THE EUROPEAN
Global Banking & Finance Awards 2017
Banco Interatlântico – Grupo Caixa Geral de Depósitos
Bank of the Year
Cape Verde

Best Commercial Bank Cape Verde 2017
Global Banking & Finance Awards
Global Banking & Finance Review

ANNUAL REPORT

Banco Interatlântico

Grupo Caixa Geral de Depósitos

Distinga-se!

INDEX

1 KEY INDICATORS

Indicators at 31 December				CVE thousand	
	2017	2016	Amount	%	
BALANCE SHEET INDICATORS					
Net assets	25 766 353	27 872 765	-2 106 412	-7,56%	
Cash and cash balances at central banks	2 663 292	1 425 917	1 237 375	86,78%	
Loans and advances to credit institutions	2 808 816	7 297 536	-4 488 720	-61,51%	
Loans and advances to customers (net)	17 544 940	16 705 315	839 625	5,03%	
Loans and advances to customers - gross (excluding interest and commissions and public debt securities)	15 072 404	14 567 758	504 646	3,46%	
Overdue credit and interest	2 609 519	2 802 110	-192 590	-6,87%	
Impairment on loans and advances to customers	1 288 520	1 288 910	-390	-0,03%	
Customer resources (excluding interest and other debits)	22 399 503	24 776 493	-2 376 990	-9,59%	
Customer deposits	22 399 503	24 674 493	-2 274 990	-9,22%	
Shareholders' equity	1 809 037	1 750 058	58 980	3,37%	
OPERATING INDICATORS					
Total operating income	936 939	721 750	215 189	29,81%	
Result before tax	56 247	15 605	40 642	260,45%	
Net result	54 284	11 948	42 335	354,33%	
OTHER INDICATORS					
Profitability					
Net result / net assets	0,20%	0,05%		0,16%	p.p
Net result /average shareholders' equity	3,05%	0,69%		2,37%	p.p
Solvency and loans-to-deposits					
Shareholders' equity / assets	7,02%	6,28%		0,74%	p.p
Loans-to-deposits ratio (gross credit / customer resources)	67,29%	58,80%		8,49%	p.p
Solvency ratio (BCV criterion)	15,76%	15,30%		0,46%	p.p
Asset quality					
Overdue credit and interest / gross credit	17,31%	19,24%		-1,92%	p.p
Quality of BCV credit (Circular Series "A" no. 150/DSE/2009)	12,05%	13,45%		-1,40%	p.p
Credit impairment / net credit	7,34%	7,72%		-0,37%	p.p
Credit impairment / overdue credit and interest	49,38%	46,00%		3,38%	p.p
Produtivity and efficiency					
Non-interest income / total operating income	22,59%	29,69%		-7,10%	p.p
Structural costs / total operating income	66,96%	81,53%		-14,57%	p.p
(Credit + Deposits) / number of employees	275 479	311 893	-36 414	-11,68%	
Number of employees	145	133	12	9,02%	
Number of branch offices	9	9	0	0,00%	
Employees per branch office	16,1	14,8	1,3	9,023%	
(Credit + deposits) / number of branch offices	4 438 272	4 609 090	-170 818	-3,71%	

2 MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

The evolution of the economic environment, both domestic and international, albeit characterised by higher levels of uncertainty and risk, was more favourable in 2017, namely as regards the positive dynamics comprising foreign investors' investment plans, particularly in the tourism and real estate sectors, although these processes are always difficult and slow.

The financial system, on the one hand, continued to trend to an increasingly more demanding and interventionist level of regulation and supervision and, on the other, to lower interest on the banks' borrowing and lending operations, together with a moderate growth in the level of electronic media.

The bank's management continued to focus on what it has considered to be its crucial, priority operating areas, since 2014 − recovering profitability (operating and capital), improving asset quality (concentrating on assets that generate funds and reduce other assets), qualifying resources (particularly human resources) – endeavouring to and succeeding in taking advantage of and benefiting from the evolution of the economic environment and financial system, respectively.

The improvements evidenced in the bank's activity and results, detailed information on which has been set out in the annual report, confirm its increasingly efficient and effective performance. Reference should be made to the increase in net interest income and reduction of cost-to-income, lower levels of overdue credit and higher levels of impairment cover, a strengthening solvency level accompanied by continuous growth in the number and quality of transactions and customers.

Our gratitude goes to our customers upon whom the bank's existence and sustainability depend.

A word of appreciation to the bank's workers for their dedication and commitment, particularly those facing greater challenges who have responded with enthusiasm and professionalism. Our gratitude also extends to our shareholders, for their backing and support for the bank and its management, based on the excellent work of the executive committee. Lastly a word of appreciation to the bank's other statutory bodies, for their good relationship with the bank as well as the intense level of interaction of the audit and supervisory bodies.

In this most auspicious year for the term of office of this board of directors I cannot but express a word of thanks to all of my colleagues, especially those who have been with me since the beginning and who, with determination and persistence, have made a decisive contribution to enable us to never deviate from our objectives and with whom I maintain a healthy level of friendship and professional companionship.

Alfredo Antas Teles
Chairman of the board of directors

3 EXECUTIVE COMMITTEE REPORT

2017 witnessed the improved level of performance of several of the key indicators of Banco Interatlântico, SARL (hereinafter referred to as BI or bank) owing to the collective effort made by the organisation to improve the focus on its principal strategic areas, particularly as follows:

- A reduction of around 7% in non-performing credit;
- A 3.5% increase of around KCVE. 500 million in gross credit over 2016;
- A 30% improvement in total operating income;
- An increase of impairment cover on overdue credit to around 49.4%.

Improved profitability and risk mitigation − two of the strategic areas translated in these indicators − are also being consolidated. This also translates into further consolidation of the third strategic area in the form of the qualification of human and technological resources. The bank continues to commit resources to its internal training endeavours which encompassed around 60% of its employees. The renewal of its technological platform was completed and a new home banking platform was introduced, providing customers with higher levels of quality and service and preparing new market developments.

The market appears to be embarking on a much awaited increase in the confidence of economic agents which, up to 2016, remained very subdued. Activity indicators show higher demand for credit and an increase in the quality and feasibility of the proposals under analysis.

Banco Interatlântico won two international prizes, in 2017, in recognition of its achievements:

- "Bank of the Year in Cabo Verde" prize in the sphere of the *Global Banking and Finance Awards* 2017, from *The European* magazine;
- "Best Commercial Bank Cabo Verde 2017" prize from *Global Banking and Finance Review*.

We are mindful of our social and cultural responsibility and continue to back the country's major not-for-profit projects and institutions as well as young domestic talent in different artistic areas.

A word of appreciation to the bank's workers who operate under high level pressure and responsibility and without whom achieving these results would not have been possible. We hope, one day, that Banco Interatlântico will be considered the best company to work for in Cabo Verde.

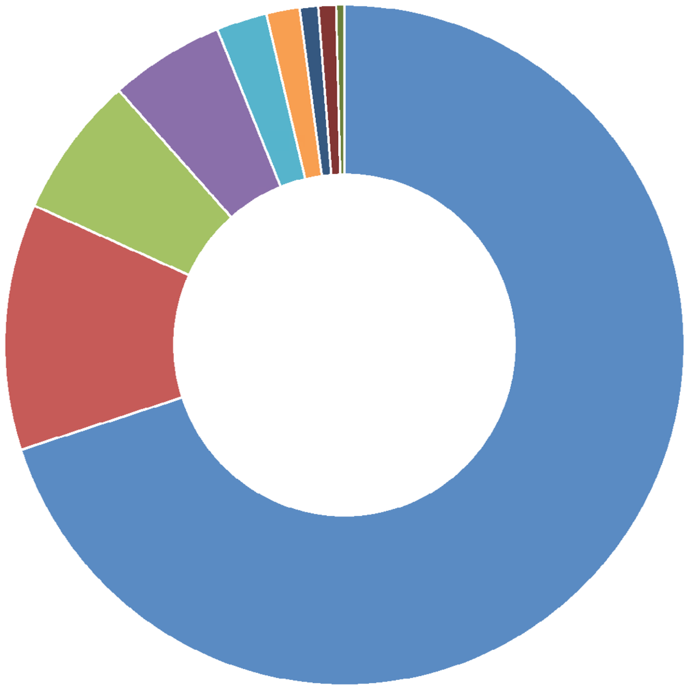
We also wish to acknowledge the professionalism and competence of the supervisory authorities and the backing of our shareholders, which have greatly helped the bank to improve.

A final word of appreciation goes to our customers, as the bank's *raison d'être*, for their preference and suggestions on how to improve, which we constantly endeavour to implement with the aim of maintaining and improving the bank as the benchmark operator in Cabo Verde.

The Executive Committee

4 PRINCIPAL SHAREHOLDERS

4.1. EQUITY STRUCTURE



SHAREHOLDERS	%
CAIXA GERAL DE DEPÓSITOS, SA	70,00%
EMPREITEL FIGUEIREDO, SA	11,69%
ADEGA, SA	6,73%
SITA, SA[1]	5,45%
PEDRO JOSÉ SAPINHO RODRIGUES PIRES	2,41%
DAVID HOPFFER ALMADA	1,58%
TEREZA JESUS TEIXEIRA B. AMADO	0,88%
FRANCISCO BARBOSA AMADO	0,84%
MÁRIO JORGE MENEZES	0,39%
RACAN, Lda.	0,04%

[1] The disposal of the full amount of the equity stake in Banco Interatlântico was requested by SITA on 28 July 2017. 5.09% (5,089 shares) were sold to the new shareholder Rui Pinto on 23 January 2018, following the Bank of Cabo Verde's communication of its non-opposition to the acquisition of this qualified investment. The remaining 0.39% (358 shares) were acquired by the shareholder Tereza Amado.

4.2. STATUTORY BODIES

BOARD OF THE GENERAL MEETING

Chairman
David Hopffer Cordeiro Almada

Secretaries
Francisco Fortunato Paulino Barbosa Amado
Salomão Jorge Barbosa Ribeiro

BOARD OF DIRECTORS

Chairman
Alfredo Manuel Antas Teles

Vice-chairman
Teófilo Figueiredo Almeida Silva

Members
Pedro Bruno Cardoso Braga Gomes Soares
Manuel Fernando Monteiro Pinto
João Pedro Dos Santos
Jorge Fernando Gonçalves Alves

EXECUTIVE COMMITTEE

Chairman
Pedro Bruno Cardoso Braga Gomes Soares

Members
Manuel Fernando Monteiro Pinto
João Pedro Dos Santos

SUPERVISORY BOARD

Chairman
José Manuel Nunes Liberato

Permanent members
Elsa Helena Lopes Tavares
António Manuel Mendes Barreira

Deputy member
José Mário de Sousa

4.3. MILESTONES

January

Protocol with Cabo Verdean Academy of Letters

March

Sponsorship of the anniversary album to mark the 40th birthday of the *Cabo Verde Show* band

April

“Less Alcohol, More Life” festival

May

Sponsorship of Levy Lima’s “Two Generations, Four Artists” exhibition

Migration of all BI units to the VOIP telephone system

June

Migration to *Banka3G*

Migration of new internet banking platform to latest *Bank on Box* release

8th Edition of *PORfesta*

August

Sponsorship of Cabo Verde Project

September

Sponsorship of "Governance challenges in the financial sector and the governance framework in Cabo Verde" conference

October

"Bank of the Year in Cabo Verde" prize from *The European* magazine's *Global Banking & Finance Awards*

Sponsorship of the "Coins and Banknotes: The History and Culture of Cabo Verde" exhibition

November

Sponsorship of *Fotopintura* exhibition

Sponsorship of the "Folklore" Album by Cremilda Medina

Implementation phase of Dixtior's DCS/AML profiling solution

Backing for the "I want to help" solidarity campaign

December

Sponsorship of URDI – National Handicrafts and Design Fair

"Best Commercial Bank in Cabo Verde 2017" prize from *Global Banking & Finance Review* magazine

4.4. STRATEGY AND BUSINESS MODEL

STRATEGIC OBJECTIVES

BI has continued to further its trajectory of gradually improving its operational efficiency based on its investments in technological, organisational and human resources training areas. The bank's indicators are starting to reflect the results it has achieved in terms of its strategic objectives, particularly improvements in profitability.

COMMERCIAL INTERVENTION

The bank has geared its commercial activity to preventing overdue credit and finding new sources of credit. Its results have translated into a reduction of the amount of overdue credit in the bank's portfolio. This is not only the result of recoveries of operations in default, but also branch office initiatives with customers at risk of default. The good performance of business units derives from the persistent efforts of our commercial staff and the support and oversight of back office services.

Loans and advances to customers (gross) were up 3.5%. Growth was higher in the individual customers' segment (9.17%), especially mortgage lending (12.13%) and credit cards (10.7%). There was a trend reversal comprising a 2.63% drop in lending to corporates, in 2016, which, once again, rose by a year-on-year 1.37%, based on the 4.42% growth of performing credit and a 7.8% reduction of non-performing credit.

INFORMATION TECHNOLOGY

In keeping pace with new information technologies and continuing to further the transformations upon which work began in past years, BI made several major investments in technology and communication areas in 2017. Such investments have improved the bank's preparedness to meet the challenges facing the banking sector and enable it to seize any new opportunities which may occur. The improvements have made it possible to expand technological capacities and operating support, reduce communications costs and equip the organisation to comply with new corporate and regulatory requirements. It has also translated into an improved level of customer service. The main initiatives were as follows:

- Completion of the migration to *Banka 3G* in the IT area;
- Migration of the home banking service to a new release that has brought benefits to customers;
- Implementation of new functionalities such as the FATCA framework and the offshore transfers platform module;
- Implementation phase of Dixtior's DCS/AML profiling solution;
- Migration to VOIP telephone technology;
- Migration of users to the new *Exchange* 2013 server;
- Migration to the new MIA *Doc Origin* platform.

ORGANISATION AND STANDARDS

The internal reorganisation project was furthered by the approval of several procedural manuals published by central structural bodies, including the Operational Support, Marketing, Technology and Compliance Offices. The organic structural manuals of several structural bodies were also updated and accompanied by the approval of regulations covering internal audit, risk management and the compliance risk management manual.

Several corporate standards in the compliance, credit and operational risk management, IT, audit and marketing areas were approved owing to a higher level of integration with the policies of Caixa Geral de Depósitos (CGD) Group on a level of BI practice.

Responsibility for operational risk, to which several adjustments were made was, on the other hand, given to the Risk Management Office. BI employees were given various training sessions, one of which in DGR (CGD's Risk Management Division).

Owing to the entry into force of new anti-money laundering and countering the financing of terrorism rules, the bank increased the effectiveness and rigour of its level of control on the opening of accounts and classification of customer risk, in conformity with predefined parameters.

SUSTAINABILITY

BI published its second sustainability report, in which it made reference to the highlights occurring in 2015 and 2016, resulting from the implementation of its policy and economic, social and environmental strategy. The report is an important milestone in reporting data and sustainability-related information owing to its formal alignment with the reporting guidelines of the Global Reporting Initiative (GRI Guidelines), version 4.0, for the "Essential" option. The report's contents were, accordingly based on a several issues considered to be important both to the organisation and its stakeholders.

4.5. GEOGRAPHICAL FOOTPRINT AND CHANNELS

BI continued to operate a branch office network of nine general branches spread out over the main islands of the archipelago and three structures geared to the individual, corporate and institutional customers segments.

To complement its geographical presence, the bank operates the usual distance channels comprising a home banking service (BIn@net) and an ATM network. It introduced a new version of its home banking in 2017, with a more modern, user-friendly intuitive design in line with the *Web Responsive Design* trends, whose specific graphical elements are displayed on the page, in conformity with the various devices being used.

Figure 1 – BI's geographical footprint in Cabo Verde

The bank retained its position in terms of its number of active POS terminals and ATMs in 2017, having ended the year in third position with 1,083 POS terminals and a market share of 17% and 41 ATMs, also coming in third position with a market share of 23%.

BCI's home banking service continues to grow. The service had a total number of 16,869 customers with active contracts, in 2017, of which 14,101 were individual customers and 2,768 corporate and other customers, comprising 28% of its total customer base.

There was a 13% acceleration in the growth trend of the number of active debit cards over the preceding year (up 2 pp).

The number of distance channel transactions was up 14% by 5 pp over the increase recorded in December 2016. Reference should be made to the increases in the payment of services, internal transfers and to other credit institutions.

	Bln@net			Rede Vinti4			Mobile		
Type of transaction	**Dec/16**	**Dec/17**	**Δ**	**Dec/16**	**Dec/17**	**Δ**	**Dec/16**	**Dec/17**	**Δ**
Movements – views	763.617	864.989	13%	78.465	83.125	6%	186	102	-45%
Current account – views	100.555	109.624	9%	246.687	263.814	7%	4.560	4.147	-9%
Chequebook applications	56	63	13%	96	86	-10%	3	5	67%
*Transfers – internal	54.551	70.199	29%	0	0	0%	0	0	0%
*Transfers – other credit institutions	22.781	28.843	27%	4.472	5.506	23%	203	175	-14%
Payment of services	2.329	3.354	44%	7.474	8.041	8%	11	3	-73%
Mobile phone credit	19.423	24.355	25%	43.017	39.975	-7%	9.286	8.808	-5%
Total	**963.312**	**1.101.427**	**14%**	**380.211**	**400.547**	**5%**	**14.249**	**13.240**	**-7%**

* all ATM transactions are classified as transfers to other credit institutions

Figure 2 – Use of Bln@inet comparison to Rede Vinti4 and mobile network, by type of transaction

5 MACROECONOMIC AND FINANCIAL[2]

[2] Main economic data taken from the BCV´s Monetary Policy Report of September 2017.

5.1. INTERNATIONAL

According to the IMF (International Monetary Fund), the world economy, fuelled by the positive performance of the advanced and emerging economies, posted a higher than expected level of first quarter performance. This situation trended through the second quarter owing to the evolution of global trade, industrial output and economic sentiment. Cabo Verde's principal economic trading partners particularly include the euro area, whose GDP grew by a year-on-year 2.0% and 2.3%, respectively in the first and second quarters, fuelled by the dynamic performance of gross fixed capital formation and exports.

Albeit lower than expected, US performance was also better than in the same period of the preceding year and was also sustained by the positive contributions of gross fixed capital formation and foreign demand, in an environment of a stagnation in private consumption and a retraction in public consumption.

The United Kingdom's economy has been penalised by the effective impact (i.e. depreciation of sterling and higher consumer prices) and by the uncertainties related with the Brexit negotiations. First quarter growth of 2.0% was followed by second quarter growth of 1.7%.

INTERNATIONAL INDICATORS

WORLD ECONOMIC OUTLOOK

	Real GDP growth as a %			
	2015^{E}	**2016^{P}**	**2017^{P}**	**2018^{P}**
World GDP	**3,4**	**3,2**	**3,5**	**3,6**
Advanced economies	**2,1**	**1,7**	**2,0**	**1,9**
US	2,6	1,6	2,1	2,1
Euro area	2,0	1,8	1,9	1,7
Germany	1,5	1,8	1,8	1,6
France	1,1	1,2	1,5	1,7
Italy	0,8	0,9	1,3	1,0
Spain	3,2	3,2	3,1	2,4
Japan	1,1	1,0	1,3	0,6
United Kingdom	2,2	1,8	1,7	1,5
Canada	0,9	1,5	2,5	1,9
Emerging / Developing Economies	**4,3**	**4,3**	**4,6**	**4,8**
Brazil	-3,8	-3,6	0,3	1,3
Russia	-2,8	-0,2	1,4	1,4
India	8,0	7,1	7,2	7,7
China	6,9	6,7	6,7	6,4
Sub-Saharan Africa	3,4	1,3	2,7	3,5

^{P} - Projections

^{E} - Estimate

Source: International Monetary Fund

GLOBAL EVOLUTION

Cabo Verde's economic growth prospects point to economic recovery in 2017. Economic growth of close to 4%, in 2017, is based on the favourable first half performance of the domestic economy, better prospects in terms of the foreign context and macroeconomic policy guidelines. GDP growth was fuelled by positive manufacturing performance, hotels, restaurants and commerce, accompanied by a retraction of agricultural output, dissipation of the effects of wage increases in several professional public administration categories as well as construction and telecommunications performance levels and the postal services which continue to be unfavourable.

On the demand side, growth was driven by the evolution of domestic demand, particularly contributions from private investments in the transport and tourism sectors and by private consumption which benefited from better borrowing terms (domestic and foreign), wage earnings and expectations of a dynamic economic performance, as suggested by a 4% increase in borrowing by the private sector, FDI (foreign direct investment) inflows of around 25% and the foreign debt of non-financial corporations of around two billion escudos as well as the continuing improvement of the economic climate indicator.

The outlook for a less negative contribution of net foreign demand to growth is based on the highly favourable first half evolution of travel and transport exports and expectations of the recovery of fish exports in the second half of the year, following the resolution of constraints related with the derogation process of the clause giving rise to the fisheries agreement with the European Union, notwithstanding the upwards revision of imports of goods and services projections to accommodate the expected performance of global demand.

Gross fixed capital formation is likely to remain dynamic, considering the foreign direct investment projects in progress and new investments start-ups.

The latest projections published by the IMF and ECB also suggest the favourable evolution of demand for Cabo Verde's exports, in 2017, based on expectations of continued improvements in the labour markets and an increase in household disposable income of the main feeder markets for tourism in Cabo Verde.

Consumer prices over the last six months continue to trend in line with the recovery starting January. The average annual inflation rate of at 0.1% in August, was up 1.5 pp over December 2016. Expectations of domestic price growth, driven by imported inflation are based on higher energy and non-energy commodity prices in the international markets and the consumer price indices of the country's main import markets in 2017, albeit at a lower than anticipated rate in March.

The deficit of 2.580,4 million Cabo Verde escudos (approximately € 23 million) in the external accounts for the first half year, derived from the significant increase in the size of the current account, owing to the country's high marginal import propensity, improvement in the level of economic activity in an environment of a hike in cost-driven inflation and consumer prices in the country's main suppliers.

The global fiscal balance in the first half year comprised a surplus of 685 million Cabo Verde escudos, for the first time since first quarter 2009. The evolution of the public accounts reflected a higher level of economic performance, more opportune disbursements of fiscal aid and direct donations, in addition to a reduction of investment expenditure.

Information on the key national indicators taken from the EIU report are set out below.

DOMESTIC INDICATORS

	2015[a]	2016[b]	2017[b]
GDP at market prices (CVE bn)	158,6	163,3	171,7
GDP (million US $)	1.597,0	1.640,0	1.728,0
Real GDP growth (%)	2,5	3,5	4,0
Consumer price inflation (average %)	-0,5	-0,2	1,0
Population (thousand)	525,0	531,0	538,0
Goods exports (%)	-17,1	5,6	-4,6
Goods imports (million US $)	-21,9	19,2	-0,3
Current account balance (million US $)	-79	-61,0	-105,0
Foreign exchange reserves, excluding gold (GDP %)	33,7	33,3	33,8
USD/CVE exchange rate (average)	99,4	99,7	97,89

[a] Real [b] Estimate

Source: Economist Intelligence Unit

5.2. MONETARY AND FINANCIAL SITUATION IN CABO VERDE

The decline in the rate of growth of net international reserves and net foreign assets, both in respect of the Bank of Cabo Verde and commercial banks, up to June, had a constraining effect on the money supply as expressed by the M2 aggregate (money supply) of 0.4% over December 2016. Therefore, notwithstanding the growth of credit to central government and the general economy of around 10% and 2%, respectively (14% and 6% year-on-year), the money supply was down year-on-year from 5% in December 2016 to 3% in June 2017.

As a reflection of the increase in the economy's borrowing requirements, the rate of accumulation of foreign reserves was down from 12.2% in June 2016 to 10.6% in June 2017. The country's net international reserves stock was down 5.9% over December.

