates and require judgments that vary according to the complexity of the products being valued. Nevertheless, the Bank uses as inputs in its models, variables made available by the market, such as interest rate curves, credit spreads, volatility and indexes on prices. It also includes instruments whose appreciation is obtained through quotations disclosed by independent entities but whose markets have lower liquidity. In addition, the Bank uses as observable variables in the market those that result from transactions on similar instruments and that are observed with a certain recurrence in the market.

### Valuation methods with non-observable market parameters (level 3)

This level includes valuations determined using internal valuation models or quotes provided by third parties but whose parameters are not observable in the market.

The fair value of financial assets and liabilities measured at fair value is as follows:

December 31 2016		(thousand of escudos)		
	Valued at Fair Value			
	Market Quote	Valuation models with observable market parameters/prices	Valuation models with parameters not observable in the market	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
Available-for-sale financial assets	14 835	-	6 433 170	6 448 005
				-
<b>Financial Assets</b>	<b>14 835</b>	<b>-</b>	<b>6 433 170</b>	<b>6 448 005</b>

December 31 2015		(thousand of escudos)		
	Valued at Fair Value			
	Market Quote	Valuation models with observable market parameters/prices	Valuation models with parameters not observable in the market	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
Available-for-sale financial assets	14 108	-	6 441 341	6 455 449
				-
<b>Financial Assets</b>	<b>14 108</b>	<b>-</b>	<b>6 441 341</b>	<b>6 455 449</b>

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The movement of financial assets valued using methods with parameters not observable in the market, as of December 31, 2016, can be analysed as follows:

(thousand of escudos)		
31.12.2016		
	Available-for-sale financial assets	Total
Balance in the beginning of the period	6 441 341	6 441 341
Entry		
Change in value	( 8 171)	( 8 171)
Balance in the end of the period	6 433 170	6 433 170

The table below shows the comparison between the fair value and the book value of the main financial assets and liabilities held at amortized cost on December 31, 2016 and 2015.

(milhares de escudos)					
Assets / Liabilities recognized at amortized cost	Justo valor				Total Fair Value
	Market Quote	Valuation models with observable market parameters/prices	Valuation models with parameters not observable in the market		
	(Level 1)	(Level 2)	(Level 3)		
<b>December 31 2016</b>					
Cash and cash equivalents at central banks	7 844 629	-	7 844 629	-	7 844 629
Cash and cash equivalents at other credit institutions	652 322	-	652 322	-	652 322
Available-for-sale financial assets (shares) a)	55 245	-	-	55 245	55 245
Investments in credit institutions	18 122 622	-	18 122 622	-	18 122 622
Loans to customers	45 687 044	-	-	45 687 044	45 687 044
<b>Financial Assets</b>	<b>72 361 862</b>	<b>-</b>	<b>26 619 573</b>	<b>45 742 289</b>	<b>72 361 862</b>
Funds from other credit institutions	565 333	-	565 333	-	565 333
Funds from customers	72 702 613	-	72 702 613	-	72 702 613
Other subordinated liabilities	99 088	-	99 088	-	99 088
<b>Financial liabilities</b>	<b>73 367 034</b>	<b>-</b>	<b>73 367 034</b>	<b>-</b>	<b>73 367 034</b>

a) Assets at acquisition cost net of impairment. These assets refer to equity instruments issued by unlisted entities for which no recent market transactions have been identified and their fair value can not be reliably estimated.

*Cash and cash equivalents at central banks, Cash and cash equivalents at other credit institutions, Loans and advances to credit institutions*

These assets are very short-term and therefore the balance sheet value is a reasonable estimate of their fair value.

*Loan to customers*

The fair value of loans granted to customers is estimated based on the update of the expected cash flows of principal and interest, considering that the instalments are paid on the contractually defined dates.

The expected future cash flows from similar credit portfolios, such as housing loans, are estimated on a portfolio basis. The discount rates used are the current rates charged for loans with similar characteristics.

*Resources from other credit institutions and Customer funds and other loans*

These liabilities are very short-term and therefore the balance sheet value is a reasonable estimate of their fair value.

*Other subordinated liabilities*

The fair value of these instruments is based on market quotations when available; If they do not exist, is estimated based on the update of the expected future cash flows of capital and interest for these instruments.

*Sensitivity analysis – Interest rate*

At 31 December 2016 and 2015, the impact on fair value of interest rate risk-sensitive financial instruments, excluding derivative financial instruments, of parallel movements in the benchmark interest rate curve of 50, 100 and 200 basis points "(Bps), respectively, can be demonstrated by the following tables:

	<b>2016</b>					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Customer loans (gross balance)	1 542 161	735 195	359 205	(343 468)	(672 164)	(1 288 748)
<u>Total sensitive asset</u>	<u>1 542 161</u>	<u>735 195</u>	<u>359 205</u>	<u>(343 468)</u>	<u>(672 164)</u>	<u>(1 288 748)</u>

	<b>2015</b>					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Customer loans (gross balance)	1 370 634	652 720	318 744	(304 475)	(595 569)	(1 140 833)
<u>Total sensitive asset</u>	<u>1 370 634</u>	<u>652 720</u>	<u>318 744</u>	<u>(304 475)</u>	<u>(595 569)</u>	<u>(1 140 833)</u>

The impact of a shift of 50, 100 and 200 bps on the reference interest rate curves of sensitive assets and liabilities corresponds to the scenarios used internally by the management bodies to observe and monitor exposure to interest rate risk.

