

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

**Financial Statements at December 31,
2010, and accompanying Audit Report**

INDEPENDENT AUDITORS' REPORT

(Amounts expressed in thousands of Cape Verdean Escudos – tCVE)

Introduction

1. We have audited the accompanying financial statements of the Caixa Económica de Cabo Verde, S.A. (“Caixa”), which comprise the Balance Sheet as at December 31, 2010, evidencing a total of tCVE 36.729.205 and owner equity of tCVE 3.325.780, including net earnings of tCVE 378.942, the Statement of Comprehensive Income, the Statement of changes in equity and cash flows for the year then ended, as well as the corresponding Annexes (Notes 1 through 34).

Responsibilities

2. The Executive Board of the Caixa is responsible for the preparation and fair presentation of financial statements that are free from material misstatement, reflecting the actual financial position of the Caixa, results and comprehensive income, changes in its equity and cash flows, in accordance with the International Financial Reporting Standards (IFRS), as well as for the adoption of adequate policies and accounting criteria and maintenance of relevant internal controls. Our responsibility is to express a professional and independent opinion on these financial statements based on our audit.

Scope

3. Our audit works were conducted in accordance with the Technical Standards and Reviewing/Auditing Guidelines of the Portuguese Institute of Chartered Accounts, which require that the audit works be planned and performed with the aim of obtaining reasonable assurance about whether the financial statements are free from material misstatement. This audit includes the examination, on a test basis, of evidence supporting the amounts and disclosures of financial statements, and assessment of the estimates based on judgments and criteria defined by the Board of Directors and used in their preparation. This examination also included an assessment of the adequacy of the accounting policies adopted and their disclosure taking into account individual circumstances, verifying the applicability of the principle of business continuity and assessment of the adequacy of the overall presentation of the financial statements. We believe that the audit evidence we have obtained provides an acceptable basis for our audit opinion.

Opinion

4. In our opinion, the financial statements referred to in paragraph 1 above give a true and fair view, in all aspects materially relevant, of the financial position of the Caixa Económica de Cabo Verde, S.A. as of 31 December 2010, as well as the results and the comprehensive income of its operations, the changes in its owner equity and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Emphases

5. As described in Note 13, on December 31, 2010, the Caixa recorded subsidies receivable and claimed since 2004 in the amount of tCVE. 485.142 (tCVE 387.849 as at December 31, 2009). In the financial year of 2010, the Caixa received from the Directorate-General of the Treasury the preliminary report of an external audit focusing on the regime of subsidized credit intended to determine the value of the Government debt with the Caixa related to interest rate subsidies, which questions the eligibility of a series of transactions for a sample of subsidized loans granted since 1994. The Caixa disagreed with the findings of this report and, as advised by the Directorate-General of the Treasury, the said values of claimed subsidies cannot be confirmed until the contradictory comments sent by the Caixa are finally resolved. It is the understanding of the Board of Directors of the Caixa that the amounts claimed are properly supported and in accordance with the legal provisions in force, and therefore considers the subsidies receivable as fully recoverable.
6. The financial statements for the year ended December 31, 2009 are presented for comparative purposes. The Audit Report on the same, dated May 31, 2010, includes emphases on the matter described in paragraph 5 above and on the impact of adoption of the International Financial Reporting Standards in 2009.

Lisbon, March 25, 2011

Deloitte & Associados, SROC S.A.
Represented by João Carlos Henriques Gomes Ferreira

CAIXA ECONÓMICA DE CABO VERDE, S.A.

BALANCE SHEETS ON DECEMBER 31, 2010 AND 2009

(Amounts expressed in thousands of Cape Verdean Escudos)

ASSETS	Notes	2010			2009	LIABILITIES AND OWNER EQUITY	Notes	2010	2009
		Gross Assets	Provisions, impairment & depreciation	Net Assets	Net Assets				
Cash and deposits at central banks	3	4.791.318	-	4.791.318	5.219.191	Resources from Central Banks	14	-	250.000
Deposits in other credit institutions	4	315.138	-	315.138	694.123	Resources from other credit institutions	15	1.067.393	866.371
Financial assets available for sale	5	4.023	(200)	3.823	3.823	Customer funds and other loans	16	31.911.402	28.113.610
Investment with credit institutions	6	1.169.958	-	1.169.958	329.531	Provisions	17	50.002	59.904
Loans to customers	7	30.076.164	(1.767.324)	28.308.840	24.770.081	Current tax liabilities	12	111.866	85.457
Investment properties	8	17.730	(3.291)	14.439	14.353	Deferred tax liabilities	12	4.616	6.155
Other tangible assets	9	2.037.507	(715.796)	1.321.711	1.112.871	Other liabilities	18	258.146	250.561
Intangible assets	10	237.632	(216.378)	21.254	46.726	Total liabilities		33.403.425	29.632.058
Investment in subsidiaries, assoc. companies & joint ventures	11	101.950	-	101.950	43.476	Capital	19	1.392.000	1.392.000
Current tax assets	12	9.582	-	9.582	10.107	Other reserves and retained earnings	20	1.554.838	1.522.801
Deferred tax assets	12	39.880	-	39.880	53.174	Profit for the year	20	378.942	307.653
Other assets	13	657.771	(26.459)	631.312	557.056	Total equity		3.325.780	3.222.454
Total assets		39.458.653	(2.729.448)	36.729.205	32.854.512	Total liabilities and owner equity		36.729.205	32.854.512

The accompanying notes are an integral part of these financial statements

CAIXA ECONÓMICA DE CABO VERDE, S.A.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED

DECEMBER 31, 2010 AND 2009

(Amounts expressed in thousands of Cape Verdean Escudos)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Interest and similar income	21	2.623.347	2.345.716
Interest and similar charges	22	(850.990)	(777.155)
NET INTEREST INCOME		<u>1.772.357</u>	<u>1.568.561</u>
Income on service and commissions	23	180.831	198.822
Charges for service and commissions	23	(39.848)	(26.230)
Results for foreign exchange revaluation	24	128.695	104.126
Results from the sale of other assets	25	2.757	905
Other operating income	26	55.292	53.048
BANKING PRODUCT		<u>2.100.084</u>	<u>1.899.232</u>
Employee costs	27	(519.704)	(483.474)
General administrative expenses	28	(496.484)	(506.234)
Depreciation	8, 9 e 10	(134.636)	(156.497)
Provisions net of reversals and recoveries	17	(14.252)	(19.165)
Loan Impairment net of reversals and recoveries	17	(434.066)	(335.242)
Income from associated companies	11	1.621	6.245
INCOME BEFORE TAXES		<u>502.563</u>	<u>404.865</u>
Taxes			
Current	12	(111.866)	(85.457)
Deferred	12	(11.755)	(11.755)
		<u>(123.621)</u>	<u>(97.212)</u>
Income and comprehensive income for the year		<u><u>378.942</u></u>	<u><u>307.653</u></u>
Average number of ordinary shares issued		1.392.000	725.556
Earnings per share		0,27	0,42

The accompanying notes are an integral part of these financial statements.

CAIXA ECONÓMICA DE CABO VERDE, S.A.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED

31 DECEMBER 2010 AND 2009

(Amounts expressed in Cape Verdean Escudos)

	2010	2009
<u>Cash flows from operating activities</u>		
Receipt of interest and commissions	2.804.178	2.443.948
Payment of interest and commissions	(890.838)	(803.385)
Other receivable/payable relating to operating activities	182.724	290.733
Payments to staff and suppliers	(1.016.188)	(989.708)
Payments of income taxes	(84.932)	(63.627)
Operating profits before changes in operating assets	<u>994.944</u>	<u>877.961</u>
(Increases) decreases in operating assets:		
Investments with credit institutions	(840.427)	111.173
Loans to customers	(3.972.825)	(2.925.085)
Other assets	(85.617)	(116.936)
	<u>(4.898.869)</u>	<u>(2.930.848)</u>
Increases (decreases) in operating liabilities:		
Resources from Central Banks and other credit institutions	(48.978)	519.241
Customer funds	3.797.792	672.241
Other liabilities	(3.914)	26.685
	<u>3.744.900</u>	<u>1.218.167</u>
Cash net of operating activities	<u>(1.153.969)</u>	<u>(1.712.681)</u>
<u>Cash flows from investment activities</u>		
(Increases) decreases in investment assets:		
Investment in subsidiaries, associated companies & joint ventures	(56.853)	-
Intangible assets	(5.872)	(15.018)
Other tangible assets	(312.132)	(612.944)
Investment properties	(116)	(547)
Proceeds from the sale of tangible assets	2.756	905
Cash net of investment activities	<u>(372.217)</u>	<u>(627.604)</u>
<u>Cash flows from financing activities</u>		
Capital increase	-	1.044.000
Dividends	(275.616)	(139.200)
Cash net of financing activities	<u>(275.616)</u>	<u>904.800</u>
Increase (decrease) net of cash and cash equivalents	(806.858)	(557.524)
Cash and cash equivalents at beginning of year	5.913.314	6.470.838
Cash and cash equivalents at end of year	5.106.456	5.913.314

The accompanying notes are an integral part of these financial statements.

