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## **CAIXA ECONÓMICA DE CABO VERDE, S.A.**

**Financial Statements at December 31,  
2019, and accompanying Audit Report**

## **Audit Report**

### **REPORT ON FINANCIAL STATEMENT AUDIT**

#### **Qualified Opinion**

We have audited the attached financial statements of Caixa Económica de Cabo Verde ("Caixa"), which comprise the balance as at December 31, 2019 (totaling 77,968,374 mCVE, and 5,090,768 mCVE in total shareholder's equity, including a net profit of 940,840 mCVE, Income Statement, Statement of Changes in Equity and Cash Flow statement for the year ended at that date, and the notes attached 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 aspects, the financial position of Caixa Económica de Cabo Verde, S.A. as at December 31 2019, its financial performance and its cash flows for the year then ended, in accordance with the accounting principles generally accepted in Cabo Verde for the banking sector, established by Banco de Cabo Verde.

#### **Basis for qualified opinion**

Our audit was conducted in accordance with the International Standards on Auditing (ISA) as well as other standards and technical guidance of the Institute of Statutory Auditor. Our responsibilities under these standards are described in the "Auditor's Responsibilities for the Financial Statement Audit" section below. We are independent of the Entity under the law and comply with all other ethical requirements under the Code of Ethics of the Institute of Statutory Auditor.

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

#### **Emphasis on Covid-19**

Recent developments resulting from the Covid-19 (Coronavirus) pandemic have a significant impact on people's health and on society as a whole, increasing uncertainty about the organizations' operational and financial performance. Note 35 of the Notes to the financial statements discloses the developments resulting from the pandemic identified by the Board of Directors of Caixa Económica de Cabo Verde, S.A., based on the information available at the time. The Board of Directors believes that the impacts arising from this situation are uncertain, and it is not possible to estimate its financial effect, namely in terms of income, impairments, non performing loans and capital requirements.

Our opinion is not changed in relation to this matter.

#### **Key audit matters**

Key audit matters are those that, in our professional judgment, played a greater role in auditing the financial statements of the current year. These matters were considered in the context of the financial statement audit as a whole and in forming our opinion, and we do not express a separate opinion on these matters.

We describe below the audit key matters of the current year:

## 1. Impairment to customers' Loans

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>The customer loan balance account includes accumulated impairment amounting to 4,842,004 thousand Cabo Verdean escudos ("mCVE"), recognizing an impact of 286,321 mCVE on the year's net income recorded in the credit impairment line net of reversals and recoveries. The gross amount of loan to customers is 51,931,063 mCVE, so the accumulated impairment represents 9% of the loan amount. The details of the impairment and the accounting policies, methodologies, concepts and assumptions used are disclosed in the notes to the financial statements (note 2.2 and note 33).</p> <p>Impairment to customer loans represents Caixa's management's body best estimate of the expected loss on its customer loan portfolio as at December 31, 2019. To calculate this estimate, Caixa's management body established assumptions, it used mathematical models to calculate parameters, interpreted concepts and devised a model for calculating expected loss. For relevant exposures, it resorted to expert judgment in Caixa's credit risk assessment.</p> <p>In addition to the complexity of the models described, its use requires the processing of a significant amount of data that is not always directly available in Caixa's central systems, such as credit risk information at the time of grant, the date and value of first default, the amount of historical recoveries of defaulted loans. To overcome limitations that may exist in some data, sometimes the management body uses practical expedients that increase the judgments applied.</p> <p>The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment value</p> <p>Given the degree of subjectivity and complexity that the impairment estimate involves and the materiality of its value, we consider this topic as a relevant audit subject.</p>	<p>We have identified and assessed the audit risk that led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) an overall response with effect on the way the audit was conducted and (ii) a specific response that resulted in the design, and subsequent implementation, of additional procedures including testing of controls and substantive procedures, namely:</p> <ul style="list-style-type: none"> <li>▶ We obtained the understanding, evaluated the design and tested the operational effectiveness of the internal control procedures existing in the process of quantifying impairment losses for loan to customers;</li> <li>▶ We carried out analytical review tests on the evolution of the balance of impairment for customer loans, comparing it with the same period last year and the expectations formed, of which we highlight the understanding of the variations that occurred in the loan portfolio and changes in assumptions and methodologies of impairment;</li> <li>▶ We selected a sample of customers subject to individual impairment analysis, to assess the assumptions used by the management body to quantify the impairment. This analysis included: inspection of the information with the business models and the economic and financial situation of the debtors and of the collateral evaluation reports; and, inquiry of Caixa services to understand the defined recovery strategy and the assumptions used;</li> <li>▶ With the support of internal risk specialists, we evaluated the reasonableness of the parameters used in the impairment calculation, highlighting the following procedures: i) understanding of the methodology formalized and approved by the management body and comparison with the one actually used; ii) evaluation of model changes to determine parameters to reflect expected loss; iii) analysis of the changes made during 2019 to the risk parameters (PD, LGD and EAD); iv) inquiries to Caixa's modeling specialists, and inspection of regulators' reports.</li> <li>▶ We gained understanding and evaluated the design of the expected loss calculation model, tested the calculation, evaluated the assumptions used to fill data gaps, compared the parameters used with the results of the estimation models, compared the results with the values in the financial statements.</li> </ul> <p>And,</p> <li>▶ Analysis of the disclosures included in the financial statements, based on the requirements of accounting principles generally accepted in Cabo Verde for the banking sector, which are based on international financial reporting standards and accounting records.</li>

## 2. Valuation of real estate received thru loan recovery

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>The item Other assets, as described in Note 15, of the Annex to the Financial Statements, on December 31, 2019 and December 31, 2018, amounts to a net value of 737,144 mCVE and 1,037,058 mCVE, respectively, related to real estate received thru loan recovery.</p> <p>Periodically, Caixa requests independent entities and registered with Banco Central de Cabo Verde evaluations of real estate received by recovery of loan. If the valuation value, less estimated costs to be incurred with the sale of the property, is lower than the balance sheet value, impairment losses are recorded.</p> <p>We considered the process of calculating impairment losses of assets acquired thru loan recovery as a relevant audit matter since it is based on methodologies that require the use of assumptions and judgments, which may not materialize in the future and consequently cause losses that are different from those estimated.</p>	<p>Our approach to the risk of material misstatement included the following procedures:</p> <ul style="list-style-type: none"> <li>▶ Implementation of specific detail procedures to identify real estate property with signs of impairment and to determine the corresponding amounts;</li> <li>▶ Carrying out detailed tests with the objective of assessing the ownership of assets acquired in loan recovery;</li> <li>▶ Analysis of the assumptions and judgments underlying the evaluations prepared by independent evaluators of the assets acquired in loan recovery;</li> <li>▶ Inspection of the amounts presented in the financial statements to test their agreement with accounting records and disclosures, to test their fullness against existing regulations; and,</li> <li>▶ Analysis of the disclosures included in the financial statements, based on the requirements of accounting principles generally accepted in Cabo Verde for the banking sector, which are based on international financial reporting standards and accounting records.</li> </ul>

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

The management body is responsible for:

- ▶ preparing financial statements that present a true and fair view of Caixa's financial position, financial performance and cash flows, in accordance with the accounting principles generally accepted in Cabo Verde for the banking sector;
- ▶ drawing up the Management Report, under the legal and regulatory terms;
- ▶ establishing and maintaining an appropriate internal control system to enable the preparation of financial statements free of material misstatement due to fraud or error;
- ▶ adopting accounting policies and criteria that are appropriate to the circumstances; and
- ▶ evaluating Caixa's ability to continue in business, disclosing, when applicable, matters that may give rise to significant doubts about the ability to continue in business.

The supervisory body is responsible for overseeing the preparation and disclosure of Caixa's financial information.

## Auditor's responsibilities for the financial statement audit

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 assurance is a high level of assurance but it is no guarantee that an audit conducted under ISA 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 user's economic decisions made on the basis of those financial statements.

As part of an ISA audit, we make professional judgments and maintain professional skepticism during the audit, and also:

- ▶ we identify and evaluate the risks of material misstatement of the financial statements due to fraud or error, design and perform audit procedures that address such risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting a material misstatement due to error, since fraud may involve collusion, counterfeiting, intentional omissions, false statements or overlapping with internal control;
- ▶ we obtain an understanding of the internal control relevant to the audit for the purpose of designing audit procedures that are appropriate under the circumstances, but not to express an opinion on the effectiveness of Caixa's internal control;
- ▶ we evaluate the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by the management body;
- ▶ we draw conclusions on the appropriation of the management body's use of the continuity assumption and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could raise significant doubts about Caixa's ability to continue in business. If we conclude that there is material uncertainty, we must draw attention, in our report, to the related disclosures included in the financial statements or, if these disclosures are not appropriate, modify our opinion. Our conclusions are based on audit evidence obtained as at the date of our report. However, future events or conditions may cause Caixa to discontinue its activities;
- ▶ we evaluate the overall presentation, structure and content of financial statements, including disclosures, and whether these financial statements represent the underlying transactions and events, in order to achieve an appropriate presentation;
- ▶ we communicate with those in charge of governance, including supervisory body, among other matters, about the scope and planned timetable of the audit, and the significant conclusions of the audit, including any significant deficiencies in internal control identified during the audit;
- ▶ of the matters that we communicate to those in charge of governance, including supervisory body, we determine the most important ones in the financial statement audit for the current year, which are the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and
- ▶ we declare to the Supervisory Body that we have complied with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, their safeguards.

Our responsibility also includes verifying the compliance of the information in the Management Report with the financial statements.

Lisbon, July 01 2020

Ernst & Young Audit & Associates – SROC,  
S.A.

Sociedade de Revisores Oficiais de Contas

Represented by:

António Filipe Dias da Fonseca Brás - ROC No. 1661

Registered in CMVM under No. 20161271

## BALANCE SHEET ON DECEMBER 31 2019 AND 2018

ASSET	Notes	12/31/2019	12/31/2018
Cash and cash equivalents at central banks	5	6 115 152	9 459 301
Cash equivalents at other credit institutions	6	2 938 587	1 217 059
Available-for-sale financial assets	7	3 823	3 823
Investments in credit institutions	8	17 816 492	9 985 960
Loans to customers	9	47 089 056	47 592 161
Investment properties	10	4 842	5 018
Other tangible assets	11	2 069 093	1 994 916
Intangible assets	12	5 412	13 042
Investments in subsidiaries, associates and joint ventures	13	103 927	89 938
Current tax assets	14	69 236	43 273
Deferred Tax Assets	14	44 936	63 825
Other assets	15	1 707 817	2 191 525
<b>Total Assets</b>		<b>77 968 374</b>	<b>72 659 840</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Funds from other credit institutions	16	154 135	200 076
Customer funds and Other Loans	17	72 050 194	67 844 700
Provisions	18	31 877	34 620
Current tax liabilities	14	184 932	8 257
Other liabilities	19	456 467	327 314
<b>Total liabilities</b>		<b>72 877 605</b>	<b>68 414 967</b>
<b>Shareholder's equity</b>	20	1 392 000	1 392 000
Other reserves and retained earnings	21	2 757 928	2 379 012
Income for the year	21	940 840	473 861
<b>Total shareholder's equity</b>		<b>5 090 768</b>	<b>4 244 874</b>
<b>Total liabilities and shareholder's equity</b>		<b>77 968 374</b>	<b>72 659 840</b>

## INCOME STATEMENT FOR THE YEARS ENDED

### DECEMBER 31 2019 AND 2018

	Notes	12/31/2019	12/31/2018
Interest and similar income	22	4 084 479	3 970 886
Interest and similar expenses	23	(1 337 973)	(1 460 082)
<b>NET INTEREST INCOME</b>		<b>2 746 505</b>	<b>2 510 804</b>
Income from services and fees	24	282 025	244 973
Expenses from services and fees	24	(117 041)	(101 304)
Income from currency revaluation	25	99 525	112 398
Income from the sale of other assets	26	29 326	110
Other operating income	27	7 468	65 950
<b>OPERATING INCOME</b>		<b>3 047 809</b>	<b>2 832 932</b>
Personnel costs	28	(830 606)	(805 529)
Administrative overhead	29	(544 072)	(538 993)
Amortization of the year	11/10/12	(115 284)	(109 327)
Loan impairment net of reversals and recoveries	18	(286 321)	(715 309)
Impairment of other assets net of reversals and recoveries	18	(151 688)	(151 784)
Income from associated companies	13	24 824	21 565
<b>INCOME BEFORE TAXES</b>		<b>1 144 662</b>	<b>533 555</b>
Taxes			
Current	14	(184 932)	(123 519)
Deferred	14	(18 890)	63 825
		<b>(203 821)</b>	<b>(59 694)</b>
<b>Profit and comprehensive income for the year</b>		<b>940 840</b>	<b>473 861</b>
Average number of common shares issued	20	1 392 000	1 392 000
Earnings per share		0.68	0.34



**CASH FLOW STATEMENT FOR FINANCIAL YEARS ENDED  
ON DECEMBER 31, 2019 AND 2018**

	<b>12/31/2019</b>	<b>12/31/2018</b>
<b><u>Cash flows from operating activities</u></b>		
Income from Interests and fees	4 366 504	4 215 859
Payments of Interest and fees	(1 455 015)	(1 561 386)
Other income / (payments) related to operating activity	106 993	178 348
Payments to personnel and suppliers	(1 374 678)	(1 344 522)
Income Tax Payments	(53 664)	(69 190)
Lease Payments	(15 029)	-
Operating income before changes in operating assets	<u>1 575 113</u>	<u>1 419 110</u>
(Increases) decreases in operating assets:		
Investments in credit institutions	(7 830 533)	(1 457 720)
Customer loans	351 416	(836 453)
Other assets	369 485	41 301
	<u>(7 109 631)</u>	<u>(2 252 872)</u>
Increases (decreases) in operating liabilities:		
Funds from central banks and other credit institutions	(45 940)	(434 571)
Customer funds	4 205 494	824 965
Other liabilities	(125 454)	(1 062 755)
	<u>4 034 100</u>	<u>(672 362)</u>
Net cash from operating activities	<u>(1 494 337)</u>	<u>(1 506 125)</u>
<b><u>Cash flows From Investment Activities</u></b>		
(Increases) decreases in investment assets:		
Investments in subsidiaries, associates and joint ventures	(13 988)	(11 599)
Dividends from associates and joint ventures	24 824	21 565
Intangible assets	-	(7 863)
Other tangible assets	(178 905)	(26 654)
Revenue from sale of tangible assets	29 326	110
Net cash from investment activities	<u>(138 743)</u>	<u>(24 442)</u>
<b><u>Cash flows From Financing Activities</u></b>		
Dividends distributed	(94 656)	(112 752)
Net cash from financing activities	<u>(94 656)</u>	<u>(112 752)</u>
Net increase (decrease) in cash and cash equivalents	<b>(1 727 736)</b>	<b>(1 643 318)</b>
Cash and cash equivalents at beginning of year	10 676 360	12 319 678
Cash and cash equivalents at end of year	8 948 623	10 676 360

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31 2019 AND 2018

	capital	Legal Reserves	Others Reserves	Retained earnings	Income for the Year	Total
<b>Balances at December 31, 2017</b>	<b>1 392 000</b>	<b>528 406</b>	<b>2 454 355</b>	<b>(679 807)</b>	<b>452 519</b>	<b>4 147 473</b>
<b>Investment of income from 2017:</b>						
Transfer to reserves		45 252	294 515	-	(339 767)	(339 767)
Dividend Distribution	-	-	-	-	(112 752)	(112 752)
Microcredit	-	-	201	-	-	201
Impact of IFRS9	-	-	-	(379 172)	-	(379 172)
Current Taxes – Impact of IFRS 9				115 262		115 262
Comprehensive income for the year	-	-	-	-	473 861	473 861
	<b>1 392 000</b>	<b>573 658</b>	<b>2 749 071</b>	<b>(943 717)</b>	<b>473 861</b>	<b>4 244 873</b>
<b>Balances at December 31, 2018</b>						
<b>Investment of income from 2018:</b>						
Transfer to reserves		47 386	(611 897)	-	(564 511)	(564 511)
Dividend Distribution	-	-	-	-	(94 656)	(94 656)
Microcredit	-	-	(290)	-	-	(290)
Comprehensive income for the year	-	-	-	-	940 840	940 840
	<b>1 392 000</b>	<b>621 044</b>	<b>2 136 884</b>	<b>(943 717)</b>	<b>940 840</b>	<b>4 147 051</b>
<b>Balances as of December 31, 2019</b>						

## 1. INTRODUCTORY NOTE

Caixa Económica de Cabo Verde, SA (Caixa) is a banking and credit institution transformed into a public limited company by Decree-Law No. 54/93 of 31 August. As part of the privatization process of financial institutions and publicly-owned financial companies, pursuant to the Council of Ministers' Resolution No. 46/99 of September 27, a Grouping composed by Caixa Económica Montepio Geral SA, by IMPAR - Companhia Cabo Verde de Seguros, S.A.R.L., and a Local Group, composed of 51 national businesspeople and professionals, held the majority of Caixa's share capital until September 2009. From this date, Geocapital, Gestão de Participações, S.A., acquired the shares of Caixa Económica Montepio Geral, S.A. and Montepio Geral - Associação Mutualista. In 2017, Instituto nacional da Previdência Social acquired the shares of IMPAR - Companhia cabo-verdiana de Seguros, S.A.R.L., and of a group of private shareholders, for a total of 200,211 shares, now holding 47.21% of Caixa's capital (Note 20).