The commercial banks' external assets were down 8% and 11%, year-on-year, in respect of December. The banks have also reduced their foreign liabilities by 1.666 million Cabo Verde escudos since the start of the year. In terms of component parts, the performance of the money supply is explained by the lower year-on-year growth of sight deposits (10%, in comparison to 16.7% for the same period of the preceding year) and stagnation of term deposits and savings accounts (as opposed to year-on-year growth of 7% in June 2016), in the context of a continuous reduction of borrowing rates (down by an average of 0.46 pp up to June, following a 0.34 pp reduction in 2016) and greater confidence in the economy, with its consequential impact on the reduction of precautionary savings.

The reduction of borrowing rates, in the framework of an increase in bank financing, benefited the banks' profitability and their capacity to operate as financial intermediaries.

Domestic demand is likely to continue to be driven by monetary policy guidelines, owing to the absence of significant pressure on foreign reserves and inflation. On a structural level, however, the country faces the challenge of implementing adequate reforms leading to an increase of total factors productivity for the expansion of the aggregate supply and growth potential.

Information on the main reference rates, in 2017, which were down across the year, is provided in the following table.

	%
Reference rate	1,50%
Permanent lending rate facility	4,50%
Permanent liquidity absorption facility	0,10%
Rediscount rate	5,50%

Source: Bank of Cabo Verde

6 MAIN BUSINESS AREAS

6.1. COMPETITIVE POSITION

The 1.34 pp reduction of BI's market share of business revenue derived from a lower level of customer resources, owing to the accelerated reduction policy on its borrowing rates, estimated at 11.94% of the market in December 2017.

Business Revenue	Dec-16	Dec-17	Dec. 17 - Dec. 16	
			Amount	%
System	294 207	311 471	17 264	5,87%
BI	39 078	37 194	-1 884	-4,82%
Market share	13,28%	11,94%	-1,34%	-1,34 pp

Source: Bank of Cape Verde December 2017 - not including mortgage loans (public debt securities and corporate bonds)

BI's position in December 2017/BCV's position in December 2017

In a low growth market (around 0.9%), the customer resources total was down by around 10% or CVE 2.482 million over 2016. Reference should be made to the drop of CVE 3.095 million in term deposits and savings accounts, owing to a sharp downturn in the bank's offer of interest rates. This was reflected in a drop in market share of 1.96 pp from 13.23% to 11.27%.

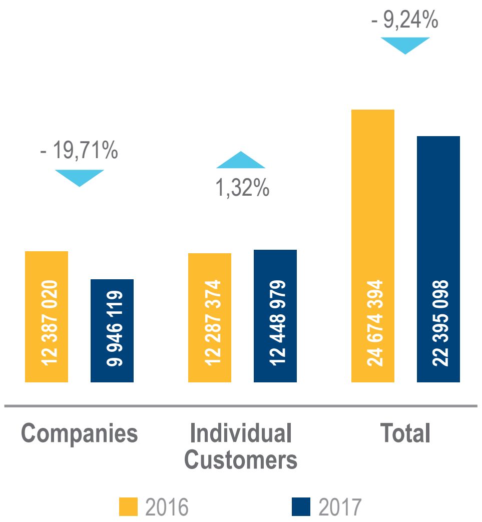
Customer Resources	Dec-16	Dec-17	Dec. 17 - Dec. 16	
			Amount	%
System	189 034	199 886	10 853	5,74%
BI	25 011	22 529	-2 482	-9,92%
Market share	13,23%	11,27%	-1,96%	-1,96 pp

Source: Bank of Cape Verde December 2017 - not including mortgage loans (public debt securities and corporate bonds)

BI's position in December 2017/BCV's position in December 2017

The much sharper decrease in term deposits in the case of companies and other customers, largely explains the change in the deposits structure which now comprises 44% (corporate) and 56% (individual customers), resulting in a relevant reduction of concentration risk.

DEPOSITS



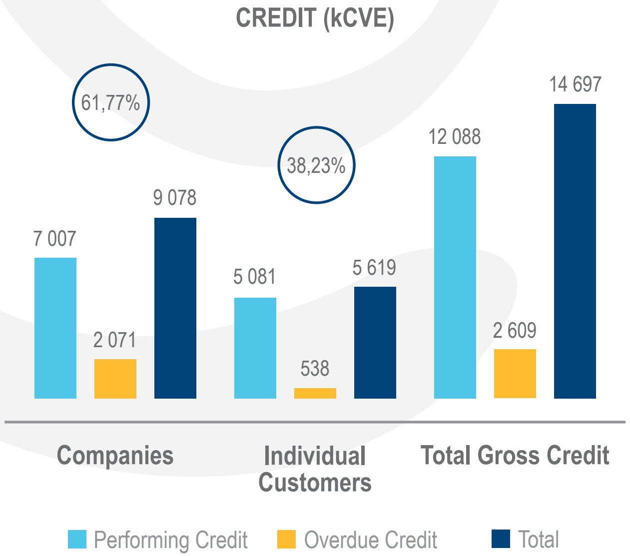
Gross credit was up at higher than market rates. This leveraged BI's market share by 0.23 pp, in a particularly good year for BI's credit recovery activities, enabling it to improve its portfolio quality, with impacts on its total gross credit volume deriving from settlements based on credit recovery.

Gross Credit	Dec-16	Dec-17	Dec. 17 - Dec. 16	
			Amount	%
System	105 173	111 584	6 411	6,10%
BI	14 067	14 665	599	4,26%
Market share	13,37%	13,14%	-0,23%	-0,23 pp

Source: Bank of Cape Verde December 2017 - not including mortgage loans (public debt securities and corporate bonds)

BI's position in December 2017/BCV's position in December 2017

The bank lowered its proportion of lending to corporates from 63% to 61%, as a result of the sharper growth of credit to individual (9.17%) as opposed to corporate (1.37%) customers.



6.2. RETAIL BANKING

The 3.7% growth of business revenue from retail banking was fuelled by lending to individual customers and small businesses and once again outperformed the credit portfolio, with the volume of new loans higher than repayments and portfolio loan maturities. The lower level of performance, in comparison to the preceding year's 11% is explained by the evolution of deposits, with growth of no more than 1.34% in comparison to around 12% in the preceding year.

Individual customers and small businesses	Dec-16	Dec-17	Dec. 17 - Dec. 16	
			Amount	%
Credit	5.147	5.619	472	9,17%
Deposits	12.284	12.449	165	1,34%
Business revenue	17.431	18.068	637	3,65%

Amounts in CVE million

6.3. CORPORATE BANKING

Credit recovery in the segment remained a priority as it comprised 79% of the volume of non-performing credit. The bank's endeavours translated into a reduction of around 8% in overdue credit in the segment in comparison to the preceding year.

Lending to corporates and other customers was up by no more than 1%. This was partly owing to an exceptional portfolio repayment, in credit recovery terms. The volume of new credit was sufficient to offset portfolio credit repayments and maturities.

Low credit growth, allied with a sharp drop in deposits, fuelled a decline in business revenue from corporates and other customers.

Corporate banking	Dec-16	Dec-17	Dec. 17 - Dec. 16	
			Amount	%
Credit	8.955	9.078	123	1,37%
Deposits	12.387	9.946	-2.441	-19,71%
Business Revenue	21.342	19.024	-2.318	-10,86%

Amounts in CVE million

6.4. CREDIT BY SECTOR OF ACTIVITY

The commerce, hotels and restaurants sector, albeit slightly down, continued to be the biggest segment at around 24%, followed by construction credit (around 23%). These activities continue to produce good results, according to data available from the Bank of Cabo Verde. The fact that the portfolio once again posted a drop in property loans is indicative of portfolio diversification into other sectors of activity for prospecting for new operations, in conjunction with higher portfolio repayment levels.

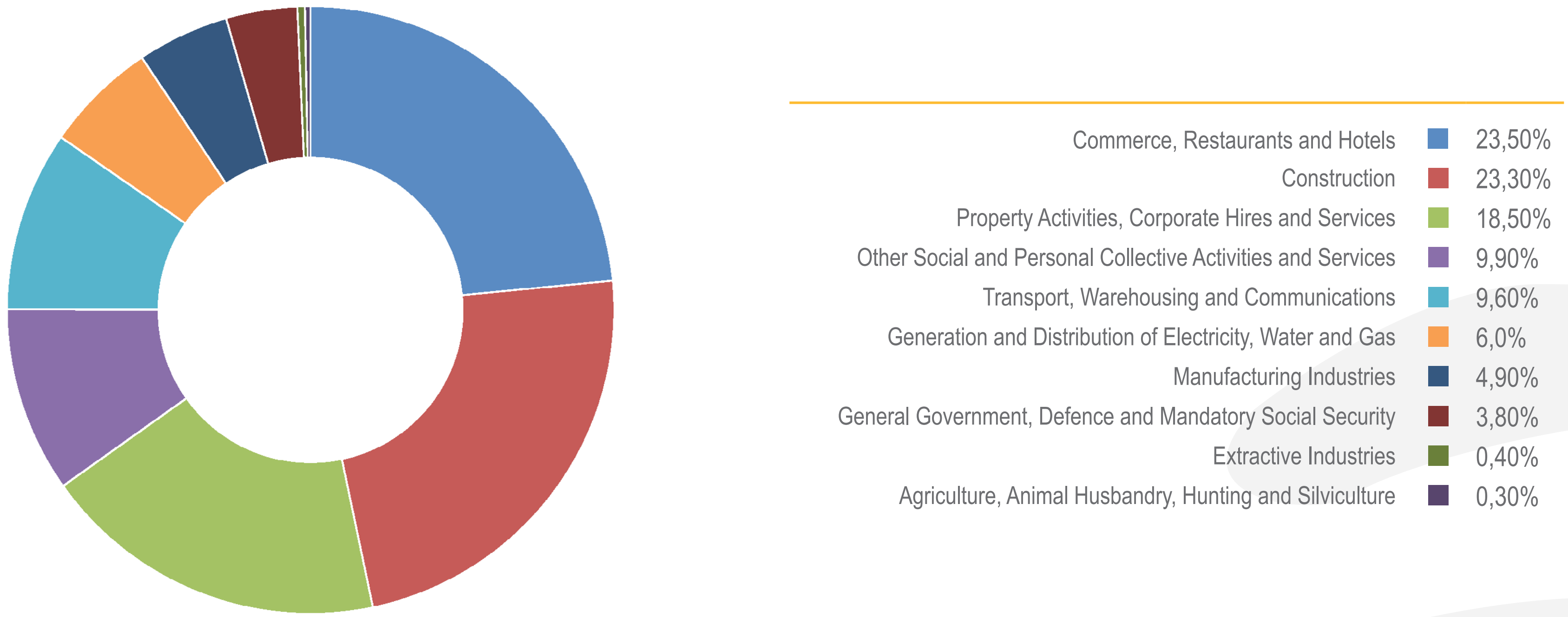


Figure 3 – Percentage of credit of sector of activity

7 HUMAN RESOURCES

The bank ended 2017 with a total number of 145 workers – up 12 over the preceding year. As in preceding years, three staff members had managerial functions. Two of them were on secondment in Cabo Verde.

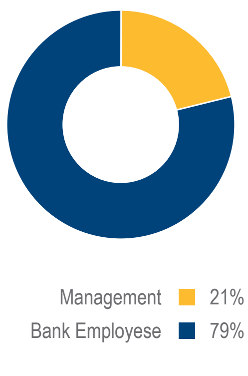
7.1. DISTRIBUTION BY TYPE OF EMPLOYMENT CONTRACT

The bank's staff complement comprises 139 employees, 3 of whom are on professional placements and 3 senior managers. 101 of the total number of 142 employees have open-ended employment contracts (up 7 over 2016), 41 have fixed-term employment contracts (up 2 over the preceding year).

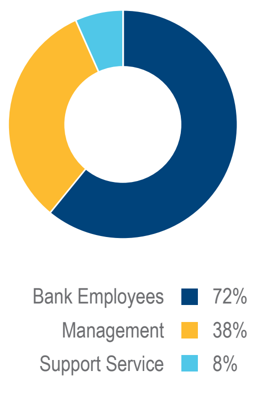
7.2. FUNCTIONAL DISTRIBUTION

The predominance of functional distribution in the commercial area continued across 2017, with 80 employees (56%). 17 of these employees had managerial roles.

COMMERCIAL AREA 56%



CENTRAL SERVICES 44%



7.3. DISTRIBUTION BY GENDER

The bank's employee complement comprises 68% women. 25 of the 37 managers are also women (68%).

7.4. DISTRIBUTION BY AGE BANDS

Average employee age is 37. Most employees are in the 31 to 40 years old range.

7.5. DISTRIBUTION BY SENIORITY

64% of the staff complement, totalling 91 employees, have been with the bank for more than 6 years and half of them for more than 10 years.

7.6. DISTRIBUTION BY ACADEMIC QUALIFICATIONS

58% of employees have higher level academic qualifications, 4% have first degrees, 36% have secondary and 2% have primary educational qualifications.

7.7. TRAINING

29 training actions, 5 of which were given by Caixa Geral de Depósitos (CGD), 3 by the Bank of Cabo Verde (BCV), 3 by the Financial Information Unit, 2 by the Bank Training Institute and 4 in-house courses were organised. An overall total of 83 employees, comprising 58% of the total employee complement were involved. 58 of the 83 trainees were involved in two or more training activities. The bank subsidised 25% of the course fees of three of its employees.

8 SOCIAL RESPONSIBILITY

BI continued to implement its social assistance policy in 2017, in its support for social activities on behalf of the community.

This year's economic environment enabled BI to sponsor the following initiatives:

DONATIONS

- *Aldeias Infantis SOS*
- Padre Campos Foundation
- Jardim Mini *Black Panthers*
- *Jardim Brincar e Crescer*
- Colégio Português (including a donation in kind)
- FICASE
- *Vale de S. Jorge* (donation in kind) Community Association

SPONSORSHIPS

- **Cabo Verdean Academy of Letters** – support for the creation of activities and supply of IT material
- **Rotary Club Praia** – support for students' accommodation
- ***Casa das Bandeiras*** – support for the organisation of the Nhô San Filipe 2017 festival
- **Municipality of Tarrafal** – support for the organisation of the hundredth anniversary of the Municipality of Tarrafal
- ***5al da Música*** – homage to the women of Cabo Verde
- ***Cabo Verde Show*** – launch of the band's 40th anniversary album
- ***Levy Lima's "Two Generations, Four Artists" exhibition*** – support for the organisation of the painting exhibition in the "Palácio da Cultura"
- **Portuguese Embassy** – support for the organisation of the 8th edition of *PORfesta*
- Support for the travelling expenses of 2 Cabo Verde researchers to the seminar on: "Madeira, the Ultraperipheral Regions of the European Union and the Sea" seminar
- ***ADCRBI (Santiago, Sal and São Vicente islands)*** – BI workers' party for the 1st May celebrations
- ***Miraflores Educational Centre*** – support for cultural and sporting interchange with Cabo Verde students in Braga
- ***Hotel Praiamar*** – accommodation for Miss Africa-USA (Cabo Verdean) in Cabo Verde
- **Presidency of the Republic of Cabo Verde** - "Less Alcohol, Better Life" festival
- ***Pedro Cardoso Bookshop*** – launch of book "Critique of the Reason of State"
- ***Move Agency*** – recording and launch of "Folklore" CD by Cremilda Medina
- ***Associação Kelém em Desenvolvimento*** – support for the organisation of Nhô Santo António (Saint Anthony's) religious activities
- ***Cabo Verde* Project** – cooperation project in the Fonton Quarter (support for education, health and entrepreneurship)
- ***Fresco Produções*** – documentary on the artist Djosinha
- ***Sara Alhinho*** – recording and launch of CD
- ***Piu-Piu* kindergarten** – Support for school ribbons (delivery of school kits)
- ***Cabo Verde Football Colleges Association*** – "Pal" league
- ***Sara Estrela*** – support for International Tournée (Brazil) of the MUNDA theatrical production
- **Cabo Verde National Archives** - "Coins and Banknotes: The History and Culture of Cabo Verde" exhibition
- ***PSO Comunicação Estratégica*** – support for the organisation of the "Governance Challenges in the Financial Sector and the Governance Framework in Cabo Verde" conference
- ***Sumara* Group** – recording of CD
- ***Miguel Levy and Zé Pereira*** – *Fotopintura* painting and photography exhibition
- ***Les Alizés* International School** – support for the creation of a games and advertisements board area
- **Ministry of Finance** – support for the organisation of cultural activities during the Afreximbank Structured Trade Finance seminar
- **Ministry of Culture and Creative Industries and National Handicrafts and Design Centre** – support for the organisation of the URDI National Handicrafts and Design Fair
- **Josimar Gonçalves** – recording of "Voz D'Alma" CD
- ***Liga Nazarena de Solidariedade*** – support for the "I want to help" solidarity campaign

9 FINANCIAL ANALYSIS

9.1. BALANCE SHEET

Net assets, at 31 December 2017, were down 7.6% by KCve. 2,106,412 over the preceding year to KCve. 25,766,353. This change essentially derived from the decrease of around 62% in short term loans and advances to credit institutions and an increase of around 4.7% in the gross credit portfolio (securitised and unsecuritised).

The decrease related with loans and advances to credit institutions is principally explained by:

a) The decrease in overnight investments (KCve. 3,600,000), certificates of monetary intervention (KCve. 158,000), certificates of monetary regulation (KCve. 267,000) and loans and advances to other credit institutions (KCve. 551,325) over December 2016;

b) The increase of KCve. 90,031 in loans and advances to other credit institutions abroad.

Net credit, including public debt and corporate bonds were up 5% over the period ended December 2016 to KCve. 17,544,940.

Public debt securities, at 31 December 2017, which exclusively comprised treasury bonds, totalled KCve. 3,782,003 at an average yield of 5.18%. Corporate bonds (net) of KCve. 375,488, posted a negative change of 19.5%.

The amount of net credit not represented by securities was up by 4.7% (net) over 2016, at KCve. 13,387,450.

CREDIT QUALITY

Significant improvements were achieved in terms of overdue credit. The volume of overdue credit was brought down by around 6.9% from KCve. 2,802,110 to KCve. 2,608,704 In comparison to December 2016, the overdue credit ratio was down from 19.87% to 17.75% with a 46% to 49.39% increase in impairment cover.

In line with the evolution of past years, the bank's credit portfolio, in December 2017, remained concentrated in the corporate segment (60%).

The 50 biggest borrowers represented 48.9% of the total portfolio and the 50 biggest non-performing exposures represented 93.5% of the respective portfolio

On the liabilities side, total customer resources were down by around 10% over December 2016 to KCve. 22,529,034. This evolution derives from the 25.6% decrease of KCve. 4,023,861 in term deposits and the 18.6% increase of KCve. 1,647,328 in sight deposits. The change was driven by lower borrowing rates, owing to the review policy on the bank's tariff in accordance with the bank's profitability improvement strategy, which had a greater impact on term deposits. The 10th and 50th biggest customers accounted for 29.3% and 43.6% of the bank's total deposits, respectively at 31 December 2017.

Credit institutions' resources were down 3.7% by KCve. 14,931, to KCve. 389,072.

The bank's liquidity management was essentially based on loans and advances to the Bank of Cabo Verde and State treasury bonds, in which the bank managed its exposure limit in an endeavour to maximise profitability without compromising its cash reserves for new operations.

The loans-to-deposit ratio was up 6.81 pp over December 2016 at 65.61%, owing to higher credit and lower deposits levels.

In terms of financial strength the bank complied with all of the prudential indicators required by the Bank of Cabo Verde, having, for all ratios, submitted higher than legally required values. Reference should be made to the solvency ratio of 15.76% with the full amount of net profit for 2017 being appropriated to reserves.

The solvency ratio for 2016 was corrected, with the incorporation of 100% of net profit for the said period.

9.2. PROFIT AND LOSS

The 42.9% increase in net interest income is essentially related to the following:

i) Increased lending, overcoming the effect of the gradual decline of lending rates;

ii) Lower financial costs, owing to the combined effect of the decline in the volume of interest-bearing deposits, as well as lower borrowing rates, and

iii) The increase in overdue interest on recoveries owing to the bank's efforts to recover credit in default.

There was a slight drop of 1.2% in non-operating income over December 2016. In 2016 the bank made an extraordinary profit of around KCve. 32,000 related to deferred balance sheet commissions on overdue credit operations. Without this extraordinary effect, net commissions would have been up 4.4% and non-operating income by around 16%.

Total operating income was up 29.8% by KCve. 215,189 to KCve. 936,939 and was essentially driven by the growth of net interest income.

Structural costs were up 6.6% by KCve. 38,941. This was particularly the result of the 4.0% increase of KCve. 9,796 in employee costs and 9.5% increase of KCve. 27,805 in general administrative expenditure.

Cost-to-income of 66.96%, showed a significant improvement over 2016 (81.53%).

Employee costs were up 4% over December 2016 to KCve. 256,345. A relevant part of this increase is explained by the structural costs of the current wage rules which entail significant increases in employees' wages but which are not based on merit (automatic, seniority-based promotions). There was also an increase in the number of employees in 2017 (from 133 in December 2016 to 145 in 2017) accompanied by the first merit-based promotions since 2011. Cost rationalisation policies continued to result in savings which were essentially reflected in the following accounts:

- Advertisements and publications;
- Communications;
- Travel, accommodation and expense account items;
- Rents and hires;
- Specialised services – consultancy, retainers and fees.

The bank, however, continues to invest heavily in restructuring processes, essentially related to the implementation of its IT projects in 2017. These were reflected in a global increase in general administrative expenditure.

Net operating income before impairment was up 132.2% by KCve. 176,240 over 2016 to KCve. 309,532. Impairment and provisions (net) were up by an approximate year-on-year 100% (KCve. 133,343) to KCve. 266,151, consuming around 86% of net operating income before impairment.

Net profit of KCve. 54,284 was up KCve. 42,335. The 2014, 2015 and 2016 policy of declaring impairment on overdue credit to reduce the contingency on the solvency ratio resulting from the write-off of prudential provisions surpluses on loan impairment was maintained.

9.3. IFRS9

BI started work on the process for the implementation of International Financial Report Standard (IFRS) 9, in 2017, to replace IAS 39 starting 1 January 2018. Given the technical complexity of the issues covered by the new standard, the bank was forced to use external consultancy services for: (1) a diagnosis of the situation in terms of processes, concepts, procedures and governance model; 2) the definition of rules and methodologies to guarantee the uniformity of criteria and concepts on a Caixa Geral de Depósitos group level (i.e. IFRS 9 compliant), in addition to the governance model to be adopted; 3) gap analyses; 4) the preliminary quantification of impacts and 5) the implementation of the standard itself, with the definition of models, risk factors, collective and separate analyses and reports, pursuant to which the preliminary unaudited estimate of the impact on the bank's shareholders' equity amounted to around KCve 73,870.

10 PROPOSAL FOR THE APPROPRIATION OF RESULTS

Based on a policy of prudence and the benefit of capitalising Banco Interatlântico and considering the Bank's net result for 2017, the following appropriation is hereby proposed:

- Legal reserve 10% (ten per cent);
- Remainder to be allocated to other reserves.

Praia, 02 March 2018

Alfredo Manuel Antas Teles

Teófilo Figueiredo Almeida Silva

Pedro Gomes Soares

Manuel Fernando Monteiro Pinto

João Pedro dos Santos

Jorge Fernando Gonçalves Alves

11 FINANCIAL STATEMENTS

BANCO INTERATLÂNTICO, S.A.R.L.