CAIXA ECONÓMICA DE CABO VERDE, S.A.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER, 2010 AND 2009

(Amounts expressed in thousands of Cape Verdean Escudos)

	Capital	Other reserves and retained earnings			Results for the year	Total
		Legal Reserve	Other Reserves	Retained earnings		
Balances at December 31, 2008 - proforma	348.000	270.948	1.295.546	(136.025)	231.532	2.010.001
Capital increase	1.044.000	-	-	-	-	1.044.000
Distribution of income for the year 2008:					-	
Incorporation in reserves	-	27.257	106.112	-	(133.369)	-
Dividends	-	-	-	-	(139.200)	(139.200)
Retained earnings	-	-	-	(41.037)	41.037	-
Comprehensive income for the year	-	-	-	-	307.653	307.653
Balances at December 31, 2009	1.392.000	298.205	1.401.658	(177.062)	307.653	3.222.454
Distribution of income for the year 2009:						
Incorporation in reserves	-	30.765	1.272	-	(32.037)	-
Dividends	-	-	-	-	(275.616)	(275.616)
Comprehensive income for the year	-	-	-	-	378.942	378.942
Balances at December 31, 2010	1.392.000	328.970	1.402.930	(177.062)	378.942	3.325.780

The accompanying notes are an integral part of these financial statements.

1. INTRODUCTORY NOTE

The Caixa Económica de Cabo Verde, S.A. (Caixa) is a banking and credit institution converted into a limited liability company by the Decree-Law No. 54/93, of August 31. Within the scope of the privatization process of financial institutions and public owned financial corporations as stipulated by the Resolution No. 46/99, dated September 27, of the Council of Ministers, the Group comprising the Caixa Económica Montepio Geral S.A., IMPAR (Capeverdean Insurance Company), and a Local Group including a set of 51 national entrepreneurs and staff held the majority of Caixa's shareholding until September 2009. Henceforth, the Geocapital, Sociedade de Gestão e Participação, SA, purchased the shares of the Caixa Económica Montepio Geral S.A. and Montepio Geral – Associação Mutualista (Note 19).

The capital of the Caixa is represented by 1.392.000 shares, 90% of which are listed on the Stock Exchange of Cape Verde (Bolsa de Valores de Cabo Verde).

The Caixa aims at exercising any banking activities and operations legally authorized to banks and may also acquire interests in corporations with different purpose, companies governed by special laws, and complementary groups of companies.

The Caixa has its headquarters in the city of Praia, Republic of Cape Verde, featuring a network of 29 agencies to carry out its operations.

The financial statements of the Caixa on December 31, 2010 have been approved by the Executive Board on February 18, 2011, and are pending approval by the General Assembly. However, the Executive Board expects them to be approved without any significant changes.

2. SUMMARY OF MAJOR ACCOUNTING POLICIES

2.1. Basis of presentation

The financial statements of the Caixa were prepared under the assumption of business continuity, based on the accounting books and records kept in accordance with the principles enshrined in the International Financial Reporting Standards (IFRS), pursuant to Notice No. 2/2007, of November 19, issued by the Banco de Cabo Verde.

Up to December 31, 2008, the financial statements of the Caixa were prepared in accordance with the principles contained in the Chart of Accounts for the Banking System approved by Notice No. 6/94, of July 19, with the amendments introduced by the Decree-Law No. 39/2003, of October 20, and Notice No. 4/2004, of December 27, issued by the Banco de Cabo Verde. In the year ended December 31, 2009, the Caixa presented for the first time its financial statements according to the IFRS, being the impact on the transition date explained in Note 33. In line with Standard IFRS 1, the financial statements at December 31, 2009 and 2008 submitted for comparative purposes (pro-forma financial statements) were developed and restated under the rules in force on December 31, 2009.

2.2. Accounting policies

a) Accruals

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

b) Conversion of balances and transactions in foreign currency

The assets and liabilities denominated in foreign currencies are converted into Cape Verdean Escudos at the average Exchange rate of the Caixa on the last working day of each month. Exchange differences on currency conversion are reflected in the income statement, except for those caused by non-monetary financial instruments such as equities classified as available for sale, which are recorded in equity until disposal.

In the years 2010 and 2009, the exchange rate of the Cape Verdean Escudo against the Euro continued fixed at 1 Euro/110,265 Cape Verdean Escudos. On December 31, 2010 and 2009, the exchange rate against the U.S. dollar (USD) was as follows:

	<u>2010</u>	<u>2009</u>
1 USD	83,178	75,936

c) Financial Instruments

i) Financial Assets

Financial assets are recorded on the contract date at their fair value plus the costs directly attributable to the transaction. The Caixa has no “trading” assets or other assets recorded at fair value through profit or loss, and thus at the time of initial recognition the financial assets were classified under one of the following categories defined in Standard IAS 39:

a) Loans and Receivables

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

On initial recognition, these assets are recorded at their fair value, less any commissions included in the effective rate, and plus all incremental costs directly attributable to the transaction. Subsequently, these assets are recognized on the balance sheet at amortized cost, less any impairment losses.

Recognition of interest

Interest is recognized based on the effective rate method, which allows calculating the amortized cost and allocate the interest over the period of the transactions. The effective rate is the one which, being used to discount the estimated future cash flows associated with the financial instrument, allows to even its present value to the value of the financial instrument on the date of initial recognition.

Write off of principal and interest

Pursuant to the policies in force at the Caixa, interests on overdue loans are written off on the date on which the operation becomes due or of the first overdue installment. Interest not reported on the claims referred to above is only recognized in the year it will be charged and is recorded in the item "Interest and similar income". Up to December 31, 2009, any recovery of interest would be reflected under "Other operating income". Following the amendment made, the balance of 2009 in the amount of tCVE 100.590 was restated so as to ensure comparability with the year 2010.

Periodically, the Caixa writes off from the assets its cash loans deemed irrecoverable by using the impairment constituted under the terms defined in Notice No. 4/2006 of the Banco de Cabo Verde. Any recovery of loans written off is reflected in the income statement under "Credit impairment". Up to December 31, 2009, any recovery of loans written off was reflected in "Other operating income". Following the amendment made, the balance of the year 2009 in the amount of tCVE 32.969 was restated so as to ensure comparability with the year 2010.

b) Financial assets available for sale

Financial assets available for sale, which correspond to shares in companies, should be measured at fair value, except for equity instruments not listed in an active market and whose fair value cannot be reliably measured, which remain recorded at cost. Gains or losses arising from revaluation are recorded directly in equity under "Revaluation reserves". At the time of sale, or if impairment is determined, the accumulated changes in fair value are transferred to the income or expenditure for the year, being recorded under "Results of financial assets available for sale" or "Impairment of other financial assets, net of reversals and recoveries", respectively.

On December 31, 2010 and 2009 the assets available for sale represent unlisted assets whose fair value could not be reliably measured, and thus the Caixa kept these assets at historical cost.

Dividends and other income from equity instruments in this class are recorded as income under the caption "Income from equity instruments" whenever the Caixa is entitled to these receivables.

d) Impairment of financial assets

Financial assets at amortized cost

The Caixa carries out regular reviews to impairment of its financial assets recorded at amortized cost, in particular loans and receivables.

The identification of signs of impairment is done on an individual basis for financial assets in which the exposure is individually significant and on a collective basis for assets available whose outstanding balances are not individually relevant.

The following events may be an indication of impairment:

- Breach of contract terms, including delays in payment of interest or principal;
 - Occurrence of events of default in the financial system;
 - Existence of operations resulting from loan restructuring or ongoing negotiations for credit restructuring;
 - Difficulties in terms of the ability of shareholders and management, particularly as regards the withdrawal of key shareholders or main staff members, and disagreements between shareholders;
 - Significant financial difficulties of the debtor or debt issuer;
 - Existence of a high probability of bankruptcy of the debtor or debt issuer;
 - Decrease of the competitive position of the debtor;
- Historical behavioral of the collections that leads to the conclusion that the nominal value will not be fully recovered.

The Caixa performs an individual analysis of the customers presenting responsibilities over tCVE 50.000 or default events for more than 180 days.

Where indications of impairment are identified in individually analyzed assets, any impairment loss is the difference between the present value of future cash flows expected to be received (recoverable amount), discounted at the rate of the asset's original effective interest rate, and the value in the balance sheet at the time of such analysis.

The assets that were not specifically examined are included in a collective impairment analysis, and, to this effect were classified into homogeneous groups with similar risk characteristics (e.g. based on the characteristics of the parties and the type of credit). The future cash-flows were estimated based on historical information on defaults and recoveries on assets with similar characteristics.

To this end, the Caixa has defined the following segments in its loan portfolio:

- Loans to companies
- Mortgage loans
- Other loans to individuals
- Guarantees

In addition, the assets individually assessed and for which no objective evidence of impairment was identified were also subject to collective evaluation of impairment, as described above.

Impairment losses calculated in the collective analysis incorporate the time effect of discounting the cash flows estimated to be received in each transaction at the date of the balance sheet.

Impairment for claims on the government of Cape Verde (including government bonds), public companies or municipalities, or guaranteed by these entities, is not recorded.

The amount of impairment found is recognized in costs under the caption "Impairment of other financial assets net of reversals and recoveries", and reflected on the balance sheet separately as a deduction from the amount of the claim it respects to.

Financial assets available for sale

For these financial assets, namely unlisted equity instruments whose fair value cannot be reliably measured, the Caixa performs periodic impairment testing. In this context, the recoverable amount represents the best estimate of future flows to receive from the asset, discounted at a rate that appropriately reflects the associated risk.