In December 2019, the State of Cabo Verde acquired, through the Ministry of Finance, the totality of shares of Geocapital, Gestão de Participações, S.A., thus allowing the State to assume, directly, or indirectly, the shareholding control of the institution.

Caixa is headquartered in the city of Praia, Republic of Cabo Verde, with a 35 branch network to carry out its operations. Caixa's share capital is represented by 1,392,000 shares, 100% of which are listed on Bolsa de Valores de Cabo Verde.

Caixa's purpose is to carry out all banking activities and operations legally authorized to banks, and may also acquire shares in companies with a different purpose from the above, in companies governed by special laws and in complementary groupings of companies.

Caixa's financial statements on December 31 2019 were approved by the Board of Directors on 19 March 2020, and are pending approval by the General Assembly. However, Caixa's Board of Directors admits that they will be approved without significant changes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Bases of presentation

Caixa's financial statements were prepared on the assumption of continuity of operations, based on the books and accounting records maintained under the terms of Notice No. 2/2007, of 19 November, issued by Banco de Cabo Verde, based on the principles set forth in the International Financial Reporting Standards (IFRS), except with regard to the calculation of impairment for loan to customers, which may not be less than that established by specific notice or instruction from Banco de Cabo Verde, at each moment, as a minimum framework for the constitution of specific and generic provisions.

### 2.2. Accounting Policies

#### a) Accrual basis

Expenses and income are recognized in accordance with the principle of accruals basis and are recorded as they are generated, regardless of when they are paid or received.

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

Assets and liabilities denominated in foreign currencies are translated into Cabo Verde Escudos at BCV's fixing on the last business day of each month. Exchange rate differences determined in currency translation are reflected in the income for the year, except for those arising from non-monetary financial instruments, such as shares classified at fair value through other comprehensive income, which are recognized in equity until they are sold.

In fiscal years 2019 and 2018, the exchange rate of the Cabo Verde Escudo against the Euro remained fixed at 1 Euro / 110.265 Cabo Verde Escudos. On December 31, 2019 and 2018, the exchange (fixing) rate against the US Dollar was 98.548 and 96.268, respectively.

c) Financial assets

IFRS 9 provides for the classification of financial assets according to three criteria:

- (1) The business model under which financial assets are managed;
- (2) The type of financial instruments i.e. (i) derivative financial instruments, (ii) equity instruments or (iii) debt financial instruments; and
- (3) The contractual cash flow characteristics of debt financial instruments (representing solely principal and interest payments).

In this context, the main categories of financial assets provided for in IFRS 9 are summarized as follows:

- A debt financial instrument that (i) is managed under a business model aimed at keeping financial assets in the portfolio and receiving all their contractual cash flows and (2) having contractual cash flows on specific dates corresponding to exclusively to the payment of principal and interest on principal owed - shall be measured at amortized cost, unless designated at fair value through profit or loss under the fair value option – “Hold to Collect”.
- A debt financial instrument that (i) is managed under a business model whose objective is achieved either through the receipt of contractual cash flows or through the sale of financial assets and (2) include contractual clauses that give rise to cash flows which correspond exclusively to the payment of principal and interest on outstanding principal - shall be measured at fair value through other comprehensive income (“FVTOCI”), unless it is designated at fair value in profit or loss under the fair value option – “Hold to Collect & Sale”.
- All other debt financial instruments should be measured at fair value in profit or loss (“FVTPL”).

For other financial instruments, namely equity instruments and derivatives, these by definition, are classified at fair value in profit or loss. For equity instruments, there is an irrevocable option to designate that all changes in fair value are recognized in other comprehensive income, in which case, only dividends are recognized in profit or loss, as gains and losses are not recycled to profit or loss even upon its derecognition / sale.

Debt instruments held by Caixa are measured at amortized cost given they are managed under a “Hold to Collect” business model and present cash flows that represent only principal and interest.

*Loans and accounts receivables*

These are financial assets with fixed or determinable payments, not quoted in an active market. This category includes customer loans (including securitized loan granted to companies), amounts receivable from other credit institutions and other receivables recorded under “Other assets”. It also includes debt securities issued by the State of Cabo Verde since they were acquired on the primary market by Caixa essentially for holding to maturity, and there is no active secondary market.

Upon initial recognition, these assets are recorded at cost, less any fees included in the effective rate, plus all incremental costs directly attributable to the transaction. Subsequently, these assets are recognized in the balance sheet at amortized cost, less any impairment losses.

#### *Recognition of Interest*

Interest is recognized based on the effective interest rate method, which allows to calculate the amortized cost and allocates interest over the period of operations. The effective interest rate is that which, being used to discount the estimated future cash flows associated with the financial instrument, allows to match its present value to the financial instrument's value on the date of initial recognition.

#### *Loans and non-performing Loans and write-offs of principal and interest*

Interest on loans are written off on the day of the operation's due date or the first past due installment. Unrecorded interest on the aforementioned loans is only recognized in the fiscal year in which they are charged, except in exceptional circumstances if there is concrete evidence as to its receipt, and are recorded under the item "Interest and similar income".

In accordance with Caixa's policies, all principal owed on operations with past due installments is classified as non-performing loans 30 days after its due date, except for operations in which the overdue installments are interest only.

Caixa periodically writes off assets that are considered uncollectible due to the use of the impairment, after specific analysis by the structure bodies responsible for monitoring and recovering the loans and approval of the Board of Directors. Any recoveries of loans written off on assets are reflected in the income statement under the caption "Other Operating Income".

#### *Fair value assets through other comprehensive income*

*Fair value assets through other comprehensive income*, which correspond to shares of companies, should be measured at fair value, except for equity instruments not quoted in an active market and whose fair value cannot be reliably measured, which remain recorded at historical cost. Profits or losses arising from revaluation are recorded directly in equity under "Revaluation reserves". At the time of sale, or if impairment is determined, the accumulated changes in fair value are transferred to income or expense for the year and are recorded under the caption "Profit and loss from *fair value assets through other comprehensive income*" or "Impairment of other financial assets" net of reversals and recoveries ", respectively.

On December 31, 2019 and 2018, assets at fair value through other comprehensive income correspond to unquoted assets whose fair value could not be reliably measured, and Caixa kept these assets at historical cost, net of impairment.

Dividends and other income from equity instruments classified in this category are recorded as income under "Income from equity instruments" when Caixa's right to collect them is established.

d) Impairment of financial assets

*Loans and accounts receivables*

IFRS 9 introduces the concept of expected credit losses which differs significantly from the concept of incurred losses provided for in IAS 39, thereby anticipating the recognition of credit losses in the financial statements of institutions. IFRS 9 provides that the concept of impairment based on expected loss, is applied to all financial assets except financial assets measured at fair value through profit or loss and equity instruments measured at fair value through other comprehensive income. The IFRS 9 concept of expected losses also includes financial assets at amortized cost, debt instruments measured at fair value through other comprehensive income, off-balance sheet exposures, finance leases, other receivables, financial guarantees and credit commitments not valued at fair value.

This conceptual change is introduced in conjunction with new classification criteria and measurement of expected credit impairment losses, being required that impaired financial assets be classified at different stages according to the evolution of their credit risk since the initial recognition date and not on the basis of credit risk at the reporting date:

- Stage 1: Financial assets are classified as stage 1 whenever there is no significant increase in credit risk from the date of initial recognition. For these assets are recognized the expected loss of credit impairment resulting from default events occurring during the 12 months following the reporting date;
- Stage 2: incorporates financial assets in which there has been a significant increase in credit risk since the date of initial recognition. For these financial assets are recognized expected losses of credit impairment over the life of assets ("lifetime");
- Stage 3: Assets classified in this stage 3 present on the reporting date objective evidence of impairment as a result of one or more events that have already occurred that result in a loss. In this case, the expected loss of credit impairment is recognized in profit or loss over the expected residual life of the financial assets.

Key drivers in calculating expected losses

For financial assets classified in stages 1 and 2, the measurement of expected losses is the result of the product between (i) the probability of default (PD) of the financial instrument, (ii) the loss given default (LGD) and (iii) the exposure at default (EAD), discounted at the effective interest rate of the contract until the reporting date. For stage 3 financial assets, the expected loss measurement is the result of the product between (i) the LGD of the financial instrument and (ii) the EAD.

As mentioned before, the main difference between the impairment losses measured for financial assets classified in stages 1 and 2 is the respective timeframe in the PD calculation. Expected losses for stage 1 financial assets are calculated using a 12 month PD whereas expected losses on stage 2 use a PD lifetime.

The PDs used in the measurement of expected losses in the loan portfolio are estimated using historical information on the occurrence of defaults (through-the-cycle) and are adjusted to reflect the current point in the economic cycle (point-in-time).

LGDs used to measure expected loan portfolio losses are estimated using losses historical information on default events.

In measuring the expected losses of the securities portfolio measured at amortized cost, market PDs and LGDs made available by international credit rating agencies are used.

#### Significant increase in credit risk and default definition

The assessment of the significant increase in credit risk is a new concept introduced by IFRS 9, which requires the application of a strong judgment component. The transition of financial assets from stage 1 to stage 2 occurs when their credit risk increases significantly when compared to the credit risk on the date of their initial recognition. The significant increase in credit risk is determined through the analysis of internal quantitative and qualitative indicators used by Caixa in its credit risk management, thus verifying the alignment of accounting requirements with Caixa's credit risk management policies.

IFRS 9 assumes as a rebuttable assumption that financial assets at least 30 days past due must be classified in stage 2, i.e., evidencing of a significant increase in credit risk from the date of their initial recognition. Caixa does not refute this assumption.

Caixa identifies the significant increase in credit risk through the following criteria:

- More than 30 days past due;
- Restructuring due to financial difficulties;
- Irregular balances at Banco de Cabo Verde's Credit Risk Bureau;
- Contagion of operations;
- Off of Stage 3.

In the securities portfolio measured at amortized cost, Caixa identifies the significant increase in credit risk through significant counterparty rating degradations between the origination date and the reporting date of the securities.

The transitions of financial assets from stage 2 to stage 3 occur when they are at default.

IFRS 9 does not provide an objective definition of default, however, it assumes a rebuttable assumption that default occurs when an exposure is more than 90 days past due. Caixa does not refute this assumption, and Caixa's default definition includes the following criteria:

- More than 90 days past due;
- Written-off principal;
- Multiple restructurings;
- Contagion of operations.

#### Forward-looking Information

The measurement of expected credit losses for each stage and the assessment of the significant increase in credit risk should consider not only information on past events, but also current conditions and reasoned and reasonable forecasts of future events and economic conditions (i.e. forward-looking information).

There is no study due to the fact that Caboverdean macroeconomic variables have been identified with annual information only, therefore there is no information with a frequency that allows a robust analysis (e.g. monthly or quarterly) to be carried out.

#### Hedge accounting

The new hedge accounting model of IFRS 9 aims not only to simplify the process of creating and maintaining hedge relationships, but also to align the accounting of these relationships with the risk management activities of each institution, to extend the eligibility of a larger number of hedged instruments and hedge instruments, but also types of risk.

The new standard does not yet include rules for accounting hedges called macro-hedging, which are being defined by the IASB. Because of this limitation of IFRS 9, and as regards hedge accounting, institutions are allowed to choose to maintain the accounting principles of IAS 39 (for hedge accounting only) until the conclusion of the macro-hedging project by the IASB.

Caixa does not apply hedge accounting, so in this component the new requirements of IFRS 9 will not have any impact on Caixa's financial statements.

#### Governance

In FY 2018 a project was carried out to implement the standard in order to meet the requirements of IFRS 9 and the requirements of Banco Cabo Verde.

During the project periodic meetings were held between the teams responsible for ensuring the development and implementation of the new models, namely the Risk, Financial, Technology and Operations departments. Meetings were also held with Caixa's Board of Directors to define and / or approve the main assumptions of the new models.

#### *Repurchase Transactions*

Securities sold on repurchase agreements at a fixed price or at a price that equals the sale price plus interest inherent in the term of the transaction are not derecognized from the balance sheet.

The corresponding liability is recorded in amounts payable.

The difference between the sale price the repurchase price is treated as interest and is deferred over the life of the agreement using the effective interest rate method.

#### e) Financial liabilities

As regards the measurement of financial liabilities, IFRS 9 does not make major changes compared to the requirements already provided for in IAS 39, except for the requirement to recognize changes in the fair value of financial liabilities resulting from changes in the entity's own credit risk, to be recognized in equity rather than in profit and loss as required by IAS 39, except in cases where this accounting procedure generates accounting mismatch. Subsequent reclassifications of these changes to profit or loss are not allowed, even at the time of repurchase of these liabilities.

According to an analysis carried out by Caixa with reference to January 1, 2018, no impacts of the adoption of IFRS 9 were identified, since Caixa's financial liabilities are measured at amortized cost.

#### f) Assets received through credit recovery

Real estate and other acquired assets obtained through the recovery of non-performing loans, and which are not available for immediate sale, are recorded at the acquisition value when the legal proceedings have been concluded, under "Other assets".

These assets are not amortized. Properties received thru loan recovery are periodically appraised. If the appraised value, less the estimated costs to be incurred with the sale of the property, is less than the book value, impairment losses are recorded. Up to 2013, for properties acquired in determining impairment, Caixa also considered the age of properties in the portfolio.



For the sale of the acquired assets, the assets are written-off and the gains or losses are recorded under the caption “Other operating income and costs”.

g) Investment properties

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

Investment properties are recorded at acquisition cost, net of accumulated amortization and impairment losses.

Amortizations are calculated and recorded as a cost in “Amortization for the year” over an estimated useful life of 60 years.

h) Other tangible assets

They are recorded at acquisition cost, net of accumulated amortization and accumulated impairment losses. Repair, maintenance and other expenses associated with their use are recognized as expense for the year, under “General administrative expenses”.

Amortization is calculated on a systematic basis over the estimated useful life of the asset, which corresponds to the period in which the asset is expected to be available for use, which is:

	<u>Purchased by 2015</u>	<u>Purchased after 2015</u>
Real Estate for own use	50	33-60
Equipment:		
Office Furniture and Supplies	8	8
Machinery and tools	5-6	5
Computer equipment	5	3-5
Interior installations	4-5	5-8
Transportation equipment	5-6	7
Security equipment	5-12	5-10
Other equipment	6	8

Lands are not subject to amortization.

Expenditures on constructions and improvements in building occupied by Caixa as lessee under operating leases are capitalized under this heading and generally amortized over a period of 10 years.

Amortization is recorded in costs for the year.

Tests are periodically carried out to identify evidence of impairment in tangible assets, in accordance with Standard IAS 36 - “Impairment of assets”. In situations where there is evidence, whenever the net book value of tangible assets exceeds their recoverable value (greater value between the value in use and fair value), an impairment loss is recognized in profit or loss for the year under “Impairment of other

assets". Impairment losses may be reversed, also impacting profit or loss for the period, if there is a subsequent increase in the recoverable amount of the asset.

Amortization calculation takes into account an estimated residual value of the equipment, particularly in the case of vehicles.

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

i) Intangible assets

This item essentially comprises costs of acquisition, development or preparation for use of software used to carry out Caixa's activities.

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

Amortization is recorded as cost for the year on a systematic basis over the estimated useful life of the assets, which corresponds to a period of 3 years.

Costs related to software maintenance are recognized as expenses for the year in which they are incurred.

**IFRS 16 standard (January 1 2019)**

This new standard replaces IAS 17 - 'Leases', with an impact on accounting by the lessees who are now required to recognize a lease liability and a 'right-of-use' asset for all lease agreements. IFRS 16 allows entities to adopt the new standard following a full retrospective approach or through the modified retrospective approach, the second of which does not imply the disclosure of impacts at the date of the previous reporting period (2018), recognizing the cumulative effect of the initial application of the standard as adjustment on the balance sheet at the transition date (2019).

a. Lease agreements - asset identification

At the beginning of the contract, it will be assessed whether a contract is or contains a lease. In order for a contract to be considered as a lease, it must verify cumulatively with three fundamental conditions:

1. the contract identifies one or more leased assets;
2. the entity obtains the majority of the economic benefits arising from the use of the leased asset; and
3. the entity holds the right to control the underlying asset, during the term of the contract, against payment.

b) As a Lessee

The IFRS 16 standard defines a set of new requirements for the application of this standard, namely regarding the classification and measurement of lease operations from the perspective of the lessee. As a lessee, the Group recognizes a right-of-use asset and a lease liability on the initial date of the respective operation:

The lease liability - is measured at the present value of the future rents to be incurred with the contract, reducing payments at the discount rate implicit in the contract, if it is determinable. When the implied rate is not available or can be measured, an incremental interest rate should be used.

The payments considered in calculating the lease liability are: (i) fixed payments, (ii) variable payments dependent on an index or rate (if the payments considered variable do not depend on an index or rate, they

must be recognized in the statement of income at the time they are incurred), and (iii) the amount related to the exercise of the call option, if it is reasonably certain that the Group will exercise it.

The liability is remeasured whenever there is a change in one of the following variables: (i) change in the value of variable payments dependent on an index or rate (only for the period in question), (ii) change in the assessment regarding the decision to exercise, or not, the call option on the underlying asset, (iii) change in the residual value of the asset, or (iv) change in the term of the contract. If there is a change in the term of the contract or a change in the assessment of the exercise of the purchase option (lines (ii) and (iv)), a new discount rate must be calculated for the remeasurement of the liability.

When the lease liability is revalued, the respective difference arising from the revaluation is made against the right-of-use asset, or is recognized in the income statement if the book value of the right-of-use asset has been reduced to zero.