BALANCE SHEET AT 31 DECEMBER 2017 AND 2016

(Amounts in thousand Cape Verde escudos)

ASSETS	Notes	2017 Gross Assets	2017 Impairment and depreciation	2017 Net Assets	2016 Net Assets	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2017	2016
Cash and cash balances at central banks	3	2 663 292	-	2 663 292	1 425 917	Other credit institutions' resources	13	389 072	404 003
Cash balances at other credit institutions	4	1 247 658	-	1 247 658	960 363	Customer resources and other loans	14	22 529 034	25 011 175
Available-for-sale financial assets	5	298 013	(11 891)	286 122	280 258	Other subordinated liabilities	15	515 214	514 914
Loans and advances to credit institutions	6	2 808 816	-	2 808 816	7 297 536	Provisions	16	5 733	5 733
Loans and advances to customers	7	18 833 460	(1 288 520)	17 544 940	16 705 315	Current tax liabilities	11	1 964	5 983
Other tangible assets	8	1 219 992	(824 199)	395 792	422 000	Deferred tax liabilities	11	8 298	6 691
Intangible assets	9	123 325	(88 865)	34 460	27 146	Other liabilities	18	508 000	174 209
Investments in subsidiaries, associates and jointly controlled entities	10	70 768	-	70 768	80 055	Total liabilities		23 957 316	26 122 707
Current tax assets	11	37 638	-	37 638	43 679				
Other assets	12	870 363	(193 497)	676 866	630 497	Capital	19	1 000 000	1 000 000
						Share issue premiums	20	388	388
						Fair value reserves	20	24 244	19 548
						Other reserves	20	876 518	864 570
						Retained earnings	20	(146 396)	(146 396)
						Profit for period	20	54 284	11 948
						Total shareholders' equity		1 809 037	1 750 058
Total assets		28 173 325	(2 406 972)	25 766 353	27 872 765	Total liabilities and shareholders' equity		25 766 353	27 872 765

The annex is an integral part of these financial statements

BANCO INTERATLÂNTICO, S.A.R.L.

FINANCIAL STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 2016

(Amounts in thousand Cape Verde escudos)

	Notes	2017	2016
Interest and similar income	21	1 291 370	1 239 274
Interest and similar costs	22	(566 081)	(731 841)
NET INTEREST INCOME		725 289	507 433
Income from equity instruments	23	6 062	6 093
Income from services and commissions	24	139 916	161 933
Costs of services and commissions	24	(31 106)	(25 721)
Income from available-for-sale financial assets	5	(77)	-
Income from foreign exchange revaluations	25	53 595	35 037
Income from the disposal of other assets	26	(92)	823
Other operating results	27	43 352	36 153
TOTAL OPERATING INCOME		936 939	721 750
Employee costs	28	(256 345)	(246 549)
General administrative expenditure	29	(319 076)	(291 271)
Depreciation and amortisation for period	8 e 9	(51 986)	(50 646)
Impairment of other financial assets net of reversals and recoveries	17	(211 397)	(26 683)
Impairment of other assets net of reversals and recoveries	17	(54 754)	(106 125)
Results of associates and subsidiaries measured by the equity accounting method	10	12 866	15 129
RESULT BEFORE TAX		56 247	15 605
Tax			
Current	11	(1 964)	(3 657)
Deferred	11	-	-
		(1 964)	(3 657)
NET RESULT		54 284	11 948
Average number of ordinary shares issued		100 000	100 000
Earnings per share (CVE)	30	543	119

The annex is an integral part of these financial statements

BANCO INTERATLÂNTICO, S.A.R.L.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 2016

(Amounts in thousand Cape Verde escudos)

					Other reserves and retained earnings					
	Notes	Capital	Issue premiums	Fair value reserves	Legal reserve	Other reserves	Retained earnings	Total	Profit for period	Total
Balances at 31 December 2015		1 000 000	388	18 731	143 963	715 544	(146 396)	713 111	5 063	1 737 293
Distribution of profit		-	-	-	506	4 557	-	5 063	(5 063)	0
Change in the fair value of available-for-sale financial assets	21	-	-	817	-	-	-	817	-	817
Net profit for period		-	-	-	-	-	-	-	11 948	11 948
Balances at 31 December 2016		1 000 000	388	19 548	144 470	720 101	(146 396)	718 991	11 948	1 750 058
Distribution of profit	21	-	-	-	1 195	10 753	-	11 948	(11 948)	-
Change in the fair value of available-for-sale financial assets		-	-	4 696	-	-	-	4 696		4 696
Net profit for period		-	-	-	-	-	-	-	54 284	54 284
Balances at 31 December 2017		1 000 000	388	24 244	145 665	730 854	(146 396)	735 635	54 284	1 809 037

The annex is an integral part of these financial statements

BANCO INTERATLÂNTICO, S.A.R.L.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 2016

(Amounts in thousand Cape Verde escudos)

	Notes	2017	2016
Changes in the fair value of available-for-sale financial assets			
Change in period	21	6 303	1 096
Fiscal effect	21	(1 607)	(279)
Other comprehensive income		4 696	817
Net profit for period		54 284	11 948
Total comprehensive income for period		58 980	12 765

The annex is an integral part of these financial statements

BANCO INTERATLÂNTICO, S.A.R.L.

STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 2016

(Amounts in thousand Cape Verde escudos)

	2017	2016
Cash flows from operating activities		
Income from interest and commissions	1 431 285	1 401 207
Payment of interest and commissions	(597 186)	(757 562)
Foreign exchange results	53 595	35 037
Payments to employees and suppliers	(575 421)	(537 820)
Other receipts / (payments) for operating activity	43 183	36 975
Payments of income taxes	1 751	(4 081)
Operating results prior to changes in operating assets	357 207	173 755
(Increases) decreases in operating assets		
Available-for-sale financial assets	(5 864)	(1 536)
Loans and advances to credit institutions	4 488 720	(2 344 654)
Loans and advances to customers including treasury bills	(1 165 345)	(1 399 732)
Other assets	31 041	(54 661)
	3 348 552	(3 800 583)
Increases (decreases) in operating liabilities		
Central banks' and other credit institutions' resources	(14 931)	(16 412)
Customer resources	(2 482 140)	2 881 621
Other liabilities	333 792	38 747
	(2 163 279)	2 903 956
Net cash from operating liabilities	1 542 480	(722 871)
Cash flows from investing activities		
(increases) decreases in investment assets:		
Intangible assets	(7 315)	(13 043)
Other tangible assets	(29 421)	(209 737)
Dividends received	18 927	14 696
Net cash from investing activities	(17 809)	(208 084)
Cash flows from financing activities		
Dividends paid	-	-
Net cash from financing activities	-	-
Increase (decrease) net of cash and cash equivalents	1 524 671	(930 955)
Cash and cash equivalents at start of period	2 386 279	3 317 234
Cash and cash equivalents at end of period	3 910 950	2 386 279

The annex is an integral part of these financial statements

12 NOTES TO THE FINANCIAL STATEMENTS

1. INTRODUCTORY NOTE

Banco Interatlântico, SARL (hereinafter BI or bank) is a commercial bank, founded in July 1999, as a result of the integration of the net equity of Caixa Geral de Depósitos, S.A.'s branch in Cabo Verde, pursuant to which all of the branch's rights and obligations at 30 June 1999, were transferred to it.

The bank's objective is to perform a banking activity and credit functions in general, as well as any financial or investment operations on securities or equity investments provided that they have been lawfully authorised.

The bank's headquarters are in Praia, in the Republic of Cabo Verde. It has a network of nine branch offices five of which are located on Santiago, two on Sal, one on São Vicente and another on Boa Vista island.

The bank's financial statements, at 31 December 2017, approved by its board of directors on 2 March 2018, still require the approval of its general shareholders' meeting. The bank's board of directors, however, considers that they will be approved without any significant alterations.

2. PRESENTATION BASES AND ACCOUNTING POLICIES

2.1. Presentation bases

The bank's financial statements have been prepared on the going concern principle, based on books and accounting records, kept in conformity with the accounting principles set out in the International Financial Reporting Standards (IFRS) under the terms of *Notice* 2/2007 of 19 November, issued by the Bank of Cabo Verde.

2.2. Accounting policies

Information on the most significant accounting policies used for the preparation of the financial statements is set out below:

a) *Accrual basis*

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

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

The items included in the bank's financial statements are measured in the currency of the economic environment in which it operates (functional currency). The bank's financial statements and respective explanatory notes are stated in thousand Cabo Verde escudos (KCve.), as the bank's functional currency unless otherwise explicitly stated.

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

The Cabo Verde escudo's exchange rate remained unchanged at 110.265 Cabo Verde escudos to the euro in 2017 and 2016. The exchange rate against the US dollar (USD), at 31 December 2017 and 2016 was as follows:

	2017	2016
1 USD	92,398	105,329

c) *Financial assets*

i) Financial assets

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

Loans and accounts receivable

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

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

Interest recognition

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

Overdue credit and write-offs of capital and interest

Interest on overdue credit is written-off one day after an operation's maturity date or first overdue payment. Unrecognised interest on the above referred to credit is only recognised in the period in which it is collected in "Interest and similar income".

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

Available-for-sale financial assets

Available-for-sale financial assets, comprising corporate shares, are measured at fair value, with the exception of shareholders' equity instruments not listed in an active market whose fair value cannot be reliably measured and which continue to be recognised at cost. Any profit or loss on revaluations is recognised directly in "Revaluation reserves" in shareholders' equity. At the time of sale or if impairment is declared, accrued fair value changes are transferred to income or costs for the year and recognised in "Income from available-for-sale financial assets" or "Impairment of other financial assets, net of reversals and recoveries" respectively.

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

Fair value

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

The fair value of a financial instrument comprises the amount at which an asset or financial liability can be sold or liquidated between independent, informed parties, in an arm's length transaction.

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

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

ii) Impairment of financial assets

Financial assets at amortised cost

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

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

The following events may comprise signs of impairment:

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

The bank performs a separate analysis on all customers with liabilities of more than KCve. 25,000 and companies with an exposure of more than KCve. 10,000 when in default for more than 180 days.

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

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

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

- Corporate lending;
- Mortgage lending;
- Issue of guarantees;
- Other loans and advances to individual customers;
- Public sector.

Separately evaluated assets on which no objective signs of impairment have been identified are also subject to a collective impairment analysis, as described above.

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

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

Available-for-sale financial assets

As referred to in note 2.2. c) i) available-for-sale financial assets are recognised at their fair value, whose changes are reflected in "Revaluation reserves" in shareholders' equity.

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

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

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

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

As impairment losses on equity instruments cannot be reversed, any unrealised capital gains following the recognition of impairment losses are recognised in "Revaluation reserves". Impairment is always considered to exist if additional capital losses are assessed at a later stage and is recognised in profit and loss for the period.

The bank also performs periodic impairment analyses on financial assets recognised at cost, notably unlisted shareholders' equity instruments whose fair value cannot be reliably measured. The recoverable value, in this case, is the highest estimate of the cash flows receivable on the asset, discounted at a rate that adequately reflects the risk attached to holding the asset.

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

d) *Financial liabilities*

Financial liabilities are recognised at their respective fair value at the agreement date, net of the costs or income directly attributable to the transaction. Financial liabilities include credit institutions' and customer resources, debt issuances and liabilities incurred on the payment of services or purchase of assets, recognised in "Other liabilities".

Sales operations with repo agreements, i.e. treasury bonds and bills are recognised in "Customer resources and other loans", whose corresponding securities continue to be recognised in the bank's portfolio.

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

e) *Assets received on credit recoveries*

Property and other auctioned goods obtained on the recovery of overdue credit are recognised in "Other assets".

These assets are not depreciated. The value of property received on credit recoveries is periodically assessed. Impairment losses are recognised if a property's value, net of its estimated sales costs, is less than its balance sheet carrying amount.

Auctioned property is written-off from assets and its respective profit or loss recognised in "Results from the disposal of other assets".

f) *Reclassifications*

The bank reclassifies non-derivative financial assets with fixed or determinable payments and defined maturities, from available-for-sale financial assets to financial assets held-to-maturity, provided it intends and is able to hold such financial assets to maturity.

These reclassifications are made on the basis of the fair value of the reclassified assets measured on the transfer date. The difference between such fair value and the respective nominal value is recognised in profit and loss up to the time of the assets' maturity, based on the effective rate method. The fair value reserve at the transfer date is also recognised in profit or loss by the effective rate method.

A financial asset which is no longer held-for-sale or repurchase over the short term (in spite of the fact that it might have been acquired with this objective) may, in exceptional circumstances, be reclassified from financial assets at fair value through profit or loss. The assets' fair value at the date of reclassification will be their new or amortised cost, as applicable.

Transfers of available-for-sale financial assets to loans and advances to customers – securitised loans – are permitted if the bank intends and is able to maintain them in the foreseeable future or up to maturity.

g) *Fair value ranking*

The bank's assets and liabilities at fair value are measured in accordance with the following fair value ranking of IFRS 13 – Fair value measurement:

Market prices (level 1)

This category includes financial instruments whose prices are available in official markets and those with entities that usually disclose transaction prices for these instruments traded in liquid markets.

The priority in respect of the prices used is given to those observed in official markets. In cases when there is more than one official market the option falls to the main market in which such financial instruments are traded.

The bank considers market prices to be those disclosed by independent entities based on the assumption that they are operating in their own economic interest and that such prices are representative of the active market and always, whenever possible, uses prices supplied by more than one entity (for a specific asset and/or liability).

Measurement methods based on observable market parameters/prices (level 2)

This category considers financial instruments measured on the basis of internal models, namely discounted cash flow and options measurement models which entail the use of estimates and judgments that vary in conformity with the complexity of the products being measured. The bank, however, uses market-supplied variables such as interest rate curves, credit spreads, volatility and price indices as input for its models. It also includes instruments whose measurements are obtained from prices disclosed by independent entities but in markets with reduced liquidity. The bank also uses observable market variables resulting from transactions on similar instruments and which are observed with a certain level of recurrence in the market.

Measurement methods using non-observable market parameters (level 3)

This level includes measurements assessed by the use of internal measurement models or prices supplied by third parties but whose parameters are not observable in the market.

h) *Other tangible assets*

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

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

	Years of useful life	
	Acquired up to 2014	Acquired after 2015
Property for own use	50	50
Equipment:		
Furniture and office material	12	8
Machines and tools	5 - 6	5
IT equipment	4	3 - 5
Interior installations	8	5
Transport material	4 - 5	4 - 5
Security equipment	5	10
Other equipment	6	8

Land is not depreciated.

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

Depreciation is recognised as a cost for the period.

Analyses designed to identify signs of impairment on tangible assets are periodically performed, in accordance with IAS 36 – "Assets impairment". Impairment losses are recognised in "Impairment of other assets, net of reversals and recoveries" in profit and loss for the period whenever the net book value of tangible assets exceeds their recoverable value. Impairment losses can be reversed and also have an impact on profit and loss for the period if there is an increase in the asset's recoverable value in the following periods.

Depreciation, notably in the case of vehicles, takes the estimated residual value an item of equipment into consideration.

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

i) *Intangible assets*

This account essentially comprises the costs of acquisition, development or preparation for use of software used for the performance of the bank's operations.

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

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

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

j) Investments in subsidiaries, associates and jointly controlled entities

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

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

k) *Income tax*

The bank, at 31 December 2017 and 2016, was an "IRPC" (corporate income tax) taxpayer at a rate of 25% plus a 2% fire tax on its tax bill, comprising an aggregate rate of 25.5%.

Current tax

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

Deferred tax

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

Whereas deferred tax liabilities are normally recognised for all temporary taxable differences, deferred tax assets are only recognised up to the amount of the probable existence of future taxable profit, permitting the use of the corresponding deductible tax differences or carry-back of fiscal losses. Deferred tax assets are not recognised in cases in which their recoverability may be questionable owing to other situations, including issues regarding the interpretation of current tax legislation.

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

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

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

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

l) *Provisions and contingent liabilities*

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

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

m) *Employee benefits*

Liabilities for employee benefits are recognised under the principles of IAS 19 – "Employee benefits".

Merit-based productivity bonuses paid to employees, are recognised in "Employee costs" for the respective period, on an accrual basis.

n) *Commissions*

Commissions relating to credit operations, which essentially comprise commissions charged on opening and managing accounts, are recognised by the application of the effective interest rate method over the lifetime of the operations, notwithstanding the time when they are charged or paid.

Commissions associated with the issue of guarantees, documentary credit operations and card annuities are deferred on a straight line basis over the corresponding period.

Commissions for services provided are recognised as income across the period of provision of the service or as a lump sum if corresponding to payment for the performance of single acts.

o) *Securities and other items held under custody*

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

p) *Cash and cash equivalents*

For cash flow statements purposes, cash and cash equivalents include balance sheet amounts with a maturity of less than three months starting from the acquisition/contract date and in which the risk of a change of value is immaterial, including cash and cash balances at central banks and other credit institutions.

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

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

Measurement of impairment losses on loans

Impairment losses on loans are measured by the methodology defined in note 2.2. c) ii. Accordingly, the assessment of impairment on separately analysed assets derives from the bank's specific valuation based on knowledge of its customers' status and guarantees associated with the operations in question.

The measurement of impairment on a collective basis is based on historical parameters for comparable types of operations, considering default and recovery estimates (see note 34).

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

The bank's credit portfolio includes relevant amounts of credit to companies in the property and construction sector, including the funding of several projects related with the development of tourist resorts whose construction has currently been suspended. For the purposes of measuring separate impairment the bank's expectations of recovery are based on the recovery measures in progress and the valuations obtained for the guarantees underpinning credit operations. However, achieving the expected recovery levels reflected in credit impairment declared by the bank is contingent upon the evolution of the property market in Cabo Verde and the results of the concrete recovery measures in progress.

Measurement of impairment losses on available-for-sale financial assets

As described in note 2.2. c) i) b), capital losses deriving from the measurement of such assets are recognised as a charge to "Revaluation reserves". Whenever there is objective evidence of impairment, accumulated capital losses recognised in revaluation reserves are transferred to costs for the year.

In the case of equity instruments, the assessment of the existence of impairment losses may be subjective. The bank assesses whether or not impairment exists on such assets on the basis of a specific analysis at each balance sheet date, taking into consideration the signs defined in IAS 39 (see note 2.2. c) ii) and note 34).

Measurement of financial instruments not traded in active markets

The bank, under IAS 39, measures several instruments recognised as available-for-sale financial assets at their fair value. Measurement models and techniques, as described in note 2.2.c) are used to measure the value of financial instruments not traded in liquid markets. The measurements obtained comprise the best estimate of the fair value of the referred to instruments, at the date of the balance sheet (see note 34).

Income tax assessment

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

With the coming into force of the Code on the Tax of Collective Persons (IRPC code) on 1 January 2015, the bank considered its interpretation of the changes enforced by the said code, namely as regards the deductibility of impairment costs on credit, considering that, for fiscal purposes, impairment calculated under the terms of IAS 39 and the impact of the transition to the new code would be accepted. The board of directors considers that the criteria and assumptions employed are in conformity with the legislation in force and that any differences in interpretation will only originate reclassifications between current and deferred taxes, without having an impact on profit and loss and the bank's shareholders' equity at 31 December 2015 (see note 34).

r) *Basic earnings per share*

Basic earnings per share are calculated by dividing the net profit attributable to the bank's shareholders by the weighted average number of ordinary shares in circulation, excluding the average number of treasury shares held by the bank.

s) *Operating segments*

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

Trading and sales – Trading and sales include banking activity related to the management of the own securities portfolio, management of debt instruments issuances, money and foreign exchange market operations, repo type operations and brokerage. This segment includes loans and advances to and cash balances at other credit institutions.

Commercial banking – Commercial banking includes lending activities and resource-taking from major enterprises and small and medium sized enterprises. This segment includes loans, current accounts, investment project finance, discounted bills, factoring, equipment and property leasing and the underwriting of syndicated loans as well as loans and advances to the public sector.

Retail banking – Retail banking includes banking operations with individual customers, the self-employed and micro-enterprises. This segment also includes consumer credit, mortgage lending, credit cards and deposit-taking from individual customers, as well as international money transfers.

t) *Shareholders' equity*

Ordinary shares are classified in shareholders' equity when realised.

The unrealised part of the capital is not recognised. Any costs involved in the issuance of new shares are recognised in shareholders' equity as a deduction from additional equity funding.

In the case of capital increases, the share issue premium comprises the difference between the subscription price and nominal value.

Supplementary capital payments are recognised in shareholders' equity, when no repayment plan has been defined, when no interest is payable and when they meet the other conditions for recognition in shareholders' equity.

u) Payment of dividends

The payment of dividends is recognised as a liability in the company's financial statements, for the period in which the dividends have been approved by the shareholder at a general meeting.

IFRS Disclosures – new standards at 31 December 2017:

1 - New standards and *interpretations* applicable in the period

The following issuances, revisions, amendments and improvements to standards and *interpretations* were introduced, effective from 1 January 2017, following their endorsement by the European Union (EU).

a) Revisions, amendments and improvements to standards and *interpretations* endorsed by the EU without any effects on the bank's financial statements:

IAS 7 Disclosure initiative

The amendments to IAS 7 are part of the IASB's disclosure initiatives project and help users of financial statements to improve their understanding of the amendments to an entity's debt. The amendments require an entity to disclose changes to its liabilities related to financing activities, including changes to its cash and non-cash flows (such as unrealised profit and loss on foreign exchange operations).

The amendments are applicable to the annual periods beginning on or after 1 January 2017. Entities are not obliged to disclose comparative information.

IAS 12 Recognition of deferred tax assets for unrealised losses – amendments to IAS 12

The IASB has made amendments to IAS 12 to clarify the accounting of deferred tax assets on unrealised losses on debt instruments measured at fair value.

The amendments clarify that an entity should consider whether a country's fiscal rules restrict sources of taxable income that the deductions can be set against at the time of reversal of a temporary deductible difference. The amendments also issue guidelines on how an entity should measure its future taxable profit and explain the circumstances in which such taxable income may include the recovery of certain assets for a higher amount than their book value.

The amendments are applicable to the annual periods beginning on or after 1 January 2017. However, at the time of the initial application of these amendments the change in the initial shareholders' equity of the oldest comparative period presented may be recognised in the initial retained earnings of the most recent comparative period presented (or in another shareholders' equity component, as appropriate), without allocating this change between the initial retained earnings and other initial shareholders' equity components. Entities applying this option must disclose this fact.

Annual improvements to the 2014-2016 cycle

In its annual improvements to the 2014-2016 cycle, the IASB made the following improvement, effective 1 January 2017:

- IFRS 12 − Disclosures of interests in other entities

This improvement clarifies that the disclosure requirements of IFRS 12, in addition to the dispositions of paragraphs B10 to B16, are applicable to an entity's interests in subsidiaries, joint ventures or associates (or a part of its interest in joint ventures or associates) which are classified (or which are included in a classified disposal group) as held-for-sale. This improvement is effective for the periods beginning on or after 1 January 2017 and should be applied retrospectively.

2 - New standards and *interpretations* already issued but still not mandatory

The standards and *interpretations* recently issued by the IASB, whose application is only mandatory for the periods beginning after 1 July 2017 or latter periods and that the bank has not adopted in advance, are as follows:

a) Already endorsed by the EU:

IFRS 15 Revenue from contracts with customers

This standard applies to all revenue from contracts with customers and replaces the following existing standards and *interpretations*: IAS 11 – Construction contracts, IAS 18 - Revenue, IFRIC 13 - Customer loyalty programmes, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 – Transfers of assets from customers and SIC 31 - Revenue-barter transactions involving advertising services. The standard applies to all revenue from contracts with customers unless the contract falls within the sphere of IAS 17 (or IFRS 16 - Leases when applied).

It also provides a model for the recognition and measurement of disposals of several non-financial assets, including sales of goods, equipment and tangible assets.

This standard underlines the principles to be applied by an entity when measuring and recognising revenue. The basic principle is that an entity should recognise the amount of revenue that reflects the consideration to which it considers it is entitled in exchange for the goods and services promised under the contract.

The principles of this standard should be applied in five steps: (1) identification of the contract with the customer (2) identification of the contract's performance obligations (3) assessment of the transaction price (4) allocation of the transaction price to the contract's performance obligations and (5) recognition of income when the entity meets the performance obligation.

The standard requires an entity to exercise professional judgment in its application of each of the model's steps, taking into consideration all of the relevant facts and circumstances.

This standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related with compliance with a contract.

The standard should be applied to periods beginning on or after 1 January 2018. Its application is retrospective, with entities able to choose whether to apply a full or a modified retrospective approach. It may be applied in advance.

Clarification of IFRS 15

In April 2016, the IASB made amendments to IFRS 15 to address various issues related to the standard's implementation.

The following amendments were made:

(i). Clarification of when a product or promised service is different from the sphere of the contract;

(ii). Clarification of when the principal vs. agent guide should be applied, including the measurement unit for assessment purposes, how to apply the principle of control in a service transaction and how to restructure the indicators;

(iii). Clarification of when an entity's activities significantly affect the intellectual property (IP) to which the customer is entitled and which is one of the factors in deciding if an entity recognises revenue from a licence over time or at a specific point in time.