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

e) Financial liabilities

Financial liabilities are recorded on the contract date at their fair value, less cost directly attributable to the transaction. Financial liabilities include funds of credit institutions and customers and payment incurred with the provision of services or purchase of assets, recorded in "Other liabilities".

Sales transactions with repurchase agreements, including Treasury Bonds and Treasury Bills, are recorded under "Customer funds and other loans" and the respective securities are recorded in the portfolio of the Caixa.

Financial liabilities are valued at amortized cost and, where applicable, interest is recognized in accordance with the effective rate method.

f) Assets received through credit recovery

The properties and other assets auctioned through the recovery of overdue loans, which are not available for immediate sale, are recorded at the auction value when the respective court proceedings are concluded under the heading "Other assets".

These assets are not amortized. Periodical assessments of the properties received for debt recovery are conducted. If the assessed value, less the estimated costs to be incurred with the sale of the property, is less than the book value, impairment losses are recorded. In determining the impairment, the Caixa also considers the age of the properties in the portfolio.

Following the sale of the auctioned properties, they are written off and the gains or losses are recorded under "Other operating income and costs".

g) Investment properties

Investment properties are those held for the purpose of obtaining income through lease and/or their valuation.

Investment properties are recorded at acquisition cost, less accumulated depreciation and impairment losses.

Depreciation is calculated and recorded as an expense in "Yearly depreciation" over an estimated useful life of 60 years.

h) Other tangible assets

These assets are recorded at the acquisition cost less accumulated depreciation and impairment losses. The cost of repair, maintenance and other expenses associated with their use are recognized as cost of the financial year, under the heading “General administrative expenses”.

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

	<u>Years of Useful life</u>
Buildings for own use	60
Equipment:	
Office material and furniture	8
Tools and equipment	5 - 6
Computer equipment	5
Indoor facilities	4 - 5
Transport material	4 - 6
Safety equipment	5 - 12
Other equipment	6

Land is not depreciated.

Expenditure on works and improvement in buildings occupied by the Caixa as lessee under operating lease are capitalized in this caption and usually amortized over a period of 10 years.

Depreciation is recorded in operating costs.

Analysis is periodically performed to identify evidence of impairment on tangible assets in accordance with Standard IAS 36 – “Impairment of Assets”. Where the net book value of tangible assets exceeds their recoverable amount (greater between use value and fair value), an impairment loss is recognized which reflects in the income statement under “Impairment of other assets”. Impairment losses can be reversed, also with an impact on the income, if subsequently an increase in the recoverable value of the asset is found.

The calculation of depreciation takes into account an estimation of the residual value of the equipment, especially for vehicles.

The Caixa periodically assesses the adequacy of the estimated useful lives for its tangible assets.

i) Intangible assets

This item essentially comprises the costs with the acquisition, development or preparation for use of software used in developing the activities of the Caixa.

Intangible assets are recorded at acquisition cost, less accumulated depreciation and impairment losses.

Depreciation is recorded as costs on a systematic basis over the estimated useful life of the assets, which corresponds to a period of 3 years.

The costs of software maintenance are recorded as costs in the year they are incurred.

j) Investments in subsidiaries, associated companies and joint ventures

This item includes investments in companies over which the Caixa has significant influence, but no effective control over their management ("associated companies"). It is assumed that there is significant influence when the participation of the Caixa stands between 20% and 50% of the capital or voting rights, or, if less than 20%, the Caixa is a member of the managing board and exercises direct influence on the definition of the relevant policies of the company.

These assets are recorded by the equity equivalent method. According to this method, shares are initially valued at acquisition cost, which is then adjusted based on the actual percentage of the Caixa on variations in equity (including results) of the associated companies.

k) Tax on Profit

On December 31, 2010 and 2009, the Caixa is subject to the Single Income Tax (IUR) at the rate of 25%, and a fire rate of 2% on the tax calculated, which corresponds to an aggregated tax rate of 25.5%.

Current tax

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

Deferred tax

Total tax on profit includes current tax and deferred tax.

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

Deferred tax liabilities are generally recorded for all taxable temporary differences while deferred tax are only recognized up to the amount in which the existence of future taxable income to enable the use of the corresponding deductible tax differences or reporting tax losses is likely. Additionally, deferred tax are not recorded where their recoverability may be questionable due to other situations, such as issues of construal and interpretation of the tax legislation in force.

Despite the above, deferred tax related with temporary differences arising from the initial recognition of assets and liabilities in transactions which do not affect the accounting result or the taxable profit is not recorded.

The main conditions that result in temporary differences at the Caixa are the impacts of adopting the IFRS.

Deferred taxes are calculated using the tax rates anticipated to be in force on the date of reversion of the temporary differences, which correspond to the rates enacted or substantially adopted on the date of the balance sheet.

Taxes on income (current or deferred) are reflected in the income statement, except in cases where the transactions that originated them have been reflected in other equity items (e.g. in the case of revaluation of financial assets available for sale). Under these circumstances, the corresponding tax is also reflected in return for equity, not affecting the results for the year.

l) Provisions and contingent liabilities

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

If it is not likely the future expenditure of resources, then it concerns a contingent liability. Contingent liabilities are only disclosed when the possibility of their execution is remote.

m) Employee benefits

The liabilities for employee benefits are recognized in accordance with the principles established by Standard IAS 19 – “Employee Benefits”.

The productivity bonuses paid to employees for their performance are reflected in “Staff costs” in the period concerned, in accordance with the principle of accruals.

Additionally, the Caixa has not assumed any responsibility regarding payment of pensions and other post-employment benefits to its employees, which are covered by the general social security system.

n) Comissions

Commissions on credit operations, which are essentially fees for opening and managing credit, are recognized by applying the effective rate method over the life period of operations, regardless of when they are charged or paid.

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

The commissions for services rendered are recognized as income over the period of service or at once if they correspond to a compensation for the execution of single acts.

o) Securities held in escrow

The amounts received in escrow, including the securities of customers, are recorded in off balance sheet items at the nominal value.

p) Cash and cash equivalents

For the preparation of the statement of cash flows, the Caixa considers as “Cash and cash equivalents” the total for the items “Cash and deposits at central banks” and “Investments with other credit institutions”.

q) Critical accounting estimates and most relevant judgments in the application of the accounting policies

In applying the accounting policies described above, the Executive Board of the Caixa is bound to perform estimates. Estimates of major impact in the financial statements of the Caixa include those presented below.

Determination of impairment losses on loans granted

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

The determination of impairment by collective analysis is performed based on historical parameters for certain types of comparable transactions, taking into account estimates of default and recovery.

The Caixa believes that the impairment determined based on this methodology allows to adequately reflect the risk associated with its loan portfolio, taking into consideration the guidelines defined by Standard IAS 39.

Determination of income taxes

Taxes on income (current and deferred) are determined by the Caixa pursuant to the rules defined by the tax regime in force. However, in some situations tax laws may not be sufficiently clear and objective and lead to the existence of different interpretations. In these cases, the values recorded result from a better understanding of the bodies of the Caixa on the proper framework for its operations which is however likely to be questioned by the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
(Amounts expressed in thousands of Cape Verde Escudos – tCVE.)

r) Adoption of the new Standards (IAS/IFRS) or review of already issued regulations

As mentioned in Note 2.1, in preparing the financial statements the Caixa used the Standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are relevant to its operations and effective for the period starting on January 1, 2010.

For the very first time, in the year ended on December 31, 2010, the following standards, interpretations, amendments and reviews were adopted as mandatory for the financial years starting on or after January 1, 2010:

Standard/Interpretation	Date of effectiveness (financial years beginning on or after)	
NEW OR REVIEWED STANDARDS AND INTERPRETATIONS:		
IFRS 3 – Concentration of business activities / IAS 27 – Consolidated and separated financial statements (Review)	1-Jul-09	This review introduces a few alterations in entering the concentration of business activities, namely in what concerns: (a) the measurement of non-controlling interests (previously called minority interests); (b) the recognition and subsequent measurement of contingent payments; (c) the handling of direct costs related to merging, and (d) the recording of transactions for the purchase of interests in already controlled entities and sale of interests that would not result in loss of control over the entity, and (e) calculation of the result of sale of stake with loss of control and need for remeasurement of the retained interests in divested participation.
IAS 28 – Investments in associated companies (Review)	1-Jul-09	The principles described above and adopted for IAS 27 (2008) as for the assessment of the result of sale are extended to IAS 28.
IFRIC 17 – Distribution to owners of assets that are not cash	1-Jul-09	This interpretation offers guidelines on proper accounting of assets that are not cash, distributed to the shareholders as dividends.
IFRIC 18 – Transfer of assets from customers	1-Jul-09	This interpretation provides guidance on accounting, by operators, of tangible fixed assets from customers.
AMENDMENTS:		
IAS 39 – Financial Instruments: recognition and measurement (Amendments)	1-Jul-09	This clarifies the application of hedge accounting for the inflation component of financial instruments and option contracts, when used as hedging instruments
IFRS 2 – Amendment (Share payment transactions between entities within the same	1-Jan-10	This amendment clarifies some aspects related with payment based on shares financially settled within a business group.