The table below shows the effect on the projected net interest income for the years 2016 and 2015, respectively, of a parallel shift in the interest rate curves of 50, 100 and 200 bps that index financial instruments sensitive to changes in interest rates:

	<b>Net interest income projection</b>					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Fiscal year 2016	(625 545)	(312 772)	(156 386)	156 386	312 772	625 545
Fiscal year 2015	(587 173)	(293 586)	(146 793)	146 793	293 586	587 173

In calculating the impacts presented in the table above, it was considered that the assets and liabilities sensitive to the interest rate on the balance sheet on the reference dates of the calculation would remain

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stable throughout the years 2016 and 2015, respectively, proceeding to its renewal, whenever applicable, considering the market conditions prevailing on the said renewal dates and the average spread of the outstanding operations on December 31, 2016 and 2015.

It should be noted that the information contained in the previous tables refers to a static scenario, not taking into account changes in the strategy and interest rate risk management policies that the Bank may adopt as a consequence of changes in the reference interest rates.

Foreign exchange risk

Breakdown of financial instruments by currency

Financial instruments were broken down into the following currencies, at 31 December 2016 and 2015:

	2016				
	Escudos of Cabo Verde	Euros	US dollars	Other	Total
<u>Assets</u>					
Cash and cash equivalents at central banks	7 361 706	363 633	87 226	32 065	7 844 629
Cash and cash equivalents at other credit institutions	109 712	416 857	99 669	26 085	652 322
Available-for-sale financial assets (gross amount)	6 664 460			-	6 664 460
Investments in credit institutions	15 004 748	2 263 412	854 462	-	18 122 622
Public debt securities	-				-
Loans to customers (gross)	47 771 484	1 735 109			49 506 593
Investments in subsidiaries, associates and joint enterprise	336 963	-	-	-	336 963
Other assets	2 279 912	-	57 027		2 336 939
Accumulated impairment	(4 076 854)	-			(4 076 854)
	<u>75 452 130</u>	<u>4 779 011</u>	<u>1 098 383</u>	<u>58 150</u>	<u>81 387 674</u>
<u>Liabilities</u>					
Funds from other credit institutions	(253 400)	(310 977)	(956)		(565 333)
Funds from customers and other loans	(70 480 723)	(1 175 922)	(1 039 148)	(6 821)	(72 702 613)
Other subordinated liabilities	(99 088)	-			(99 088)
Other liabilities	(379 711)	(4 832)	(7)		(384 550)
	<u>(71 212 922)</u>	<u>(1 491 731)</u>	<u>(1 040 111)</u>	<u>(6 821)</u>	<u>(73 751 585)</u>
Net exposure	<u>4 239 208</u>	<u>3 287 280</u>	<u>58 272</u>	<u>51 329</u>	<u>7 636 089</u>
	2015				
	Escudos of Cabo Verde	Euros	US dollars	Other	Total
<u>Assets</u>					
Cash and cash equivalents at central banks	2 239 017	399 662	83 177	32 375	2 754 231
Cash and cash equivalents at other credit institutions	72 049	463 057	280 791	14 554	830 451
Available-for-sale financial assets (gross amount)	6 862 732				6 862 732
Investments in credit institutions	16 644 951	3 274 871	567 321		20 487 143
Public debt securities	6 915 769				6 915 769
Loans to customers (gross)	39 458 385	2 076 241			41 534 626
Investments in subsidiaries, associates and joint enterprise	308 576				308 576
Other assets (gross)	1 183 411				1 183 411
Accumulated impairment	(4 101 542)				(4 101 542)
	<u>69 583 348</u>	<u>6 213 831</u>	<u>931 289</u>	<u>46 929</u>	<u>76 775 397</u>
<u>Liabilities</u>					
Funds from other credit institutions	(361 506)	(412 382)	(1 789)		(775 677)
Funds from customers and other loans	(67 199 120)	(963 403)	(928 921)	(5 692)	(69 097 136)
Other subordinated liabilities	(197 704)				(197 704)
Other liabilities	(428 141)				(428 141)
	<u>(68 186 471)</u>	<u>(1 375 785)</u>	<u>(930 710)</u>	<u>(5 692)</u>	<u>(70 498 658)</u>
Net exposure	<u>1 396 877</u>	<u>4 838 046</u>	<u>579</u>	<u>41 237</u>	<u>6 276 739</u>

### 36. CAPITAL MANAGEMENT

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

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

The adequacy of capital to the bank's risk profile is overseen and controlled by the application of laws regulating Cabo Verde's financial system, particularly official notice 4/2007 issued by the Bank of Cabo Verde, which establishes the calculation bases for the Solvency Ratio, incorporating the Market and Operational Risk in the ratio's calculation, in addition to the reformulation of the procedures for assessing the contribution made by Credit Risk.