**Right-of-use asset** - The asset related to the right-of-use is initially measured at cost, corresponding to the initial value of the lease liability, adjusted by any payments made up to the initial date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the location in which it is located, less any lease incentives received.

Subsequently, the right-of-use asset is depreciated using the straight-line method, from the initial date to the end of the useful life of the right-of-use asset or the end of the lease term. Additionally, the right to use asset is periodically reduced by impairment losses, if applicable, and adjusted if remeasurements are made to the lease liability.

c. Practical expedients - Short-term, low-value leases and component separation

The standard provides a set of practical expedients, namely for low-value or short-term leases, which do not imply the recognition of the respective lease liability and right of use.

d. As a Lessor

As the lessor, the changes were not substantial compared to the previous IAS 17, the lessor continues to classify the lease operations between financial and operational based on the assessment of the transfer, or not, of the risks and benefits inherent to the ownership of the underlying asset

j) Investments in subsidiaries, associates and joint ventures

This item includes shareholdings in companies in which Caixa has significant influence, but over whose management it does not exercise effective control ("associates"). Significant influence is assumed whenever Caixa's stake is between 20% and 50% of the capital or voting rights or, if less than 20%, Caixa is part of the management body and has direct influence on development of relevant company policies.

These assets are recorded by the equity method. Under this method, shareholdings are initially valued at acquisition cost, which is subsequently adjusted based on Caixa's actual percentage in the changes in equity (including income) of the associates.

These assets are subject to periodic impairment tests. Impairment losses are recorded in the income statement under "Impairment of other assets net of reversals and recoveries".

k) Income taxes

Caixa is subject to the Corporate Income Tax (IRPC) at a rate of 22% and a fire tax of 2% on the assessed tax, which corresponds to an aggregate tax rate of 22.44%.

### *Current taxes*

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

### *Deferred Taxes*

Total income taxes recorded in profit or loss include current taxes and deferred taxes.

Deferred taxes correspond to the impact on tax recoverable / payable in future periods resulting from deductible or taxable temporary differences between the book value of assets and liabilities and their tax base, used in determining taxable profit.

Deferred tax liabilities are normally recorded for all taxable temporary differences, while deferred tax assets are only recognized up to the amount that it is probable that future taxable profits will allow the use of the corresponding deductible tax differences or tax losses reporting. In addition, deferred tax assets are not recorded when their recoverability may be questionable due to other situations, including issues of interpretation of the tax legislation in force.

Notwithstanding this, no deferred taxes are recorded for temporary differences arising from the initial recognition of assets and liabilities in transactions that do not affect the accounting income or taxable profit.

Deferred taxes are calculated based on the tax rates anticipated to be effective at the date of reversal of temporary differences, which correspond to rates approved or substantially approved at the balance sheet date.

Income taxes (current or deferred) are reflected in income statement for the year, except where the underlying transactions have been reflected in other equity items (for example, in the case of revaluation of available-for-sale financial assets). In these situations, the corresponding tax is also reflected against equity, not affecting the income for the year.

#### **l) Provisions and contingent liabilities**

A provision is recorded when there is a present obligation (legal or constructive) arising from past events for which future outflow of resources is probable and can be reliably determined. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability at the balance sheet date.

If future expenditure of funds is not likely, it is a contingent liability. Contingent liabilities are only disclosed, unless the possibility of their payment is remote.

Provisions for other risks are intended to cover tax and other contingencies arising from Caixa's activity.

#### **m) Employee benefits**

Employee benefit liabilities are recognized in accordance with the principles set forth in IAS 19 - "Employee Benefits".

Short-term benefits, including productivity bonuses paid to employees for their performance, are reflected in “Personnel costs” in the period to which they relate, in accordance with the accrual principle.

In addition, Caixa has not assumed any liability for the payment of retirement pensions or other post-employment benefits to its employees, which are covered by the general social security system.

n) Fees

Fees relating to credit operations, which correspond essentially to opening and credit management fees, are recognized by applying the effective interest rate method over the life of the operations, regardless of the time when they are charged or paid and are recorded under “Interest and similar income – Fees received associated with amortized cost”.

Fees associated with guarantees provided, documentary credits and card annuities are subject to linear deferral over the corresponding period.

Fees for services rendered are recognized as income over the period of the service provided or at one time if they correspond to compensation for the execution of single acts.

o) Amounts received on deposit

The amounts received on deposit, including customers' securities, are recorded in off-balance sheet items at nominal value.

p) Cash and cash equivalents

For the purpose of preparing the cash flow statement, Caixa considers as “Cash and cash equivalents” the total of “Cash and cash equivalents at central banks” and “Cash assets at other credit institutions”.

### 3. Critical accounting estimates and most relevant judgmental aspects in applying accounting policies

When applying the accounting policies described above, estimates are required by Caixa's Board of Directors. Estimates with the greatest impact on Caixa's financial statements include the following.

#### *Determination of impairment losses on granted loans*

Impairment losses on loans granted are determined in accordance with the methodology described in Note 2.2. d). Thus, the determination of impairment in individually analyzed assets results from a specific assessment made by Caixa based on its knowledge of the customers' reality and the guarantees associated with the operations in question.

IFRS 9 introduces the concept of expected credit losses which differs significantly from the concept of incurred losses provided for in IAS 39, thereby anticipating the recognition of credit losses in the financial statements of institutions. IFRS 9 provides that the concept of impairment based on expected loss, is applied to all financial assets except financial assets measured at fair value through profit or loss and equity instruments measured at fair value through other comprehensive income. The IFRS 9 concept of expected losses also includes

financial assets at amortized cost, debt instruments measured at fair value through other comprehensive income, off-balance sheet exposures, finance leases, other receivables, financial guarantees and credit commitments not valued at fair value.

This conceptual change is introduced in conjunction with new classification criteria and measurement of expected credit impairment losses, being required that impaired financial assets be classified at different stages according to the evolution of their credit risk since the initial recognition date and not on the basis of credit risk at the reporting date:

- Stage 1: Financial assets are classified as stage 1 whenever there is no significant increase in credit risk from the date of initial recognition. For these assets are recognized the expected loss of credit impairment resulting from default events occurring during the 12 months following the reporting date;
- Stage 2: incorporates financial assets in which there has been a significant increase in credit risk since the date of initial recognition. For these financial assets are recognized expected losses of credit impairment over the life of assets ("lifetime");
- Stage 3: Assets classified in this stage 3 present on the reporting date objective evidence of impairment as a result of one or more events that have already occurred that result in a loss. In this case, the expected loss of credit impairment is recognized in profit or loss over the expected residual life of the financial assets.

#### Determination of Profit Taxes

Taxes on profits (current and deferred) are determined by Caixa based on the rules defined by the tax regime in force. However, in some situations tax legislation may not be sufficiently clear and objective and lead to different interpretations. In these cases, the values recorded result from the best understanding of Caixa's Board regarding the correct framework of its operations, which is, however, likely to be questioned by the Tax Authorities.

#### Impairment of assets received on credit recovery

Impairment losses on assets received in credit recovery are determined in accordance with the methodology described in Note 2.2. f). Accordingly, the determination of impairment in these assets results from an assessment made by Caixa based on the knowledge of the real estate market and the information provided by internal and external appraisals.

### **Adoption of IFRS 16 by Caixa Económica de Cabo Verde (1 January 2018)**

IFRS 16 was adopted by Caixa Económica retrospectively from January 1, 2019 following the modified retrospective approach. According to this approach, there is no need to re-express the accounts for the comparative period of 2018.

As part of the process of adopting IFRS 16, all relevant contracts were analyzed in order to reassess whether they constitute or contain a lease at the date of initial application. Not applying the practical expedient lease definition defined in the standard. Based on transactions considered as leases under IFRS 16, the lease liability was measured at the present value of the remaining lease payments, discounted based on the lessee's incremental financing rate with reference to January 1, 2019. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by amounts paid in advance.

On the transition date, the Group calculated an incremental financing rate to be used to estimate the lease liability. The rate was designed considering the interest rate that would be applicable to the Bank in a similar loan, using information provided by the Bank and / or present on the market. Regarding the maturity of each lease, its calculation took into account the non-cancellable period of the contract, as well as the period covered by any options for extending the term and / or early cancellation, if there is reasonable certainty as to its exercise. In cases where the term is not defined by contract, the best estimate for its term was used.

	31 Dec 2018	Adoption of IFRS 16	1 Jan 2019
<b>Other tangible assets</b>	<b>1.994.916</b>	<b>105.116</b>	<b>2.100.032</b>
Right to use (application of IFRS 16)	0.00	105.116	105.116
<b>Other Assets</b>	<b>2.191.525</b>	<b>-92</b>	<b>2.191.433</b>
Prepaid rents	92	-92	-92
<b>Other financial liabilities</b>	<b>0,00</b>	<b>105.023</b>	<b>105.023</b>
Liability lease (lease commitments – application of IFRS 16)	0,00	105.023	105.023

(Thousands)

On the transition date, the variation between the amount of the lease liability and the right to use is due to the rents paid in advance on certain leases.

## 4. Adoption of New Standards (IAS / IFRS) or Revision of Standards Already Issued

### 4.1 Applicable to 2019

The standards presented below became effective on January 1, 2019:

#### IFRS 16 - Leases

The scope of IFRS 16 includes leases for all assets, with some exceptions. A lease is defined as a contract, or part of a contract, that transfers the right to use an asset (the underlying asset) for a period of time in exchange for a value.

IFRS 16 requires lessees to account for all leases based on a single on-balance model in a similar way as the treatment that IAS 17 gives to financial leases. The standard recognizes two exceptions to this model: (1) low-value leases (for example, personal computers) and short-term leases (i.e., with a lease period of less than 12 months). On the lease initial date, the lessee will recognize the liability related to the lease payments (i.e. the lease liability) and the asset that represents the right to use the underlying asset during the lease period (i.e. the right to use - "Right-of-use" or ROU).

Lessees will have to separately recognize the cost of interest on the lease liability and depreciation of the ROU. Lessees are also required to remeasure the lease liability upon the occurrence of certain events (such as a change in the lease period, a change in future payments that result from a change in the benchmark or the rate used to determine those payments). The lessee will recognize the remeasurement amount of the lease liability as an adjustment to the ROU.

The accounting by the lessee remains substantially unchanged compared to the current treatment of IAS 17. The lessor continues to classify all leases using the same principles as IAS 17 and distinguishing between two types of leases: operating and financial.

The lessee may choose to apply this standard using either the retrospective approach or the modified retrospective approach, through the use of certain practical transition expedients. Early adoption is permitted, but only after the application of IFRS 15 - Revenue from Contract with customers by the entity.

The pattern of recognition of rent expenses will be accelerated compared to what currently occurs. Thus, the entity's key balance sheet indicators, such as leverage ratios, financial ratios, debt covenants and results, such as earnings before interest, taxes and depreciation (EBIDTA), may be impacted.

At the lessee level, the cash flow statement may also be affected, as the capital payments associated with the lease contract are now shown in the cash flows from financing activities. The accounting by the lessee remains substantially unchanged compared to the current treatment of IAS 17.

The standard requires lessees and lessors to make more extensive disclosures compared to what was required by IAS 17.

Given the aforementioned accounting implications, lessees should carefully evaluate whenever they sign a contract in order to identify whether it is or contains a lease. This assessment is also relevant for lessors to determine which contracts (or parts of contracts) will be subject to the new standard applicable to revenue.

### **IFRIC 23 (interpretation) Uncertainty over income tax treatments**

In June 2017, IASB issued IFRIC 23 Uncertainty over different treatments of income tax (the Interpretation) which clarifies the application and measurement requirements of IAS 12 Income tax when there is uncertainty about the treatments to be applied to the income tax.

Interpretation addresses income tax accounting when tax treatments that involve uncertainty and affect the application of IAS 12. Interpretation does not apply to fees or taxes that are not within the scope of IAS 12, nor does it specifically include requirements relating to interest or penalties associated with uncertainties over tax treatment.

The interpretation specifically addresses the following:

- Whether the entity considers uncertain tax treatments separately;
- The assumptions that the entity makes regarding the examination of tax treatments by the tax authorities;
- How the entity determines tax profit (tax loss), calculation bases, unused tax losses, unused tax credits and tax rates;
- How the entity considers changes in facts and circumstances.

The entity determines whether it considers each uncertain tax treatment separately or in conjunction with one or more uncertain tax treatments and considers the approach that best provides for resolving the uncertainty.

The application of this interpretation can prove to be a challenge for entities, particularly for those operating in multinational environments with more complex fiscal frameworks. Entities may also have to assess whether adequate processes and procedures have been established to obtain all the information necessary for the application of the interpretation requirements in a timely manner and to ensure all disclosures required by the standard.

### **Advance payments with negative compensation - Amendments to IFRS 9**

According to IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the implicit cash flows are “solely payment of principal and interest on outstanding principal” (the SPPI criterion) and the instrument is held in a business model that allows such



classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion, regardless of the event or circumstances that cause the early termination of the contract and regardless of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusion for this amendment clarifies that the early termination may be the result of a contractual clause or an event that is outside the control of the parties involved in the contract, such as a change in laws or regulations leading to early termination.

Changes must be applied whenever the amount of the advance payment approaches the unpaid amounts of principal and interest more or less an amount that reflects the change in the benchmark interest rate. This implies that the advance payment recognized at its current fair value or at a value that includes the fair value of the cost to terminate an associated hedging instrument, should normally satisfy the SPPI criterion, only if other elements of the fair value variation, such as the effect of credit or liquidity risk, are reduced. Most likely, the cost of terminating an interest rate swap “plain vanilla” contract, guaranteed to minimize the credit risk of the parties to the contract, should correspond to this requirement.

These changes must be applied retrospectively. This amendment brings specific requirements to be adopted in the transition, but only if the entities adopt it in 2019 and not in 2018 in conjunction with IFRS 9.

Modification or replacement of a financial liability that does not result in the derecognition of that liability

In the basis for the conclusion, IASB also clarifies that the requirements of IFRS 9 for adjusting the amortized cost of a financial liability, when a modification (or replacement) does not result in its derecognition, are consistent with the requirements applied to a modification of a financial asset that does not result in its derecognition. This means that the gain or loss that results from the modification of that financial liability that does not result in its derecognition, calculated discounting the change to the cash flows associated with that liability at the original effective interest rate, is immediately recognized in the income statement.

IASB made this comment on the basis for the conclusion regarding this amendment as it believes that the current requirements of IFRS 9 provide a good basis for entities to account for changes or substitutions of financial liabilities and that no formal amendment to IFRS 9 is necessary with respect to this matter.

IASB stated that this clarification on the modification or replacement of financial liabilities refers specifically to the application of IFRS 9. As such, it may be understood that this clarification does not need to be applied to accounting for the modification of financial liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement. It is therefore likely that there will be a change in the accounting transition, for entities that did not apply this accounting under IAS 39. As there are no specific expedients, this change should be applied retrospectively.

## **IAS 19 (amendment) amendments, cuts or settlement of the plan**

This amendment clarifies the accounting treatment to be followed in the event of a change to the plan, or if there is a cut or settlement of the plan.

Determine the cost of current services and net interest

When a defined benefit plan is accounted for in accordance with IAS 19, the standard requires that the cost of current services be measured using actuarial assumptions determined at the beginning of this reporting period. Likewise, net interest is measured by multiplying the plan's net liabilities (assets) by the discount rate,

both determined on the beginning date of this reporting period. This amendment clarifies that when a change, a cut or the settlement of the plan occurs during the period, it is required:

- That the cost of current services for the remaining period be measured using the actuarial assumptions that have been used to remeasure the plan's net liability (asset), which reflects the benefits offered by the plan and the plan's assets after that event;
- The net interest for the period remaining after that event be determined using:
  - The plan's net liability (asset), which reflects the benefits offered by the plan and the plan's assets after that event; and
  - The discount rate used to remeasure this net plan liability (asset). Effect on the requirements for determining the maximum asset recognition limit.

A change, cut or liquidation of the plan may reduce or eliminate the excess that exists in the defined benefit plan, which may lead to a change in the maximum limit for the recognition of the asset.

This amendment clarifies that first any past service cost must be determined, or the gain or loss on settlement, without considering the maximum limit for recognition of the asset. This amount is recognized in the income statement for the period. Subsequently, the effect of the maximum recognition limit of the asset must be determined after the plan is amended, cut or settled. Any change in this effect, not considering the amounts included in the net interest, is recognized in comprehensive income.

This clarification may lead an entity to recognize past service costs, or the gain or loss on settlement, which reduces excess that has not been recognized in the past. Changes in the effect of the maximum limit on the recognition of the asset cannot offset these values.

This amendment is applicable to changes, cuts or settlement of plans that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Early adoption is permitted, which must be disclosed.

### **Long-term interests in associates or Joint Ventures - amendments to IAS 28**

The amendments clarify that an entity should apply IFRS 9 for long-term interests in associates or joint ventures to which the equity method is not applied but which, in substance, are part of the net investment in that associate or joint venture (long term interests). This clarification is relevant because it implies that the IFRS 9 expected loss model should be applied to these investments.

IASB also clarified that, when applying IFRS 9, an entity does not take into account any losses from that associate or joint venture, or impairment losses on net investment, that are recognized as an adjustment to net investment resulting from the application of IAS 28.

To illustrate how entities should apply the requirements of IAS 28 and IFRS 9 with respect to long-term interests, IASB published illustrative examples when it issued this amendment. These amendments will make it possible to eliminate some ambiguities in the text of the standard.