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group)

IAS 32 – Amendment (Classification of issuing rights)	1-Fev-10	This amendment clarifies the conditions under which the rights issued can be classified as equity instruments.
IFRS 1 – Amendments (Additional exemptions)	1-Jan-10	This amendment includes an additional set of exemptions in the retrospective application, particularly in terms of assets resulting from the exploitation of mineral resources, and decommissioning responsibilities and application of the requirements of IFRIC 4.

Applying these standards had no material effect on the financial statements of the Caixa on 31 December 2010.

The following standards, interpretations, amendments and revisions, of compulsory enforcement in future financial years, are available for early adoption as of the date of approval of these financial statements.

NEW OR REVIEWED STANDARDS OR INTERPRETATIONS

Standard/Interpretation	Date of effectiveness (financial years beginning on or after)	
IAS 24 - "Related entities" (amended)	1-Jan-11	This review brings some clarifications related to the disclosures to be made from related parties, in particular with respect to entities related to public administration.
IFRS 9 – "Financial instruments" (Amended)	1-Jan-13	<p>This legislation represents the first phase of the ongoing changes to IAS 39 – "Financial Instruments. Classification and measurement" and IFRS 7 – "Financial instruments: Disclosures". The text of the new standard introduces changes to the current criteria for classifying and measuring financial assets, most notably:</p> <p>a) Debt instruments not held for trading which are held for the purpose of receiving the contractual flows of principal and interest on the initial investment amount should be recorded at amortized cost. Debt instruments not fitting these characteristics should be recorded at fair value through profit or loss for the year;</p> <p>b) Equity instruments should be recorded at fair value through profit or loss and there is an option available for the irrevocable designation of these instruments not held for trading at the time of their initial recognition, to record at fair value through capital. The use of this option determines that the subsequent valuation of the instrument (including realized gains on sales but excluding dividends received) be fully recognized against the caption Reserves;</p> <p>c) The framework for the classification and measurement of financial assets with embedded derivatives should be carried out by considering</p>

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the totality of characteristics of the instrument, being no longer possible to separate the derivate and the host contract.

d) On 28 October 2010, the IASB introduced changes to IFRS 9, by including new accounting requirements for financial liabilities and transposing to the IFRS 9 the requirements of IAS 39 of recognition and derecognizing of financial assets and liabilities. The Classification and Measurement of financial liabilities remain (generally) from the provisions of IAS 39, excluding the effect of own credit risk.

IFRIC 19 – Settlement of liabilities by issuing equity instruments 1-Jul-10

The present interpretation provides guidance on the accounting treatment of transactions in which the terms of a financial liability are renegotiated and result in issuing owner equity instruments in favor of a creditor, with the consequent extinction of all or part of such financial liability.

AMENDMENTS:

IFRIC 14 and IAS 19 – Amendment (The limit on a defined benefit asset, minimum funding requirements and their interaction” 1-Jan-11

Clarifies the composition and accounting handling of minimum funding requirements of employee benefit liabilities associated with future services.

IFRS 7 – Amended (Disclosure of financial instruments) 1-Jul-11

This amendment aims to ensure high quality disclosure of financial assets that have been transferred but continue to be, even partially recorded in the accounts because they do not meet the criteria for derecognizing; and financial assets that were derecognized because they meet the criteria but the entity continues to have some involvement. This amendment seeks to further clarify the situations in which an entity carries out transactions involving transfers of assets of very significant amounts, close to the end of the reporting periods, in order to achieve a particular aim in the financial statements (window dressing).

IAS 12 – Amended (Deferred Tax. Underlying asset recovery) 1-Jan-12

The purpose of the amendments is to allow an exception to the principle that the measurement of liabilities and assets through deferred tax should reflect the way in which the entity expects to recover or settle the book value of its assets and liabilities. The proposed amendment allows, under certain circumstances, the measurement of liabilities and assets through deferred tax, thus reflecting an assumption that the book value of the underlying asset will be fully recovered through sale.

Though approved by the IASB, these standards have not been adopted by the Caixa in the year ended December 31, 2010, since their enforcement is not yet binding. No significant impacts are anticipated on the financial statements resulting from its adoption.

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3. CASH AND DEPOSITS AT CENTRAL BANKS

This item has the following composition:

	2010	2009
Cash	1.681.148	1.406.037
Demand deposits at the Banco de Cabo Verde	3.110.170	3.813.154
	<u>4.791.318</u>	<u>5.219.191</u>

Demand deposits opened at the Banco de Cabo Verde are intended to meet the requirements of minimum cash reserves. In accordance with the provisions of the Banco de Cabo Verde, these liquid assets should correspond to 16% (14% up to February 19, 2009) of the average effective liquid assets in national and foreign currency for residents and emigrants.

These deposits are not remunerated.

4. DEPOSITS AT OTHER CREDIT INSTITUTIONS

This item has the following composition:

	2010	2009
Demand deposits:		
With credit institutions in the country		
. BCA	5.630	14.304
. Ecobank	913	-
With credit institutions abroad		
. Montepio Geral	125.214	45.582
. Banque et Caisse D'Espargne de L'Etat	96.869	278.330
. ABN AMRO Bank	9.211	3.319
. Caixa Geral de Depósitos	4.693	5.738
. Banco Espírito Santo	2.474	6.614
. Commerzbank	1.969	9.397
. Banco Português de Investimento	1.441	3.467
. Marine Midland Bank	-	137.366
. Other	30.326	74.155
	<u>278.740</u>	<u>578.272</u>
Values to recover:		
On the country	34.486	92.742
Abroad	1.098	22.760
	<u>35.584</u>	<u>115.502</u>
Other liquid assets	814	349
	<u>315.138</u>	<u>694.123</u>
	-	-

The values to recover are related to checks on customers of other banks sent for clearing. These amounts are collected in the early days of the subsequent financial year.

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5. FINANCIAL ASSETS AVAILABLE FOR SALE

On December 31, 2010 and 2009, equity instruments and debt securities classified as financial assets available for sale are composed as follows:

Security	Aquisition cost	Impairment (Note 17)	Balance Sheet value (net)
<u>Equity instruments valued at historical cost</u>			
West African Regional Guarantee Fund (GARI Fund)	3.823	-	3.823
<u>Debt securities valued at historical value</u>			
Portuguese Government Bonds	200	(200)	-
	<u>4.023</u>	<u>(200)</u>	<u>3.823</u>

The Caixa kept the Portuguese government bonds recorded at historical cost and there is an impairment amount of TCVE 200 to reduce the book value to its estimated realizable value.

The participation in the GARI Fund as compared to its reduced book value was recorded at historical cost.

6. INVESTMENTS IN CREDIT INSTITUTIONS

This item presents the following composition:

	2010	2009
Investment with credit institutions in the country:		
At Banco de Cabo Verde		
TRM - Short term open market security - 14 days	500.000	150.000
TIM - Short term open market security - 30, 60 or 90 days	500.000	-
Investment with credit institutions abroad:		
Security deposits	110.678	145.812
Time deposits	60.646	33.805
Interest receivable	262	-
Deferred income	(1.628)	(86)
	<u>1.169.958</u>	<u>329.531</u>

On December 31, 2010 and 2009, the heading “Investment with credit institutions abroad – security deposits” refers to guarantees in the form of deposits provided by the Caixa at other credit institutions as collateral for documentary credits issued by these entities to Caixa’s customers. These deposits are not remunerated, being refunded upon settlement of the related documentary credit.

On December 2010 and 2009, term deposits and security deposits indicate the following composition per credit institution:

	2010	2009
Banque et Caisse D'Espargne de L'Etat	168.871	142.030
Montepio Geral	2.453	33.105
Other	-	4.482
	<u>171.324</u>	<u>179.617</u>

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7. LOANS TO CUSTOMERS

This item presents the following composition:

	2010	2009
Short term domestic credit:		
Trade discounts	1.392.544	778.126
Loans	1.584.875	1.465.474
Overdrafts on demand deposits	377.538	519.701
Mid and long term domestic credit:		
Loans	18.128.434	15.234.277
Other credit	777.526	1.092.115
	<u>22.260.917</u>	<u>19.089.693</u>
Other loans and receivables (securitized):		
State bonds	2.251.980	1.979.250
Other fixed income securities	1.539.969	1.205.364
Credit to employees	686.618	594.993
	<u>26.739.484</u>	<u>22.869.300</u>
Interest receivable	106.196	114.509
Deferred costs	7.121	6.077
Deferred income	(254.389)	(208.922)
Overdue credit and interest	3.477.752	3.474.219
	<u>30.076.164</u>	<u>26.255.183</u>
Impairment of loans to customers (Note 17)	(1.767.324)	(1.485.102)
	<u><u>28.308.840</u></u>	<u><u>24.770.081</u></u>

On December 31, 2010 and 2009, the item “Other loans and receivables – State Bonds” is entirely composed of government bonds paid at a fixed interest rate, except for tCVE 795.920 relating to a variable yield Treasury Bond to be repaid within 15 years, as from January 1, 2000. This security bears interest at the Euribor rate of 6 months, plus a spread of 1,5%. On December 31, 2010 and 2009, the coupon rate in force is of 2,74% and 2,49%, respectively.

On December 31, 2010 and 2009, the treasury bonds sold through a repurchase agreement amount to tCVE 8.350 and tCVE 259.934, respectively (Note 16).