(iv). Clarification of the sphere of the exceptions for sales and usage-based royalties related with IP licences IP (royalty constraint) when no other goods or services have been promised under the contract. Addition of two practical opportunities in the transition requirements of IFRS 15: (a) contract completions based on the full retrospective approach; and (b) contract modifications on transition.

These clarifications should be simultaneously applied with the application of IFRS 15, to the periods beginning on or after 1 January 2018. Early application is permitted provided it has been adequately disclosed. Application is retrospective, with entities able to choose whether to apply a full or a modified retrospective approach.

Impact: This standard is more demanding than the current standard and there are more guides for its application. The disclosures are also more extensive.

IFRS 9 Financial Instruments

This standard may be summarised by the following themes:

- Classification and measurement of financial assets

(i). All financial assets are measured at fair value on the date of initial recognition, adjusted for the transaction costs if the instruments are not accounted for at fair value through profit or loss (FVTPL). However, customer accounts without a significant financing component are initially measured at their transaction value, as defined in IFRS − 15 − "Revenue from contracts with customers".

(ii). Debt instruments are latterly measured on the basis of their contractual cash flows and the business model under which such instruments are held. If a debt instrument's contractual cash flows comprise only payments of principal and interest on the amount of outstanding principal and it is held as part of a business model with the objective of holding the assets for the purpose of receiving contractual cash flows, then the instrument is accounted for at amortised cost. If a debt instrument's contractual cash flows comprise exclusively payments of principal and interest on the outstanding principal and held as part of a business model with the objective of receiving contractual cash flows and from the sale of financial assets, then the instrument is measured at fair value through other comprehensive income (FVTOCI) and subsequently reclassified in profit and loss.

(iii). All other debt instruments are subsequently accounted for at FVTPL. There is also an option allowing financial assets at the time of initial recognition to be designated at FVTPL if this eliminates or significantly reduces a significant accounting mismatch in profit and loss for the period.

(iv). Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option, on an instrument by instrument basis, to recognise the fair value changes of non-commercial instruments in the comprehensive income statement (without a subsequent reclassification to profit and loss for the period).

- Classification and measurement of financial liabilities

(i). For financial liabilities at FVTPL using the fair value option, the amount of the change in the fair value of these financial liabilities attributable to changes in credit risk should be set out in the comprehensive income statement. The rest of the change of fair value should be recognised in profit and loss unless the presentation of the change of fair value relative to the credit risk of the liabilities in the comprehensive income statement creates or expands an accounting mismatch in profit and loss for the period.

(ii). All of the other classification and measurement requirements for financial liabilities of IAS 39 have been transposed to IFRS 9, including the rules for separating out embedded derivatives and the criteria for the use of the fair value option.

- Impairment

(i). Impairment requirements are based on expected credit loss (ECL), which replaces the incurred loss model of IAS 39.

(ii). The ECL model applies: (i) to the accounting of debt instruments at amortised cost or fair value through comprehensive income (ii) to most loan commitments (iii) to financial guarantee contracts (iv) to contractual assets in the sphere of IFRS 15 and (v) to accounts receivable from leases in the sphere of IAS 17 − Leases.

(iii). Entities must generally recognise ECL on a 12 months or lifetime basis, depending upon whether there has been a significant increase in credit risk since the time of initial recognition (or time when the commitment has been made or guarantee issued). For accounts receivable from customers without a significant financing component and depending upon an entity's choice of accounting policy for other customer loans and accounts receivable on leases, a simplified approach may be made in which lifetime ECLs are always recognised.

(iv). The measurement of the ECL should reflect the weighted probability of the result, the effect of the value of money over time and be based on reasonable and suitably justified information which is available at no cost or without the need to expend excessive effort.

- Hedge accounting

(i). Hedge effectiveness tests should be prospective and may be qualitative, depending upon the complexity of the hedge, without the 80% - 125% test.

(ii). The risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measurable.

(iii). The value of an option over time, the forward element of a forward contract and any foreign currency base spread may be excluded from the designation as hedge instruments and be accounted as hedge costs.

(iv). Broader collections of items may be designated as hedged items, including designations by layers and several net positions.

The standard is applicable to periods beginning on or after 1 January 2018. Early application is permitted provided it has been adequately disclosed. The application varies in line with the standard's requirement and is partly retrospective and partly prospective.

Impact: The application of the IFRS may change the measurement and presentation of financial instruments, depending upon the respective underlying cash flows and business model under which they are held.

Impairment is generally the result of the early recognition of impairment losses.

The new hedge accounting model may also lead to more instruments being accounted as hedges.

Application of IFRS 9 with IFRS 4 – amendments to IFRS 4

The amendments deal with several of the issues raised by the implementation of IFRS 9 prior to the implementation of the new standard on insurance contracts to be issued by the IASB in replacement of IFRS 4.

- Temporary exemption from IFRS 9

(i). Temporary exemption from IFRS 9 is available for entities whose activity is predominantly related to insurance.

(ii). The temporary exemption allows such entities to continue to apply IAS 39 while deferring the application of IFRS 9 up to 1 January 2021 at the latest..

(iii). The predominance should be assessed at the beginning of the annual reporting period prior to 1 April 2016 and prior to the implementation of IFRS 9. The assessment of such predominance may also only be reviewed in exceptional circumstances.

(iv). Companies applying this temporary exemption must make additional disclosures.

- Overlay approach

(i). This approach is an option for entities adopting IFRS 9 and issuing insurance contracts, to adjust their profit and loss on eligible financial assets. This effectively results in the application of IAS 39 to these eligible financial assets.

(ii). The adjustments eliminate the possible occurrence of accounting volatility in the application of IFRS 9 without the new insurance contracts standard.

(iii). In accordance with this approach, an entity may reclassify amounts of profit or loss to other comprehensive income (OCI) for designated financial assets.

(iv). An entity must include a separate line for the impacts of this overlay adjustment in profit and loss as well as the comprehensive income statement.

The temporary exemption is applicable for the first time to the annual periods beginning on or after 1 January 2018. An entity may opt for the overlay approach when applying IFRS 9 for the first time and when applying this approach retrospectively to designated financial assets on the date of transition to IFRS 9. The entity should change the comparisons in order to reflect the overlay approach if, and only if, changing the comparisons when applying IFRS 9.

Impact: The overlay approach requires companies to eliminate some of the volatility from profit and loss which could appear if they apply IFRS 9 in conjunction with IFRS 4.

When applying the temporary exemption, companies continue to make the disclosures required by IFRS 9.

Annual improvements to the 2014-2016 cycle

In the annual improvements to the 2014-2016 cycle, the IASB made the following improvements which should be applied retrospectively and which are effective from 1 January 2018 (early adoption is permitted if suitably disclosed).

IFRS 1 First time adoption of IFRS

This improvement eliminates the short term exemption for first time adopters in paragraphs E3-E7 of IFRS 1, insofar as it has already served its purpose (related with exemptions from several disclosures of financial instruments provided for in IFRS 7, exemptions in terms of employee benefits and exemptions on a level of investment entities).

This improvement is effective for the periods beginning on or after 1 January 2018.

IAS 28 Clarifies that the measurement of subsidiary/associate companies at fair value through profit or loss is a choice made on an investment-by-investment basis

The improvement clarifies the following:

(i). A company which is a venture capital company, or other entity qualifiable as such, may, at the time of initial recognition and on an investment-by-investment basis, elect to measure its investments in associates and/or joint ventures at fair value through profit or loss.

(ii). If a company other than an investment entity has an interest in an associate or joint venture which is an investment entity, the company may, when applying the equity accounting method, elect to maintain the fair value that such subsidiary/associate companies apply in the measurement of their subsidiaries.

Annual improvements to the 2014-2016 cycle

This option is taken separately for each investment on (a) initial recognition of the investment in this subsidiary/associated company; (b) the date upon which the subsidiary/associated company becomes an investment entity; and; (c) the date upon which this subsidiary/associated company becomes a parent company, whichever is the last event to occur.

IFRS 16 Leases

IFRS 16 includes leases on all assets, with several exceptions. A lease is described as being 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 consideration.

IFRS 16 requires lessees to account all leases on the basis of a single on-balance sheet model in the same way as the treatment afforded to financial leases under IAS 17. The standard recognises two exceptions to this model: (1) low value leases (e.g. personal computers) and short term leases (i.e. a lease period of less than 12 months). When the lease becomes effective, the lessee will recognise the liability for the lease payments and the asset comprising the right to use the underlying asset during the lease period (i.e. ROU − right of use).

Lessees must recognise the interest expense attached to the lease liability and the depreciation of ROU, separately.

Lessees must also re-measure the lease liability on the basis of the occurrence of certain events (such as a change in the lease period, a change of future payments resulting from a change in the reference index or rate used to assess such payments). The lessee recognises the amount of the re-measurement of the lease liability as an adjustment to the ROU.

A lessee's accounting process remains substantially unchanged in comparison to its current treatment under IAS 17. The lessor continues to classify all leases using the same principles as in IAS 17, differentiating between two types of leases: operating and financial leases.

The standard should be applied for the periods beginning on or after 1 January 2019. Early application is permitted provided that IFRS 15 is also applied. The application is retrospective, with entities choosing between the "full" or "modified" retrospective approach.

Impact: For a lessor, the recognition standard pertaining to the cost of the lease will be accelerated. Several of the principal ratios such as EBITDA, financial ratios in the financial statements, lease payments will be recognised in the sphere of financing activities, with broader disclosure requirements.

IFRS 10 and IAS 28: Sale or delivery of assets by an investor to its associate or jointly owned enterprise

The changes endeavour to resolve the conflict between IFRS 10 and IAS 28 in the event of the loss of control over a subsidiary which is sold or transferred to an associate or jointly owned enterprise.

The amendments to IAS 28 introduce different recognition criteria on the effects of sales transactions or deliveries of assets by an investor (including consolidated subsidiaries) to an associate or jointly owned enterprise depending upon whether the transactions involve, or not, assets comprising a business as defined in IFRS 3 – Business combinations.

When the transactions comprise a business combination, under the required terms, the profit or loss should be fully recognised in an investor's profit and loss statement for the period. If, however, the transferred asset is not a business, the profit or loss shall continue to be recognised only to the extent that it refers to the other investors (not related).

In December 2015, the IASB decided to defer the date of application of this amendment up until the finalisation of any amendments resulting from the investigation regarding the equity accounting method. The early application of this amendment continues to be permitted and must be disclosed. The amendments should be applied prospectively.

Impact: The amendments eliminate the diversity of existing practices, providing preparers of financial statements with a set of principles applicable to these transactions. The need for professional judgement, however, continues to exist in the definition of a business.

IFRS Practice statement 2: Making judgements on materiality

Companies are allowed to apply Practice Statement (PS) guidelines on the preparation of financial statements at any time after 14 September 2017.

The PS sets out non-mandatory guidelines enabling companies to make judgements on materiality when preparing financial statements. The PS also helps readers of financial statements to understand how the entity makes its judgments on materiality when preparing these financial statements.

The PS sets out guidelines on three main areas:

(i). General characteristics of materiality.

(ii). A four step process that can be used when making judgments on materiality in the preparation of the financial statements. This process describes how an entity assesses if certain information is material for recognition, measurement, presentation and disclosure purposes.

(iii). How to make judgements on materiality in specific circumstances, namely on information from past periods, mistakes and ratios and in the context of interim reporting.

(iv). The PS also discusses the interaction between judgements on materiality that a company must make and local laws and regulations.

The PS illustrates examples of how companies can apply the respective guidelines.

Impact: The amendments eliminate the diversity of existing practices, providing preparers of financial statements with a set of principles applicable to these transactions. The need for professional judgement, however, continues to exist in the definition of a business.

b) Still not endorsed by the EU:

Annual improvements to the 2015-2017 cycle

In its annual improvements to the 2015-2017 cycle, the IASB has made improvements to four standards as summarised below:

IFRS 3 − Business combinations – previously held interest in a joint operations

(i). The amendments clarify that an entity achieving control over a joint operation should apply the business combination requirements in stages, including the re-measurement of the interest previously held in the sphere of the joint operations' assets and liabilities for fair value purposes.

(ii). When doing so, the acquirer re-measures the interest previously held in the joint operation.

(iii). The amendment applies to business combinations whose acquisition date is either on or after the beginning of the first reporting period starting on or after 1 January 2019. Its early adoption is permitted.

IFRS 11 Joint arrangements – interest held prior to a joint operation

(i). A party participating in, but which does not wield joint control, over a joint operation, may achieve joint control of a joint operation whose activity comprises a business as defined in IFRS 3. This amendment clarifies that the previously held interest should not be re-measured.

(ii). The amendment is applicable to transactions in which an entity achieves joint control on or after the start of the first reporting period beginning on or after 1 January 2019. Its early adoption is permitted.

IAS 12 − Income taxes – consequences in terms of income tax deriving from payments relative to financial instruments classified as equity instruments

(i). These amendments clarify that the consequences in terms of income tax on dividends are directly associated with the transaction or past event that has generated distributable profit to shareholders. The company, accordingly, recognises the tax impacts in profit and loss, comprehensive income or another equity instrument in accordance with the way in which the entity has recognised such transactions or events in the past.

(ii). These amendments are applicable to annual periods beginning on or after 1 January 2019. Their early adoption is permitted. An entity applying these amendments for the first time should apply the tax consequences on the recognition of dividends on or after the start of the oldest comparison period.

IAS 23 − Borrowing costs – costs of loans eligible for capitalisation

(i). The amendment clarifies that an entity processes any loan originally obtained for the development of an eligible asset as part of its global loans, when all of the activities required to prepare the said asset for its intended use or for sale have been substantially completed.

(ii). The amendments are applicable to the costs of loans incurred on or after the beginning of the reporting period in which the company adopts such amendments.

(iii). These amendments are applicable to annual periods beginning on or after 1 January 2019. Their early adoption is permitted.

IFRS 17 − Insurance contracts

IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), whatever the type of issuing entity, in addition to some guarantees and several discretionary financial instruments. There are several exceptions.

The general objective of IFRS 17 is to supply a more useful and consistent accounting model for entities that issue insurance contracts.

In contrast to the requirements of IFRS 4, which are based on previous, locally adopted accounting policies, IFRS 17 supplies an integral model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model which is supplemented by:

(i). A specific adaptation for direct profit-sharing contracts (variable rate approach); and

(ii). A simplified approach (premium allocation approach), mainly for short term contracts.

The main characteristics of the new accounting model for insurance contracts are as follows:

(i). The measurement of the present value of future cash flows, incorporating a risk adjustment, measured in each reporting period (realisable value of cash flows);

(ii). A contractual service margin (CSM) which is equal to and set against any initial profit made on the realisation of cash flows on a group of contracts, representing unappropriated profit on the insurance contracts which are recognised in profit or loss during the period of application of the service (i.e. cover period);

(iii). Several changes to the expected present value of future cash flows are adjusted to the CSM, and, accordingly, recognised in profit or loss across the remaining period of the contractual service;

(iv). The effects of changes in discount rates shall be reported as profit or loss or as comprehensive income, depending on a company's accounting policy;

(v). The presentation of insurance profit and costs in the other comprehensive income statement is based on the concept of services provided during the period;

(vi). The amount receivable by insurees, notwithstanding the occurrence, or not, of an insured event (undifferentiated investment components), are not set out in profit and loss but directly recognised in the balance sheet;

(vii). The results of insurance services (revenue obtained net of credit issued) are set out separately in insurance profit or loss; and

(viii). Extensive disclosures supplying information on the recognition of the amounts on insurance contracts and nature and extent of the risks therefrom deriving.

IFRS 17 is effective for the annual periods beginning on or after 1 January 2021 and it is necessary to present the comparisons for the said year. Early application is permitted provided that the company also applies IFRS 9 and IFRS 15 on the date or prior date upon which the company applies IFRS 17. The IASB opted for the retrospective application for the CSM estimate at the transition date.

However, if a full retrospective application, as defined in IAS 8, for a group of insurance contracts, is not practicable, the company must choose between one of two alternatives:

(i). Modified retrospective approach – based on reasonable, suitably justified information which is available without the need for a company to incur expressive costs or endeavours, considering several modifications the full extent of the retrospective application, while maintaining the objective of achieving the best results possible from the retrospective application;

(ii). Fair value approach – the CSM is assessed as the positive difference between the fair value assessed in conformity with IFRS 13 − Fair value measurement and the realisable value of cash flows (any negative difference will be recognised in retained earnings on the transition date).

A company which does not succeed in obtaining reasonable, suitably justified information for applying the modified retrospective approach must apply the fair value approach.

Impact: IFRS 17, in conjunction with IFRS 9, will have a significant impact on insurance companies (on a level of systems and processes used to produce financial information).

This new model will have a significant impact on revenue and total shareholders' equity, increasing volatility.

<u>IFRIC 22 − Foreign currency transactions and advance consideration</u>

This interpretation clarifies that for assessing the spot exchange rate to be used for the initial recognition of an asset, expense or income (or part thereof) associated with the recognition of non-monetary assets or liabilities related with an advance consideration, the transaction date is the date upon which the entity initially recognises the asset or non-monetary liability related with the advance consideration.

If an advance consideration involves multiple payments or receipts, the entity should specify the transaction date for reach payment or receipt.

A company can apply this interpretation on a full retrospective application basis.

Alternatively, it can apply this interpretation prospectively on all assets, expenses and revenue in the sphere thereof and which are initially recognised on or after:

(i) The start of the reporting period in which the entity applies the interpretation for the first time; or

(ii) The start of the reporting period presented as the comparison period in the financial statements for the period in which the entity applies the interpretation for the first time.

Early adoption is permitted provided that it is adequately disclosed.

Impact: The amendments eliminate the diversity of practices existing in the recognition of the related asset, income or expense (or part thereof) at the time of derecognition of an asset or non-monetary liability related with the advance received or paid in foreign currency.

<u>IFRIC 23 – Uncertainty over income tax treatments</u>

In June 2017 the IASB issued IFRIC 23 – Uncertainty over income tax (*interpretation*) which clarifies the requirements for the application and measurement of IAS 12 − Income taxes in the event of any uncertainty over the treatment of income tax.

The *interpretation* addresses the accounting of income tax when the fiscal treatments involve uncertainty and affect the application of IAS 12. The *interpretation* does not apply to charges or taxes other than in the sphere of IAS 12, nor does it specifically include requirements relating to interest or fines associated with the uncertainty of tax treatments. The *interpretation* specifically addresses the following:

(i). Whether a company considers the uncertainties of tax treatments separately;
(ii). The assumptions used by a company on the examination of fiscal treatments by the fiscal authorities;
(iii). How a company assesses fiscal profit (loss), fiscal basis, unused fiscal losses, unused fiscal credit and fiscal charges;
(iv). How a company considers changes of events and circumstances.

A company must decide if it considers the uncertainty over each fiscal treatment separately or in conjunction with one or more uncertain fiscal treatments. The approach which should be followed is the one best suited to resolve the uncertainty.

The interpretation is applicable for the periods beginning on or after 1 January 2019.

Impact: The application of this *interpretation* will be more complex for multinational companies operating in multi-complex fiscal environments. Companies must also guarantee that they have implemented a process enabling them to obtain the necessary information for the prompt application of the *interpretation*.

<u>IFRS 2 Classification and measurement of share-based payment transactions – Amendments to IFRS 2</u>

The IASB has made amendments to IFRS 2 on the classification and measurement of share-based payment transactions. These amendments deal with three essential areas:

- Vesting conditions
  - Effects on the measurement of cash settled share-based payment transactions. The amendments clarify that the methodology used to account vesting conditions when measuring equity settled share-based payment transactions also apply to cash settled share-based payment transactions.

- Classification of transactions involving share-based payments with a settlement option at net value, to comply with retention at source obligations:
  - This amendment adds an exception to deal with the specific situation in which a settlement agreement at net value is designed to comply with a company's fiscal obligation, or other type of regulation, on retentions at source for employees to comply with their fiscal obligations related with share-based payments.
  - This amount is then normally transferred in cash to the fiscal authorities on an employee's behalf. To comply with this obligation, the terms of the share-based payment agreement may permit or require an entity to retain a certain number of equity instruments equivalent to the monetary value of an employee's fiscal obligation from the total equity instruments that would otherwise have been issued for the employee when the share-based payment has vested (referred to as the net share settlement option).

- Classification of share-based payment transactions with a settlement option at net value, to comply with retention at source obligations (cont.)
  - A transaction which complies with this criterion is not divided up into two components but classified as a whole as an equity settled share-based payment if having been classified as such, without the existence of the net share settlement option.

- Accounting of changes to the terms and conditions of a share-based payment transaction whose classification is changed from cash settled to equity settled:
  - The amendment clarifies that if the terms and conditions of a cash settled share-based payment transaction are modified and result in an equity settled share-based payment transaction, the transaction is then accounted as an equity settled share-based payment transaction staring from the date of the referred to modification.
  - Any difference (either debit or credit) between the book value of the derecognised liability and the amount recognised in equity at the date of the modification is immediately recognised in profit and loss for the period.

The amendments are applicable to the annual periods beginning on or after 1 January 2018. Upon the date of adoption, companies should apply the changes without changing the comparisons. The retrospective application is, however, permitted if it is applied to the three changes and another criterion is met. The early adoption of the application is permitted.

Impact: The amendments aim to eliminate the diversity of existing practices which continue to be unclear when in the sphere of the application and treatment of specific classification and measurement areas.

Transfers of investment properties (amendments to IAS 40)

The amendments clarify when an entity should transfer a property, including properties under construction or development to, or from, investment properties.

The amendments rule that a change of use occurs when the property complies or ceases to comply with the definition of an investment property and evidence thereof exists.

A simple change in the management body's intention regarding the use of a property is not evidence of a change of use.

The amendments are applicable for the annual periods beginning on or after 1 January 2018.

An entity should apply the amendments prospectively to changes of use when occurring on after the beginning of the annual period in which the entity applies these amendments for the first time. The entities should revalue the classification of the properties held at the said date and, if applicable, reclassify the property to reflect the existing conditions at the said date.

Retrospective application is only permitted if it can be applied without being affected by the occurrence of events after the date of its application.

Early application is permitted provided that it is adequately disclosed.

Impact: The changes eliminate the diversity of existing practices.

Prepayment features with negative compensation – Amendments to IFRS 9

In accordance with IFRS 9, a debt instrument may be measured at amortised cost or fair value through comprehensive income provided that the implied cash flows comprise "solely payments of principal and interest on the outstanding principal " (SPPI criterion) and the instrument is held as part of a business model permitting this classification.

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion, notwithstanding the event or circumstances causing the early termination of the contract and notwithstanding paying or receiving reasonable compensation for the early termination of the contract.

The bases for the conclusion of this change clarify that early termination may be the consequence of a contractual clause or an event beyond the control of the parties to the contract, such as changes in laws or regulations leading to the early termination.

– Modification or substitution of a financial liability which does not originate the derecognition of this liability.

In the bases for its conclusions, the IASB also clarifies that IFRS 9 requirements for the adjustment of the amortised cost of a financial liability, when a modification (or substitution) does not result in its derecognition, are consistent with the requirements applied to the modification of a financial asset which does not result in its derecognition.

This means that profit or loss resulting from the modification of this financial liability which does not result in its derecognition, calculated by discounting the change from the cash flows associated with this liability at the original effective interest rate, is immediately recognised in the profit and loss statement.

The IASB made this comment in the bases for its conclusions relative to this change in its belief that current IFRS 9 requirements supply a good basis for companies to account for the modifications or substitutions of their financial liabilities and that no formal amendment to IFRS 9 is necessary on this matter.

Impact: The amendments are essentially geared to situations in which the prepayment approximately corresponds to the amount of the outstanding principal plus interest. This implies that a payment made at current fair value, or an amount that includes the fair value of the penalty for early termination of a financial derivative, meets the SPPI criterion only if other elements which change fair value, such as credit or liquidity risk, are immaterial.

This amendment is effective for the periods beginning on or after 1 January 2019.