This amendment is effective for periods beginning on or after January 1, 2019. The amendment must be applied retrospectively, with some exceptions. Early adoption is permitted and must be disclosed.

## **Annual improvements for the 2015-2017 cycle**

In the Annual Improvements for the 2015-2017 cycle, IASB introduced improvements in four standards whose summaries are presented below:

### **IFRS 3- Business combinations - Previously held interest in a joint operation**

- The amendments clarify that, when an entity obtains control of a joint operation, it must apply the requirements of the business combination in stages, including remeasuring the previously held interest in the assets and liabilities of the joint operation to its fair value;
- In doing so, the acquirer remeasures its previously held interest in that joint operation;
- This amendment is applicable to business combinations for which the acquisition date is on or after the beginning of the first reporting period that begins on or after January 1, 2019. Early adoption is permitted.

### **IFRS 11- Joint arrangements - Previously held interest in a joint operation**

- A party that participates, but does not have joint control, in a joint operation may obtain joint control of a joint operation whose activity constitutes a business as defined in IFRS 3. This amendment clarifies that the previously held interest should not be remeasured;
- This amendment is applicable to transactions in which the entity obtains joint control that occurs on or after the beginning of the first reporting period that begins on or after January 1, 2019. Early adoption is permitted.

### **IAS 12 - Income taxes – income tax consequences of payments on financial instruments classified as equity instruments**

- These amendments clarify that the taxes consequences on the dividend are directly associated with the past transaction or event that generated results distributable to shareholders. Consequently, the entity recognizes the taxes impacts in the income statement, in comprehensive income or in another equity instrument in accordance with the way in which the entity recognized these transactions or events in the past;
- These changes are applicable for annual periods beginning on or after January 1, 2019. Early adoption is permitted. When the entity first applies these changes, it must apply to the taxes consequences on dividends recognized on or after the beginning of the oldest comparative period.

### **IAS 23 Borrowing costs - borrowing costs eligible for capitalization**

- The amendment clarified that an entity treats as part of global loans any loan originally obtained for the development of the qualifying asset, when substantially all the activities necessary to prepare that asset for its intended use or for sale are complete;
- The changes are applicable to borrowing costs incurred on or after the beginning of the reporting period in which the entity adopts these changes;

- These changes are applicable for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

**IFRS 10 and IAS 28:** Sale or delivery of assets by an investor to its associate or joint ventures

The improvements seek to resolve the conflict between IFRS 10 and IAS 28 when faced with the loss of control of a subsidiary that is sold or transferred to an associate or a joint venture.

The amendments to IAS 28 introduce different recognition criteria for the effects of transactions for the sale or delivery of assets by an investor (including its consolidated subsidiaries) to its associate or joint venture depending on whether the transactions involve, or not, assets that constitute a business, as defined in IFRS 3 - Business Combinations. When the transactions constitute a business combination under the required terms, the gain or loss must be recognized, in full, in the income statement for the year of the investor. However, if the transferred asset does not constitute a business, the gain or loss should continue to be recognized only to the extent that it concerns the other (unrelated) investors.

In December 2015, IASB decided to defer the date of application of this amendment until any amendments resulting from the research project on the equity method are finalized. Early application of this amendment remains permitted and must be disclosed. The amendments must be applied prospectively.

At the date of approval of these financial statements, the standards and interpretations endorsed by the European Union, but whose mandatory application occurs in future years, are as follows:

**Definition of material - Amendments to IAS 1 and IAS 8**

The purpose of this amendment was to make the definition of “material” consistent among all the standards in force and to clarify some aspects related to its definition. The new definition provides that “information is material if its omission, error or concealment can reasonably be expected to influence the decisions that primary users of financial statements make based on those financial statements, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality depends on the nature and magnitude of the information, or both. An entity has to assess whether certain information, either individually or in combination with other information, is material in the context of the financial statements.

**Omitting information**

The changes explain that information is hidden if it is communicated in a way that has the same effects as it would have if it were missing or contained errors. Material information may be hidden, for example, if information relating to a material item, material transaction or other material event is dispersed throughout the financial statements, or if it is disclosed using language that is vague and unclear. Material information may also be hidden if dissimilar items, dissimilar transactions or dissimilar events are aggregated inappropriately, or conversely, if similar items are disaggregated.

**New level of materiality (threshold)**

The amendments replace the level of materiality reference “could influence”, which suggests that any potential influence from users must be considered, for “could reasonably be expected to influence” contained in the definition of materiality. In the amended definition, it is thus clarified that the materiality assessment has to take into account only the reasonably expected influence on the economic decisions of the primary users of the financial statements.

#### Primary users of financial statements

The current definition refers to “users”, but does not specify their characteristics, the interpretation of which may imply that the entity has to take into account all possible users of the financial statements when making the decision on the information to be disclosed. Consequently, IASB decided to refer only to primary users in the new definition to address concerns that the term “users” may be interpreted in a broader way. This amendment is effective for periods beginning on or after 1 January 2020. This amendment must be applied prospectively. Early adoption is permitted and must be disclosed.

Note: This amendment also impacts IFRS Practice Statement 2: Make judgments about materiality, which was disclosed in the IFRS Update document issued in relation to December 31, 2017.

#### The conceptual framework for financial reporting

The conceptual framework establishes a comprehensive set of concepts for:

- Financial reporting;
- The definition of standards;
- The development of consistent accounting principles; and
- Support the understanding and interpretation of standards.

The revised conceptual framework includes:

- Some new concepts;
- Revised definitions and criteria for the recognition of assets and liabilities; and
- Clarifications on important concepts.

This structure is organized as follows

- Chapter 1 - The purpose of financial reporting
- Chapter 2 - Qualitative characteristics of useful financial information
- Chapter 3 - Financial statements and the reporting entity
- Chapter 4 - The elements of the financial statements
- Chapter 5 - Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 - Presentation and dissemination
- Chapter 8 - Equity and equity maintenance concepts.

The conceptual framework for the revised financial reporting is not a standard and none of its concepts prevails over the concepts present in standards or other requirements of any of the standards. It is applicable to entities that develop their accounting principles based on the conceptual framework for years beginning on or after 1 January 2020.

#### **Interest rate benchmark reform - amendments to IFRS 9, IAS 39 and IFRS 7**

In September 2019, IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which include the first phase of the work developed to respond to the effects on the financial reporting of the IBOR (Interbank Offered Rates) reform.

These amendments provide temporary expedients that allow hedge accounting to be maintained during the period of uncertainty that precedes the replacement of the currently existing benchmark interest rate with an alternative benchmark interest rate.

## Amendments to IFRS 9

The amendments include several expedients, applicable to all hedging relationships that are directly affected by the interest rate benchmark. A hedge relationship is affected if the ongoing reform generates uncertainties about the periodicity and / or reference amount of the cash flows generated by the hedged object or the hedging instrument.

The application of the expedients is mandatory. The first three expedients provide for the treatment of:

- Assessment of whether a future transaction is highly likely
- Assessment of when to reclassify the amount of cash flow recorded in reserves for profit or loss
- Evaluation of the economic relationship between the hedged object and the hedging instrument.

For each of these expedients it is assumed that the benchmark for calculating the hedged cash flows (whether or not it is contractually specified) and / or, for the third expedient, the cash flow calculation benchmark for the hedged instrument will not be modified as a result of the IBOR reform.

A fourth expedient requires that, at the beginning of the hedging relationship, the risk component of the benchmark interest rate affected by IBOR be separately identified.

When the hedging strategy involves continuously including and removing hedged and hedged instruments from the portfolio, the mentioned requirement need only be ensured in the initial recognition of the hedged elements in the hedging relationship.

Insofar as a hedging instrument is changed so that its cash flows are based on an RFR but the hedged item is still based on IBOR (or vice versa), there is no expedient to determine the measurement and recognition of potential ineffectiveness resulting from changes in the fair value of the elements.

The expedients continue indefinitely in the absence of any of the events described in the amendments. When the entity designates a set of elements as a hedged element, the requirements on when the expedients end are applied separately to each of the elements individually.

The amendments also introduce specific disclosure requirements for the hedging relationships to which these expedients apply.

## Amendments to IAS 39

The changes to the standard are consistent with the changes made to IFRS 9, but with the following differences:

- For the purposes of prospective assessment of the hedging relationship, it is assumed that the benchmark for calculating the hedged cash flows (whether or not it is contractually specified) and / or, for the third expedient, the benchmark for determining the cash flows of the hedged instrument will not be modified as a result of the IBOR reform.

- For the purpose of retrospective assessment of the effectiveness of the hedge relationship, the hedge is allowed to pass the effectiveness tests even if the hedge results are temporarily out of the 80% - 125% range, during the period of uncertainty arising from the reform of the IBOR.
- In the case of a hedging of part of the benchmark interest rate risk (other than the risk component under IFRS 9) that is affected by the IBOR reform, the requirement for separate identification of this part should only be guaranteed at the beginning of the recognition of the hedging relationship.

These amendments must be applied retrospectively. However, any hedging relationships that have ceased to be previously designated cannot be reassigned, nor can they be reinstated, nor should new hedge relationships be designated in the context of retrospectivity. Early application is permitted but must be disclosed.

#### **Standards and Interpretations issued by IASB, but not yet endorsed by the European Union**

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, were not, until the date of approval of these financial statements, endorsed by the European Union:

#### **Definition of business - amendments to IFRS 3**

This amendment clarified the minimum requirements for considering a business, removes the assessment of whether market participants are able to replace the missing elements, adds guidance to be able to assess whether an acquired process is substantive, restricts definitions of business activity and output and introduces an optional test of fair value of business activity.

##### **Minimum requirements for considering a business activity**

The amendment clarifies that to be considered a business, an integrated set of activities must include, at least, an input and a substantive process that, together, contribute significantly to the creation of an output. They also clarify that a business can exist without including all the inputs and processes necessary to create outputs. That is, the inputs and processes applied to those inputs "must have the capacity to contribute to the creation of outputs" rather than "must have the capacity to create outputs".

##### **Ability of market participants to replace missing elements**

Prior to the amendment, IFRS 3 provided that a business did not have to include all of the inputs or processes that the seller used in operating the business, "if market participants are able to acquire the business and continue to produce the productive process, for example, integrating business activity with its own inputs and processes". The reference to this integration has been removed from the standard and the assessment is now based on what has been acquired in its current state and conditions.

#### **Assess whether an acquired process is substantive**

The amendments clarify that if a set of activities and assets has no output on the acquisition date, an acquired process is considered to be substantive:

- (a) if it is critical to the ability to develop and convert acquired inputs into outputs; and

- (b) If the inputs acquired include either an organized workforce with the necessary skills, knowledge, or experience in carrying out this process, or other inputs that that organized workforce can develop or convert into outputs.

In contrast, if a set of acquired activities and assets includes output on the acquisition date, an acquired process must be considered substantive:

- (a) If it is critical to the ability to continue producing outputs and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience in carrying out that process; or
- (b) If it significantly contributes to the ability to continue producing outputs and / or is considered to be unique or scarce, or cannot be replaced without significant costs, without significant effort or without significant delays in the ability to continue producing outputs.

#### **Narrow the definition of outputs**

The amendments narrowed the definition of outputs by focusing on goods or services provided to customers, return on investment (such as dividends or interest) or other income from ordinary activities. The definition of business in Appendix A of IFRS 3 has been amended accordingly.

#### **Optional concentration test**

The amendments introduce an optional test at the fair value of the concentration to allow a simplified assessment if a certain set of acquired activities is not a business activity. Entities can choose to apply this test transaction by transaction. The test is met if substantially all of the fair values of the gross assets acquired are concentrated in a single identifiable asset or a similar group of identifiable assets. If the test is not met, or if the entity chooses not to apply the test to a particular transaction, a detailed assessment will have to be carried out applying the normal requirements of IFRS 3.

This amendment is effective for transactions that are considered business activities concentrations or asset purchases for which the acquisition date occurred on or after the beginning of the first period beginning on or after January 1, 2020.

These amendments apply prospectively. Consequently, entities do not have to evaluate acquisitions that took place before that date. Early adoption is permitted and must be disclosed.

This change will also have an impact on other standards (for example, when the parent company loses control of the subsidiary and applied in advance the amendment to IFRS 10 and IAS 28 regarding the sale or delivery of assets by an investor to its associate or joint venture ).

#### **IFRS 17 (new) - Insurance contracts (effective for annual periods beginning on or after 1 January 2021)**

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as certain guarantees and financial instruments with discretionary participation characteristics. Some exceptions will apply. The general objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on local accounting policies previously adopted, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.



## 5. CASH AND CASH EQUIVALENTS AT CENTRAL BANKS

On December 31, 2019 and 2018, this item was as follows:

	2019	2018
Cash	2 060 982	2 250 518
Demand Deposits at Banco de Cabo Verde	4 054 170	7 208 783
	<b>6 115 152</b>	<b>9 459 301</b>

This item has deserved special emphasis in recent years due to the values it presents. Regarding cash values, it is important to highlight the values in foreign currency that have reached exorbitant stocks due to weak demand. In turn, deposits at the Central Bank have also been at high levels due to the precariousness of profitable financial instruments.

Regarding foreign currency, it should be noted that the solution adopted to attenuate the stock level has been the export of currency to the correspondents, a solution that, by the way, with considerable costs for the institution

Demand deposits with Banco de Cabo Verde are intended to meet the minimum reserve requirements, as well as commitments with interbank clearing. According to the provisions of Banco de Cabo Verde, these cash equivalents correspond to 13% of the average actual liabilities in domestic and foreign currency to residents, non-residents and emigrants.

Demand deposits at Banco de Cabo Verde are non-interest-bearing.

## 6. CASH ASSETS AT OTHER CREDIT INSTITUTIONS

This item breaks down as follows:

	<u>2019</u>	<u>2018</u>
Demand deposits:		
At credit institutions in the country		
. BCA	2 648	2 654
At credit institutions abroad		
. Banque et Caisse D'Espargne de L'Etat	-	214 413
. Novo Banco SA	136 793	113 711
. Montepio Geral	831 076	144 554
. Caixa Geral de Depósitos	67 306	37 379
. Natexis Banques Populaires	59 150	469 455
. Bank of China, Macau Branch	3 345	8 124
. BPI	1 762 145	120 814
. Others	11 687	53 713
	<u>2 874 150</u>	<u>1 164 818</u>
In the country	61 940	48 613
Abroad	1 725	2 817
Checks pending collection:	<u>63 665</u>	<u>51 430</u>
Other assets	772	811
	<u><u>2 938 587</u></u>	<u><u>1 217 059</u></u>

Checks pending collection correspond to checks on customers of other banks sent for clearing. These amounts are collected on the first days of the subsequent financial year.

EUR cash assets in credit institutions abroad are strongly constrained by the measures taken by correspondents in recent years, resulting in the need to optimize them due to the permanent reduction of the threshold from which negative interest is charged.

Given the comfortable liquidity environment in the Eurozone, banks adopt measures that penalize depositors with fixed assets within certain limits, which tend to fall. Negative interest applies to both demand and time deposits.

In addition to negative interest the correspondents also introduced the so-called Liquidity Management Fee applicable on EUR balances.

As a result, it has been a practice to permanently sell surpluses in euros to the domestic market, mainly to BCV.

## 7. ASSETS AT FAIR VALUE THROUGH OTHER COMPHRENSIVE INCOME

On December 31, 2019 and 2018, equity and debt instruments classified as assets at fair value through other comprehensive income are as follows:

Security	Acquisition cost	Impairment	Balance Sheet (Net)
<u>Equity instruments valued at historical cost</u>			
Fundo de Garantia Regional para a África Ocidental (G.A.R.I. Fund)	3 823	-	3 823
	<b>3 823</b>	<b>-</b>	<b>3 823</b>

Participation in the G.A.R.I. Fund, due to the difficulty in determining the fair value was recorded at historical cost.

## 8. INVESTMENT IN CREDIT INSTITUTIONS

This item breaks down as follows:

	2019	2018
<b>Investments in credit institutions in the country:</b>		
At Banco de Cabo Verde		
Term deposit	15 000 000	7 400 000
Monetary Intervention Securities	1 923 000	1 496 000
Interbank Money Market	771 855	771 855
Investments in credit institutions abroad:		
Collateral deposits	45 135	287 091
Interest receivable	83 102	37 227
Deferred income	(6 600)	(6 214)
	<b>17 816 492</b>	<b>9.985.960</b>

On December 31, 2019 Caixa has Overnight investments at Banco de Cabo Verde in the amount of 15,000,000 mCVE and Monetary Intervention Securities in the amount of mCVE 1,923,000.

On December 31, 2019 and 2018, the item “Investments in credit institutions abroad- Collateral Deposits” corresponds to collaterals, in the form of deposits, made by Caixa with other credit institutions, as collateral for the issuance of guarantees or documentary import credits by these entities. In practice, these deposits are made in the form of investments (term deposit contracts) in the dealing rooms. There are interest-bearing (USD) collateral deposits and others that are remunerated at a negative interest rate (EUR), being reimbursed upon settlement of the associated bank guarantee.