On December 31, 2010 and 2009, the item “Other loans and receivables” includes the value of bonds of national companies categorized as “Loans and receivables”. These bonds are detailed as follows:

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Security	2010	2009	Maturity
<u>Other fixed yield securities</u>			
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Instalment A	176.766	176.766	14-06-2012
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Instalment B	147.088	147.088	14-06-2017
Electra - Empresa de Electricidade e Águas, S.A.R.L. - Instalment C	630.287	630.287	14-06-2027
Tecnicil - Sociedade Imobiliária de Construções, S.A.	200.000	200.000	06-08-2012
IFH - Imobiliária, Fundiária e Habitat, S.A. - Instalment B	283.814	-	14-09-2015
IFH - Imobiliária, Fundiária e Habitat, S.A. - Instalment A	31.252	31.252	05-01-2014
CVFF - Cabo Verde Fast Ferry, S.A.	50.791	-	14-10-2015
Sociedade de Gestão de Investimentos, Lda.	19.971	19.971	18-02-2014
	<u>1.539.969</u>	<u>1.205.364</u>	

The bonds issued by the Electra (Water and Electricity Company) and IFH (Real Estate, Land and Habitat) are endorsed by the State of Cape Verde.

On December 31, 2010 and 2009, loans granted to customers, excluding “Other loans and receivables – securitized” and related accrued interest had the following structure by sector of activity:

	2010			2009		
	Live loans	Overdue loans	Total	Live loans	Overdue loans	Total
Companies:						
Trade	1.071.213	337.134	1.408.347	1.176.696	215.529	1.392.225
Construction and public works	1.000.101	118.504	1.118.605	748.211	108.703	856.914
Transport	871.258	12.326	883.584	775.916	99.441	875.357
Industry	1.298.928	92.201	1.391.129	1.298.524	77.537	1.376.061
Hotels	809.497	231.758	1.041.255	721.313	25.836	747.149
Energy	245.669	-	245.669	302.418	-	302.418
Other	2.677.744	192.345	2.870.089	1.505.781	312.241	1.818.022
	<u>7.974.410</u>	<u>984.268</u>	<u>8.958.678</u>	<u>6.528.859</u>	<u>839.287</u>	<u>7.368.146</u>
Private:						
Housing	8.367.708	1.332.939	9.700.647	7.232.652	1.357.313	8.589.965
Other	6.605.417	1.160.545	7.765.962	5.923.175	1.277.619	7.200.794
	<u>14.973.125</u>	<u>2.493.484</u>	<u>17.466.609</u>	<u>13.155.827</u>	<u>2.634.932</u>	<u>15.790.759</u>
	<u>22.947.535</u>	<u>3.477.752</u>	<u>26.425.287</u>	<u>19.684.686</u>	<u>3.474.219</u>	<u>23.158.905</u>

Loans to employees on December 31, 2010 and 2009 are repaid at low interest rates.

8. INVESTMENT PROPERTIES

During the financial years ended December 31, 2010 and 2009, this item presented the situation below indicated:

	2010					
	Balance on 31-12-2009		Amortization	Adjustments	Balance on 31-12-2010	
	Gross value	Depreciation of fixed assets			Gross value	Depreciation of fixed assets
Land	12.750	-	-	-	12.750	-
Buildings	4.980	(3.377)	(30)	116	4.980	(3.291)
	<u>17.730</u>	<u>(3.377)</u>	<u>(30)</u>	<u>116</u>	<u>17.730</u>	<u>(3.291)</u>

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	2009					
	Balance on 31-12-2008			Balance on 31-12-2009		
	Gross value	Depreciation of fixed assets	Amortization	Adjustments	Gross value	Depreciation of fixed assets
Land	12.203	-	-	-	12.750	-
Buildings	6.292	(4.661)	(28)	-	4.980	(3.377)
	<u>18.495</u>	<u>(4.661)</u>	<u>(28)</u>	<u>-</u>	<u>17.730</u>	<u>(3.377)</u>

On December 31, 2010 and 2009, the investment properties had the following fair value:

	Net Value		Assessed value
	2010	2009	
Land	12.750	12.750	23.275
Buildings	1.689	1.603	30.400
	<u>14.439</u>	<u>14.353</u>	<u>53.675</u>

In the financial years ended December 2010 and 2009, the income resulting from the lease of these properties amounted to tCVE 128 and tCVE 149, respectively (Note 26).

9. OTHER TANGIBLE ASSETS

The items included in “Other Tangibles Assets” indicate the following position in the financial years of 2010 and 2009:

	2010						
	Balance on 31-12-2009		Additions	Amortization	Transfers	Sales and net reductions	Net value in 2010
	Gross value	Accumulated depreciation					
Buildings	257.995	(46.988)	-	(3.836)	11.002	-	218.173
Works in rented buildings	45.230	(20.702)	39	(2.685)	(11.002)	-	10.880
Equipment:							
Office equipment	119.029	(76.247)	1.687	(9.420)	458	-	35.507
Tools and equipment	196.112	(116.334)	5.931	(23.099)	4.515	-	67.125
Computer equipment	273.621	(193.824)	1.185	(32.968)	-	-	48.014
Indoor facilities	114.052	(84.234)	5.255	(11.221)	355	-	24.207
Transport equipment	116.193	(49.853)	780	(15.105)	(2.435)	(2.405)	56.847
Safety equipment	46.754	(24.632)	-	(4.534)	403	-	17.991
Other equipment	3.803	(2.151)	33	(394)	153	(24)	1.468
	<u>1.172.789</u>	<u>(614.965)</u>	<u>14.910</u>	<u>(103.262)</u>	<u>3.449</u>	<u>(2.429)</u>	<u>480.212</u>
Current assets	555.047	-	289.901	-	(3.449)	-	841.499
	<u>1.727.836</u>	<u>(614.965)</u>	<u>304.811</u>	<u>(103.262)</u>	<u>-</u>	<u>(2.429)</u>	<u>1.321.711</u>

	2009						
	Balance on 31-12-2008		Additions	Amortization	Transfers	Sales and net reductions	Net value in 2009
	Gross value	Accumulated depreciation					
Buildings	204.551	(43.723)	53.444	(3.362)	-	-	211.007
Works in rented buildings	35.341	(18.445)	9.889	(2.257)	-	-	24.528
Equipment:							
Office equipment	109.846	(67.311)	9.450	(9.203)	-	-	42.782
Tools and equipment	167.688	(94.152)	28.736	(22.494)	-	-	79.778
Computer equipment	252.007	(154.645)	21.669	(39.234)	-	-	79.797
Indoor facilities	102.015	(73.300)	12.037	(10.934)	-	-	29.818
Transport equipment	79.131	(39.204)	39.912	(13.499)	-	-	66.340
Safety equipment	38.134	(20.666)	8.620	(3.966)	-	-	22.122
Other equipment	3.941	(1.699)	42	(632)	-	-	1.652
Artistic assets	-	-	-	-	-	-	-
	<u>992.654</u>	<u>(513.145)</u>	<u>183.799</u>	<u>(105.581)</u>	<u>-</u>	<u>-</u>	<u>557.824</u>
Current assets	125.999	-	429.048	-	-	-	555.047
	<u>1.118.653</u>	<u>(513.145)</u>	<u>612.847</u>	<u>(105.581)</u>	<u>-</u>	<u>-</u>	<u>1.112.871</u>

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On December 31, 2010 and 2009, the heading “Current Assets” includes tCVE 599.439 and tCVE 119.503, respectively, related with expenses with the construction projects of the new headquarters in the city of Praia and the new regional headquarter on the island of Boa Vista. It also includes figures related to works in progress in agencies, which the Caixa expects to conclude by the end of 2011.

10. INTANGIBLE ASSETS

In the years 2010 and 2009, the caption “Intangible Assets” presented the following picture:

	2010				
	Balance on 31-12-2009		Additions	Amortization	Net value in 2010
	Gross value	Accumulated depreciation			
Software	231.761	(185.035)	5.872	(31.344)	21.254

	2009				
	Balance on 31-12-2008		Additions	Amortization	Net value in 2009
	Gross value	Accumulated depreciation			
Software	216.743	(134.147)	15.018	(50.888)	46.726

11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

On December 31, 2010 and 2009, the balance of this item indicated the following composition:

Entity	% of shares	Purchase cost	2010					2009				
			Bal. Sheet value	Date	Net Assets	Profit/ Loss	Owner Equity	Bal. Sheet Value	Date	Net Asset	Profit/ Loss	Owner Equity
Novo Banco, S.A.	20,00%	60.000	60.000	n.a	n.a	n.a	n.a	-	-	-	-	-
SISP - Sociedade Interbancária e Sistemas de Pagamentos, SARL	10,00%	10.000	33.589	31-12-2010	619.157	62.390	367.361	34.816	31-12-2009	610.455	60.450	348.160
IMOTUR - Imobiliária e Turística de Cabo Verde, S.A.	17,86%	12.500	8.361	31-12-2009	188.445	(15.014)	46.820	8.660	n.a	n.a	n.a	n.a
			<u>82.500</u>					<u>43.476</u>				

n.a. - not available

The Caixa classified the shares in Imotur (Real Estate & Tourism of Cape Verde) and SISP (Interbank and Payment Systems Company), as investments in associated companies despite the fact that its participation in those companies is less than 20%, whereas the Caixa is a member of the governing body which, in the opinion of the Executive Board, confers significant influence on the activities of the Imotur and the SISP and this way fits in the provisions of Standard IAS 28 – Investments in Associated Companies.