They should be applied retrospectively. This amendment introduces specific requirements to be adopted in the transition but only if adopted by companies in 2019 and not in 2018 in conjunction with IFRS 9. Early adoption is permitted.

Impact: This amendment applies to IFRS 9 (but not to IAS 39). A company that does not apply this accounting process in accordance with IAS 39, will be impacted by the adoption of IFRS 9.

Long term interests in associates or joint ventures – Amendment to IAS 28

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

IASB also clarifies that, in applying IFRS 9, an entity should not take into account any of the associate's or joint venture's losses or impairment losses on the net amount of the investment, which are recognised as an adjustment to the net investment deriving from the application of IAS 28.

The IASB published several examples when it issued the amendment to illustrate how entities should apply IAS 28 and IFRS 9 requirements on long term interests.

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

Impact: This amendment aims to eliminate the ambiguity in the wording of the standard.

3. CASH AND CASH BALANCES AT CENTRAL BANKS

This account comprises the following:

	2017	2016
Cash		
. Domestic currency	310 580	250 132
. Foreign currency	726 490	634 374
Sight deposits with the Bank of Cape Verde		
. Domestic currency	1 626 221	541 410
	2 663 292	1 425 917

The objective of sight deposits with the Bank of Cabo Verde is to satisfy minimum cash reserve requirements. Under Bank of Cabo Verde dispositions, such cash reserves comprise 15% of average effective domestic and foreign currency liabilities to residents and emigrants. The minimum reserves at 31 December 2017 and 2016, amounted to KCve. 2,274,639 and KCve. 2,412,603 respectively. A minimum daily percentage of 20% of the amount of the minimum reserves to be maintained by financial institutions in their sight deposit accounts was defined, starting 2014.

No interest was paid on these deposits, in 2017 and 2016.

4. CASH BALANCES AT OTHER CREDIT INSTITUTIONS

This account comprises the following:

	2017	2016
Sight deposits:		
. Caixa Geral de Depósitos, S.A.	876 461	864 387
. Other credit institutions abroad	117 420	23 677
. Institutions in Cape Verde	2 290	7 138
	996 171	895 202
Cheques pending collection:		
. Drawn on foreign banks	5 355	9 320
. Drawn on banks in Cape Verde	246 132	55 841
	251 487	65 161
	1 247 658	960 363

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

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Information on the composition of financial instruments classified as available-for-sale financial assets, at 31 December 2017 and 2016, is set out below:

	2017					
Security	Acquisition price	% equity stake	Book value (gross)	Fair value reserve	Impairment	Book value (net)
				(Nota 20)	(Nota 17)	
Equity instruments at fair value						
Banco Comercial do Atlântico, S.A.	238 746	5,40%	243 955	5 209	(10 011)	233 944
Visa International Service Association	1 323	n.d.	28 656	27 333	-	28 656
	240 069		272 611	32 542	(10 011)	262 600
Equity instruments at historical cost						
A Promotora, Sociedade de Capital de Risco de Cabo Verde, S.A.R.L.	15 307	3,79%	15 307	-	(1 880)	13 427
Sociedade Cabo Verdiana de Tabacos, S.A.	10 095	0,65%	10 095	-	-	10 095
	25 402		25 402	-	(1 880)	23 522
	265 471		298 013	32 542	(11 891)	286 122

n.a. - not available

	2016					
Security	Acquisition price	% equity stake	Book value (gross)	Fair value reserve	Impairment	Book value (net)
				(Nota 20)	(Nota 17)	
Instrumentos de capital valorizados ao justo valor						
Banco Comercial do Atlântico, S.A.	238 746	5,40%	243 955	5 209	(10 011)	233 944
Visa International Service Association	1 323	n.d.	22 352	21 029	-	22 352
	240 069		266 307	26 238	(10 011)	256 296
Instrumentos de capital valorizados ao custo histórico						
A Promotora, Sociedade de Capital de Risco de cabo Verde, S.A.R.L.	15 307	3,79%	15 307	-	(1 880)	13 427
Sociedade Cabo Verdiana de Tabacos, S.A.	10 095	0,65%	10 095	-	-	10 095
Enacol - Empresa nacional de Combustíveis S.A.	440	n.d.	440	-	-	440
	25 842		25 842	-	(1 880)	23 962
	265 911		292 149	26 238	(11 891)	280 258

n.a. - not available

Equity instruments at fair value

The shares of Banco Comercial do Atlântico, S.A. were measured on the basis of the assessments of an independent external entity and the Visa International Service Association, in accordance with their market price at 31 December 2017.

As the external valuation of the shares of Banco Comercial do Atlântico in 2017, was not significantly different from that of the period ended 31 December 2016, there was no change in the recognition of their fair value.

Equity instruments at historical cost

The bank retained its equity investment in Promotora, Sociedade de Capital de Risco de Cabo Verde, SARL and Sociedade Cabo-verdiana de Tabacos, at historical cost. In the case of the former investment, impairment of KCve. 1,880 was recognised, for the purpose of reducing the book value to its estimated realisation price.

The only transactions in 2017, were the disposal of Enacol – Empresa Nacional de Combustíveis S.A. shares at historical cost.

6. LOANS AND ADVANCES TO IN CREDIT INSTITUTIONS

This account comprises the following:

	Amount of investment	
	2017	**2016**
Loans and advances in Cape Verde:		
Bank of Cape Verde:		
- "Certificates of monetary intervention"	-	158 000
- "Certificates of monetary regulation"	-	267 000
- Very short term loans and investments	2 700 000	6 300 000
	2 700 000	6 725 000
Loans and advances to credit institutions abroad		
Caixa Geral de Depósitos:		
- Deposits	90 031	2
Ecobank:		
- Deposits	-	551 325
Other credit institutions	18 772	21 228
	108 804	572 553
Interest receivable	12	91
Deferred income	-	(108)
	2 808 816	7 297 536

7. LOANS AND ADVANCES TO CUSTOMERS

This account comprises the following:

		2017	2016
Short term domestic loans:			
. Sight deposit overdrafts		55 893	296 059
. Loans		34 247	60 036
. Commercial discounts		62 620	34 160
. Other loans		90 510	82 724
Medium and long term domestic loans:			
. Loans		8 399 502	7 673 891
. Current account loans		2 464 357	2 198 851
Short term foreign loans:			
. Housing		20 500	-
. Sight deposit overdrafts		1 609	1 611
. Other loans		62 010	426
Medium and long term foreign loans:			
. Loans		389 281	457 336
. Current account loans		132 977	138 191
Loans to employees		374 579	356 988
Interest receivable		35 265	37 736
Commissions and other deferred income		(66 681)	(73 301)
Overdue loans		2 608 704	2 802 110
Total unsecuritised credit	(A)	**14 665 373**	**14 066 819**
Other loans and amounts receivable - securitised			
Public debt securities		3 728 803	3 406 777
Corporate bonds		375 616	465 375
Overdue corporate bonds		666	-
Interest receivable		62 930	55 109
Deferred costs		73	145
Total securitised credit	(B)	**4 168 087**	**3 927 406**
Total loans and advances to customers (gross)	(C) = (A) + (B)	**18 833 460**	**17 994 225**
Impaiment on loans and advances to customers (Note 18)	(D)	(1 288 520)	(1 288 910)
Total loans and advances to customers (net)	(E) = (C) + (D)	**17 544 940**	**16 705 315**

Interest rates on loans to employees, at 31 December 2017 and 2016, were subsidised.

Public debt securities, at 31 December 2017 and 2016, include fixed interest rate Cabo Verde treasury bonds.

The average interest rate on treasury bonds in 2017 was 5.18% (5.76% in 2016).

The balance on the “Bonds issued by corporate entities” account, at 31 December 2017 and 2016, reflects the value of the bonds of domestic companies classified as “Loans and accounts receivable” (Note 2.2. c)). Information on these bonds is as follows:

Bond	2017	2016
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche B	-	155 700
Issue premium - Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche B		323
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche D	68 050	136 099
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche C	32 199	32 199
IFH - Imobiliária, Fundiária e Habitat, S.A. Series C	55 058	55 058
IFH - Imobiliária, Fundiária e Habitat, S.A. Series F Tranche I	30 000	30 000
IFH - Imobiliária, Fundiária e Habitat, S.A. Series F Tranche II	25 000	25 000
Cabo Verde Fast Ferry, S.A.	19 996	19 996
Sal Municipality	8 000	9 000
Banco Comercial do Atlântico, S.A.	-	1 334
Sociedade de Gestão de Investimentos, Lda.	666	666
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Tranche C	100 000	-
ASA - Empresa Nacional de Aeroportos e Segurança Aérea, S.A. Series D	37 313	-
Gross total	376 282	465 375
Impairment	10 597	9 678
Interest receivable and deferred costs	9 803	10 641

The bonds issued by Electra – Empresa de Electricidade e Águas, SARL IFH – Imobiliária, Fundiária e Habitat, S.A. and the Sal Municipality are backed by the State of Cabo Verde.

At 31 December 2017, the bonds issued by Cabo Verde Fast Ferry, S.A. were in default on the payment of interest on coupons 11 to 13 and 15 to 16 for a global amount of KCve. 3,594. Total impairment amounted to KCve. 10,232.

In 2016, Cabo Verde Fast Ferry restructured the contract, as follows:

- Change of redemption period from 2019 to 2024;
- Change of interest rate to 4%.

At 31 December 2017, the bonds issued by Sociedade de Gestão de Investimentos, Lda, were in default on the payment of interest on coupons from August 2013 to February 2017. At 31 December 2017, principal and interest payable by Sociedade de Gestão de Investimentos, Lda were overdue since 18 February 2017. Overdue interest totalled KCve. 149 and overdue principal KCve. 666. Total impairment amounted to KCve. 365.

At 31 December 2017 and 2016, loans and advances to customers, excluding "Other loans and amounts receivable – securitised", associated accrued interest and commissions and other deferred income had the following structure by sectors of activity:

	Total 2017		
	Outstanding credit	Overdue credit	Total
General government	496 848	-	496 848
	496 848	-	496 848
Companies			
Agriculture, animal husbandry, hunting and silviculture	23 772	-	23 772
Fisheries		-	-
Extractive industries	30 368	-	30 368
Extraction of energy products		-	-
Extractive industries excluding energy products	30 368	-	30 368
Manufacturing industries	260 357	160 014	420 371
Food, beverages and tobacco industries	134 215	4 834	139 049
Textiles industry	2 497	-	2 497
Leather and leather goods industry	5 855	-	5 855
Paper pulp, board and articles thereof, publishing and printing industry	7 029	131 323	138 352
Production of coke, oil products, refined products and nuclear combustion products			-
Manufacture of chemical products and synthetic or artificial fibres	44 562	-	44 562
Basic metallurgical industries and metallic products	35 392	-	35 392
Manufacture of machinery and equipment	447	-	447
Manufacture of furniture and mattresses	11 830	23 857	35 686
Other manufacturing industries	18 530	-	18 530
Generation and distribution of electricity, water and gas	511 336	-	511 336
Construction	1 713 273	282 405	1 995 678
Wholesale, retail, repairs of motor vehicles and cycles and personal and domestic goods	661 595	111 483	773 078
Transport, warehousing and communications	382 673	436 243	818 916
Hotels and catering (restaurants and the like)	1 029 923	211 717	1 241 640
Information and communication activities	4 622	-	4 622
Financial activities			-
Financial brokerage excluding insurance and pension funds			-
Insurance, pension funds and complementary social security activities			-
Ancillary financial brokerage activities			-
Property activities, corporate hires and services	762 230	712 532	1 474 762
Property activities	757 296	712 393	1 469 689
Other activities	4 934	140	5 074
Consultancy, scientific, technical and similar activities	129 822	339	130 160
Administrative and support services activities	-	-	-
General government, defence and mandatory social security	192 750	-	192 750
Education	257 544	6	257 549
Health and social security	157 603	-	157 603
Other social and personal collective activities and services	392 396	155 952	548 348
	6 510 264	2 070 690	8 580 954
Individual customers			
Housing	3 057 254	153 175	3 210 429
Other	2 023 719	384 839	2 408 558
	5 080 973	538 015	5 618 987
	12 088 085	2 608 704	14 696 789

	2016		
	Outstanding credit	Overdue credit	Total
General government	407 285	12	407 297
	407 285	12	407 297
Companies			
Agriculture, animal husbandry, hunting and silviculture	20 766	-	20 766
Extractive industries	6 210	15	6 225
Extractive industries excluding energy products	6 210	15	6 225
Manufacturing industries	202 138	157 721	359 859
Food, beverages and tobacco industries	49 913	14 426	64 338
Textiles industry	203	204	407
Leather and leather goods industry	20 041	-	20 041
Paper pulp, board and articles thereof, publishing and printing industry	20 495	119 235	139 730
Manufacture of chemical products and synthetic or artificial fibres	42 984	-	42 984
Basic metallurgical industries and metallic products	38 886	-	38 886
Manufacture of furniture and mattresses	10 981	23 857	34 838
Other manufacturing industries	18 636	-	18 636
Generation and distribution of electricity, water and gas	81 157	151	81 308
Construction	2 117 407	231 325	2 348 732
Wholesale, retail, repairs of motor vehicles and cycles and personal and domestic goods	597 457	153 308	750 765
Transport, warehousing and communications	336 955	509 080	846 035
Hotels and catering (restaurants and the like)	1 006 311	303 984	1 310 295
Information and communication activities	3 896	-	3 896
Property activities, corporate hires and services	785 062	694 205	1 479 267
Property activities	784 433	668 860	1 453 293
Other activities	629	25 345	25 974
Consultancy, scientific, technical and similar activities	113 702	-	113 702
General government, defence and mandatory social security	287 617	-	287 617
Education	179 464	31 604	211 068
Health and social security	172 294	-	172 294
Other social and personal collective activities and services	392 566	163 779	556 345
	6 303 002	2 245 173	8 548 175
Individual customers			
Housing	2 407 715	205 701	2 613 416
Other	2 182 271	351 224	2 533 495
	4 589 987	556 925	5 146 912
	11 300 274	2 802 110	14 102 383

8. OTHER TANGIBLE ASSETS

Information on movements in the "Other tangible assets" accounts for the years 2017 and 2016 is set out below:

	2017							
	Balances at 31-12-2016							
Description	Gross amount	Accumulated impairment and depreciation	Increases	Write-offs (net)	Transfers between assets	Other adjustments	Impairment and depreciation for period	Net amount at 31/12/17
Property for own use							-	
. Land	41 594	-	-	-	1 351	-	-	42 946
. Buildings	148 954	(44 165)	-	-	-	-	(2 630)	102 159
Other	3 623	(211)	291	-	-	-	(389)	3 313
Works on rented buildings	237 675	(196 753)	-	-	-	-	(10 916)	30 006
	431 846	(241 129)	291	-	1 351	-	(13 936)	178 423
Equipment								
. Furniture and material	49 944	(39 095)	734	-	-	88	(2 775)	8 898
. Machines and tools	29 489	(25 614)	2 755	-	-	(15)	(1 628)	4 988
. IT equipment	317 413	(274 295)	13 460	-	-	-	(17 342)	39 237
. Interior installations	17 645	(14 152)	60	-	-	2	(520)	3 036
. Transport material	69 974	(58 154)	4 500	-	-	0	(4 247)	12 073
. Security equipment	24 088	(14 715)	1 366	-	-	-	(2 257)	8 482
. Other equipment	55 670	(40 799)	1 218	-	-	-	(4 758)	11 330
Other tangible assets	157	(157)	-	-	-	-	-	0
	564 381	(466 980)	24 094	-	-	75	(33 526)	88 044
Tangible assets in progress								
. For own use	194 766	(62 588)	3 070	(794)	(1 351)	-	(9 422)	123 682
. Expenditure on rented buildings	400	-	-	(400)	-	-	-	-
. Equipment	1 304	-	4 340	-	-	-	-	5 643
	196 470	(62 588)	7 410	(1 194)	(1 351)		(9 422)	129 325
	1 192 696	(770 697)	31 794	(1 194)	-		(56 883)	395 792

	2016						
	Balances at 31-12-2015						
Description	Gross amount	Accumulated impairment and depreciation	Increases	Write-offs (net)	Transfers between assets	Impairment and depreciation for period	Net amount at 31/12/16
Property for own use							
. Land	39 539	-	-	-	2 056	-	41 594
. Buildings	151 010	(41 535)	-	-	(2 056)	(2 630)	104 789
Other			3 623	-		(211)	3 411
Works on rented buildings	237 278	(185 842)	397	-		(10 910)	40 922
	427 826	(227 377)	4 020	-	-	(13 752)	190 717
Equipment							
. Furniture and material	49 250	(36 368)	834	-	(140)	(2 727)	10 850
. Machines and tools	27 991	(24 073)	1 358	-	140	(1 541)	3 875
. IT equipment	295 463	(259 471)	10 495	-	11 455	(14 824)	43 118
. Interior installations	16 102	(13 264)	1 543	-		(888)	3 494
. Transport material	77 069	(56 576)	5 500	(5 633)		(8 539)	11 820
. Security equipment	18 262	(13 251)	5 826	-		(1 464)	9 373
. Other equipment	51 240	(35 368)	4 430	-		(5 432)	14 870
Other tangible assets	157	(149)	-	-		(8)	0
	535 534	(438 520)	29 987	(5 633)	11 455	(35 422)	97 400
Tangible assets in progress							
. For own use	2 145	-	192 621	-	-	(61 670)	133 096
. Expenditure on rented buildings	400	-	-	-	-	-	400
. Equipment	15 770	(3 929)	-	-	(11 455)	(918)	386
	18 315	(3 929)	192 621	-	(11 455)	(62 588)	133 882
	981 674	(669 826)	226 628	(5 633)	-	(111 762)	422 000

9. INTANGIBLE ASSETS

"Intangible assets" movements, in 2017 and 2016, were as follows:

Balances at 31-12-2016				Balances at 31-12-2017		
Gross amount	Accumulated depreciation	Increases	Depreciation for period	Gross amount	Accumulated depreciation	Net amount
111 487	(84 341)	11 839	(4 524)	123 325	(88 865)	34 460

Balances at 31-12-2015				Balances at 31-12-2016		
Gross amount	Accumulated depreciation	Increases	Depreciation for period	Gross amount	Accumulated depreciation	Net amount
98 443	(82 869)	13 044	(1 472)	111 486	(84 341)	27 145

An amount of KCve. 13,378 (KCve. 23,320 in 2016) of intangible assets was in progress at the date of the balance sheet.

10. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The composition of the balance on this account, at 31 December 2017 and 2016, was as follows:

Entity	% equity stake	Acquisition cost	Balance sheet amount	Date	Net assets	Profit / (loss)	Shareholders' equity
			2017				
SISP - Sociedade Interbancária e Sistema de Pagamentos, S.A.R.L.	10%	10 000	70 768	31-09-2017 (*)	899 085	135 143	707 680
			70 768				

Entity	% equity stake	Acquisition cost	Balance sheet amount	Date	Net assets	Profit / (loss)	Shareholders' equity
			2016				
SISP - Sociedade Interbancária e Sistema de Pagamentos, S.A.R.L.	10%	10 000	67 612	31-12-2016 (*)	1 231 774	168 313	676 120
CVGARANTE - Sociedade de Garantia Mútua, S.A.	15%	15 000	12 443	31-12-2015 (*)	83 839	(5 999)	82 955
			80 055				

(*) Provisional financial statements

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

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

CVGARANTE - Sociedade de Garantia Mútua, S.A.

The formation of CVGARANTE – Sociedade de Garantia Mútua, S.A. ("company") with a share capital of KCve. 100,000 was authorised under article 1 of Ministerial Order 28/2013 of 15 May. This is a mutual guarantee company with the corporate object of performing financial operations for micro, small and medium-sized enterprises, with the aim of promoting and facilitating their access to funding both from the financial system and the capital market. The bank subscribed for 15,000 shares for the amount of KCve. 15,000, comprising 15% of the company's share capital. Under the terms of the shareholders' agreement, the company's credit institution shareholders have given SPMG – Sociedade de Investimento, S.A. a put option on the company's shares at their nominal value, to be exercised annually with reference to 31 December. An application for a permit for the company to begin its operations was submitted to the Bank of Cabo Verde on 23 December. On 18 December 2014 the Bank of Cabo Verde issued registration certificate no. 05/2014 and the company was entered in the Financial and Auxiliary Institutions of the Financial System register. The bank classified its equity investment in CVGARANTE as an investment in associates, notwithstanding the fact that it was only 15%, as the board of directors considers that the fact that the bank sits on the board gives it significant influence over CV Garante's activity and is therefore in conformity with the dispositions of IAS 28 – Investments in associates. In 2017, the equity investment in CVGARANTE was sold to the State of Cabo Verde for a global amount of KCve. 11,490 with the recognition of a capital loss of KCve. 953.

Information on the balance sheet value of these investments in 2017 and 2016 and respective impact in the bank's financial statements is set out below:

	SISP	CV GARANTE	Total
Balance at 31 December 2015	61 086	12 443	73 529
Results generated by associates	15 129	-	15 129
Dividends received	(8 603)	-	(8 603)
Balance at 31 December 2016	67 612	12 443	80 055
Results generated by associates	12 866	-	12 866
Dividends received	(9 710)	-	(9 710)
Disposal	-	(11 490)	(11 490)
Capital loss on disposal	-	(953)	(953)
Balance at 31 December 2017	70 768	-	70 768

11. INCOME TAX

The bank, at 31 December 2017, was an “IRPC (“corporate income tax”) taxpayer at a rate of 25% plus a 2% fire tax on its tax bill, comprising an aggregate rate of 25.5%

Its tax assets and liabilities balances, at 31 December 2017 and 2016, were as follows:

	2017	2016
Current tax assets		
. Payments on account and retentions at source	37 638	43 679
Current tax liabilities		
. Current tax	1 964	5 983
Deferred tax liabilities		
. Temporary differences	(8 298)	(6 691)

The change in current tax assets corresponds to deductions at source on income from corporate bond issuances in 2017.

The amount of current tax liabilities includes the calculation of the amount of autonomous (source-based) tax in 2017.

Deferred tax movements, in 2017 and 2016, correspond to the calculation of the fair value of available-for-sale financial assets using an aggregate tax rate of 25.5%.

Taxable income is assessed on the basis of profit for the period before tax, eventually adjusted for costs and income that should not be considered for fiscal purposes upon which a rate of 25.5% is levied. Fiscal losses may be carried back for a period of 7 years following their occurrence and may be deducted from the fiscal profit made during this period, albeit subject to a maximum deduction of 50% of the respective profit for the period.

Information on tax for the year is set out below:

	2017	2016
Result before tax	56 247	15 605
To be added	**24 134**	**12 505**
Depreciation and amortisation not included in the terms of the IRPC (corporate income tax code)	836	5 858
Insurance companies' or banking institutions' impairment losses not accepted or in excess of legal limits	400	-
Other not accepted impairment losses	11 113	-
Health insurance and personal accidents premiums, expenditure on insurance	651	602
Single tax on property, except for property whose purchase and sale are part of a property activity	1 130	450
30% surcharge on total expenses incurred on light passenger vehicles	4 110	4 994
50% of expense account items	512	602
Corrections in cases of tax credit and retention at source (articles 69, 91 and 93 of IRPC code)	5 383	-
To be deducted	**(131 845)**	**(69 249)**
Cancellation of the effects of the equity accounting method	(12 866)	(15 129)
Accounting gains	(450)	(617)
Negative difference between fiscal capital gains and losses (articles 54 and 55 of IRPC code)	(51)	
Depreciation and amortisation taxed in past periods	(3 475)	(1 363)
Fiscal benefits	(1 973)	(16 046)
Income from capital at a flat discharge rate	(101 880)	(36 093)
Dividends	(6 062)	0
Interest in secondary markets	(5 089)	0
Fiscal losses	**(51 464)**	**(41 139)**
Applicable rate	25,5%	25,5%
Effective rate	-91%	-264%
Tax for period	0	0
Separate (source-based) taxation	1 964	3 657
	1 964	3 657

The IRPC code came into force at 1 January 2015. It incorporates a series of changes to the former IUR code, including matters regarding the deductibility of impairment costs on credit. In the preparation of its tax estimate on income for the periods ended 31 December 2017 and 2016, the bank considered its interpretation of the changes imposed under the IRPC code, namely as regards the above referred to subject matter and impact of the transition to the new code. The board of directors considers that the criteria and assumptions adopted are in conformity with the legislation in force and that any differences in interpretation will only originate reclassifications between current and deferred tax, without having an impact on the bank's profit and loss and its shareholders' equity at 31 December 2017 and 2016.