On December 31, 2019 and 2018, investments in credit institutions abroad have the following breakdown by credit institution:

	2019	2018
Banque et Caisse D'Espargne de L'Etat	-	287 091
Banco BPI	45 135	-
	<u>45 135</u>	<u>287 091</u>

## 9. LOANS TO CUSTOMERS

This item breaks down as follows:

	2019	2018
Short Term Domestic Loans:		
Trade Discounts	343 934	180 549
Loans	538 087	629 722
Overdraft loan on demand deposits	158 884	1 391 088
Medium and long term domestic loans:		
Loans	29 616 157	25 706 866
Other loans	709 812	2 387 829
Employee loans	1 266 591	1 204 984
	<u>32 633 465</u>	<u>31 501 038</u>
Non Resident Loan	166 074	200 290
Other loans and receivables (securitized):		
Government bonds	11 824 915	12 315 282
Other fixed income securities	2 112 031	2 273 614
	<u>46 736 485</u>	<u>46 290 224</u>
Interest receivable	271 246	289 384
Deferred Costs	1 154	1 299
Deferred Income	(298 156)	(296 026)
Non-performing Loans	5 151 938	5 806 314
Overdue Interest	68 393	56 649
	<u>51 931 060</u>	<u>52 147 844</u>
Impairment (Note 18)		
Customer Loans	(4 584 497)	(4 280 648)
Other receivable loans	(257 507)	(275 034)
	<u>47 089 056</u>	<u>47 592 161</u>

The item “Other loans and receivables (securitized) - Government bonds” refers to Cabo Verde Treasury bonds bearing a fixed interest rate.

On December 31, 2019 and 2018, Treasury bonds sold under repurchase agreements amount to mCve 1,172,730 and 2,772,730.

On December 31, 2019 and 2018, the item “Other loans and receivables (securitized) - Other fixed income securities” included the value of domestic companies bonds, classified as “Loans and receivables”. On December 31 2019, these bonds presented the following information:

Security	2019			Maturity	
<u>Other fixed income securities</u>					
	Gross Value (Principal+Interest)	Impairment	%	Net Value	
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche C	631 118	9 769	1.55%	621 349	06/14/2027
Electra - Empresa de Electricidade e Águas, S.A.R.L - Tranche E	369 236	5 708	1.55%	363 528	06/14/2025
Sociedade de Gestão de Investimentos, Lda.	15 330	15 301	99.81%	29	02/18/2014
IFH - Imobiliária, Fundiária e Habitat, SA Tranche I e II	420 147	6 371	1.52%	413 776	09/14/2022
CVFF - Cabo Verde Fast Ferry, S.A.	61 006	45 344	74.33%	15 662	10/14/2017
IFH - Imobiliária, Fundiária e Habitat, SA Serie G	464 477	7 015	1.51%	457 462	12/24/2019
ASA - Agência de Segurança Aeronáutica - Tranche D	189 814	2 982	1.57%	186 832	08/25/2027
	2 151 127	92 490	25.98%	2 058 637	

Bonds issued by Electra - Empresa de Electricidade e Águas, S.A.R.L. and IFH - Imobiliária, Fundiária e Habitat, S.A., are endorsed by the State of Cabo Verde. Caixa Económica de Cabo Verde subscribed in June 2017 to Electra’s Series E Bond in the amount of 368,273 mCVE with a maturity date of June 2025.

The bonds of Cabo Verde fast ferry (CVFF) and Sociedade Gestão de Investimentos, Lda., have been in default since August 2014. On December 31, 2019, the accrued and unpaid interest on Cabo Verde Fast Ferry (CVFF) and Sociedade Gestão de Investimentos, Lda., bonds amounted to mCVE 10,958 and mCve 1,987, respectively. The next interest coupons expire in February 2020.

On December 31, 2019 and 2018, loans to customers, excluding "Other loans and receivables (securitized) ", and accrued interests and deferred income, were as follows by business sector:

	2019			2018		
	Performing loans	Non- performin g loans	Total	Performing loans	Non- performi ng loans	Total
Companies:						
Trade	537 490	384 233	921 723	549 726	414 149	963 875
Construction and public works	626 696	161 727	788 423	560 832	146 364	707 196
Transportation	5 116 356	290 265	5 406 621	5 342 017	317 329	5 659 347
Industry	625 068	497 226	1 122 294	568 130	535 900	1 104 030
Hospitality	882 425	86 535	968 960	753 304	321 490	1 074 794
Energy	1 622 661	1 080	1 623 741	1 661 197	1 080	1 662 277
Others	4 604 864	746 395	5 351 260	3 905 520	1 049 451	4 954 971
	14 015 561	2 167 462	16 183 024	13 340 726	2 785 764	16 126 490
Individuals:						
Mortgage	12 612 742	1 793 056	14 405 798	11 994 941	1 864 290	13 859 231
Others	6 171 236	1 191 419	7 362 655	6 365 661	1 156 261	7 521 921
	18 783 978	2 984 475	21 768 453	18 360 602	3 020 551	21 381 152
	<b>32 799 539</b>	<b>5 151 938</b>	<b>37 951 477</b>	<b>31 701 328</b>	<b>5 806 314</b>	<b>37 507 642</b>

The Loans to Employees item refers to loans to employees on December 31, 2019 and 2018, which are subject to reduced interest rates, in accordance with Caixa's loans to employees' policy.

## 10. INVESTMENT PROPERTIES

The changes in this item for the years ended December 31, 2019 and 2018 are as follows:

<b>Acquisition Cost</b>	<b>Lands</b>	<b>Real Estate</b>	<b>Total</b>
Balance on 12-31-2017	3,683	4,418	8,101
Balance on 12-31-2018	3,683	4,418	8,101
Write-offs/Sales	-	(495)	(495)
Balance on 12-31-2019	3,683	3,923	7,606
<b>Amortization</b>	<b>Lands</b>	<b>Real Estate</b>	<b>Total</b>
Balance on 12-31-2017	-	3,049	3,049
Amortization of the year	-	35	35
Balance on 12-31-2018	-	3,084	3,084
Amortization of the year	-	31	31
Write-offs/Regularizations	-	(351)	(351)
Balance on 12-31-2019	-	2,764	2,764
<b>Net Balance on 12-31-2018</b>	<b>3,683</b>	<b>1,334</b>	<b>5,017</b>
<b>Net Balance on 12-31-2019</b>	<b>3,683</b>	<b>1,159</b>	<b>4,842</b>

On December 31, 2019 and 2018, the fair value of the investment properties was determined based on appraisals prepared by Caixa's Gabinete de Instalações e Avaliação Imobiliária, and it was:

	<b>2019</b>		<b>2018</b>	
	<b>Net Value</b>	<b>Appraised Value</b>	<b>Net Value</b>	<b>Appraised Value</b>
<b>Lands</b>	3 683	18 640	3 683	18 640
<b>Real Estate</b>	1 159	11 463	1 334	14 664
	4 842	30 103	5 017	33 304

In fiscal year 2019 and 2018, the income from the lease of these properties amounted to mCve. 90 and mCve. 68, respectively.

## 11. OTHER TANGIBLE ASSETS

In FY 2019 and 2018, the item “Other tangible assets” was as follows:

	Balance on 12-31-2018			01/01/2019 IFRS 16	Additions	Sales/ Write-offs		Amortization for the Year	Transfers	Regularizations	Balance on 12-31-2019		
	Gross Value	Accumulated Amortization	Net Value			Gross Value	Amortization				Gross Value	Accumulated Amortization	Net Value
Real estate	1.615.299	(138.060)	1.477.239	-	6.002	-	-	(33.206)	-	-	1.621.301	(171.266)	1.450.035
Works in rented buildings	47.937	(42.430)	5.507	-	1.300	-	-	(591)	-	-	49.237	(43.021)	6.216
Artistic heritage	5.116	-	5.116	-	11	-	-	-	-	-	5.127	-	5.127
Equipment:													
Furniture and materials	243.144	(194.177)	48.967	-	5.058	(221)	221	(14.611)	-	-	247.981	(208.567)	39.414
Machinery and tools	280.270	(243.697)	36.573	-	3.363	(1.185)	1.185	(12.760)	-	-	282.448	(255.272)	27.176
Computer equipment	359.376	(331.184)	28.192	-	3.945	(721)	721	(11.805)	-	-	362.599	(342.268)	20.332
Indoor facilities	573.936	(563.039)	10.897	-	4.115	(754)	754	(2.005)	-	-	577.297	(564.290)	13.007
Transportation equipment	161.210	(127.781)	33.429	-	17.278	-	-	(12.130)	-	-	178.488	(139.911)	38.576
Security equipment	143.294	(124.167)	19.127	-	12.238	-	-	(7.056)	-	-	155.532	(131.223)	24.308
Other equipment	6.501	(5.994)	507	-	88	(14)	14	(139)	-	-	6.575	(6.119)	456
Right-of-use assets													
Real estate	-	-	-	105.116	-	-	-	(13.320)	-	-	105.116	(13.320)	91.795
	3.436.083	(1.770.529)	1.665.554	105.116	53.397	(2.895)	2.895	(107.623)	-	-	3.591.701	(1.875.257)	1.716.444
Construction in progress	329.362	-	329.362	-	27.656	(4.369)	-	-	-	-	352.649	-	352.649
	3.765.445	(1.770.529)	1.994.916	105.116	81.053	(7.264)	2.895	(107.623)	-	-	3.944.350	(1.875.257)	2.069.093

  

	Balance on 12-31-2017			Sales / Write-offs		Amortization for the year	Transfers	Regularization	Balance on 12-31-2018		
	Gross value	Accumulated Amortizations	Additions	Gross value	Amortizations				Gross value	Accumulated Amortizations	Net value
Real estate	1.675.900	(206.372)	40.385	(100.986)	100.986	(32.676)	-	-	1.615.299	(138.062)	1.477.237
Works in rented buildings	48.242	(41.640)	-	-	-	(1.097)	(305)	307	47.937	(42.430)	5.507
Artistic heritage	4.411	-	705	-	-	-	-	-	5.116	-	5.116
Equipment:											
Furniture and materials	230.340	(183.064)	14.325		3.293	(15.339)	(1.519)	931	243.146	(194.179)	48.967
Machinery and tools	303.904	(267.590)	366	(23.603)	37.339	(13.810)	(395)	362	280.272	(243.699)	36.573
Computer equipment	390.952	(351.616)	2.239	(33.040)	36.301	(16.619)	(775)	750	359.376	(331.184)	28.192
Indoor facilities	576.525	(565.046)		(2.512)	3.832	(1.900)	(77)	75	573.936	(563.039)	10.897
Transportation equipment	163.330	(112.791)		(2.120)	858	(15.848)			161.210	(127.781)	33.429
Security equipment	141.377	(119.575)	1.955	(28)	912	(5.512)			143.304	(124.175)	19.129
Other equipment	6.982	(6.231)	210	(566)	566	(444)	(126)	116	6.500	(5.993)	507
	3.541.963	(1.853.925)	60.185	(162.855)	83.101	(103.245)	(3.197)	2.541	3.436.096	(1.770.542)	1.665.554
Construction in progress	298.129	-	31.233						329.362	-	329.362
	3.840.092	(1.853.925)	91.418	(162.855)	83.101	(103.245)	(3.197)	2.541	3.765.445	(1.770.529)	1.994.916

The item Right-of-use asset is basically composed of real estate (branches and central buildings), being depreciated according to the lease term of each contract. The opening balance in 2019 corresponds to the adjustment resulting from the application of IFRS 16

On December 31, 2019 and 2018 the item “Real Estate in progress” includes costs with the installation of new branches and works in existing branches, in the amounts of mCve. 352,649 - and mCve. 329,362, respectively.



## 12. INTANGIBLE ASSETS

On December 31, 2019 and 2018, the item intangible assets records Caixa's software. In FY 2019 and 2018, the item "Intangible assets" was as follows:

<b>Acquisition Cost</b>	<b>Software</b>	<b>Total</b>
<b>Balance on 12- 31-2017</b>	311 075	311 075
Additions	7 863	7 863
<b>Balance on 12- 31-2018</b>	318 938	318 938
Additions	-	-
<b>Balance on 12- 31-2019</b>	318 938	318 938
<b>Amortizations</b>	<b>Software</b>	<b>Total</b>
<b>Balance on 12- 31-2017</b>	299 847	299 847
Amortizations of the Year	6 049	6 049
<b>Balance on 12- 31-2018</b>	305 896	305 896
Amortizations of the Year	7 630	7 630
<b>Balance on 12- 31-2019</b>	313 526	313 526
<b>Net Balance on 12-31-2018</b>	13 042	13 042
<b>Net Balance on 12-31-2019</b>	5 412	5 412

### 13. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On December 31, 2019 and 2018, the balance of this item was as follows:

<b>2019</b>					
Entity	% of shares	Acquisition costs	profit / loss	Equity	Balance sheet
IMOTUR - Imobiliária e Turística de Cabo Verde, S.A.	17.86%	12 500	(33 755)	5 820	1 039
SISP - Sociedade Interbancária e Sistemas de Pagamentos	10.00%	10 000	248 239	1 028 787	102 888
		<b>22 500</b>			<b>103 927</b>
<b>2018</b>					
Entity	% of shares	Acquisition costs	profit / loss	Equity	Balance sheet
IMOTUR - Imobiliária e Turística de Cabo Verde, S.A.	17.86%	12 500	(33 755)	5 820	1 039
SISP - Sociedade Interbancária e Sistemas de Pagamentos, SARL	10.00%	10 000	216 796	888 989	88 899
		<b>22 500</b>			<b>89 938</b>

Caixa classified its holdings in SISP - Sociedade Interbancária e Sistemas de Pagamentos, SARL (SISP) and Imotur – Imobiliária e Turística de Cabo Verde, S.A. (Imotur) as Investments in associates, although its participation is less than 20%, given that Caixa is part of the management body, which, according to the Board of Directors, gives it a significant influence over the operations of these entities, thus complying with the provisions of IAS 28 - Investments in Associates.

The changes in the book value of these holdings in FY 2019 and 2018 and their impact on Caixa's financial statements can be demonstrated as follows:

	<b>IMOTUR</b>	<b>SISP</b>	<b>TOTAL</b>
<b>Balance on 31 December 2017</b>	<b>1 039</b>	<b>77 300</b>	<b>78 339</b>
Dividends		(9 966)	(9 966)
Income from associates		21 565	21 565
			-
<b>Balance on 31 December 2018</b>	<b>1 039</b>	<b>88 899</b>	<b>89 938</b>
Dividends		(10 836)	(10 836)
Income from associates		24 824	24 824
<b>Balance on 31 December 2019</b>	<b>1 039</b>	<b>102 887</b>	<b>103 927</b>

## 14. INCOME TAX

On December 31, 2019, Caixa was subject to Corporate Income Tax (IRPC), at the rate of 22% and a fire tax of 2% of the assessed tax, which corresponds to an aggregate tax rate of 22.44%.

The balances of income tax assets and liabilities on December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Current tax assets		
. IRPC recoverable	<u>69 236</u>	<u>43 273</u>
	<u>69 236</u>	<u>43 273</u>
Current tax liabilities		
. Estimated taxes for the year	179 105	115 262
. Autonomous Taxation	<u>5 827</u>	<u>8 257</u>
	<u>184 932</u>	<u>123 519</u>
Deferred Tax Assets		
. By reportable tax losses	-	63 825
. Loan Impairment	<u>44 936</u>	<u>-</u>
	<u>44 936</u>	<u>63 825</u>

The item “Current tax assets - IRPC recoverable” corresponds to fractioned payments made in 2018 and 2019.

The changes in deferred taxes assets in FY 2019 and 2018 are as follows:

	<u>2019</u>		
	<u>Balance on 12-31-2018</u>	<u>Change in Profit/Loss</u>	<u>Balance on 12-31-2019</u>
Reportable tax losses	63 825	(63 825)	-
Loan Impairment	-	44 936	44 936
	<u>63 825</u>	<u>(18 889)</u>	<u>44 936</u>

  

	<u>2018</u>		
	<u>Balance on 12-31-2018</u>	<u>Change in Profit/Loss</u>	<u>Balance on 12-31-2018</u>
Reportable tax losses	-	63 825	63 825
	-	63 825	63 825

Pursuant to the IRPC Code, approved by Law No. 82/VIII/2015, dated January 7, tax losses are deducted from taxable profits, if any, for one or more of the following seven taxation periods. In FY 2019, Caixa used deferred taxes related to reportable tax losses for 2018, totaling mCVE 63,825. The amount of reportable tax losses that was actually used in 2018 was mCVE 255,301. Also in 2019, Caixa recorded deferred tax assets in the amount of 44,936 mCVE, referring to impairment losses of banking institutions not accepted or beyond the legal limit (Art. 29, no. 1, paragraph d), 39 and 42 CIRPC ), having added the value of 200,248 mCVE

The reconciliation between the nominal rate and the effective tax rate for the years 2019 and 2018 can be shown as follows:

	2019		2018	
	Rate	Tax	Rate	Tax
<u>Earnings before tax</u>		<u>1 144 662</u>		<u>533 555</u>
Tax calculated at nominal rate	22.4%	256 862	25.5%	136 057
Tax benefits:				
.Income from Government bonds	-9%	-24 115	-29.0%	-39 487
placed on secondary market	-5.0%	-12 923	-18.4%	-25 001
.Income from bonds	-30.1%	-77 425	-63.03%	-85 757
.Others	-0.5%	-1 185	-0.6%	-862
Impairment and provisions not accepted as tax cost	15.7%	40 313	13.7%	18 574
Reversal of taxed provisions	-3.3%	-8 407	-9.0%	-12 179
Application of the equity method	-2.2%	-5 570	-4.0%	-5 499
Non-tax-deductible expenses	0.1%	291	0.2%	331
Autonomous Taxation	0.5%	1 308	1.5%	2 106
Deferred taxes amount correction	0.0%	0	0.0%	0
Relating to reportable tax losses	22.3%	-57 289	0.0%	0
Correction relating to previous years	5.5%	14 158	57.2%	77 829
Impairment losses insurance or banking entities	17.6%	45 144	0.0%	0
Others	3.7%	9 460	3.5%	4 729
<u>Income tax for the year</u>	<u>15.6%</u>	<u>179 105</u>	<u>2.00%</u>	<u>8 257</u>

Income from bonds or products of a similar nature, including public debt securities, listed on Bolsa de Valores de Cabo Verde, is taxed on income tax at a flat rate of 5%. The rate only applies to income earned until December 31, 2025.