In October 2010, the Caixa subscribed 20% of the share capital of “Novo Banco”. This is a Bank intended to finance the lower classes of the population, mainly with the provision of micro-credit or through the funding of Non Governmental Organizations (NGOs). The New Bank started operating in December 2010.

The movements in the balance sheet value of these shares in the years 2010 and 2009 and their impact on the financial statements of the Caixa can be demonstrated as follows:

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	Imotur	SISP	Novo Banco	Total
Balance on December 31, 2008	8.660	28.571	-	37.231
Results in associated companies	-	6.245	-	6.245
Balance on December 31, 2009	<u>8.660</u>	<u>34.816</u>	<u>-</u>	<u>43.476</u>
Subscription of Novo Banco's capital	-	-	60.000	60.000
Dividends received	-	(3.147)	-	(3.147)
Results in associated companies	(299)	1.920	-	1.621
Balance on December 31, 2010	<u>8.361</u>	<u>33.589</u>	<u>60.000</u>	<u>101.950</u>

12. INCOME TAX

The Caixa is subject to the Single Income Tax (IUR) at the rate of 25% and a fire tax of 2% on the tax calculated, which corresponds to an aggregated rate of tax of 25,5%.

The balances of assets and liabilities by income tax on December 31, 2010 and 2009 were the following:

	2010	2009
Current tax assets		
· Payments on account	9.582	10.107
Current tax liabilities		
· Tax allocated	<u>(111.866)</u>	<u>(85.457)</u>
	<u>(102.284)</u>	<u>(75.350)</u>
Deferred tax assets		
· By temporary differences	39.880	53.174
Deferred tax liabilities		
· By temporary differences	<u>(4.616)</u>	<u>(6.155)</u>
	<u>35.264</u>	<u>47.019</u>

The details of deferred tax in the years of 2010 and 2009 were the following:

	2010		
	Balance on 31.12.2009	Variation in results	Balance on 31.12.2010
Adjustments of conversion to the IFRS	<u>47.019</u>	<u>(11.755)</u>	<u>35.264</u>
	2009		
	Balance on 31.12.2008	Variation in results	Balance on 31.12.2009
Adjustments of conversion to the IFRS	<u>58.774</u>	<u>(11.755)</u>	<u>47.019</u>

Under Decree-Law No. 14/2010, of April 26, the impacts of transition to IFRS calculated with reference to January 1, 2008 with effects on equity, which are treated as fiscally relevant under the IUR regulations, contribute to the formation of taxable income in equal parts for a period of five years.

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The reconciliation between the nominal and effective tax rate found in the years 2010 and 2009 can be demonstrated as follows:

	2010		2009	
	Rate	Tax	Rate	Tax
Income Before Tax		502.563		404.865
Tax calculated based on the nominal rate	25,5%	128.154	25,5%	103.241
Fiscal Benefits:				
. Yield of Government Bonds placed on the secondary market	(0,67%)	(3.363)	(0,77%)	(3.122)
. Other	(0,65%)	(3.256)	(0,72%)	(2.907)
Not accepted fiscally	0,42%	2.086	-	-
Tax on profit for the year	24,60%	123.621	24,01%	97.212

Under the legislation in force, any income earned on bonds issued by the Treasury of Cape Verde which have been placed on the secondary market is exempt from taxation.

In August 2009, the Caixa received a letter from the Directorate-General of Taxes (DGCI) concerning payment of income tax corrections for the year 2008. During the financial year of 2010, additional payment was fixed at tCVE 8.923 and the Caixa settled such payment by using the provisions made. The excess provision in the amount of tCVE 1.098 was reversed in the year (Note 17).

In September 2010, the Caixa was notified by the Directorate General of Taxes, an additional payment in the amount of tCVE. 23,813 concerning corrections to the income tax for the year 2009, which it challenged. Based on the response submitted, the DGCI corrected the amount of tax calculated, having been allocated an income tax of tCVE. 3.870. The Caixa immediately settled the said payment by using the provisions made for the financial year of 2010 (Note 17).

Moreover, in December 2010, the Caixa was informed by the DGCI, of an additional payment in the amount of tCVE 5.330 regarding corrections to the income tax (non resident companies and real estate income) for the year 2005, which it did not challenge and is now pending a decision from the Directorate General of Taxes. The Caixa made a provision of tCVE 119 intended only for the IUR – Real estate income (Note 17).

On December 31, 2010 and 2009, the Caixa has a provision for tax contingencies in the amount of tCVE 50.002 and tCVE 59.904, respectively (Note 17).

According to the General Tax Code approved by Law No. 37/IV/92, tax authorities are entitled to review the tax status of the Caixa during a period of five years which are likely to result in corrections to the profit taxable due to different interpretations of tax laws. In the opinion of the Executive Board, any correction or adjustment made is not expected to be significant to the financial statements of the Caixa on December 31, 2010.

13. OTHER ASSETS

This item has the following composition:

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
(Amounts expressed in thousands of Cape Verde Escudos – tCVE.)

	2010	2009
<u>Other assets:</u>		
Assets auctioned	14.789	5.154
Coins and medals	360	430
<u>Debtors:</u>		
Subsidies receivable from the State of Cape Verde	485.142	387.849
Micro-Credit Fund (Note 18)	54.127	55.445
Sundry debtors	39.152	31.984
Debtors for foreign exchange remittances	25.761	26.818
Other	25.725	26.124
<u>Deferred costs:</u>		
Insurance	3.479	2.769
Other	368	2
Loans to settle	8.868	19.815
Other transactions to adjust	-	3.398
	657.771	559.788
Impairment of assets auctioned (Note 17)	(26.459)	(2.732)
	<u>631.312</u>	<u>557.056</u>

On December 31, 2010 and 2009, the auctioned assets correspond to properties received within the scope of credit recovery and have the following composition according to the date of its acquisition by the Caixa:

Year of acquisition	2010			2009		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Prior to 2007	1.924	(1.924)	-	1.924	(1.924)	-
2007	630	(315)	315	3.230	(808)	2.422
2010	12.235	(1.788)	10.447	-	-	-
	<u>14.789</u>	<u>(4.027)</u>	<u>10.762</u>	<u>5.154</u>	<u>(2.732)</u>	<u>2.422</u>

In the years 2010 and 2009, the net capital gains obtained with the sale of properties received through credit recovery amounted to tCVE 4.813 and tCVE 500, respectively.

Subsidies receivable from the Government of Cape Verde relate to house mortgages and are calculated according to the laws in force in Cape Verde. The balances recorded correspond to the amounts claimed by the Caixa since early 2004.

On December 31, 2010 and 2009, the balance of “Debtors – Micro Credit Fund” refers to loans granted under the Program of Training and Loans to Micro-Companies. The said program is an independently managed structure and comprises training activities for customers, before and after credit granting, covering topics on the related conditions, procedures and responsibilities, the importance of repayment, joint responsibility, business management, among others. Credits are granted only to solidarity groups consisting of 3 to 5 people.

On December 31, 2010 and 2009, the caption “Sundry Debtors” refers to amounts to be settled in the transactions performed by the Caixa through the Western Union service, which were settled in the beginning of the subsequent financial year.

On December 31, 2010 and 2009, the balance of “Debtors for foreign exchange remittances” refers to checks drawn on foreign countries, which were settled early in the period ahead.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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14. RESOURCES FROM CENTRAL BANKS

On December 31, 2010, this item is related to an overnight loan from the Central Bank of Cape Verde in the amount of tCVE 250.000, to be repaid on January 4, 2011. This loan bears interest at a rate of 8,25%.

15. RESOURCES FROM OTHER CREDIT INSTITUTIONS

This caption presents the following composition:

	2010	2009
Demand deposits:		
With credit institutions in the country	120.519	70.294
	<u>120.519</u>	<u>70.294</u>
Time deposits:		
With credit institutions in the country	450.000	200.000
	<u>450.000</u>	<u>200.000</u>
Loans received:		
From international financial organizations	485.066	582.938
	<u>485.066</u>	<u>582.938</u>
Interest:		
On deposits	10.465	9.976
On loans received	1.343	3.163
	<u>11.809</u>	<u>13.139</u>
	<u>1.067.393</u>	<u>866.371</u>

On October 28, 2010, the Caixa received a loan in the amount of EUR 2.500.000 (tCVE 275.893) from the Banque et Caisse D'Espargne de L'Etat. This loan bears interest at a fixed rate and has a maturity date of January 28, 2011.

During the financial year of 2005, the Caixa contracted a credit line with the International Finance Corporation in the amount of EUR 5.000.000 (tCVE 551.325), to be repaid in five years as from March 15, 2006. This loan bears interest at a rate indexed to Euribor 6 months. On December 31, 2009, the Caixa had used this line of credit in tCVE 110.265 and reimbursed the remaining amount in the year 2010.