The bank, at 31 December 2017, had still not used up its fiscal losses of around KCve. 156,741, on which it did not recognise deferred tax assets of around KCve. 39,185 owing to the impossibility of guaranteeing their recovery:

Periods	Fiscal losses	Year of expiry
Exercício de 2014	14 692	2017
Exercício de 2015	54 653	2022
Exercício de 2016	50 624	2023
Exercício de 2017	51 464	2024
	171 433	

Under the terms of the general tax code approved by Law 37/IV/92, the fiscal authorities are entitled to review the bank's fiscal situation for a period of five years. Different interpretations of fiscal legislation may result in corrections being made to taxable income. The bank's board of directors does not consider that any correction to the bank's financial statements, at 31 December 2017, will be significant.

12. OTHER ASSETS

This account comprises the following:

	2017	2016
Debtors and other assets		
. Subsidies receivable from the State of Cape Verde	18 967	15 318
. Amounts receivable from the Group	133	-
. Other	8 970	10 182
Other assets		
. Works of art	2 086	1 886
Income receivable		
. Other	3 032	1 863
Deferred expenses		
. Other administrative expenditure	18 235	29 839
Other prepayments and accrued income accounts	64 972	8 564
	116 396	67 652
Impairment of other assets (Note 17)	(13 666)	(11 975)
	102 730	55 677
Assets acquired on the recovery of own credit	753 968	711 009
Impairment of assets acquired on the recovery of own credit	(179 831)	(136 189)
	574 137	574 820
	676 866	630 497

The following is a breakdown of the “Assets acquired on the recovery of own credit” account:

	2017								
	Balance at 31-12-2016						Impairment losses (net)	Balance at 31-12-2017	
	Gross amount	Impairment	Recoveries	Disposals	Transfers	Other	(Note 18)	Gross amount	Impairment
Land - Palha Sé (40,737 sqm)	110 658	(19 543)	-	-		464	-	111 121	(19 543)
Housing - Santa Maria - Sal	22 625	-	-	-		149	-	22 773	-
Land - Palha Sé (5,780 sqm)	21 981	(3 882)	-	-		66	-	22 047	(3 882)
Housing - Praia	15 532	(7 063)	-	-		50	(5 825)	15 583	(12 888)
Housing - Chã de Monte Sossego	9 319	(2 334)	-	-		28	(804)	9 347	(3 138)
Land - Palmarejo	251 363	-	-	-		783	(26 725)	252 146	(26 725)
Land - Ponta Preta - Sal	279 531	(103 367)				6 667	-	286 198	(103 367)
Building - Hortelã de Cima - Espargos			21 992				(6 511)	21 992	(6 511)
Apartment - Fraction G - Pretória, Espargos			4 474				(1 324)	4 474	(1 324)
Commercial space - Fraction B - Pretória, Espargos			4 575				(1 354)	4 575	(1 354)
Garage - Fraction C - Pretória, Espargos			3 711				(1 099)	3 711	(1 099)
	711 010	(136 189)	34 752	-		8 206	(43 641)	753 968	(179 831)

Four properties were recovered in 2017 based on payments in kind of KCve. 34,752. Impairment was declared on losses on revalued buildings with a valuation of less than their balance sheet carrying amount of KCve. 43,641 (note 17).

	2016								
	Balance at 01-01-2016						Impairment losses (net)	Balance at 31-12-2016	
	Gross amount	Impairment	Recoveries	Disposals	Transfers	Other	(Note 18)	Gross amount	Impairment
Land - Palha Sé (40,737 sqm)	110 658	(22 478)	-	-	-	-	-	110 658	(22 478)
Housing - Santa Maria Sal	22 478	-	-	-	-	147	-	22 625	-
Land - Palha Sé (5,780 sqm)	21 981	(947)	-	-	-	-	-	21 981	(947)
Housing - Praia	15 532	(4 305)	-	-	-	-	(2 758)	15 532	(7 063)
Housing - Chã de Monte Sossego	9 291	(2 334)	-	-	-	28	-	9 319	(2 334)
Land - Palmarejo	251 363	-	-	-	-	-	-	251 363	-
Warehouse - Praia	192 621	(61 669)	-	-	130 952	-	-	-	-
Land - Ponta Preta - Sal	-	-	279 531	-	-	-	(103 367)	279 531	(103 367)
	623 925	(91 734)	279 531	-		175	(106 125)	711 009	(136 189)

13. OTHER CREDIT INSTITUTIONS' RESOURCES

This account comprises the following:

	Amount		Average interest rate	
	2017	2016	2017	2016
Domestic credit institutions' resources				
. Insurance companies' loans				
Garantia Companhia Seg Cabo Verde, S.A.	239 764	279 876	4,09%	4,20%
Protege Corretora Seguros	-	-	N/A	N/A
Impar - Comp. Caboverdiana de Seguros SARL	3 660	814	0%	0%
. Ecobank Cabo Verde Soc. Unip. SA	88 212	46 788	0%	0%
. Caixa Geral de Depósitos	10			
	331 646	327 478		
Foreign credit institutions' resources				
. Sight deposit overdrafts:				
ECV - Serviços Financeiros, S.A.	0	1	0%	0%
. Loans				
French Development Agency (AFD)	32 727	43 636	3,36%	3,36%
Caixa Geral de Depósitos	20 716	28 375	1,98%	1,87%
	53 443	72 011		
Interest payable	3 982	4 513		
	389 072	404 003		

The bank, Banco Comercial do Atlântico, Caixa Económica de Cabo Verde and Banco Cabo-verdiano de Negócios took out a line of credit with the French Development Agency for a maximum amount of €5,000,000 on 14 October 2005, to back municipal economic and social development projects, repayable over a ten year period starting 30 April 2010, in half yearly payments of principal and interest. Interest at a fixed rate of 3.36% is payable on the loan. The bank had used amounts of €296,803 and €395,740 of this line at 31 December 2017 and 2016 (KCve. 32,727 and KCve. 43,636, respectively).

On 14 October 2005, the bank took out a line of credit with Caixa Geral de Depósitos for a maximum amount of €5,000,000 (KCve. 551,325), with a maturity of one year and renewable for equal periods. Interest at a rate indexed to the 6 month Euribor rate is payable on the loan. Amounts of KCve. 20,716 and KCve. 28,375 of this line of credit, had been used, at 31 December 2017 and 2016, respectively.

14. CUSTOMER RESOURCES AND OTHER LOANS

This account comprises the following:

			Average interest rate	
	2017	2016	2017	2016
Savings accounts:				
. Young people's savings accounts	165 742	167 274	2,77%	4,15%
Sight deposits				
. Residents	8 083 586	6 930 647	0%	0%
. Non-residents	1 620 066	1 254 009	0%	0%
. Emigrants	812 217	679 479	0%	0%
	10 515 869	8 864 136		
Term deposits				
. Residents	5 787 388	8 724 643	2,89%	3,88%
. Emigrants	3 936 723	4 337 767	3,01%	4,76%
. Non-residents	1 993 781	2 580 673	2,43%	4,36%
	11 717 892	15 643 083		
Sales operations with repurchase agreements (Note 7)				
. Treasury bonds	-	102 000	0,00%	5,78%
Other debits				
. Cheques and orders payable	8 461	12 819	N/A	N/A
	22 407 964	24 789 312		
Interest payable	121 070	221 863		
	22 529 034	25 011 175		

Except for specific situations defined under board of directors' guidelines, no interest was paid on sight deposits at 31 December 2017 and 2016.

15. OTHER SUBORDINATED LIABILITIES

In 2008, the bank issued a bond loan comprising 100,000 bonds with a nominal value of 5,000 Cabo Verde escudos each. Under the terms of the issuance conditions, the maturity on the loan was 6 years with interest thereon at the 6 month Euribor rate plus a spread of 0.9%. The loan is repayable in a lump sum on its maturity date of 8 July 2014. An early repayment option, two years after the date of issuance and every six months following the said date, is, however available, based on the payment of a premium of 0.5% on the nominal value of the bond redemptions.

	2017	2016
Subordinated liabilities		
. Capital	500 000	500 000
. Interest	15 245	15 245
. Deferred commissions	(30)	(331)
	515 214	514 914

At 30 July 2009, the bank informed the Cabo Verde Stock Exchange of the following changes to the bond loan:

- A change in the interest rate starting from the 3rd coupon (inclusive):
  - an interest rate of 6% for 4 years, starting 8 July 2009;
  - an interest rate equal to the interest rate on the last issuance of 5 year treasury bonds prior to the interest rate repricing date of 08 July 2013, plus 0.5%, for the last 5 years, between 8 July 2013 and 8 July 2018;
- Change of maturity to 10 years starting July 2008, retaining the early redemption option under the referred to terms.

16. PROVISIONS

The provisions balance brought forward from past years comprises a provision set up at 31 December 2014 on property referred to as "Housing – Praia" insofar as legal proceedings in which a request was made to nullify the payment in kind are in progress. Owing to the non-existence of any jurisprudence covering this kind of situation the bank's board of directors decided to set up a provision on 50% of the amount of the property, net of impairment, totalling KCve. 5,733.

17. IMPAIRMENT

The bank's impairment movements, in 2017 and 2016, were as follows:

	2017				
	Balances at 31/12/16	Net appropriations in profit and loss	Use	Transfers	Balances at 31/12/17
Impairment					
Impairment of loans and advances to customers (Note 7)	1 288 910	211 397	(211 786)		1 288 520
Impairment of available-for-sale					
financial assets (Note 5)	11 891	-	-		11 891
	1 300 800	211 397	(211 786)		1 300 411
Impairment of other tangible assets (Note 8)	62 588	9 422	-		72 010
Impairment of other assets (Note 12)	11 975	1 691	-		13 666
Impairment of assets received on recovery of own credit (Note 12)	136 189	43 641	-		179 831
	210 753	54 754	-	-	265 507
	1 511 553	266 151	(211 786)	-	1 565 917

	2016				
	Balances at 31/12/15	Net appropriations in profit and loss	Use	Transfers	Balances at 31/12/16
Impairment					
Impairment of loans and advances to customers (Note 8)	1 393 528	26 683	(131 302)		1 288 910
Impairment of available-for sale	-				-
financial assets (Note 5)	11 891	-	-		11 891
	1 402 603	26 683	(131 302)		1 300 800
Impairment of other tangible assets (Note 10)	3 929	-	(3 011)	61 670	62 588
Impairment of other assets (Note 14)	15 789	106 125	(3 814)	30 064	148 164
Impairment of non-current assets held-for-sale (Note 9)	91 734	-	-	(91 734)	-
	111 452	106 125	(6 825)	-	210 752
	1 450 094	132 808	(138 127)	-	1 511 552

18. OTHER LIABILITIES

This account comprises the following:

	2017	2016
Miscellaneous creditors		
Miscellaneous creditors - amounts payable	1 015	711
General government		
. Retention of tax at source	12 667	13 953
. Social welfare	3 491	3 082
. Value added tax	553	1 311
Miscellaneous resources		
. Mandatory deposit accounts	8 511	9 869
Collections on behalf of third parties	119	110
Other	-	253
	26 356	29 288
Costs payable		
Administrative costs	24 279	16 482
Untaken holiday entitlements	11 171	13 688
Holiday subsidies	7 009	4 942
Other payments	-	-
Medical care - consultations	50	50
	42 509	35 161
Deferred revenue		
Off-balance sheet operations	6 409	7 876
Card annuities	7 779	3 824
Documentary credit	1 899	1 355
Other	338	338
	16 425	13 394
Other prepayments and accrued income accounts		
VISA cards	2 340	2 529
Returned cheques	2 242	2 298
ATM - Multibanco	52 772	32 058
Clearing - interbank transfers	216 914	59 480
Other	148 443	-
	422 710	96 365
	508 000	174 209

The increase in the “Clearing – interbank transfers” account is explained by the high volume of interbank transfers on the last day of 2017, in comparison to 2016. In other cases it includes movements pending at 31 December 2017 which were settled on 2 January 2018.

19. CAPITAL

In 2017, Sita, S.A.R.L, disposed of all of its 5,447 shares in the bank. 5,089 of the 5,447 shares were acquired by Sr. Rui Augusto Tavares Moreira Almeida Pinto and 358 shares by Sra. Tereza de Jesus Teixeira Barbosa Amado.

At 31 December 2017 and 2016, the bank’s capital comprised 100,000 shares for a nominal amount of KCve. 10 each, for a global amount of KCve. 1,000,000 fully subscribed for and paid up by the following shareholders.

Capital at 31-12-2017

Entity	Number of shares	%
Caixa Geral de Depósitos, S.A.	70 000	70,00%
Empreitel Figueiredo, S.A.R.L.	11 687	11,69%
Adega, S.A.R.L.	6 732	6,73%
Rui Augusto Tavares Moreira Almeida Pinto	5 089	5,09%
Other	6 492	6,49%
	100 000	100,00%

Capital at 31-12-2016

Entity	Number of shares	%
Caixa Geral de Depósitos, S.A.	70 000	70,00%
Empreitel Figueiredo, S.A.R.L.	11 687	11,69%
Adega, S.A.R.L.	6 732	6,73%
Sita, S.A.R.L.	5 447	5,45%
Other	6 134	6,13%
	100 000	100,00%

20. RESERVES, RETAINED EARNINGS AND PROFIT FOR PERIOD

The composition of the reserves and retained earnings accounts, at 31 December 2017 and 2016, was as follows:

	2017	2016
Share issue premiums	388	388
Fair value reserves		
. Available-for-sale financial assets (Note 5)	32 542	26 238
. Deferred tax (Note 12)	(8 298)	(6 691)
	24 244	19 548
Other reserves and retained earnings		
. Legal reserve	145 665	144 470
. Other reserves	730 854	720 100
. Retained earnings	(146 396)	(146 396)
	730 122	718 174
Profit for period	54 284	11 948
	809 037	750 058

The changes in the legal reserve and other reserves include the appropriation of net profit for 2016.

Fair value reserves

These reserves recognise unrealised capital gains and losses on available-for-sale financial assets, net of the corresponding fiscal effect.

Legal reserve

Under the terms of the legislation in force in Cabo Verde (Law 62/VIII), a minimum of 10% of net profit for the period is paid into the legal reserve. The reserve is not distributable unless the bank is liquidated but may be used to increase capital or cover losses after all of the other reserves have been used up.

21. INTEREST AND SIMILAR INCOME

This account comprises the following:

	2017	2016
Interest on loans and advances to customers		
. Domestic credit	790 218	786 966
. Overdue credit	169 434	132 068
. Foreign loans	51 216	49 420
. Loans to employees	9 355	9 401
. Other loans and amounts receivable - securitised		
Debt securities		
Issued by domestic public entities		
. Treasury bonds	198 311	165 152
. Treasury bills	-	341
Other residents	24 239	30 224
Interest on loans and advances to credit institutions		
. In Cape Verde	7 320	6 362
. Abroad	4 915	19 407
Interest on cash balances	-	-
Commissions received associated with amortised cost	36 362	39 933
	1 291 370	1 239 274

Interest on Treasury bond sales in the secondary market, in 2017 and 2016, amounted to KCve. 5,089 and KCve. 5,908, respectively (note 22).

The balance on “Interest on loans and advances to customers – overdue credit”, in 2017 and 2016, essentially includes the reception of interest written-off in past periods.

22. INTEREST AND SIMILAR COSTS

This account comprises the following:

	2017	2016
Interest on deposits		
. Savings accounts		
Young people's savings accounts	4 842	6 357
Residents	19 154	27 272
Non-residents	-	-
. Term deposits		
Residents	231 187	308 058
Emigrants	172 603	206 430
Non-residents	75 579	100 489
Interest on subordinated liabilities	31 875	31 875
Interest on loans		
. Residents	10 390	12 554
. Non-residents	1 857	2 315
Interest on creditors and other resources		
. Sales operations with repurchase agreements (Note 22)		
Treasury bonds	5 089	5 908
Other interest and similar costs	13 132	30 301
Commissions paid associated with amortised cost	373	282
	566 081	731 841

23. INCOME FROM EQUITY INSTRUMENTS

This composition of this account is exclusively made up of dividends received:

	2017	2016
Income from available-for-sale assets:		
. Banco Comercial do Atlântico, S.A.	4 645	4 978
. Sociedade Caboverdiana de Tabacos, S.A.	1 294	971
. VISA International Service Association	123	80
. Enacol - Empresa nacional de Combustíveis S.A.	-	64
	6 062	6 093

24. INCOME AND COSTS OF SERVICES AND COMMISSIONS

This account comprises the following:

	2017	2016
Income from services and commissions		
Operations on financial instruments	44 527	40 318
Services provided		
. Commissions on card annuities	37 518	37 585
. Commissions on cheque issuances	15 742	11 949
	53 259	49 534
Guarantees provided		
. Guarantees and sureties	33 287	31 444
. Documentary credit	67	3 756
	33 354	35 200
Other commissions	8 776	36 882
	139 916	161 933
Costs of services and commissions		
Guarantees provided		
. Documentary credit operations	205	-
Banking services provided by third parties		
. VISA commissions	18 505	14 932
. Other commissions	12 396	10 790
	30 901	25 721
	31 106	25 721

25. RESULTS FROM FOREIGN EXCHANGE REVALUATIONS

This account comprises the following:

	2017			2016		
	Profit	Losses	Net	Profit	Losses	Net
Results from currency operations	43 233	(3 926)	39 307	1 014 828	(988 480)	26 348
Results from notes and coins	18 803	(4 515)	14 288	15 736	(7 048)	8 688
	62 036	(8 441)	53 595	1 030 564	(995 527)	35 037

26. RESULTS FROM THE DISPOSAL OF OTHER ASSETS

The balance on this account, in 2017 and 2016, comprises profit and loss on the disposal of property recognised in "Other assets" and "Other tangible assets":

	2017	2016
Other assets	(953)	191
Tangible assets	861	632
	(92)	823

27. OTHER OPERATING RESULTS

These accounts are made up as follows:

	2017	2016
Other operating results		
Provision of miscellaneous services:		
. Service charge	38 410	33 372
. Credit cards	16 999	17 583
. Other	9 444	9 099
Reimbursement of expenses	72	70
Credit recovery	-	-
Other	4 202	3 296
	69 128	63 419
Other operating costs		
Other taxes	(10 626)	(6 582)
Donations and subscriptions	(1 171)	(1 901)
Other	(13 978)	(18 782)
	(25 776)	(27 265)
	43 352	36 153

In 2017 and 2016, "Other operating costs – other" included amounts of KCve. 12,344 and KCve. 11,421, respectively, for commissions charged by CGD on each foreign transfer made by the bank's customers. The commission is debited to the bank when the transfer is made by CGD and latterly charged by the bank to its respective customers. The commissions charged to customers are recognised in "Other operating income – provision of miscellaneous services – other".

28. EMPLOYEE COSTS

This account comprises the following:

	2017	2016
Remuneration paid to employees	198 329	187 972
Remuneration paid to boards of directors and supervisory bodies	29 040	33 257
Mandatory social costs	26 585	24 310
Other	2 391	1 010
	256 345	246 549

At 31 December 2017 and 2016, the distribution of bank employees among the respective professional categories, was as follows:

	2017	2016
Senior management	2	2
Coordinators	10	8
Line managers / managers	27	26
Administrative staff	99	93
Ancillary staff	4	4
Trainees	3	-
	145	133

The above numbers included 41 and 43, workers with fixed-term employment contracts, at 31 December 2017 and 2016, respectively.

29. GENERAL ADMINISTRATIVE EXPENDITURE

This account comprises the following:

	2017	2016
Specialised services		
. IT services	64 825	45 741
. Specialised services - SISP	33 498	31 713
. Security and surveillance	22 730	21 938
. Fees	2 658	8 302
. Cleaning services	7 510	7 663
. Advisory	2 998	3 622
. Consultancy	15 349	16 516
. Audit services	6 401	4 055
. Maintenance services	-	12
. Other specialised services	18 557	23 625
Rents and hires	29 465	29 010
Water, energy and fuel	20 895	18 090
Advertising and publications	11 586	13 569
Communications and postal charges	17 248	17 372
Stationery and consumables	13 817	12 147
Transport	13 367	9 711
Insurance	14 575	11 264
Travel, accommodation and expense account items	6 685	8 326
Conservation and repair	11 740	6 352
Employee training	4 200	1 294
Other	971	949
	319 076	291 271

30. EARNINGS PER SHARE

	2017	2016
Result after tax	54 284	11 948
Number of shares	100 000	100 000
Earnings per share (CVE)	543	119

31. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments associated with banking activity are recognised in off-balance sheet accounts, as follows:

	2017	2016
Contingent liabilities		
. Guarantees and sureties provided	1 784 749	1 460 142
. Documentary credit operations	19 936	3 006
	1 804 685	1 463 148
Deposit and custody of securities	4 656 392	4 233 223
	6 461 077	5 696 371

32. OPERATING SEGMENTS

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

- **Trading and sales** – Trading and sales include banking activity related to the management of the own securities portfolio, management of issuances of debt instruments, money and foreign exchange market operations, repo type operations and brokerage. This segment includes loans and advances to and cash balances at other credit institutions;

- **Commercial banking** – Commercial banking includes lending activities and resource-taking from major enterprises and small and medium sized enterprises. This segment includes loans, current accounts, investment project finance, discounted bills, factoring, equipment and property leasing and the underwriting of syndicated loans as well as loans and advances to the public sector;
- **Retail banking** – Retail banking includes banking operations with individual customers, the self-employed and micro-enterprises. This segment also includes consumer credit, mortgage lending, credit cards and deposits taken from individual customers, as well as international money transfers.

The following tables summarise the information on the bank's operating segments, at 31 December 2017 and 2016:

	2017			
	Trading and sales	Commercial banking	Retail banking	Total
Interest and similar income	247 347	726 568	317 454	1 291 370
Interest and similar costs	(57 627)	(225 387)	(283 067)	(566 081)
NET INTEREST INCOME	189 721	501 181	34 387	725 289
Income from equity instruments	6 062			6 062
Income from services and commissions	38 112	62 459	39 345	139 916
Costs of services and commissions	(30 809)	(132)	(165)	(31 106)
Income from available-for-sale financial assets	(77)			(77)
Income from foreign exchange revaluations		37 299	16 297	53 595
Income from the disposal of other assets	(92)			(92)
Other operating results		19 217	24 135	43 352
TOTAL OPERATING INCOME	202 917	620 024	113 999	936 939
Other costs and income				(882 656)
Net profit for period				**54 284**
Cash and cash balances at central banks	2 663 292			2 663 292
Cash balances at other credit institutions	1 247 658			1 247 658
Available-for-sale financial assets	286 122			286 122
Loans and advances to credit institutions	2 808 816			2 808 816
Loans and advances to customers		12 210 077	5 334 864	17 544 940
Other credit institutions' resources	389 072			389 072
Customer resources and other loans		9 984 698	12 544 337	22 529 034
Other subordinated liabilities	515 214			515 214

	2016			
	Trading and sales	Commercial banking	Retail banking	Total
Interest and similar income	235 058	711 220	292 996	1 239 274
Interest and similar costs	(77 326)	(322 155)	(332 359)	(731 841)
NET INTEREST INCOME	157 731	389 065	(39 364)	507 433
Income from equity instruments	6 093	-	-	6 093
Income from services and commissions	37 913	82 138	41 882	161 933
Costs of services and commissions	(16 451)	(4 563)	(4 708)	(25 721)
Income from available-for-sale financial assets	-	-	-	-
Income from foreign exchange revaluations		239 878	(204 841)	35 037
Income from the disposal of other assets	823	-	-	823
Other operating results	-	31 495	4 658	36 153
TOTAL OPERATING INCOME	186 109	738 013	(202 372)	721 750
Other costs and income				(709 802)
Net profit for period				**11 948**
Cash and cash balances at central banks	1 425 917	-	-	1 425 917
Cash balances at other credit institutions	960 363	-	-	960 363
Available-for-sale financial assets	280 258	-	-	280 258
Loans and advances to credit institutions	7 297 536	-	-	7 297 536
Loans and advances to customers	3 451 391	8 380 695	4 873 230	16 705 315
Other credit institutions' resources	404 003	-	-	404 003
Customer resources and other loans	-	12 310 624	12 700 550	25 011 175
Other subordinated liabilities	514 914	-	-	514 914

33. RELATED ENTITIES

All entities controlled by Caixa Geral de Depósitos Group and its associated companies are considered to be related entities.