In July 2011, Caixa received a notice from DCI setting the 2010 income tax at mCve 74,640. This notification had implied a number of adjustments to the tax calculated by Caixa which were the subject of complaint. In January 2012, Caixa received a new notification correcting the previously set amounts and calculating a tax amount of mCve 40,644. Caixa settled the amount of mCVE 16,145 and submitted a complaint regarding the remaining amount. It is currently waiting for DCI to complete the process.

On December 31, 2019, a provision for tax contingencies totaling mCve. 31,877, was recognized and which, the majority of that amount, is allocated to the 2010 case waiting completion by DCI.

Pursuant to the General Tax Code, approved by Law 47 / VIII / 2013, of December 20, tax authorities have the possibility to review Caixa's tax situation for a period of five years, which may result, due to different interpretations of the legislation, any corrections to taxable income. In the opinion of the Board of Directors, any correction is not expected to be significant for Caixa's financial statements as of December 31, 2019.

## 15. OTHER ASSETS

This heading has the following composition:

	2019	2018
<u>Other assets:</u>		
Assets received through credit recovery	1 499 784	1 657 517
Coins and medals	86	86
	<u>1 499 870</u>	<u>1 657 603</u>
<u>Debtors:</u>		
Amounts receivable from the State of Cabo Verde		
. Bonuses	853 482	961 468
. Others	48	48
Foreign currency remittance debtors	16 787	22 289
Sundry debtors	37 572	54 450
	<u>907 889</u>	<u>1 038 255</u>
<u>Deferred charge expenses:</u>		
Insurance	18 203	10 452
Others	25 983	17 823
	<u>44 186</u>	<u>28 274</u>
<u>Lending operations pending settlement:</u>	<u>21 001</u>	<u>118 298</u>
<b>Gross Asset</b>	<u>2 472 946</u>	<u>2 842 431</u>
<u>Impairment of other assets (Note 18):</u>		
Assets Received on Credit Recovery	(762 640)	(6 20 459 )
Other assets	(2 489)	(30 447)
<b>Accumulated Impairment</b>	<u>(765 129)</u>	<u>( 650 906)</u>
<b>Net Assets</b>	<u>1 707 817</u>	<u>2 191 525</u>

The item " Assets received through credit recovery " corresponds to the values of the assets received for credit recovery, held for sale, and in 2019 the total portfolio was mCve. 1,499,784, with associated impairment of mCve. 762,640.

The item Bonuses receivable from the State of Cabo Verde includes the amounts of mCve. 142,418 and mCve. 658,511 referring to home loans and other loans, respectively, in accordance with the legal provisions applicable to subsidized loans

On December 31, 2019, the assets received through loan-recovery correspond to the real estate and other assets received as payment in kind, and they break down as follows, according to the date of acquisition by Caixa:

Year of acquisition	2019				2018			
	Gross Value	Impairment	Net value	%	Gross Value	Impairment	Net Value	%
2004	-	-	-	0%	2 015	(1 974)	41	98%
2007	958	(958)	-	100%	1 131	(958)	172	85%
2008	3 324	(3 324)	-	100%	3 365	(3 324)	42	99%
2009	400	(400)	-	100%	400	(400)	-	100%
2013	251 348	(134 638)	116 710	54%	264 375	(72 000)	192 375	27%
2014	628 771	(269 705)	359 066	43%	644 536	(156 500)	488 036	24%
2015	147 220	(123 876)	23 344	84%	290 238	(159 368)	130 871	55%
2016	342 350	(184 472)	157 878	54%	346 355	(184 871)	161 484	53%
2017	76 246	(22 600)	53 646	30%	76 607	(22 600)	54 007	30%
2018	30 076	(22 667)	7 409	75%	23 209	(18 864)	4 345	81%
2019	19 071	-	19 071	0%	-	-	-	-
	1 499 764	(762 640)	737 124	51%	1 651 831	(620 459)	1 031 372	38%

During 2019 Caixa received in settlement of three real estate Property, in which the balance sheet value on December 31 2019 totaled mCve. 19,071.

In 2019, Caixa sold two real estates in the total amount of mCve 132,844.

## 16. FUNDS FROM OTHER CREDIT INSTITUTIONS

This item breaks down as follows:

	2019	2018
Demand deposits:		
Credit institutions in the country	152 452	198 320
	<u>152 452</u>	<u>198 320</u>
Term Deposits:		
Interest:	-	-
	<u>-</u>	<u>-</u>
From Deposits	1 684	1 756
	<u>1 684</u>	<u>1 756</u>
	<u>154 135</u>	<u>200 076</u>

## 17. CUSTOMER FUNDS AND OTHER LOANS

This item breaks down as follows:

	2019	2018
Individuals - Passbooks	<u>9 299 987</u>	<u>8 265 753</u>
By residents	27 385 552	22 660 916
By emigrants	<u>1 063 606</u>	<u>957 011</u>
	<u>28 449 158</u>	<u>23 617 92 7</u>
By residents	16 338 526	16 775 103
By emigrants	<u>15 919 026</u>	<u>15 433 838</u>
	<u>32 257 552</u>	<u>32 208 941</u>
Securities sold under repurchase agreement (Notes 2.3 e) and 9)	1 172 730	2 772 730
Loans obtained from residents	346 967	380 301
Checks and money orders payable	<u>11 181</u>	<u>15 943</u>
	<u>1 530 878</u>	<u>3 168 974</u>
On Deposits	494 597	540 091
On Securities sold under repurchase agreements	12 729	37 179
On loans obtained from residents	<u>5 293</u>	<u>5 835</u>
	<u>512 619</u>	<u>583 105</u>
	<u>72 050 194</u>	<u>67 844 700</u>

The item securities sold under repurchase agreements refers to the amount payable for securities granted and recorded under loans to customers – Government bonds according to the accounting policy referred to in paragraph 2.2. e).

On December 31, 2019 and 2018, the item “Other funds - Loans obtained from residents” corresponds to a loan obtained from Instituto Nacional de Previdência Social (INPS), which bears interest at a fixed rate, to be repaid in 15 annual installments. This loan aims to grant Mortgage loans to INPS employees for own housing

On December 31, 2019 and 2018, the balance of “Checks and money orders payable” included mCve. 69,358 and mCve. 61,185, respectively, for transfers received via Western Union whose financial compensation only occurred in the early days of 2020 and 2019.

## 18. PROVISIONS, IMPAIRMENT AND CONTINGENCIES

Changes in Caixa’s provisions and impairment for the year ended 31 December 2019, were as follows:

	2019				
	Balances on 12/31/2018	Appropriations	Uses	Cancellations and Readjustments	Transfers Balances on 12/31/2019
<u>Impairment</u>					
Impairment of loans to customers	4 555 683	2 215 339		(1 929 018)	4 842 004
Impairment of recovered assets	620 459	179 646	(37 465)		762 640
Debtors, Other Applications	30 447	-	-	(27 958)	2 489
	5 206 588	2 394 985	(37 466)	(1 956 976)	5 607 133
Other provisions	2 743		(2 743)		-
Tax Contingencies	31 877	-	-		31 877
	5 241 209	2 394 985	(40 208)	(1 956 976)	5 639 010



Changes in Caixa's provisions and impairment for the year ended 31 December 2018, were as follows:

	2018					
	Balances on			Cancellations and		Balances on
	12/31/2017	Appropriations	Uses	Readjustments	Transfers	12/31/2018
<u>Impairment</u>						
Impairment of loans to customers	3 558 001	3 616 081	(96 798)	(2 900 773)	379 171	4 555 683
Impairment recovered assets	468 675	155 178		(3 395)		620 459
Debtors, Other Applications	30 447				-	30 447
	4 057 123	3 771 259	(96 798)	(2 904 168)	379 171	5 206 588
<u>Other provisions</u>	39 351		(36 608)		-	2 743
Tax Contingencies	31 877	-	-		-	31 877
	4 128 352	3 771 259	(133 406)	(2 904 168)	379 171	5 241 209

The Provisions and Net Impairments for the Year, which in 2018 totaled mCVE 867,091, reached mCVE 438,009 in 2019, reflecting a decrease of mCVE 429,082 (-49.5%). Note that the net loan impairments (net appropriations in income statement) decreased by 428,987.

## 19. OTHER LIABILITIES

This item breaks down as follows:

	2019	2018
<u>Funds:</u>		
SPA - Tax Withholding	-	3 490
Liability Lease (IFRS16)	92 940	-
Others	6 597	4 245
	<u>99 537</u>	<u>7 735</u>
<u>Personnel cost:</u>		
Vacations and vacation allowance	72 230	70 847
Productivity bonus	43 843	43 423
Allowance for faults	15 130	13 365
	<u>131 203</u>	<u>127 635</u>
<u>Other administrative costs:</u>		
ATM Charges	10 187	9 580
Water, gas and electricity	11 927	7 988
Communications	27 002	12 350
SPA - Taxes Withholding	45 997	42 407
Others	55 957	49 361
	<u>151 070</u>	<u>121 686</u>
<u>Deferred income:</u>		
Off-balance-sheet transactions	1 555	2 592
<u>Other settlement accounts</u>	73 104	87 535
	<u>456 467</u>	<u>322 456</u>
<b><u>Other liabilities</u></b>	<b><u>456 467</u></b>	<b><u>322 456</u></b>

The item "Liability Lease" corresponds, on December 31, 2019, to the value of liabilities lease recognized under IFRS 16, and considers lease contracts for real estate (branches and central buildings). Until December 31, 2018, and in accordance with IAS 17, all real estate leases were recognized directly in profit or loss, under the heading "General Administrative Expenses"

On December 31, 2019 and 2018, the item "Other administrative expenses - Other" included mCve. 23 623 and mCve. 20 498, respectively, referring to the amounts payable to INPS as December social security contributions. The remaining balance of this item in 2019 is essentially composed of amounts to be settled with External Audit Especialized Services (mCve. 12,642), Private Security Especialized Services (mCve. 5,518) and expenses with SISP services – Tarifários Interbancários RV4 – (mCve. 3,329).

## 20. EQUITY

As of December 31, 2019 and 2018, Caixa's equity was represented by 1,392,000 shares with a par value of one thousand Cabo Verde Escudos each, fully subscribed and paid up.

As of December 31, 2019 and 2018, Caixa's shareholder structure was as follows:

Entity	2019		2018	
	Number of shares	%	Number of shares	%
Instituto Nacional de Previdência Social	657 200	47.2%	657 200	47.2%
Geocapital, Sociedade de Gestão e Participação, S.A.	-	0.0%	381 904	27.4%
State of Cabo Verde	381 904	27.4%	-	0.0%
Correios de Cabo Verde	210 749	15.14%	210 749	15.1%
Other subscribers and Employees	142 147	10.2%	142 147	10.2%
	<b>1 392 000</b>	<b>100.0%</b>	<b>1 392 000</b>	<b>100.0%</b>

In 2017, Instituto Nacional de Previdência Social purchased the stakes in IMPAR - Companhia Cabo-verdiana de Seguros, S.A.R.L. and a group of private shareholders, totaling 200,211 shares, now holding 47.21% of Caixa's equity and in December 2019 the State of Cabo Verde acquired, through the Ministry of Finance, the totality of shares of Geocapital- Gestão de Participações SA.

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

At December 31, 2019 and 2018, the reserves and retained earnings items were as follows:

	2018	Incorporation of reserves	Dividends	Microcredit	Net Income	2019
Other reserves and retained earnings						
. Legal reserves	573 658	47 386				621 044
. Other reserves	2 749 071	(611 897)		(290)		2 136 884
. Retained earnings	(943 717)					(943 717)
. Dividends			(94 656)			
	2 379 013	(564 511)	(94 656)	(290)		1 814 211
Profit for the year	473 861				940 840	940 840
	<b>2 852 874</b>	<b>(564 511)</b>	<b>(94 656)</b>	<b>(290)</b>	<b>940 840</b>	<b>2 755 051</b>

Pursuant to the legislation in force in Cabo Verde (Law No. 3 / V / 96), a minimum of 10% of annual net income must be allocated to the legal reserve. This reserve is not distributable except in the event of liquidation of the entity and may be used to increase capital or to cover losses after the other reserves have been exhausted.

At the General Meeting held on June 25, 2019, it was decided dividends totaling mCve. 94,656 would be distributed, while mCve. 47,386 and mCve. 331,703, respectively, would be incorporated into legal reserve and other reserves.

## 22. INTEREST AND SIMILAR INCOME

This heading is broken downs as follows:

	<u>2019</u>	<u>2018</u>
Interest on loans to customers		
Internal loans	2 847 414	2 663 948
Recovery of canceled interest	189 545	256 729
Interest on other loans and receivables (securitized)		
Treasury Bonds	614 676	626 454
Other fixed income securities	107 464	118 554
Interest on investments in Banco de Cabo Verde		
Monetary regularization securities	168	325
Monetary intervention securities	28 630	20 977
Interest on investments in credit institutions abroad	7 084	2 804
Interest on investments in credit institutions in the country	6 398	6 227
Interest on Financial Assets - Securities	43 148	49 797
Interbank money market interest	46 015	36 372
Fees received associated with amortized cost	193 936	188 699
	<u>4 084 479</u>	<u>3 970 886</u>

There was an overall increase in Interest and Similar Income in the amount of 113,593 mCve (3%), explained mainly by the interest received from internal loans during 2019 and by the results of Caixa's participation in open market operations, namely, investment in Monetary Intervention Securities.

## 23. INTEREST AND SIMILAR EXPENSES

This item is as follows:

	2019	2018
Savings Deposits		
Passbooks	207 862	222 214
Demand deposits		
From emigrants	19 355	17 318
Term Deposits		
From emigrants	439 797	478 558
From residents	535 247	542 560
Loans		
Non-residents	205	297
Residents	8 625	9 465
Sale transactions with repurchase agreement		
Treasury bonds	123 628	184 206
Canceled Interest on loans to customers		
Domestic loans	166	339
Interest on Lease Commitments (application of IFRS 16)	2 945	-
Others	144	5 124
	<b>1 337 973</b>	<b>1 460 082</b>

The interest and similar expenses decreased mCve 122,909 (8%) , explained mainly by the decreasing of interest rate of interest bearing deposits, by the decreasing of interest rate on the secondary market triggered by maturity of the bonds.

In 2019, Caixa implemented IFRS 16-Leases, having recognized in the cost of interest for lease commitments the value of 2,945 mCve.

## 24. INCOME AND EXPENSES WITH SERVICES AND FEES

This heading has the following composition:

	2019	2018
<b>Income from services and fees:</b>		
Western Union Fees	56 652	54 076
Foreign Exchange Fees	93 532	93 079
Guarantees and sureties	12 458	13 214
Advance Fees		
VISA Fees	37 203	12 215
Documentary Credits	0	4 70
Account Maintenance Fees	15 946	21 886
Other banking services provided	18 390	21 477
Other fees	47 844	28 556
	<b>282 025</b>	<b>244 973</b>
<b>Expenses from service and fees:</b>		
Foreign Exchange Fees	(20 752)	(20 535)
VISA Fees	(54 116)	(38 587)
Other fees and expenses	(42 173)	(42 182)
	<b>(117 041)</b>	<b>(101 304)</b>

The item Income from services and net commissions had an increase mCVE 37,052 (15%), compared to 2018, explained by the increase of Visa fees (205%) and other fees (68%). The Expenses in reference to services and fees showed an increase of mCVE 15,737 (15.53%), mainly explained by the increase in Visa fees.

## 25. INCOME FROM FOREIGN CURRENCY REVALUATION

This item is as follows:

	2019			2018		
	Profits	Losses	Net	Profits	Losses	Net
Income in foreign currencies	145 016	(83 509)	61 507	180 504	(100 288)	80 216
Income in bank notes and coins	116 702	(78 684)	38 018	123 025	(90 843)	32 182
	<b>261 718</b>	<b>(162 193)</b>	<b>99 525</b>	<b>303 529</b>	<b>(191 131)</b>	<b>112 398</b>

The result of foreign currency revaluation had a decrease of mCve 12,873 (11.45%), compared to 2018, explained particularly due to the exchange revaluation of USD that decreased 19%, i.e., mCve 16,179, mainly due to the loss of some strategic businesses.

## 26. INCOME FROM SALE OF OTHER ASSETS

For the year ended December 31, 2019, the income from sale of other assets corresponded to gains on the disposal of non - current assets held for sale and other tangible assets.