On October 14, 2005, the Caixa Económica de Cabo Verde, the Banco Comercial do Atlântico, the Banco Interatlântico and the Banco Caboverdiano de Negócios obtained a line of credit with the French Development Agency in the maximum amount of EUR 5.000.000 to support social and economic development projects in the municipalities, to be reimbursed in 10 years as from January 31, 2010 in semiannual installments of principal and interest. This loan bears interest at a rate indexed to Euribor 6 months. On December 31, 2010 and 2009, the Caixa had used this line of credit in EUR 1.896.998 (tCVE 209.173) and 2.086.700 (tCVE 230.090), respectively

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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16. CUSTOMER FUNDS AND OTHER LOANS

This item has the composition below indicated:

	2010	2009
Savings deposits:		
Individuals - cheque books	4.308.937	3.966.296
Demand deposits:		
Residents	9.572.374	7.880.733
Emigrants	602.060	535.725
	10.174.434	8.416.458
Time deposits:		
Residents	8.833.956	7.679.691
Emigrants	8.125.577	7.355.304
	16.959.533	15.034.995
Other resources:		
Loans obtained from residents	50.000	61.667
Cheques and orders payable	10.734	16.692
Securities sold by repurchase agreement (Notes 2.2 e) and 7))	8.350	259.934
	69.084	338.293
Interest:		
On deposits	398.433	352.571
On loans obtained from residents	639	787
On securities sold by repurchase agreement	342	4.210
	399.414	357.568
	31.911.402	28.113.610

On December 31, 2010 and 2009, demand deposits are not remunerated, except in specific circumstances defined in accordance with the guidelines of the Executive Board of the Caixa.

On December 31, 2010 and 2009, the item “Other assets – Borrowings from residents” refers to a loan obtained from the National Social Security Institute (INPS), which bears interest at a fixed rate, to be repaid in 15 annual installments starting from August 21, 1998. This loan is aimed at granting the INPS employees mortgage loans for the purchase of private housing.

17. PROVISIONS AND IMPAIRMENT

Movements in provisions and impairment of the Caixa in the years ended December 31, 2010 and 2009 are as follows:

	2010					
	Balances on 31.12.2009	Net Allocations on results	Utilization	Transfers	Balances on 31.12.2010	Impairment recoveries
<u>Impairment</u>						
Impairment of loans to customers (Note 7)	1.485.102	507.118	(211.880)	(13.016)	1.767.324	(73.052)
Impairment of financial assets available for sale (Note 5)	200	-	-	-	200	-
Impairment of other assets (Note 13)	2.732	11.361	(650)	13.016	26.459	-
	1.488.034	518.479	(212.530)	-	1.793.983	(73.052)
Provisions for tax contingencies (Note 12)	59.904	2.891	(12.793)	-	50.002	-
	1.547.938	521.370	(225.323)	-	1.843.985	(73.052)

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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	2009				
	Balances on 31.12.2008	Net Allocations on results	Utilization	Transfers	Balance on 31.12.2009
<u>Impairment</u>					
Impairment of loans to customers (Note 7)	1.227.654	368.211	(123.779)	13.016	1.485.102
Impairment of financial assets available for sale (Note 5)	200	-	-	-	200
Impairment of other assets (Note 13)	2.156	966	(390)	-	2.732
	1.230.010	369.177	(124.169)	13.016	1.488.034
Provisions for tax contingencies (Note 12)	70.276	18.199	(15.555)	(13.016)	59.904
	1.300.286	387.376	(139.724)	-	1.547.938

18. OTHER LIABILITIES

This item has the following composition:

	2010	2009
<u>Resources</u>		
Resources allocated - Micro-Credit Fund (Note 13)	54.127	55.445
Public Administrative Sector - Withholding tax	48.260	34.877
Other	3.097	2.977
<u>Employee costs:</u>		
Vacation allowance	51.083	46.902
Productivity award (Note 27)	27.225	25.602
<u>Other administrative costs:</u>		
Water, gas and electricity	11.464	17.882
Commissions payable - Western Union	5.486	11.137
Communications	4.432	3.498
ATM charges	-	9.774
Advertising	-	499
Other	28.383	24.794
<u>Revenues with deferred income:</u>		
Off balance sheet operations	2.451	2.086
Other accrual accounts	22.138	15.088
	<u>258.146</u>	<u>250.561</u>

On December 31, 2010 and 2009, the item “Other accrual accounts – Other” includes tCVE 5.252 and tCVE 4.110, respectively, regarding amounts of subsidized loans pending settlement.

19. CAPITAL

On December 31, 2010, the capital of the Caixa is represented by 1.392.000 shares with a nominal value of CVE 1000,00 each, fully subscribed and paid up.

During its meeting held on August 21, 2009, the General Assembly of the Caixa authorized a capital increase in the amount of tCVE 1.044.000, through the issuance of 1.044.000 shares with a nominal value of CVE 1.000,00 each, fully paid in cash.

On December 31, 2010 and 2009, the shareholder structure of the Caixa is the following:

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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Entity	2010		2009	
	Number of shares	%	Number of shares	%
Instituto Nacional de Previdência Social	447.958	32,2%	447.958	32,2%
Geocapital, Sociedade de Gestão e Participação, S.A.	381.904	27,4%	381.904	27,4%
Correios de Cabo Verde	210.749	15,1%	210.749	15,1%
Impar - Companhia Caboverdeana de Seguros	168.032	12,1%	157.682	11,3%
Other subscribers and workers	183.357	13,2%	193.707	13,9%
	<u>1.392.000</u>	<u>100,00%</u>	<u>1.392.000</u>	<u>100,00%</u>

20. RESERVES, RETAINED EARNINGS AND PROFIT FOR THE YEAR

On December 31, 2010 and 2009, the items “Reserves and retained earnings” present the following composition:

	2010	2009
Other reserves and retained earnings		
· Legal reserve	328.970	298.205
· Other reserves	1.402.930	1.401.658
· Retained earnings	(177.062)	(177.062)
	<u>1.554.838</u>	<u>1.522.801</u>
Profit for the year	<u>378.942</u>	<u>307.653</u>
	<u>1.933.780</u>	<u>1.830.454</u>

Under the terms set forth in the legislation in force in Cape Verde (Law No. 3/V/96), a minimum of 10% of the annual net profit must be allocated to the legal reserve. This reserve is not distributable except upon payment by the entity and may be used to increase capital or cover losses after having exhausted all other reserves.

21. INTEREST AND SIMILAR INCOME

This item has the following composition:

	2010	2009
Interest on loans to customers		
Domestic credit	2.114.908	1.902.834
Recovery of cancelled interest	215.112	100.590
Interest on other loans and receivables (securitized)		
Treasury Bonds	80.478	93.231
Other fixed yield securities	73.485	66.414
Interest on investment with the Banco de Cabo Verde		
TRM (Short term open market security)	5.152	24.735
Interest on investment with credit institutions abroad	2.230	6.572
Interest on investment with credit institutions in the country	-	159
Other interest and similar income	655	14.309
Commissions received relating to amortized cost	131.328	136.872
	<u>2.623.347</u>	<u>2.345.716</u>

In the years 2010 and 2009, interest on Treasury Bonds placed in the secondary market amounted to tCVE 5.606 and tCVE 17.714, respectively (Note 2.2 c)).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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22. INTEREST AND SIMILAR INCOME

This item evidences the following composition:

	2010	2009
Savings deposits		
Cheque books	64.852	104.070
Demand deposits		
Emigrants	7.727	6.659
Residents	29	1.539
Time deposits		
Residents	364.412	311.195
Emigrants	330.256	309.229
Loans		
Residents	43.367	6.136
Non residents	10.323	17.804
Sale transactions with repurchase agreement		
Treasury Bonds	5.606	20.187
Interest cancelled on loans to customers		
Domestic credit	23.248	-
Other	1.171	336
	<u>850.990</u>	<u>777.155</u>

23. INCOME AND CHARGES FROM SERVICES AND COMMISSIONS

This caption has the following composition:

	2010	2009
<u>Income from services and commissions</u>		
Commissions from Western Union	57.097	79.629
Commissions on foreign exchange transactions	49.595	45.939
Guarantees and sureties	19.233	22.257
Fees for account maintenance	13.204	12.729
Documentary Credit	5.838	1.490
Commissions VISA	4.315	3.404
Other banking services provided	11.789	14.508
Other commissions	19.760	18.866
	<u>180.831</u>	<u>198.822</u>
<u>Charges from services and commissions</u>		
Fees on foreign exchange transactions	(11.963)	(10.679)
Commissions VISA	(6.175)	(4.930)
Other commissions and charges	(21.710)	(10.621)
	<u>(39.848)</u>	<u>(26.230)</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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24. RESULTS OF FOREIGN EXCHANGE REVALUATION

This item has the following composition:

	2010			2009		
	Profit	Losses	Net	Profit	Losses	Net
Foreign currency results	168.618	(78.488)	90.130	155.122	(77.379)	77.743
Results from banknotes and coins	115.282	(76.717)	38.565	99.461	(73.078)	26.383
	<u>283.900</u>	<u>(155.205)</u>	<u>128.695</u>	<u>254.583</u>	<u>(150.457)</u>	<u>104.126</u>

25. RESULTS FROM THE SALE OF OTHER ASSETS

In the years 2010 and 2009, the balance of this item refers to gains in the sale of other tangible assets in the amounts of tCVE 2.757 and tCVE 905, respectively.