The bank’s financial statements, at 31 December 2017 and 2016, include the following balances and transactions with related entities, excluding statutory bodies:

	2017				
	Caixa Geral de Depósitos Group				
	CGD	France branch	Banco Comercial do Atlântico	Promotora	SISP
Assets:					
Cash balances at other credit institutions	753 768	55 278	2 290	-	-
Loans and advances to credit institutions	90 031	-	-	-	
Available-for-sale financial assets	-	-	243 955	15 307	
Loans and advances to customers	-	-	-	-	
Impairment	-	-	(10 011)	(1 880)	-
Investments in subsidiaries, associates and jointly controlled entities					70 768
Other assets	133	-	-		1 733
Liabilities:					
Other credit institutions' resources	(10)	(20 716)	-		-
Customer resources and other loans	-	-	-	(7 421)	(76 245)
Other subordinated liabilities	-	-	-	(31 890)	-
Other liabilities	-	-	-	-	(2 899)
Off-balance sheet:					
Guarantees provided	-	-	-	-	-
Income:					
Interest and similar income	12	-	60	-	-
Income from equity instruments	-	-	4 645	-	
Income from services and commissions	-	-	-	-	54 225
Income from available-for-sale financial assets	-	-	-	-	12 866
Expenditure:					
Interest and similar costs	(0)	(526)	-	(2 095)	-
Costs of services and commissions	(1 072)	-	-	-	(2 244)
General administrative expenditure	-	-	-	-	(33 498)
Impairment of other assets net of reversals and recoveries	-	-	-	-	-

	2016					
	Caixa Geral de Depósitos Group					
	CGD	France branch	Banco Comercial do Atlântico	Promotora	Associates	CV Garante
Assets:						
Cash balances at other credit institutions	864 387	483	7 138	-	-	-
Loans and advances to credit institutions	-	-	-	-	-	-
Available-for-sale financial assets	-	-	243 955	15 307		-
Loans and advances to customers	-	-	1 337	-		-
Impairment	-	-	(10 011)	(1 880)	-	-
Other assets	-	-	-		64 341	12 443
Liabilities:						
Other credit institutions' resources	-	(28 504)	-		-	-
Customer resources and other loans	-	-	-	(18 230)	(123 355)	(70 249)
Other subordinated liabilities	-	-	-	(31 853)	-	-
Other liabilities	-	-	-	-	(3 227)	-
Off-balance sheet:						
Guarantees provided	-	-	-	-	-	-
Income:						
Interest and similar income	10 480	-	138	-	-	-
Income from equity instruments	-	-	4 978	-		-
Income from services and commissions	-	-	-	-	62 959	-
Income from available-for-sale financial assets	-	-	-	-	-	-
Expenditure:						
Interest and similar costs	(1)	(606)	-	(2 615)	(1 046)	(3 460)
Costs of services and commissions	(1 059)	-	-	-	(1 983)	-
General administrative expenditure	-	-	-	-	(31 442)	-
Impairment of other assets net of reversals and recoveries	-	-	-	-	-	-

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

Management bodies

Costs relating to remuneration and other benefits attributed to the bank's board of directors, in 2017, totalled KCve. 29,780 (KCve. 30,390 in 2016).

At 31 December 2017 and 2016, loans to board members totalled KCve. 9,999 and KCve. 4,884 respectively.

34. DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

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

Authorised risk limits and exposure levels are defined and approved by the board of directors, on the basis of the bank's overall strategy and market position. The risk management committee was created in 2016 together with the implementation of a quarterly scorecard for oversight purposes chaired by a non-executive director who reports regularly to the board of directors.

Risk policies and guidelines for 2017 were also approved.

Foreign exchange risk

The existence of a fixed parity between the Cabo Verde escudo and the euro (110.265 = 1 euro), resulting from the existing convertibility agreement between Cabo Verde and Portugal, explains why the euro is not considered for the purpose of the foreign exchange position in the Bank of Cabo Verde's current regulations and those which are being produced.

The bank maintains a neutral foreign exchange position in US dollars and in practical terms does not have a position in other currencies which only occasionally make an appearance in low value tourism-related transactions.

Liquidity risk

The bank's liquidity risk management is overseen and measured on the basis of its daily cash flow whose policy and standards have been published by the ALCO committee and systematically updated during the day, for the shortest period while also covering the longer periods. The approved but unused loans balance is taken into consideration in the case of cash flow.

Taking into account the nature of Cabo Verde's market with its surplus liquidity structure and the fact that BI is no exception, there are no significant risks attached to liquidity management.

The public debt securities portfolio is an alternative for the bank's liquidity investments, either in Bank of Cabo Verde or State of Cabo Verde securities. Public debt securities, in turn, may be passed through to the secondary market. Owing to the ease of purchase and sale of foreign currency from the Bank of Cabo Verde, we are also able to invest our liquidity surpluses abroad.

The bank has also taken out a line of credit with Caixa Geral de Depósitos to provide for its occasional liquidity requirements.

Information on the contractual periods to maturity of financial instruments, at 31 December 2017 and 2016, is set out below:

	2017									
	Contractual periods to maturity									
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Unspecified	Total
Assets										
Cash and cash balances at central banks	2 663 292	-	-	-	-	-	-	-	-	2 663 292
Cash balances at other credit institutions	1 247 658	-	-	-	-	-	-	-	-	1 247 658
Loans and advances to credit institutions	2 700 000	-	0	90 043	-	-	18 772	-	-	2 808 816
Loans and advances to customers (gross balances)	2 138 877	1 590 160	533 054	1 216 204	1 695 494	2 302 999	5 576 103	3 780 569	-	18 833 460
	8 749 827	1 590 160	533 054	1 306 247	1 695 494	2 302 999	5 594 876	3 780 569	-	25 553 226
Liabilities										
Other credit institutions' resources	(125 054)	(9 707)	(166 852)	(65 455)	(21 818)	(186)	-	-	-	(389 072)
Customer resources and other loans	(5 999 290)	(2 200 849)	(1 767 672)	(9 132 950)	(3 101 281)	(326 992)	-	-	-	(22 529 034)
Other subordinated liabilities	-	-	(515 214)	-	-	-	-	-	-	(515 214)
	(6 124 343)	(2 210 557)	(2 449 738)	(9 198 405)	(3 123 100)	(327 178)	-	-	-	(23 433 320)
Off-balance sheet (guarantees provided)	1 784 749	-	-	-	-	-	-	-	-	1 784 749
GAP (Assets - Liabilities)	4 410 233	(620 397)	(1 916 684)	(7 892 158)	(1 427 606)	1 975 821	5 594 876	3 780 569	-	3 904 655

	2016									
	Contractual periods to maturity									
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	More than 10 years	Unspecified	Total
Assets										
Cash and cash balances at central banks	1 425 917	-	-	-	-	-	-	-	-	1 425 917
Cash balances at other credit institutions	960 363	-	-	-	-	-	-	-	-	960 363
Loans and advances to credit institutions	6 746 116	551 420	-	-	-	-	-	-	-	7 297 536
Loans and advances to customers (gross balances)	482 712	90 508	500 902	2 407 893	1 131 007	2 337 961	4 600 554	6 442 688	-	17 994 225
	9 615 107	641 928	500 902	2 407 893	1 131 007	2 337 961	4 600 554	6 442 688	-	27 678 040
Liabilities										
Other credit institutions' resources	(76 882)	(7 467)	(67 775)	(5 455)	(235 516)	(10 909)	-	-	-	(404 003)
Customer resources and other loans	(7 262 755)	(2 137 748)	(2 093 681)	(9 279 538)	(4 077 559)	(159 893)	-	-	-	(25 011 175)
Other subordinated liabilities	(14 914)	-	-	-	(500 000)	-	-	-	-	(514 914)
	(7 354 551)	(2 145 215)	(2 161 456)	(9 284 992)	(4 813 075)	(170 802)	-	-	-	(25 930 091)
Off-balance sheet (guarantees provided)	1 460 142	-	-	-	-	-	-	-	-	1 460 142
GAP (Assets - Liabilities)	3 720 699	(1 503 287)	(1 660 554)	(6 877 099)	(3 682 068)	2 167 159	4 600 554	6 442 688	-	1 747 948

Interest rate risk

The fact that most credit operations are at fixed rates entails the existence of interest rate risk. This is minimised by natural cover based on borrowing operations and the progressive implementation of rates indexed to the central bank's liquidity injection rate, in new operations with maturities of more than 5 years.

Reference should, therefore, be made as regards risk-hedging procedures, to several aspects implemented by the bank:

- Loan hedges at fixed rates are based on deposits and there is no national indexer that can be used as a "benchmark" for assets or liabilities;
- Loan contracts provide for the possibility of changes in interest rates in certain circumstances. This is legally acceptable in addition to functioning with coherent assets and liabilities management, through the systematic information instruments provided by the financial markets office.
- The issuance of Euribor-indexed bonds, which make it possible to mitigate interest rate risk on lending and other operations in the bank's pipeline which, being indexed to Euribor, are naturally hedged by bond issuances.
- Increase in euro lines of credit to achieve the above referred to objectives.

Credit risk

GGR (risk management office) was set up to monitor credit risk and is responsible for assessing the said risk, reporting directly to the chairman of the executive committee.

Its main objective is to analyse corporate credit risk, centralise and regularly update financial information on companies and inform management on corporate portfolio quality. It also centralises the relations/information with the Bank of Cabo Verde's risk database and is responsible for overseeing the evolution of the bank's provisions and informing the executive committee, both as regards individual loans and the bank's global portfolio.

GGR issues risk opinions on proposals produced and/or structured by the commercial area and thus separates the two functions. It also oversees the corporate portfolio in order to identify and give notice of potential risk situations

In the sphere of credit portfolio oversight, the business support office also issues status reports on overdue credit or loans in which pre-legal/legal actions are being taken, to enable the executive committee to make a quick decision.

Market risk

Cabo Verde has a small stock exchange. The bank has investments in fixed-income shares and securities.

Credit risk

<u>Maximum exposure to credit risk</u>

Information on the bank's maximum exposure to credit risk, at 31 December 2017 and 2016, is set out below:

	2017		
	Active exposure	Impairment	Effective exposure
Cash balances	3 910 950	-	3 910 950
Loans and advances to credit institutions	2 808 816	-	2 808 816
Loans and advances to customers	18 833 460	1 288 520	17 544 940
Other assets (excluding property)	30 969	13 666	17 303
	25 584 196	1 302 186	24 282 009
Guarantees and sureties	1 784 749		1 784 749
Documentary credit operations	19 936		19 936
	1 804 685	-	1 804 685
Maximum exposure	27 388 880	1 302 186	26 086 694

	2016		
	Active exposure	Impairment	Effective exposure
Cash balances	1 425 917	-	1 425 917
Loans and advances to credit institutions	7 297 536	-	7 297 536
Loans and advances to customers	17 994 225	1 288 910	16 705 315
Other assets (excluding property)	27 363	11 976	15 387
	26 745 040	1 300 885	25 444 155
Guarantees and sureties	1 460 142		1 460 142
Documentary credit operations	3 006		3 006
	1 463 148	-	1 463 148
Maximum exposure	28 208 188	1 300 885	26 907 303

Quality of loans and advances to customers

At 31 December 2017 and 2016, the gross book value of loans and advances to customers, guarantees issued and documentary credit operations, excluding other loans and amounts receivable – securitised and accrued interest, was broken down as follows:

	2017			
	Performing loans	Non-performing loans	Loans in default	Total
Corporate loans				
Outstanding	6 118 188	-	392 096	6 510 284
Overdue	8	3 241	2 067 435	2 070 684
	6 118 196	3 241	2 459 531	8 580 968
Mortgage loans				
Outstanding	3 067 242	-	1 629	3 068 871
Overdue	-	16 323	146 852	163 175
	3 067 242	16 323	148 481	3 232 046
Other loans				
Outstanding	1 956 034	1 300	54 767	2 012 102
Overdue	4 652	5 177	365 016	374 845
	1 960 686	6 478	419 783	2 386 947
Loans to the public sector				
Outstanding	496 827	-	-	496 827
Overdue	-	-	-	-
	496 827	-	-	496 827
Total outstanding credit	11 638 292	1 300	448 493	12 088 085
Total overdue credit	4 660	24 742	2 579 302	2 608 704
Total credit	11 642 952	26 042	3 027 795	14 696 789
Off-balance sheet				
Guarantees and documentary credit to companies				
Outstanding	1 804 685	-	-	1 804 685

	2017				
	Companies	Individual customers - mortgages	Individual customers - other	Public sector	Total
Not overdue or individually impaired	**6 121 474**	**3 063 121**	**1 907 940**	**496 848**	**11 589 384**
Not overdue but individually impaired	**388 790**	**5 750**	**104 162**	**0**	**498 701**
Overdue but not individually impaired	**227 244**	**163 175**	**200 860**	**0**	**591 279**
Less than 30 days	3 771	0	8 622	0	12 393
30 to 90 days	3 249	16 323	5 195	0	24 768
91 to 180 days	44 746	7 616	6 646	0	59 009
181 to 360 days	33 640	15 135	46 450	0	95 225
more than 360 days	141 838	124 100	133 946	0	399 885
Loans with individual impairment	**1 843 440**	**0**	**173 985**	**0**	**2 017 425**
Less than 30 days	6 504	0	2 024	0	8 528
30 to 90 days	29	0	42 057	0	42 086
91 to 180 days	0	0	51 585	0	51 585
181 to 360 days	0	0	151	0	151
more than 360 days	1 836 907	0	78 169	0	1 915 076
Total	**8 580 948**	**3 232 046**	**2 386 947**	**496 848**	**14 696 789**

	2016			
	Performing loans	Non-performing loans	Loans in default	Total
Corporate loans				
Outstanding	6 235 400	1 801	630 012	6 867 214
Overdue	177	31	1 680 754	1 680 962
	6 235 577	1 832	2 310 766	8 548 175
Mortgage loans				
Outstanding	2 731 643	17 092	127 085	2 875 819
Overdue	-	104	73 869	73 974
	2 731 643	17 196	200 954	2 949 793
Other loans				
Outstanding	1 755 003	7 142	240 376	2 002 521
Overdue	53 676	3 098	137 823	194 598
	1 808 679	10 240	378 200	2 197 119
Loans to the public sector				
Outstanding	407 285	-	12	407 297
Overdue	-	-		-
	407 285	-	12	407 297
Total outstanding credit	11 129 330	26 035	997 485	12 152 850
Total overdue credit	53 853	3 233	1 892 447	1 949 533
Total credit	11 183 183	29 268	2 889 932	14 102 383
Off-balance sheet				
Guarantees and documentary credit to companies				
Outstanding	1 463 148	-	-	1 463 148
Off-balance sheet				
Guarantees and documentary credit to the public sector				
Outstanding	-	-	-	-
Total off-balance sheet	1 463 148	-	-	1 463 148

	2016				
	Companies	Individual customers - housing	Individual customers - other	Public sector	Total
Not overdue or individually impaired	**5 843 298**	**2 744 092**	**1 750 168**	**407 285**	**10 744 842**
Overdue but not individually impaired	**119 901**	**205 701**	**151 125**	**12**	**476 739**
Less than 30 days	3 861	-	15 446	-	19 307
30 to 90 days	-	-	5 318	-	5 318
91 to 180 days	2 343	17 196	2 420	-	21 959
181 to 360 days	10 436	2 155	1 927	-	14 518
more than 360 days	103 261	186 351	126 015	12	415 638
Loans with individual impairment	**2 584 977**	**-**	**295 826**	**-**	**2 880 803**
Less than 30 days	463 188	-	147 762	-	610 951
30 to 90 days	-	-	-	-	-
91 to 180 days	34	-	2 180	-	2 215
181 to 360 days	71 410	-	74 191	-	145 601
more than 360 days	2 050 345	-	71 692	-	2 122 036
Total	**8 548 175**	**2 949 793**	**2 197 119**	**407 297**	**14 102 383**

The following classifications were used to prepare the above tables:

- "Performing credit"
  - Corporate: loans without any overdue payments or with balances overdue for up to 30 days;
  - Individual customers: loans without any overdue payments or with balances overdue for up to 7 days;
- "Non-performing credit"
  - Corporate: loan balances overdue between 30-90 days;
  - Individual customers: loan balances overdue between 7-90 days;
- "Credit in default" – loans with balances overdue more than 90 days. In the case of corporate loans, if a customer has at least one operation with overdue payments for more than 90 days, the full amount of the customer's exposure to the bank is reclassified to this category. Also included is restructured credit classified as "Credit in default" on the restructuring date and which has still not gone through the quarantine period.

Overdue credit also only includes the amounts of the operations or payments due and unpaid on the reference date. The "Overdue credit" account, in note 7, includes the full amount receivable on operations involving overdue amounts.

At 31 December 2017, the credit balance upon which specific impairment has been declared on the basis of separate analyses totalled KCve. 3,457.659 (KCve. 2,880,803 at 31 December 2016) with impairment of KCve. 879,100 (KCve. 903,135 at 31 December 2016). As described in note 2.2. c) ii) separately analysed loans on which no specific impairment has been declared were covered by a collective analysis.

At 31 December 2017 and 2016, information on the book value of loans and advances to customers identified by the bank and whose maturities had been restructured is detailed below:

	2017			2016		
	Performing credit	Overdue credit	Total	Performing credit	Overdue credit	Total
Companies	85 378	167 296	204 786	22 068	182 717	204 786
Individual customers	47 165	91 889	187 585	92 095	95 490	187 585
	132 543	259 185	392 371	114 164	278 207	392 371

Fair value

Information on the bank's financial assets, measured at fair value, is set out below:

	2017			
	Measured at fair value			
	Market prices (Level 1)	Measurement models with observable market parameters/prices (Level 2)	Measurement models with non-observable market parameters (Level 3)	Total fair value
Available-for-sale financial assets				
Shares	28 656		233 944	262 600
		-		-
Financial assets	**28 656**	**-**	**233 944**	**262 600**

	2016			
	Measured at fair value			
	Market prices (Level 1)	Measurement models with observable market parameters/prices (Level 2)	Measurement models with non-observable market parameters (Level 3)	Total fair value
Available-for-sale financial assets				
Shares	22 352		233 944	256 296
		-		-
Financial assets	**22 352**	**-**	**233 944**	**256 296**

There were no entries, exits or changes in the fair value of the financial assets portfolio measured at level 3 of the IFRS 13 fair value ranking in 2017.

VISA shares were measured on the basis of the stock exchange price and are therefore classified at level 1 of the measurement provided for in IFRS 13;

The value of Banco Comercial do Atlântico, S.A.'s shares was measured on the basis of the assessment of an independent external entity, using cash flow models and therefore classified at level 3 of the measurement provided for in IFRS 13.

(CVe. million)

Assets classified at level 3	Measurement model	Variable analysed	Book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Available-for-sale financial assets							
Shares							
Banco Comercial do Atlântico	Discounted cash flow model	Discount rate	243 955,0	-50%	148 569	+50%	392 524
Total			243 955,0	-	148 569		392 524

* rate of 10.9% according to valuation

The following is an analysis of the principal methodologies and assumptions upon which the fair value of financial assets and liabilities recognised in the balance sheet at amortised cost were estimated:

	2017				
		Fair value			
	Assets / liabilities at amortised cost	Market prices (Level 1)	Measurement models with observable market parameters/prices (Level 2)	Measurement models with non-observable market parameters (Level 3)	Total fair value
Assets					
Cash and cash balances at central banks	2 663 292	-	2 663 292	-	2 663 292
Cash balances at other credit institutions	1 247 658	-	1 247 658	-	1 247 658
Available-for-sale financial assets (a)	23 522	-	-	23 522	23 522
Loans and advances to credit institutions	2 808 816	-	2 808 816	-	2 808 816
Loans and advances to customers	17 544 940	-	-	17 195 338	17 195 338
Other assets (property)	574 137	-	574 137	-	574 137
	24 862 365	-	7 293 903	17 218 860	24 512 763
Liabilities					
Other credit institutions' resources	389 072	-	-	387 310	387 310
Customer resources and other loans	22 529 034	-	-	26 375 573	26 375 573
Other subordinated liabilities	515 214	-	-	515 214	515 214
	23 433 320	-	-	27 278 098	27 278 098

	2016				
		Fair value			
	Assets / liabilities at amortised cost	Market prices (Level 1)	Measurement models with observable market parameters/prices (Level 2)	Measurement models with non-observable market parameters (Level 3)	Total fair value
Assets					
Cash and cash balances at central banks	1 425 917	-	1 425 917	-	1 425 917
Cash balances at other credit institutions	960 363	-	960 363	-	960 363
Available-for-sale financial assets (a)	23 962	-	-	23 962	23 962
Loans and advances to credit institutions	7 297 536	-	7 297 536	-	7 297 536
Loans and advances to customers	16 705 315	-	-	13 803 202	13 803 202
Other assets (property)	574 820	-	574 820	-	574 820
	26 987 912	-	10 258 635	13 827 164	24 085 799
Liabilities					
Other credit institutions' resources	404 003	-	-	397 348	397 348
Customer resources and other loans	25 011 175	-	-	24 728 245	24 728 245
Other subordinated liabilities	514 914	-	-	529 688	529 688
	25 930 091	-	-	25 655 281	25 655 281

(a) Assets at their acquisition cost net of impairment. These assets refer to equity instruments issued by unlisted entities and on which no recent market transactions have been identified and whose fair value cannot be reliably estimated. The following assumptions were used for fair value measurement purposes.

– Book value in the case of balances payable on demand and short term loans and advances to credit institutions comprise fair value;
– In the case of available-for-sale financial assets:
    • The bank's equity investment in Promotora, Sociedade de Capital de Risco de Cabo Verde, SARL was recognised at historical cost. Impairment of KCve. 1,880 has been declared to reduce the balance sheet carrying amount to its estimated realisation price.
    • The value of Sociedade Cabo-verdiana de Tabacos shares, assessed on the basis of their respective price in the Cabo Verde stock exchange at the said date was KCve. 5,436 less than that of their balance sheet value, at 31 December 2017 and 2016. The bank has retained the shares at historical cost, in due consideration of the fact that the company has remained stable and has even paid out dividends in addition to the security's reduced liquidity in Cabo Verde's stock exchange.
– The fair value of the other instruments was measured by the bank on the basis of discounted cash flow models, taking the operations' contractual conditions into consideration and using appropriate interest rates for the type of instruments, based on the interest rates used for similar instruments issued or contracted for close to the end of the period.

Sensitivity analysis – interest rate

Information on the impact of parallel shifts of 50, 100 and 200 basis points (bps), respectively on the reference interest rates yield curve, on the fair value of financial instruments sensitive to interest rate risk, at 31 December 2017 and 2016, is set out in the following tables:

	2017					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Loans and advances to customers (gross balances)	754 885	312 867	144 264	(124 986)	(234 407)	(417 092)
Total sensitive assets	754 885	312 867	144 264	(124 986)	(234 407)	(417 092)

	2016					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
Loans and advances to customers (gross balances)	533 141	(324 430)	(114 013)	(178 390)	(71 845)	(120 259)
Total sensitive assets	533 141	(324 430)	(114 013)	(178 390)	(71 845)	(120 259)

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

The following table demonstrates the effect of shifts of 50, 100 and 200 bps on of interest rate yield curves which index financial instruments sensitive to changes in interest rates, on the net interest income projections for 2017 and 2016, respectively:

	Net interest income projection					
	- 200 bp	- 100 bp	- 50 bp	+ 50 bp	+ 100 bp	+ 200 bp
2017	(53 475)	(26 738)	(13 369)	13 369	26 738	53 475
2016	(35 598)	(17 799)	(8 899)	8 899	17 799	35 598

The assessment of the impacts set out in the above table takes into consideration the fact that assets and liabilities sensitive to interest rate in the balance sheet on the calculation's reference date would remain stable over the years 2017 and 2016, respectively, with the renewal thereof, whenever applicable, considering the market conditions in force on the referred to renewal dates and average spread on performing operations, at 31 December 2017 and 2016.