According to official notice 4/2007, the calculation of the Solvency Ratio is based on the application of the following formula:

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

In which:

FP – Value of Shareholders' Equity, determined according to Notice nº3 / 2007.

VAPRC – Value of Assets Weighted by Credit Risk.

VAPRTC – Value of Assets Weighted by Exchange Rate Risk.

VEAPRO – Equivalent Value in Assets Weighted by Operational Risk.

The solvency ratio is calculated by Financial and International Department (DFI) and more specifically by Planning and Management Control Division (DPG), with the contribution of International and Liquidity Division (DIL) 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 (Shareholder's) 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 Shareholder's, obtained from the sum of core capital Tier 1 and Tier 2 and respective adjustments, in the form of deductions defined by the Bank of Cabo Verde.

Information on the bank's Regulatory Capital, at 31 December 2016, is set out in the following table:

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Paid up capital	1 318 648	
Share issue premiums and other securities	-	
Legal, statutory and other reserves comprising non-appropriated income	4 213 646	
Retained positive earnings from past years		
Retained positive earnings from last year		
Provisional positive income for current year	258 120	
Positive actuarial deviations (corridor method) - not recognized in profit and loss reserves	566 707	
Minority shareholders' interests <sup>(1)</sup>		
<b>SUB-TOTAL</b>		6 357 120
Intangible assets	52 981	
Negative retained earnings from past years	1 174 877	
Negative earnings from last year		
Provisional negative earnings for current year		
Additional provisions	18 264	
Negative revaluation reserves		
Negative actuarial deviations (corridor method) and costs of past services recognized in profit and loss reserves		
Equity		
Positive differences from the first consolidation <sup>(1)</sup>		
Positive revaluation differences in first application - Equity accounting method (1)		
<b>SUB-TOTAL</b>		1 246 122
<b>BASIS SHAREHOLDER'S EQUITY PRIOR TO THE APPLICATION OF THE TRANSITIONAL REGIME</b>		5 110 998
Transitional regime of item 4 of no. 5 of official notice 3/2007 - impact on transition to basis shareholder's equity still to be recognized	-	
<b>ELIGIBLE BASIS SHAREHOLDER'S EQUITY</b>		5 110 998
Legal revaluation reserves for tangible fixed assets		
Foreign exchange translation reserves and investment hedges on operating units abroad		
Subordinated loans and preference shares	98 952	98 952
Other revaluation reserves		5 037
Other items		
<b>COMPLEMENTARY SHAREHOLDER'S EQUITY</b>		103 989
<b>SHAREHOLDER'S EQUITY BEFORE DEDUCTIONS</b>		5 214 987
Investments to be deducted:		
More than 10% of capital		83 322
Less than or equal to 10% of capital	82 447	83 322
Fixed assets received in payment for own credit	188 838	188 838
Shareholder's equity to be used as specific hedges (sub-paragraph 12 of no. 11 of official notice 9/99)		
Liquidity deficit (item 2 no. 15 of official notice 8/2007)		
<b>SHAREHOLDER'S EQUITY FOR THE CALCULATION OF CONCENTRATION RISK</b>		4 942 827
Part exceeding the risk concentration limits (sub-paragraph d) no.12 official notice 3/2007)		
<b>SHAREHOLDER'S EQUITY</b>		4 942 827

<sup>(1)</sup> Only for the assessment of shareholder's equity on a consolidated and an adjusted consolidation basis.

The above table shows that the final value of Shareholder's Equity derives from the sum of the two major referred to aggregates, i.e. core capital Tier 1 and 2, excluding some deductions provided for by the Bank of Cabo Verde.

Core capital comprises the bank's most stable capital and its main components are share capital, reserves, retained earnings, net income for the year and the transition's impacts comprising the costs of employee benefits, resulting from the adoption of the International Financial Reporting Standards (IFRS), or more precisely IAS 19 - Employee benefits;

In fact, the assimilation of the referred standards implied the adoption of a transitory regime for the assessment of core capital tier 1, in the quest for a harmonious change from the former to the current accounting rules, without major interference to prudential rules.

Tier 2 are essentially made up of positive or negative Revaluation Reserves on several Assets and subordinated Liabilities subject to the Bank of Cabo Verde's advance approval.

One of the positive components of the value of the Shareholder's Equity is share capital whose minimum amount fixed by the government at the proposal of the Bank of Cabo Verde in the form of ministerial order 19/2005 of 14 March, is CVE 300 million. Total Shareholder's Equity cannot, under any circumstances, be less than the minimum amount of capital.

In addition to stipulating that the value of Shareholder's Equity 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 items, weighted by their respective risks should be permanently observed. This relationship is defined by the Solvency Ratio, which the minimum value is 10%.

As the above table shows, the bank's total shareholders' equity of CVE 4,865,905 thousand at 31 December 2016, were 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 15.78%.

As the Bank of Cabo 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 standards, the main Basel II recommendations applicable to the situation in Cabo Verde, are likely to be assimilated in the near future.