Income from sale of other assets	2019
Profit and losses on sales of non – current assets held for sale (Note 15)	27 082
Profit and losses on sales of others tangible assets	2 245
	<u>29 326</u>

In 2019, the income from the sale of non-current assets held for sale correspond to the capital gains generated by the sale of two properties, namely: Concave building and a rustic land in Santa Cruz, with gains of 24,669 mCve and 2,412 mCve, respectively

## 27. OTHER OPERATING INCOME

This item is as follows:

	2019	2018
<u>Other operating income:</u>		
Services provision:		
Service Fees	29 310	28 383
Credit cards	7 035	5 589
Sale of checks and passbooks	6 173	6 757
Property leasing (Note 8)	90	68
Recovery of bad debts	62 761	37 881
Other operating income	<u>27 212</u>	<u>40 111</u>
	<u>132 580</u>	<u>118 790</u>
<u>Other operating costs:</u>		
Other taxes	(60 118)	(34 728)
Donations	(360)	(420)
Quota Contributions	(1 539)	(2 143)
Guarantee Fund Deposits	-	(7 543)
Others	<u>(63 095)</u>	<u>(8 006)</u>
	<u>(125 112)</u>	<u>(52 840)</u>
<b><u>Other Operating Income</u></b>	<b><u>7 468</u></b>	<b><u>65 950</u></b>

In 2019, the "Other operating income" item recorded a negative variation, of around 84% (mCve. 58,482), despite the significant increase in gains in the recovery of credits written off from assets in mCve. 24,880 (66%).

The decrease in the balance of the item is due to the significant increase in "Other operating costs", about 137% (mCve. 72,273), essentially justified by the recognition in the results of expenses with assets acquired in credit recovery (mCve. 32,079 ) and the IUP's of these same assets (mCve. 23,583).

## 28. PERSONNEL EXPENSES

This item is as follows:

	<b>2019</b>	<b>2018</b>
Employee Compensation	634 798	614 185
Remuneration of management and supervisory bodies	31 610	32 710
Social expenses		
Social Security	99 640	95 896
Medical expenses	6 170	5 975
Others	9 683	9 060
Productivity bonus (Note 19)	43 843	43 423
Others	4 862	4 280
	<b>830 606</b>	<b>805 529</b>

The increase in Personnel Expenses is essentially due to the increase in Monthly Remunerations, following the increase in salaries and salary updates (promotion and progressions), the increase in the number of employees, as well as the increase in Social Security Contribution

On December 31 2019 and 2018, Caixa had the following workforce:

	<b>2019</b>	<b>2018</b>
Executive Directors	3	3
General Management and Coordination	32	32
Branch Managers and head of Services	33	33
Superior associates	143	142
Administrative	104	96
General and auxiliary	53	52
	<b>368</b>	<b>358</b>

As of December 31, 2019 and 2018, the figures presented above include 36 and 20 employees, respectively, with fixed-term employment contracts and on December 31, 2019, one board director on assignment.



## 29. GENERAL AND ADMINISTRATIVE EXPENSES

This item is as follows:

	2019	2018
Specialized services	181 753	167 782
ATM Charges	111 344	105 196
Water, gas and electricity	54 262	54 205
Advertising	34 876	47 492
Communications	45 093	35 120
Travel, stays and representation	26 810	27 676
Current Consumables	22 559	26 319
Insurance	14 749	15 297
Maintenance and repair	27 711	23 032
Rents and leases	87	16 972
Fuels	8 568	8 382
Transports	1 006	1 388
Staff training expenses	4 699	1,024
Computer equipment	1 055	614
Litigation and notary	600	1 820
Others	8 898	6 673
	<b>544 072</b>	<b>538 993</b>

In 2019, we had an increase in General Administrative Expenses, in the amount of 5,079 mCve, 1% in relation to 2018. This increase is mainly justified by the increase in the Specialized Services Charges with ATM and Communication.

### 30. CONTINGENT LIABILITIES AND COMMITMENTS

As of December 31, 2019 and 2018, contingent liabilities associated with banking activities were recorded in off-balance sheet items and were as follows:

	2019	2018
Contingent liabilities		
Guarantees and sureties	594 930	509 029
Documentary credits opened	-	15 249
	594 930	524 278
Deposits and custody of securities	41 406 400	41 741 849
Third-party loan management	705 813	744 751
	<b>42 707 143</b>	<b>43 010 879</b>

As of December 31, 2019 and 2018 the item “Deposits and custody of securities” included mCve. 41,406 and mCve. 41,712, respectively, relating to securities deposited at Caixa by customers.

Following the Novo Banco Resolution and the transfer of its financial assets to INPS and BCV, Caixa signed agreements with these two institutions to assign and manage their loan portfolios, namely:

With INPS – Assignment agreement dated 07/06/17 among Novo Banco, INPS and Caixa, aiming to manage Novo Banco’s loan portfolio, with a balance as of 12/31/19 of mCVE 517,845.

With BCV - Assignment agreement dated 9/26/17 between BCV and Caixa, where this latter takes a loan portfolio for management purposes with a balance as of 12/31/2019 of mCVE 34,889.

In the context of these agreements, Caixa's responsibilities consist in the recovery of the portfolios, that is, in the management and collection of the installments. To this end, it must develop all due diligence that characterizes the monitoring, collection and recovery, typical bank activities, in the scope of its credit activity.

For the services provided by Caixa, in return, both contracts provide for a monthly success fee of 20% on the interest charged, as well as an annual management fee of 2% of the outstanding principal amount as of 12/31 of the previous year and that the total amounts received by Caixa (monthly interest + annual management fee) shall not exceed 50% of the total interest actually charged in the year in question.

### 31. SEGMENT REPORTING

For management purposes, Caixa is organized into two segments, called “Trading and Sales” and “Commercial Banking”.

The Trading and Sales segment is related to cash management, securities portfolio management and other market operations. In the Commercial Banking segment, is to be highlighted loans and deposits, services to customers and others.

As of December 31, 2019, the information regarding Caixa's operating segments used can be summarized as follows:

	<b>2019</b>		
	Trading and sales	Commercial Banking	Total Negotiation
Interest and similar income	846 500	3 237 979	4 084 479
Interest and similar expenses	-	(1 337 973)	(1 337 973)
<b>NET INTEREST INCOME</b>	<b>846 500</b>	<b>1 900 006</b>	<b>2 746 505</b>
Income from services and fees		282 025	282 025
Expenses from services and fees		(117 041)	(117 041)
Income from foreign exchange revaluation		99 525	99 525
Income from the sale of other assets	29 326		29 326
Other operating results	7 468		7 468
<b>OPERATING INCOME</b>	<b>883 294</b>	<b>2 164 515</b>	<b>3 047 809</b>
Provisions and impairment net of reversals and recoveries			(438 010)
	<b>883 294</b>	<b>2 164 515</b>	<b>2 609 800</b>
Other expenses and income		-	(1 668 959)
<b>Income after tax</b>			<b>940 840</b>
Cash and Cash Equivalents at central banks		6 115 152	6 115 152
Cash equivalents at other credit institutions		2 938 587	2 938 587
Available-for-Sale Financial Assets	3 823		3 823
Investments in Credit Institutions	2 816 492	15 000 000	17 816 492
Customer loans	13 861 020	33 228 036	47 089 056
Funds from Other Credit Institutions		154 135	154 135
Customer funds and Other Loans	352 260	71 697 933	72 050 194

As of December 31, 2018, the information regarding Caixa's operating segments used can be summarized as follows:

	<b>2018</b>		
	Trading and sales	Commercial Banking	Total Negotiation
Interest and similar income	1 050 209	2 920 677	3 970 886
Interest and similar expenses		(1 460 082)	( ,460 082)
<b>NET INTEREST INCOME</b>	<b>1 050 209</b>	<b>1 460 596</b>	<b>2 510 805</b>
Income from services and fees		244,973	244 973
Expenses from services and fees		(101 304)	(101 304)
Income from foreign exchange revaluation		112 398	112 398
Income from the sale of other assets	110		110
Other operating results	65 950		65 950
<b>OPERATING INCOME</b>	<b>1 116 270</b>	<b>1 716 663</b>	<b>2 832 932</b>
Provisions and impairment net of reversals and recoveries			(867 092)
	<b>1 116 270</b>	<b>1 716 663</b>	<b>1 965 840</b>
Other expenses and income		-	(1 432 284)
Current Tax			(59 694)
<b>Income after tax</b>			<b>473 862</b>
Cash and Cash Equivalents at central banks		9 459 301	9 459 301
Cash equivalents at other credit institutions		1 217 059	1 217 059
Available-for-Sale Financial Assets	,823		3 823
Investments in Credit Institutions	1 489 786	8 496 173	9 985 960
Customer loans	14 783 024	37 364 819	52 147 844
Funds from Other Credit Institutions		200 076	200 076
Customer funds and Other Loans	380 301	67 464 399	67 844 700

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

## 32. RELATED ENTITIES

Caixa's related entities include its shareholders, associated companies and management bodies. As of December 31, 2019 and 2018, Caixa's financial statements included the following balances and transactions with related entities, excluding the management bodies:

	Dec/2019			
	Shareholders			
	State of Cabo Verde	Instituto Nacional de Previdência Social	Correios CV	Associates
<b>Assets:</b>				
Investments in credit institutions	16 923 000	-	-	-
Loans to customers	11 824 915	-	-	86 560
Investments in subsidiaries, associates and joint ventures	-	-	-	103 927
Impairment	-	-	-	44 577
Other asset	853.530	-	-	-
<b>Liabilities:</b>				
Funds from other credit institutions	-	-	-	65 997
Customer funds and other loans	-	21 798 868	119 173	37
<b>Off the balance sheet:</b>				
Guarantees received	-	-	-	-
<b>Income:</b>				
Interest and similar income	695 887	-	-	-
<b>Costs:</b>				
Interest and similar expenses	123 628	406 910	-	-

	Dec/2018			
	Shareholders			
	State of Cabo Verde	Instituto Nacional de Previdência Social	IMPAR	Associates
<b>Assets:</b>				
Investments in credit institutions	8 896 000	-	-	-
Loans to customers	-	-	-	174 753
Investments in subsidiaries, associates and joint ventures	-	-	-	89 938
Impairment	-	-	-	-
Other asset	961 516	-	-	-
<b>Liabilities:</b>				
Funds from other credit institutions	-	-	-	56 107
Customer funds and other loans	-	19 041 703	-	-
<b>Off the balance sheet:</b>				
Guarantees received	-	-	-	-
<b>Income:</b>				
Interest and similar income	653 983	-	-	-
<b>Costs:</b>				
Interest and similar expenses	186 027	424 700	-	-

### **Management Bodies**

On December 31, 2018 and 2019, the amount of loans granted to members of the Board of Directors amounted to mCve. 3,700 and mCve. 216, respectively.

## **33. DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS**

### **Financial risk management policies inherent to Caixa Económica de Cabo Verde's operations**

Caixa Económica de Cabo Verde is subject to many risks in carrying out its operations. Risk management is based on the ongoing identification and assessment of exposure to various risks, such as market risk, liquidity risk, credit risk, operational risk, and the adoption of the control strategy, within the previously defined parameters.

Management is complemented by *a posteriori* assessment of performance indicators.

### **Foreign exchange risk**

Foreign exchange risk is calculated on the institution's global currency position, as determined by Banco de Cabo Verde's Notice 3/2000 and its technical instructions. Considering the legally binding agreement establishing the parity of the Cabo Verdean escudo with the euro, the euro position is not computed for the purpose of calculating total long and short open positions.

### **Liquidity risk**

Liquidity risk is the possibility of failure to meet financial obligations and commitments, as well as to raise funds and make investments at appropriate rates and maturities.

Caixa's risk assessment is made taking into account the indicators established by the supervisory entity and the Board of Directors and consists of the permanent respect of the liability coverage ratio.

Follow-up on different timeframes is based on projections of inflows and outflows, allowing efficient management of needs.

As of December 31, 2019 and 2018, the contractual residual terms of the financial instruments are as follows:

		2019					
		Up to 1 month	1 to 3 months	3 months to 1 Year	1 Year to 5 Years	More than 5 Years	Indefinite Total
<b>Assets:</b>							
Cash and cash equivalents at Central Banks		6 115 152					6 115 152
Cash equivalents at other credit institutions		2 938 587					2 938 587
Investments in credit institutions		15 972 855	600 000	1 167 135	0	0	17 816 492
Loan to customer		1 139 371	425 456	2 372 769	15 551 866	27 247 023	51 931 061
		<b>26 165 965</b>	<b>1 025 456</b>	<b>3 539 904</b>	<b>15 551 866</b>	<b>27 247 023</b>	<b>5 271 078</b>
<b>Liability:</b>							
Funds from Central Banks		0	0	0	0	0	0
Funds from other credit institutions		- 152 452	0	0	0	0	- 1 684
Customer funds and other loans		- 40 951 096	- 4 236 468	- 22 913 094	- 3 103 584	- 333 333	- 512 618
		<b>- 41 103 548</b>	<b>- 4 236 468</b>	<b>- 22 913 094</b>	<b>- 3 103 584</b>	<b>- 333 333</b>	<b>- 514 302</b>
<b>Liquidity Gap</b>		<b>- 14 937 583</b>	<b>- 3 211 013</b>	<b>- 19 373 189</b>	<b>12 448 283</b>	<b>26 913 690</b>	<b>4 756 775</b>

		2018					
		Up to 1 month	1 - 3 months	3 months - 1 Year	1 - 5 Years	More than 5 Years	Indefinite Total
<b>Residual Maturities Map</b>							
<b>Assets:</b>							
Cash and cash equivalents at Central Banks		9 459 301					9 459 301
Cash equivalents at other credit institutions		1 217 059					1 217 059
Investments in credit institutions		8 438 855	402 464	1 113 627	0	0	9 985 960
Loan to customer		2 242 680	846 896	5 087 550	14 307 225	23 805 872	52 147 844
		<b>21 357 895</b>	<b>1 249 360</b>	<b>6 201 178</b>	<b>14 307 225</b>	<b>23 805 872</b>	<b>5 888 634</b>
<b>Liabilities:</b>							
Cash and cash equivalents at Central Banks		0	0	0	0	0	0
Cash equivalents at other credit institutions		- 198 320	0	0	0	0	- 1756
Customer funds and other loans		- 35 943 438	- 4 512 780	- 19 346 405	- 7 092 304	- 366 667	- 583 105
		- 36 141 758	- 4 512 780	- 19 346 405	- 7 092 304	- 366 667	- 584 861
		<b>- 14 783 864</b>	<b>- 3 263 420</b>	<b>- 13 145 227</b>	<b>7 214 921</b>	<b>23 439 206</b>	<b>5 303 773</b>
<b>Liquidity Gap</b>		<b>- 14 783 864</b>	<b>- 3 263 420</b>	<b>- 13 145 227</b>	<b>7 214 921</b>	<b>23 439 206</b>	<b>5 303 773</b>

The presented terms are contractual, but in reality, Demand deposits included in Customer funds and other loans are stable and have longer maturities, allowing Caixa to meet the liquidity ratios required by Banco de Cabo Verde.

The “Indefinite” column includes interest receivable and payable and amounts already received or paid that are being deferred and non-performing loan.

#### **Interest rate risk**

Interest rate risk management aims at protecting equity value as well as optimizing Caixa's net interest income.

Caixa assumes interest rate risk whenever contracted operations have future financial flows that are sensitive to changes in interest rates.

The methodology adopted for measuring this risk consists of grouping the sensitive assets and liabilities into time intervals according to the respective interest rate revision dates. At each interval, the asset and liability cash flows as well as the corresponding interest rate risk gap are calculated.

#### **Market risk**

Market risk is defined as the risk of loss on off-balance sheet accounts as a result of changes in market prices, such as exchange rate risk instruments on all balance sheet and off-balance sheet items and interest rate risk instruments that make up the trading portfolio.

Exchange rate risk is calculated on the global currency position in accordance with Law No. 3 / V / 96 of July 1 and Decree Law No. 12/2005 of February 7.

The minimum amount of equity allocated to cover market risk relating to exchange rates is 10% of the overall foreign-exchange position.

#### **Credit risk**

Credit risk reflects the possibility of losses if the counterparty or its guarantor fails to comply its financial obligations, including repayment of the loan.

Caixa applies a risk management strategy based on rules and procedures and a provisioning policy based on the collective and individual credit analysis. For this purpose, the concepts, principles and rules to be observed during the life of the credit, including in the recovery phase, are established. The risk assessment of lending and off-balance sheet operations is supported in the proposed operation's quality assessment, namely its purpose, term, guarantee, among others. The specific risk assessment also considers exposure concentration and large exposure limits from a prudential perspective.



At December 31, 2019 and 2018, the gross balance of loans to customers, excluding “Other loans and receivables (securitized)”, accrued interest or guarantees provided and documentary credits to companies, was as follows:

	<b>2019</b>	<b>2018</b>
Investments in Credit Institutions	17 816 492	9 985 960
Loans to customers (net of impairment and provisions)	47 089 056	47 592 161
	<b>64 905 548</b>	<b>57 578 121</b>
Other commitments:		
Guarantees and sureties (net of provisions)	594 930	478 374
Open Documentary Credits	0	15 249
Third-party Loan Management	705 813	744 751
	<b>1 300 743</b>	<b>1 238 374</b>
<b>Maximum Credit Risk Exposure</b>	<b>66 206 292</b>	<b>58 816 495</b>

In accordance with IFRS 9 principles, total credit includes accrued interest. Does not include securitized loan, interest receivable, deferred income and costs.