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

Foreign exchange risk

Breakdown of financial instruments by currency

Financial instruments were broken down into the following currencies, at 31 December 2017 and 2016:

	2017				
	Cape Verde escudos	Euros	US dollars	Other	Total
Assets					
Cash and cash balances at central banks	1 936 802	687 954	9 655	28 881	2 663 292
Cash balances at other credit institutions	389 230	809 781	34 742	13 905	1 247 658
Available-for-sale financial assets	286 122	-	-	-	286 122
Loans and advances to credit institutions	2 700 000	90 043	18 772	-	2 808 816
Loans and advances to customers (net)	16 270 528	1 274 413	-	-	17 544 940
Investments in subsidiaries, associates and jointly controlled entities	70 768	-	-	-	70 768
Other assets	1 144 757	-	-	-	1 144 757
	22 798 206	2 862 192	63 170	42 786	25 766 353
Liabilities					
Central banks' and other credit institutions' resources	(267 343)	(113 281)	(8 448)	-	(389 072)
Customer resources and other loans	(22 003 673)	(450 446)	(52 028)	(22 887)	(22 529 034)
Other subordinated liabilities	(515 214)	-	-	-	(515 214)
Other liabilities	(523 995)		-	-	(523 995)
	(23 310 225)	(563 727)	(60 476)	(22 887)	(23 957 316)
Net exposure	(512 019)	2 298 465	2 693	19 898	1 809 038

	2016				
	Cape Verde escudos	Euros	US dollars	Other	Total
Assets					
Cash and cash balances at central banks	791 543	595 532	12 196	26 645	1 425 917
Cash balances at other credit institutions	62 979	870 559	10 691	16 134	960 363
Available-for-sale financial assets	280 258	-	-	-	280 258
Loans and advances to credit institutions	6 724 892	551 416	21 228	-	7 297 536
Loans and advances to customers (net)	15 275 338	1 429 977	-	-	16 705 315
Investments in subsidiaries, associates and jointly controlled entities	80 055	-	-	-	80 055
Other assets	27 363	-	-	-	27 363
	23 242 428	3 447 484	44 116	42 779	26 776 807
Liabilities					
Central banks' and other credit institutions' resources	(302 875)	(96 939)	(4 189)	-	(404 003)
Customer resources and other loans	(24 748 788)	(200 215)	(38 283)	(23 889)	(25 011 175)
Other subordinated liabilities	(514 914)	-	-	-	(514 914)
Other liabilities	(29 288)	-	-	-	(29 288)
	(25 595 864)	(297 154)	(42 472)	(23 889)	(25 959 379)
Net exposure	(2 353 436)	3 150 330	1 643	18 891	817 428

Taking into account the fixed parity between the Cabo Verde escudo and the euro, foreign currency risk is essentially associated with the balances recognised in US dollars (USD).

The following table sets out the effect of changes in exchange rates of 15%, 10% and 2% on assets and liabilities denominated in USD for 2017 and 2016, respectively:

	Amounts in thousand US dollars	Exchange rate at 31-12-2017	Countervalue in KCVe.	Sensitivity Analysis 2017					
				-15%	-10%	-2%	2%	10%	15%
Assets									
Cash and cash balances at central banks	104	92,398	9 655	(1 448)	(966)	(193)	193	966	1 448
Cash balances at other credit institutions	376	92,398	34 742	(5 211)	(3 474)	(695)	695	3 474	5 211
Loans and advances to credit institutions	203	92,398	18 772	(2 816)	(1 877)	(375)	375	1 877	2 816
			63 170	(9 475)	(6 317)	(1 263)	1 263	6 317	9 475
Liabilities									
Central banks' and other credit institutions' resources	91	92,398	8 448	(1 267)	(845)	(169)	169	845	1 267
Customer resources and other loans	563	92,398	52 028	(7 804)	(5 203)	(1 041)	1 041	5 203	7 804
			60 476	(9 071)	(6 048)	(1 210)	1 210	6 048	9 071

	Amounts in thousand US dollars	Exchange rate at 31-12-2016	Countervalue in KCVe.	Sensitivity Analysis 2016					
				-15%	-10%	-2%	2%	10%	15%
Assets									
Cash and cash balances at central banks	116	105,329	12 196	(1 829)	(1 220)	(244)	244	1 220	1 829
Cash balances at other credit institutions	101	105,329	10 691	(1 604)	(1 069)	(214)	214	1 069	1 604
Loans and advances to credit institutions	202	105,329	21 228	(3 184)	(2 123)	(425)	425	2 123	3 184
			44 116	(6 617)	(4 412)	(882)	882	4 412	6 617
Liabilities									
Central banks' and other credit institutions' resources	40	105,329	4 189	(628)	(419)	(84)	84	419	628
Customer resources and other loans	363	105,329	38 283	(5 743)	(3 828)	(766)	766	3 828	5 743
			42 472	(6 371)	(4 247)	(849)	849	4 247	6 371

35. CAPITAL MANAGEMENT

The bank's capital management objectives are guided by the following general principles:

- To comply with the regulatory requirements of the Bank of Cabo Verde;
- To generate an adequate level of return for the company, creating shareholder value and return on capital employed;
- To sustain the development of operations that the bank is lawfully authorised to perform, maintaining a solid capital structure, capable of providing for the growth in activity and in line with its respective risk profile;
- To maintain the bank's reputation, maintaining the integrity of the operations performed in the course of its activity.

To achieve the above referred to objectives, the bank plans its short and medium term capital requirements to fund its activity, particularly based on the use of its self-financing capacity and other resource-taking operations. This planning is based on internal estimates of the growth of balance sheet operations and funding from borrowings primarily raised from subordinated debt issuances, including complementary own funds within certain limits.

The activity of credit institutions in Cabo Verde is regulated by Law 62/VIII/2014 and Law 61/VII/2014 of 23 April which define the main guidelines and reference framework for the financial system. The referred to laws and complementary legal instruments involve several regulatory domains with an influence on capital management, of which reference should be made to:

– The requirement for own funds never to be less than minimum share capital and for at least 10% of each year's net profit to be appropriated to legal reserves up to the amount of the share capital;

– *Notice* 3/ 2015 of 12 May 2015, Official Bulletin 25, which defines a minimum share capital requirement of 800 million Cabo Verde escudos for general banks;

– *Notice* 1/2017 of 9 February which requires that, in matters relating to own funds, financial institutions should ensure a total own funds adequacy ratio of not less than 12%, as one of its solvency indicators which, in practice, corresponds to the needs of credit institutions to allocate certain amounts of capital to provide for any unexpected losses;

– The imposition of risk concentration limits on a single customer or group of customers, based on the introduction of percentages indexed to the amount of own funds, which, in separate terms, are around 20% for the group proper and 25% for others. This measure was designed to favour portfolio diversification, owing to the risk of contamination which may exist in a specific group, in the event of any default by one or more entities belonging to the said group;

– Limits on equity stakes in other companies – which are not credit institutions, parabanking institutions, ancillary services companies, pension fund managers, holding companies which only hold equity investments in the above referred to companies and companies in the insurance sector, which should not exceed, when separately considered 15% of the own funds of the investing institution and 60% of these funds in the case of the qualified investments as a whole (≥ 10% of the capital or voting rights in the entity in which the investment has been made).

Most of the requirements and prudential limits are based on the own funds concept, which corresponds to the minimum amount of regulatory capital imposed by the regulator. The regular calculation thereof is mandatory and is governed by national legislation published in Bank of Cabo Verde *Notice* 3/2007 of 19 December. The quotient of its value by the amount corresponding to the weighted risk positions comprises the solvency ratio, regulated by Bank of Cabo Verde *Notice* 4/2007 of 25 February 2008 and Bank of Cabo Verde *Notice* 1/2007 of February 2017 subject to a minimum amount of 12%.

To analyse and comply with the legal requirements imposed by banking supervision, the bank has mechanisms linking its various internal departments, especially the accounting, financial and risk management areas.

The following table summarises the composition of the bank's regulatory capital at the end of 2017 and 2016:

Capital management	December 2017	December 2016	Change
Basis own funds	**1 750 333**	**1 703 365**	**46 969**
Share capital	1 000 000	1 000 000	-
Reserves and premiums	876 907	864 958	11 948
Net result	54 284	11 948	42 335
Retained and other earnings	(180 857)	(173 542)	(7 315)
Additional provisions	-	-	-
Complementary own funds	**512 122**	**509 774**	**2 348**
Subordinated bonds	500 000	500 000	-
Deductions from complementary own funds	12 122	9 774	2 348
Deductions from total own funds	**49 743**	**58 944**	**(9 201)**
Investments in credit institutions	49 743	58 944	(9 201)
Concentration risk excess	-	-	-
Fixed assets received as repayment of own credit	-	-	-
Total eligible own funds	**2 212 712**	**2 154 194**	**58 518**
Total weighted assets	**14 039 659**	**14 075 911**	**(36 253)**

Ratios	December 2017	December 2016	Change (pp)
Basis own funds	12,47%	12,10%	0,37
Complementary own funds	3,65%	3,62%	0,03
Deductions from total own funds	-0,35%	-0,42%	0,07
Solvency ratio	**15,76%**	**15,30%**	**0,46**

The bank was fully compliant with all of the capital requirements imposed by the Bank of Cabo Verde (BCV) in 2017 (2016).

The above table shows that the final amount of "Own funds" is based on the sum of three major aggregates, whose respective amounts differ in several aspects from those recognised in the balance sheet and which translate the regulator's application of prudential filters, accordingly:

(i). Basis own funds are the bank's capital with the greatest stability. The principal components and amounts considered in own funds are:

- Share capital, reserves (excluding revaluation reserves) and retained earnings, which correspond, in full, to the accounting values;
- Profit for the period, which is included in own funds net of tax and dividends to be paid to shareholders and only if certified by the external auditor;
- Deductions from basis own funds, comprising various accounts, such as correction factors, whose recognition was considered necessary by the regulator, based on a prudential approach as a correction factor.

(ii). Complementary own funds: comprising subordinated liabilities subject to the approval of the Bank of Cabo Verde.

The amount of these complementary own funds cannot exceed the amount of basis own funds and is broken down, as follows:

- Subordinated debt with a maturity of more than 5 years, considered up to the limit of 50% of basis own funds;
- Positive revaluation reserves if lawfully realised and authorised by the Bank of Cabo Verde.

(iii). Deductions from own funds: comprising a series of deductions resulting from the regulator's impositions, namely:

- In cases in which the bank has an equity stake of more than 10% in a credit institution, the total amount of the said equity stake will be deducted if the equity stake is less than the said percentage, only the part exceeding 10% of the own funds of the holding credit institution will be deducted.
- Any amounts exceeding the limits established for the purposes of major risks which, in the case of separate prudential elements, comprise 20%

of own funds for exposure to the group proper and 25% for exposure to other groups;

- The net balance sheet value of non-financial assets received for the repayment of own credit, calculated at an annual rate of 20% starting from when two years have elapsed since the date on which the non-financial assets in question have been received;
- Any qualified investment surpluses (of 10% or more) in non-financial or non-insurance companies, whose separate amount is more than 15% of own funds or 60% for the aggregate amount of such investments.

In terms of capital requirements, weighted assets are ranked by 4 risk factors (0%, 20%, 50% and 100%), in accordance with each asset type and each counterparty, as well as any existing guarantees.

The same treatment is used for off-balance sheet positions associated with the issue of guarantees and acceptance of other potential commitments.

Operational risk was also introduced in 2008, giving rise to the need for institutions to calculate additional own funds requirements for the coverage thereof, based on 15% of their average total operating income (when positive) of the last three years.

As regards the periodicity of the reporting, institutions should calculate their own funds at least at the end of each month and inform the Bank of Cabo Verde of the composition of own funds and respective solvency ratio, up to the tenth day of the following month.

13 AUDIT REPORT AND REPORT AND OPINION OF THE SUPERVISORY BOARD

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Audit Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the attached financial statements of Banco Interatlântico, S.A.R.L. ("Entity"), to include the statement of its financial position, at 31 December 2017 (comprising a total amount of 25,766,353 thousand Cape Verde escudos and total shareholders' equity of 1,809,037 thousand Cape Verde escudos, including net profit of 54,284 thousand Cape Verde escudos), statement of profit and loss by type, statement of comprehensive income, statement of changes to shareholders' equity and statement of cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies.

In our opinion, the attached financial statements provide a true and appropriate description, in all material aspects, of the financial position of Banco Interatlântico, S.A.R.L. at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with generally accepted accounting principles for the banking sector in Cape Verde, as defined by the Bank of Cape Verde.

Bases for opinion

Our audit was based on the ISA (International Audit Standards) and other standards and technical and ethical guidelines of the Order of Statutory Auditors. Our responsibilities pursuant to these standards are described in the section: "Auditors' responsibilities for auditing the financial statements" below. We are independent from the Entity under the terms of the law and comply with the other ethical requirements as set out in the code of ethics of the Order of Statutory Auditors.

We believe that the audit proof we have obtained is sufficient and appropriate as a basis upon which to issue our opinion.

Relevant audit matters

Relevant audit matters are those that, in our professional judgment, were the most important in auditing this year's financial statements. These matters were considered in the context of the audit of the financial statements as a whole and in the forming of our opinion and we have not issued a separate opinion on these matters.

The following are matters of relevance to this year's audit:

1. Measurement of loans and advances to customers

Description of the most significant risks of material distortion	Summary of our reply to the most significant risks of material distortion
The loans and advances to customers account, as described in notes 7 of the appendix to the financial statements, at 31 December 2017 and 31 December 2016, comprised amounts of kCVe. 17,544,940 and kCVe. 16,705,315, respectively, for loans and advances to customers, net of impairment. At the time of their initial recognition these assets are recognised at their fair value, net of any commissions included in the effective rate plus all incremental costs directly attributable to the transaction. These assets are subsequently recognised in the balance sheet at amortised cost, net of any impairment losses (details in sub-paragraph c) i) of note 2.2.). Any signs of impairment are identified on a separate basis for financial assets in which the exposure is individually significant and on a collective basis when the assets have debtor balances which are not individually relevant (details in sub-paragraph c) ii) of note 2.2.) We consider the process for measuring impairment losses to be a relevant audit matter, as it is based on internal methodologies that require assumptions and judgments, which may not materialise in the future and consequently originate losses which are different from those estimated.	Our approach to the risk of material distortion includes the following procedures: • An understanding of the implementation of the internal control procedures for the assessment of impairment losses; • An analysis of methodologies and assumptions employed by the bank in assessing the net book value of credit by: i. Enquiring of the officers in charge of measuring impairment, the means of comprehending the basis and assumptions employed for the most significant exposures and obtaining the documentation on which the respective decisions are made; and ii. For loans with separately analysed signs of impairment, detailed tests were carried out on the documentation upon which the estimates and judgements employed were based and which include the discount rate, time and recoverable amount of collateral. We particularly examined the existence of mortgages on existing real guarantees based on an analysis of the contents of the certificates issued by the property registry and tested the underlying value of the collateral based on an analysis of the valuation reports prepared by external specialists contracted by the bank. iii. We analysed the documentation upon which the estimates and judgments incorporated in the impairment model were based, namely the assessment of the risk parameters of probability of default (PD) and loss given default (LGD) in the event of non-compliances. We analysed the disclosures in the notes to the bank's financial statements, examining the consistency thereof with the knowledge obtained from the audit procedures performed and international financial reporting requirements.

2. Valuation of property received on credit recovery operations

Description of the most significant risks of material distortion	Summary of our reply to the most significant risks of material distortion
The "Other assets" account, as described in note 12, of the appendix to the financial statements at 31 December 2017 and 31 December 2016, amounted to kCVe. 574,137 and kCVe. 574,820, respectively, comprising the net amount of impairment on assets acquired on credit recovery procedures, recognised as non-current assets held for sale. The bank periodically requests independent entities registered with the Central Bank of Cape Verde to produce valuations on property received on credit recoveries. Impairment losses are recognised if the amount of the valuation, net of the costs incurred on the sale of the property, is less than its book value. We consider the process for measuring impairment losses on assets acquired on credit recoveries, to be a relevant audit matter, as it is based on internal methodologies that require assumptions and judgments, which may not materialise in the future and consequently originate losses which are different from those estimated.	Our approach to material distortion risk includes the following procedures: • The performance of specific detailed procedures to indentify property with signs of impairment and assess the corresponding amounts; • The performance of detailed tests with the objective off examining ownership of the assets acquired as part of credit recovery procedures; • An analysis of assumptions and judgments underlying the valuations prepared by independent appraisers of the assets acquired by way of credit recovery; Inspection of the amounts set out in the financial statements to test the concordance thereof with the accounting records and the disclosures to test the plenitude thereof vis-à-vis existing standards.

Responsibilities of the board of directors and supervisory body for the financial statements.

The board of directors is responsible for:

- preparing financial statements in order to provide a true and appropriate description of the bank's financial position, financial performance and cash flows in accordance with generally accepted accounting principles for the banking sector in Cape Verde;
- producing the annual report as required by the law and regulations;
- creating and maintaining an appropriate internal control system to permit the preparation of financial statements free from material distortions owing to fraud or error;
- adopting accounting policies and criteria appropriate to the circumstances, and
- assessing the bank's capacity as a going concern, disclosing, when applicable, information on issues which may give rise to significant doubts on the continuation of its activities.

The supervisory body is responsible for supervising the process for the preparation and disclosure of the bank's financial information.

Auditor's responsibilities for auditing the financial statements

Our responsibility consists of obtaining a reasonable level of assurance as to whether the financial statements as a whole are free from material distortions owing to fraud or error and to issue a report containing our opinion. A reasonable level of assurance is a high level of security but is not a guarantee that an audit performed according to the ISA will always detect any material distortion. Distortions may derive from fraud or error and are considered to be material if, either in isolation or as a whole, it can be reasonably expected that they may influence the economic decisions of users made on the basis of the said financial statements.

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

- identify and assess the risks of material distortion in the financial statements, deriving from fraud or error, design and implement audit procedures to provide for such risks and obtain sufficient and appropriate audit proof to provide a basis for our opinion. The risk of not detecting a material distortion deriving from fraud is greater than the risk of not detecting a material distortion caused by error given that fraud may involve collusion, falsification, intentional omissions, false declarations or superimposition over internal control;
- we achieve an understanding of the relevant internal control for the audit with the objective of designing audit procedures which are appropriate to the circumstances but not to express an opinion on the effectiveness of the bank's internal control;
- we assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by the board of directors;
- we reach a conclusion on the board of directors' appropriation of use of the go-

ing concern basis and, based on the audit proof obtained, whether there exists any material uncertainty related with events of conditions which may give rise to significant doubts over the bank's capacity to operate as a going concern. If we conclude that a material uncertainty exists, we should draw attention in our report to the related disclosures included in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit proof obtained up to the date of our report. Events or future conditions may, however, lead the bank to discontinue its activities;

- we assess the presentation, structure and global contents of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in such a way as to achieve appropriate presentation;
- we communicate with the officers responsible for governance in order to include, *inter alia*, other subjects, including the scope and schedule planned for the audit and the significant conclusions of the audit, including the identification of any significant internal control deficiency during the audit, and
- on the subject matters communicated to the governance officers we assess those with the greatest importance in the audit of the financial statements for the current year and which comprise the relevant audit material. We describe such matters in our report unless the public disclosure thereof is prohibited by law of regulation.

Lisbon, 15 March 2018

Ernst & Young Audit & Associados – SROC, S.A. Sociedade de Revisores Oficiais de Contas, represented by:

António Filipe Dias da Fonseca Brás

(statutory auditor no, 1661) registered with the CMVM under no. 20161271

REPORT AND OPINION OF THE SUPERVISORY BOARD FOR 2017

To the shareholders of Banco Interatlântico, S.A.

Under the terms of the commercial companies code and the articles of association of Banco Interatlântico, S.A. (bank), the supervisory board hereby submits the report on its activity in 2017 in addition to its opinion on the annual report and accounts for the year ended 31 December 2017, as presented by the board of directors.

The proposal to engage the services of the external auditor was made by the previous supervisory board at the general meeting of 4 August 2017, unanimously approved by the shareholders present, in accordance with the minutes provided. The current supervisory board was appointed at the same meeting and has, in the meantime, been approved by the Bank of Cape Verde.

On 15 December 2017, the supervisory board was present at the board of directors' meeting in which it took note of and discussed the following issues: i) An estimate of the closure of the accounts for 2017 and budget proposal for the period 2018-2012; ii) Risk management, namely the regulation on the audit function, its activities plan and the report on audit issues and; iii) the principal credit operations.

On 2 March 2018, the supervisory board was present at the board of directors' meeting in which it took note of and discussed the following issues: i) Closure of the accounts for 2017 ii) Risk management; iii) Audit, compliance and conflicts of interest committee – CACI; iv) Organisation of the bank's internal structure and v) Strategic plan 2018/2020.

The supervisory board also regularly oversaw the bank's activity, examining to the extent considered necessary, the evolution of its equity and respective financial situation, having analysed the accounting information provided.

Adequate meetings with the external auditor to ensure the necessary level of comfort regarding the opinion to be issued were also held both by the former and the present supervisory board.

Opinion

The supervisory board has analysed the balance sheet, profit and loss account, statement of cash flows, statement of changes in shareholders' equity, statement of comprehensive income and their respective notes for 2017, which provide an appropriate description of the bank's economic-financial situation, as described in the external auditor's report which deals with the relevant audit matters focusing on the impairment losses on loans and advances to customers and valuation of property received on credit recovery operations.

As the most relevant indicators of the bank's activity, in 2017, the supervisory board highlights the main changes over 2016:

- Net assets were down by around 8% to CVe. 25,622 million, owing to:
  - A decrease in short term loans and advances;
  - A 6.9% decrease in overdue credit, improving the overdue credit ratio from 19.24% to 17.31% (excluding state securitised credit). Higher levels of credit impairment permitted a 3.48 pp increase in impairment cover on overdue credit.
- A decrease of around 10% in customer deposits, with an increase of around 19% in sight deposits and a decrease of around 25% in term deposits. The change essentially derives from the downwards revision of interest on deposits.
- The increase of around 4% in lending and decrease in deposits permitted an increase of around 8.5 pp in the loans-to-deposits ratio to 67.3%.
- Total operating income was up by around 30% (CVe. 215 million), owing to the significant 22.6% decrease in financial costs, increase in the recovery of overdue interest and increased lending.
- Structural costs were up 6.6% to CVe. 627.4 million.
- The increase in total operating income helped to improve the cost-to-income ratio to 66.96% in December 2017 against 81.53% in December 2016.
- Net profit was up CVe. 44.6 million to CVe. 54.3 million.

In conformity with the above and as the financial statements provide an adequate comprehension of the bank's financial situation and that the accounting policies and measurement criteria are in conformity with the International Financial Reporting Standards, that the board of directors' report provides a sufficiently clear account of the bank's activities in 2017 and that the proposal for the appropriation of results does not contravene the applicable legal and statutory dispositions and appears to be adequate for the improvement of the bank's financial ratios, the supervisory board considers that the general meeting of shareholders:

a) Should approve the board of directors' report and financial statements for 2017 as submitted by the board of directors;

b) Should approve the proposed appropriation of results.

The supervisory board, lastly, wishes to express its gratitude for all of the collaboration provided by the executive committee and the bank's services and external auditors.

Praia, 9 March 2018

CHAIRMAN OF THE SUPERVISORY BOARD

José Liberato

SUPERVISORY BOARD MEMBER

José Mário de Sousa

SUPERVISORY BOARD MEMBER

Elsa Tavares

Banco Interatlântico

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