### Quality of loans to customers

Prepared by DGR

12/31/2019

	Loans Staging 1	Loans Staging 2	Loans Staging 3	Total Loans
<b>Retail</b>				
<b>Individual- Mortgage</b>				
Due	11 381 683 729	1 056 846 328	1 620 593 166	14 059 123 223
Overdue	2 345 198	3 126 474	378 956 111	384 427 783
	<u>11 384 028 927</u>	<u>1 059 972 802</u>	<u>1 999 549 277</u>	<u>14 443 551 006</u>
<b>Individual-Consumption</b>				
Due	4 389 740 283	815 377 007	587 805 138	5 792 922 428
Overdue	1 291 038	6 484 740	246 804 735	254 580 514
	<u>4 391 031 322</u>	<u>821 861 747</u>	<u>834 609 873</u>	<u>6 047 502 942</u>
<b>Individual - Revolving</b>				
Due	123 985 142	74 660 880	48 401 294	247 047 316
Overdue	6 097 554	17 095 660	94 128 347	117 321 561
	<u>130 082 697</u>	<u>91 756 540</u>	<u>142 529 641</u>	<u>364 368 877</u>
<b>Business</b>				
Due	4 168 766 008	6 366 514 098	2 184 385 979	12 719 666 085
Overdue	3 106 059	1 945 987	1 705 364 716	1 710 416 762
	<u>4 171 872 068</u>	<u>6 368 460 085</u>	<u>3 889 750 695</u>	<u>14 430 082 848</u>
<b>Individual Producers</b>				
Due	281 825 602	300 095 394	247 748 336	829 669 332
Overdue	28 502	1 344 262	140 827 511	142 200 275
	<u>281 854 104</u>	<u>301 439 656</u>	<u>388 575 847</u>	<u>971 869 607</u>
<b>Financial Institutions</b>				
Due	376 087	0	0	376 087
Overdue	0	0	0	0
	<u>376 087</u>	<u>0</u>	<u>0</u>	<u>376 087</u>
<b>Public Sector</b>				
Due	1 753 814 281	27 908 395	12 466 629	1 794 189 305
Overdue	260 271	19 948	2 550	282 769
	<u>1 754 074 552</u>	<u>27 928 343</u>	<u>12 469 179</u>	<u>1 794 472 074</u>
<b>Novo_Banco</b>				
Due	64 277 657	29 102 343	290 442 999	383 822 999
Overdue	0	164 072	169 060 843	169 224 914
	<u>64 277 657</u>	<u>29 266 414</u>	<u>459 503 842</u>	<u>553 047 913</u>
<b>Disregard</b>				
Due	0	0	0	0
Overdue	0	0	48 683 480	48 683 480
	<u>0</u>	<u>0</u>	<u>48 683 480</u>	<u>48 683 480</u>
Total loan Due	22 164 468 790	8 670 504 445	4 991 843 541	35 826 816 776
Total Non-performing Loans	13 128 623	30 181 143	2 783 828 293	2 827 138 058
<b>Total loan</b>	<u>22 177 597 413</u>	<u>8 700 685 587</u>	<u>7 775 671 834</u>	<u>38 653 954 834</u>

By adopting IFRS 9 Caixa defines that financial assets subject to impairment are classified by different stages according to the evolution of their credit risk since the initial recognition date and not according to the credit risk at the reporting date. Therefore,

- Stage 1, aggregates financial assets classified as stage 1 whenever there is no significant increase in credit risk from the date of initial recognition. For these assets are recognized the expected loss of credit impairment resulting from default events occurring during the 12 months following the reporting date;
- Stage 2: incorporates financial assets in which there has been a significant increase in credit risk since the date of initial recognition. For these financial assets are recognized expected losses of credit impairment over the life of assets ("lifetime");
- Stage 3: Assets classified in this stage 3 present on the reporting date objective evidence of impairment as a result of one or more events that have already occurred that result in a loss. In this case, the expected loss of credit impairment is recognized in profit or loss over the expected residual life of the financial assets.

Credit quality indicators as of December 31, 2019 and 2018 calculated in accordance with the criteria defined in Notices Series A, paragraph 199 of 01 of January of 2019, with reference to 12.31.2018, issued by Banco Central de Cabo Verde, are presented as follows:

	2019	2018
Non-performing loan / Total loan	9.41 %	10.40%
Net Non-performing loan / Total Net loan	0.09 %	1.67%

### Fair value

The following table shows the comparison between the fair value and the book value of the main financial assets and liabilities held at amortized cost at December 31, 2019 and 2018:

2019					
	Audited Balances			Unaudited Balances	
	Book Value	Fair Value	Difference	Book Value	Total Book value
<b>Assets:</b>					
Cash and Cash equivalents and Central Banks	6 115 152	6 115 152	-	-	6 115 152
Cash equivalents at other credit institutions	2 938 587	2 938 587	-	-	2 938 587
Available for Sale Financial Assets	3 823	3 823	-	-	3 823
Investments in Credit Institutions	17 816 492	17 816 492	-	-	17 816 492
Loans to customers	47 089 056	48 857 637	1 768 581	4 842 004	51 931 061
	<b>73 963 112</b>	<b>75 731 693</b>	<b>1 768 581</b>	<b>4 842 004</b>	<b>78 805 117</b>
<b>Liabilities:</b>					
Funds from central banks			-	-	-
Funds from other credit institutions	-154 135	-154 135	-	-	-154 135
Customer funds and other loans	-72 050 194	-72 745 953	-695 759	-	-72 050 194
	<b>-72 204 329</b>	<b>-72 900 088</b>	<b>-695 759</b>		<b>-72 204 329</b>

2018					
	Audited Balances			Unaudited Balances	
	Book Value	Fair Value	Difference	Book Value	Total Book value
<b>Assets:</b>					
Cash and Cash equivalents and Central Banks	9 459 301	9 459 301	0	0	9 459 301
Cash equivalents at other credit institutions	1 217 059	1 217 059	0	0	1 217 059
Available for Sale Financial Assets	3,823	3,823	0	0	3,823
Investments in Credit Institutions	9 985 960	9 985 960	0	0	9 985 960
Loans to customers	48 150 161	46 317 148	-1 833 012	3,997,683	52 147 844
	<b>68 816 303</b>	<b>66 983 291</b>	<b>-1 833 012</b>	<b>3,997,683</b>	<b>72 813 986</b>
<b>Liabilities:</b>					
Funds from central banks			0	0	0
Funds from other credit institutions	-200 076	-200 076	0	0	-200 076
Customer funds and other loans	-67 844 700	-68 387 072	-542 372	0	-67 844 700
	<b>-68 044 775</b>	<b>-68 587 147</b>	<b>-542 372</b>		<b>-68 044 775</b>

The following assumptions were used to determine fair value:

- For cash balances and short-term investments with credit institutions, the book value is the fair value;
- For available-for-sale financial assets:
  - Portuguese government bonds were recorded at historical cost, with a recorded impairment of 200,000 CVE, to reduce the book value to its estimated realizable value...
  - Due to its low book value, shares in the GARI Fund were recorded at historical cost
- The fair value of remaining instruments was determined by Caixa based on discounted cash flow models, taking into consideration the contractual terms of operations and using interest rates that are suitable to the type of instrument and the rates for similar instruments issued or contracted near the end of the year.
- The column "Unaudited balances" includes essentially non-performing loans.

Sensitivity Analysis - Interest Rate

On December 31, 2019, the impact on fair value of financial instruments sensitive to interest risk rate, excluding derivative financial instruments, of parallel shifts in the benchmark interest rate curve of 50, 100 and 200 "basis points" (bps), respectively, can be shown by the following tables:

Fair Value	2019					
	-200bp	-100bp	-50bp	+50bp	+100bp	+200bp
Asset	-2 300 914	-1 033 210	-501 842	409 249	803 517	1 495 775
<b>Total</b>	<b>-2 300 914</b>	<b>-1 033 210</b>	<b>-501 842</b>	<b>409 249</b>	<b>803 517</b>	<b>1 495 775</b>
Liability	-1 107	-2 976	-3 910	-5 778	-6 713	-8 581
<b>Total</b>	<b>-1 107</b>	<b>-2 976</b>	<b>-3 910</b>	<b>-5 778</b>	<b>-6 713</b>	<b>-8 581</b>
<b>Total Gain/Loss</b>	<b>-2 299 807</b>	<b>-1 030 234</b>	<b>-497 933</b>	<b>415 027</b>	<b>810 230</b>	<b>1 504 356</b>

**2018**

<b>Fair value</b>	<b>-200bp</b>	<b>-100bp</b>	<b>-50bp</b>	<b>+ 50bp</b>	<b>+ 100bp</b>	<b>+ 200bp</b>
Asset	-652 358.02	-322 041.53	-167 515.69	122 396.97	258 539.74	514 883.48
<b>Total</b>	<b>-652 358.02</b>	<b>-322 041.53</b>	<b>-167 515.69</b>	<b>122 396.97</b>	<b>258 539.74</b>	<b>514 883.48</b>
Liabilities	-1 861.83	-3 634.72	-4 521.16	-6 294.05	-7 180.50	-8 953.38
<b>Total</b>	<b>-1 861.83</b>	<b>-3 634.72</b>	<b>-4 521.16</b>	<b>-6 294.05</b>	<b>-7 180.50</b>	<b>-8 953.38</b>
<b>Total Gain / Loss</b>	<b>-650 496.19</b>	<b>-318 406.81</b>	<b>-162 994.53</b>	<b>128 691.02</b>	<b>265 720.23</b>	<b>523 836.86</b>

The following table shows the effect on the projected net interest income for the years 2019 and 2018, respectively, of a parallel shift in the 50, 100 and 200 bps in the interest rate curves that index financial instruments sensitive to changes in interest rate:

**NET INTEREST INCOME FORECAST**

	<b>2018</b>					
	<u>-200 bp</u>	<u>-100 bp</u>	<u>-50 bp</u>	<u>+50 bp</u>	<u>+100 bp</u>	<u>+200 bp</u>
FY 2018	-12 604.54	-6 302.27	-3 151.14	3 151.14	6 302.27	12 604.54
FY 2019	-12 604.54	-6 302.27	-3 151.14	3 151.14	6 302.27	12 604.54

In calculating the impacts presented in the table above, it was considered that the assets and liabilities that were sensitive to interest rate on the date of the calculation would remain stable over FY 2019 and 2018, respectively, being renewed, where applicable, taking into consideration the market conditions on those renewal dates and the average spread of outstanding operations on December 31, 2019 and 2018. Such impacts correspond exclusively to corporate bonds held by Caixa.

Note that the information contained in the tables above refers to a static scenario and does not take into account the changes in strategy and policies related to interest rate risk management that Caixa may adopt as a result of changes in benchmark interest rates.

As of December 31, 2019 and 2018, loans to customers, totaling mCve 26,271,857 and mCve. 27,165,795, respectively, were mainly granted at a fixed rate.

Breakdown of financial instruments by currency

At December 31, 2019 and 2018, the financial instruments were broken down as follows, by currency:

<b>2019</b>					
	<b>Currency</b>				<b>Total</b>
	<b>CVE</b>	<b>Euros</b>	<b>USD</b>	<b>Others</b>	
<b>Asset:</b>					
Cash and cash equivalents at central banks	4 974 786	913 847	175 350	51 169	6 115 152
Cash equivalents at other credit institutions	64 588	2 037 657	743 825	92 516	2 938 587
Available for Sale Financial Assets	-	3 823	-	-	3 823
Investments in credit institutions	17 771 357	0	45 135	-	17 816 492
Loans to customers (Gross balance)	47 089 051	5	-	-	47 089 056
Other assets (net value)	1 690 854	6 114	1 796	9 052	1 707 817
	<b>71 590 637</b>	<b>2 961 446</b>	<b>966 106</b>	<b>152 737</b>	<b>75 670 927</b>
<b>Liability:</b>					
Funds from other credit institutions	-135 624	-10 918	-7 593	-	-154 135
Customer funds and other loans	-70 108 434	-1 008 183	-926 601	-6 975	-72 050 194
Other liabilities	1 659 729	-1 938 522	-31 912	-145 763	-456 467
Other reserves and retained earnings	-2 754 105	-3 823	-	-	-2 757 928
	<b>-71 338 434</b>	<b>-2 961 446</b>	<b>-966 107</b>	<b>-152 737</b>	<b>-75 418 724</b>
<b>Net Exposure</b>	<b>252 203</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>252 203</b>

#### Foreign exchange Risk Map

<b>2018</b>					
	<b>Currency</b>				<b>Total</b>
	<b>CVE</b>	<b>Euros</b>	<b>USD</b>	<b>Others</b>	
<b>Assets:</b>					
Cash and cash equivalents at central banks	8 055 749	1 127 338	229 967	46 247	9 459 301
Cash equivalents at other credit institutions	51 268	631 244	432 392	102 156	1 217 059
Available for Sale Financial Assets	0	3 823	0	0	3 823
Investments in credit institutions	9 698 869	108 225	178 866	0	9 985 960
Loans to customers (Gross balance)	52 147 839	5	0	0	52 147 844
Other assets (net value) Remove Account 3584 + 3580	2 152 932	48 715	43 345	6 361	2 251 353
	<b>72 106 656</b>	<b>1 919 348</b>	<b>884 571</b>	<b>154 764</b>	<b>75 065 339</b>
<b>Liability</b>					
Funds from other credit institutions	-176 840	-16 848	-6 387	0	-200 076
Customer funds and other loans	-66 163 735	-791 842	-877 422	-11 701	-67 844 700
Other liabilities	939 538	-1 106 836	-762	-143 063	-311 122
Other reserves and retained earnings	-2 639 099	-3 823	0	0	-2 642 921
	<b>-68 040 136</b>	<b>-1 919 348</b>	<b>-884 571</b>	<b>-154 764</b>	<b>-70 998 819</b>
<b>Net Exposure</b>	<b>4 066 520</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4 066 520</b>

### 34. EQUITY MANAGEMENT

In accordance with the prudential rules, Caixa Económica is subject to compliance with the solvency ratio, liquidity ratios, risk sharing and equilibrium of balance sheet.

Caixa's own funds is managed so as to comply with prudential own funds levels in accordance with Notice no. 3/2007 of 19 November of Banco de Cabo Verde: "Own Funds of Credit Institutions, non-banking Institutions and International Financial Institutions", in order to provide coverage for weighted credit risks, operational risks and market risks.

Banco de Cabo Verde Notice No. 3/2007 establishes the Own Funds Requirements applicable to Credit Institutions and the methods for calculating the solvency ratio.

Own funds are divided into two categories:

- Core capital, determined from equity net of unrealized gains and losses; and
- Tier 2 capital, which are limited to 100% of the core capital amount and are made up primarily of subordinated loans

Deductions from holdings in other credit institutions decrease total own funds.

In accordance with the regulations, Caixa must always comply with a solvency ratio of 10%.

As of December 31, 2019 and 2018, Caixa Económica de Cabo Verde complied with regulatory requirements as follows:

	<u>Own funds</u>	<u>Solvability</u>	<u>Fixed assets limit</u>
2019	4 807 066	17.37%	220.83%
2018	4 145 008	15.70%	198.40%

### 35. Subsequent Events

As of January 2020, the outbreak of COVID-19 has spread beyond China's borders, impacting financial markets and economic activity.

As the outbreak evolved, the World Health Organization declared the state of the pandemic on March 11, 2020, and since then, several countries have witnessed the application of extraordinary measures in an attempt to contain the spread of the virus. The Government of Cabo Verde, as a way to prevent the entry of the coronavirus in the country, decided to close the country's borders, leading to a complete shutdown of the tourist activity, the main engine of the national economy. The evolution of the pandemic situation in the country led to the declaration of a national state of emergency, paralyzing the rest of the economy.



The CECV's Board of Directors is monitoring the evolution of the pandemic and the measures taken by the Government, as well as the impact estimates that may be expected for the CECV. When relevant, it is making decisions that defend the interests of different stakeholders, including employees, depositors, customers and shareholders.

Despite to date it is not possible to make predictions about the impacts on the financial statements, the CECV Board of Directors estimates that the main financial impacts will come as a result of an increase in credit risk and the volatility of financial and non-financial assets, with uncertain effects of income, impairments, overdue loans and capital requirements.

As for the estimate of expected loan losses in accordance with IFRS 9, CECV will use in 2020 reasonable and sustainable forward-looking information that is based on assumptions about future developments considering different economic scenarios, including the expected effects of the coronavirus and how each scenario impacts this estimate and the impact it may have on assessing the significant increase in credit risk in different sectors of the economy. This estimate is not quantifiable at the present date, considering the vulnerabilities of the Cabo Verdean economy and the uncertainties that still exist regarding the evolution of the pandemic and, consequently, regarding the recovery of tourism and the economy in general.

CECV is closely monitoring the evolution of the situation, admitting that the economic consequences of this outbreak may be severe and will depend on the duration of the tourist activity shutdown, the pace of recovery and the impact of the mitigation measures taken by the Authorities, namely: i) monetary policy actions already approved by the Central Bank, namely the six-month moratorium on the payment of the debt service granted to customers, the reduction of reference interest rates, the suspension, for two years, of the deduction to own funds of assets received in payment, etc. and ii) employment, family and business protection measures taken by the Government, namely the lay-off agreement, the creation of a State guarantee current account credit facility for companies, tolerance in complying with tax obligations, etc.

As a result of the evolution of the pandemic, CECV has implemented the following measures:

- Approval of an internal contingency plan, limiting the movement of workers, implementing telework, isolation measures for risk situations, etc.;
- Limitation on the number of customers in the branches;
- Reduction of service hours and opening hours;
- Shut down of some branches;
- Installation of physical protection barriers and provision of personal protective equipment.

These measures may have an impact on CECV's activity, however, given the possibility of using remote and digital channels, CECV does not expect significant impacts on the activity through these implemented internal mitigation measures.

However, risks of a more prolonged global impact, resulting from any trigger that puts trust at stake, are not yet to be ruled out.

It is also the belief of the Board of Directors to continue to count on the support of its shareholders.