26. OTHER OPERATING INCOME

This caption presents the following composition:

	2010	2009
<u>Other operating income:</u>		
Provision of services:		
Service fees	44.085	40.796
Credit card	3.301	11.115
Sale of cheques and books	8.106	7.545
Rental of properties (Note 8)	128	149
Other operating income	13.365	10.608
	<u>68.985</u>	<u>70.213</u>
<u>Other operating costs:</u>		
Other taxes	(4.930)	(1.818)
Donations	(4.911)	(1.922)
Contributions	(77)	(334)
Other	(3.775)	(13.091)
	<u>(13.693)</u>	<u>(17.165)</u>
	<u>55.292</u>	<u>53.048</u>

27. EMPLOYEE COSTS

This item has the following composition:

	2010	2009
Payroll	387.247	356.400
Remuneration of the managing and supervisory bodies	25.570	28.060
Social liabilities		
Social Security	56.050	53.134
Medical expenses	4.136	3.950
Other	4.667	4.330
Productivity rewards (Note 18)	27.225	25.602
Other	14.809	11.998
	<u>519.704</u>	<u>483.474</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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On December 31, 2010 and 2009, the Caixa had the following staff:
:

	2010	2009
Executive Directors	1	3
Directorate General and Coordination	15	15
Managers and heads of service	34	29
Technical staff	71	61
Administrative staff	124	121
General support staff	18	22
	<u>263</u>	<u>251</u>

On December 31, 2010 and 2009, the figures above indicated include 47 and 49 employees, respectively, with fixed term employment contracts.

28. GENERAL ADMINISTRATIVE EXPENSES

This item has the following composition:

	2010	2009
Specialized labor	140.126	127.533
ATM charges	96.977	81.324
Advertising	55.937	88.135
Water, gas and electricity	42.870	39.470
Travel, accommodation and representation	38.484	39.652
Communications	31.910	45.634
Rents and leases	18.319	18.686
Insurance	14.890	13.648
Maintenance and repair	11.968	8.277
Fuel	10.144	24.915
Staff training	8.216	6.238
Legal expenses	470	390
Computer equipment	129	2.818
Other	26.044	9.514
	<u>496.484</u>	<u>506.234</u>

29. CONTINGENT LIABILITIES AND COMMITMENTS

On December 31, 2010 and 2009, contingent liabilities associated with banking activities are recorded in off balance sheet items and present the following details:

	2010	2009
Liabilities		
Guarantees and sureties	602.051	623.807
Documentary credits	96.060	413.050
	<u>698.111</u>	<u>1.036.857</u>
Deposit and custody of securities	5.281.796	4.266.957
	<u>5.979.906</u>	<u>5.303.814</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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30. SEGMENT REPORTING

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

The Trading and Sales segment is related to cash management, management of the security portfolio and other market transactions. In the Commercial Banking segment emphasis should be laid upon the business of credit and deposits, provision of services to customers and other.

On December 31, 2010 and 2009, the information regarding the operational segments used by the Caixa may be summarized as follows:

	2010		
	Trading and Sales	Commercial Banking	Total
Interest and similar income	158.246	2.465.101	2.623.347
Interest and similar charges	-	(850.990)	(850.990)
NET INTEREST INCOME	158.246	1.614.111	1.772.357
Income on service and commissions	-	180.831	180.831
Charges for services and commissions	-	(39.848)	(39.848)
Results from foreign exchange revaluation	-	128.695	128.695
Results from the sale of other assets	2.757	-	2.757
Other operating income	55.292	-	55.292
BANKING PRODUCT	216.295	1.883.789	2.100.084
Provisions and impairment net of reversals and recoveries	-	(448.318)	(448.318)
	216.295	1.435.471	1.651.766
Other costs and income			(1.272.824)
Net Profit for the Year			378.942
Cash and deposit at central banks	-	4.791.318	4.791.318
Deposits in other credit institutions	-	315.138	315.138
Financial assets available for sale	3.823	-	3.823
Investment with credit institutions	998.372	171.586	1.169.958
Loans to customers	3.791.949	26.284.215	30.076.164
Resources from other credit institutions	-	1.067.393	1.067.393
Customer funds and other loans	50.000	31.861.402	31.911.402

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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	2009		
	Trading and sales	Commercial Banking	Total
Interest and similar income	152.118	2.093.008	2.245.126
Interest and similar charges	-	(777.155)	(777.155)
NET INTEREST INCOME	152.118	1.315.853	1.467.971
Income on service and commissions	-	198.822	198.822
Charges for services and commissions	-	(26.230)	(26.230)
Results from foreign exchange revaluation	-	104.126	104.126
Results from the sale of other assets	905	-	905
Other operating income	186.607	-	186.607
BANKING PRODUCT	339.630	1.592.571	1.932.201
Provisions and impairment net of reversals and recoveries	-	(387.376)	(387.376)
	339.630	1.205.195	1.544.825
Other costs and income			(1.237.172)
Net profit for the year			307.653
Cash and deposits at central banks	-	5.219.191	5.219.191
Deposits in other credit institutions	-	694.123	694.123
Financial assets available for sale	3.823	-	3.823
Investment with credit institutions	149.914	179.617	329.531
Loans to customers	3.184.614	23.070.569	26.255.183
Resources from other credit institutions	-	866.371	866.371
Customer funds and other loans	61.667	28.051.943	28.113.610

All the Bank's activities are developed in the Republic of Cape Verde.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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31. RELATED ENTITIES

The related parties of the Caixa are its shareholders, associated companies and the governing bodies.

On December 31, 2010 and 2009, the financial statements of the Caixa include the following balances and transactions with related entities, excluding the managing bodies:

	2010			
	Gov. of Cape Verde	Shareholders		Assoc. comps
		Instituto Nacional de Previdência Social	IMPAR	
Assets:				
Deposits in other credit institutions	-	-	-	-
Investment with credit institutions	1.000.000	-	-	-
Loans to customers	2.251.980	-	-	186.249
Investment in subsidiaries, associated companies & joint ventures	-	-	-	103.323
Other assets	485.142	-	-	-
Liabilities:				
Resources from other credit institutions	-	-	255.819	252.795
Customer funds and other loans	-	6.908.114	-	-
Off balance sheet:				
Guarantees	-	-	-	-
Income:				
Interest and similar income	85.629	-	-	-
Costs:				
Interest and similar charges	-	127.060	9.937	493

	2009			
	Gov. of Cape Verde	Shareholders		Assoc. companies
		Instituto Nacional de Previdência Social	IMPAR	
Assets:				
Deposits in other credit institutions	-	-	-	-
Investment with credit institutions	150.000	-	-	-
Loans to customers	1.979.250	-	-	60.500
Investment in subsidiaries, associated companies & joint ventures	-	-	-	43.476
Other assets	387.849	-	-	-
Liabilities:				
Recursos de outras instituições de crédito	-	-	232.969	-
Customer funds and other loans	-	4.717.069	-	-
Off balance sheet:				
Guarantees	-	-	-	47.387
Income:				
Interest and similar income	117.966	-	-	303
Costs:				
Interest and similar charges	-	102.492	9.937	-

Managing Bodies

In 2010, the costs incurred with remuneration and other benefits granted to the members of the Executive Board of the Caixa amounted to tCVE 25.570 (tCVE 28.060 in the year 2009).

On December 31, 2010 and 2009, the amount of credit granted to members of the Executive Board stood at tCVE 1.616 and tCVE 1.942, respectively

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2010
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32. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Policies for managing the financial risks inherent to the business of the Caixa Económica de Cabo Verde

In developing its activities, the Caixa Económica de Cabo Verde is subject to various risks. Risk management relies on constant identification and assessment of the exposure to the different risks, such as, market risk, liquidity risk, credit risk, operating risk, and on the adoption of a control strategy within previously defined parameters.

This management is complemented with the analysis *a posteriori* of the performance indicators.

Exchange risk

The exchange risk is calculated on the overall position in currencies of the institution, determined as set out in Notice No. 3/2000, of the Banco de Cabo Verde, and the respective technical instructions. Considering the legally binding agreement that establishes the parity of the Cape Verdean Escudo to the Euro, the position in Euro is not computed for the calculation of the total open long and short positions.

Liquidity risk

Liquidity risk is the possibility of failure to comply with the financial obligations and commitments and to obtain resources and make investments at the appropriate rates and terms.

Risk assessment at the Caixa is made by taking into account the indicators established by the supervisory authority and the Executive Board, and consists of the continuous compliance with the coverage ratio of the liabilities.

Monitoring is ensured at different times based on projections of inflows and outflows of funds, and allowing efficient management of the needs.

On December 31, 2010 and 2009, the residual contractual terms of the financial instruments indicated the following composition:

	2010					
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undetermined
Assets:						
Cash and deposits at Central Banks	4.791.318	-	-	-	-	-
Deposits in other credit institutions	315.138	-	-	-	-	-
Investment with credit institutions	998.373	718	62.584	-	108.283	-
Loans to customers (gross balances)	1.253.676	872.308	3.569.386	9.134.961	11.898.369	3.347.464
	<u>7.358.505</u>	<u>873.026</u>	<u>3.631.970</u>	<u>9.134.961</u>	<u>12.006.652</u>	<u>3.347.464</u>
						<u>36.352.578</u>
Liabilities:						
Resources from other credit institutions	(796.411)	-	(50.000)	-	(209.173)	(11.809)
Customer funds and other loans	(17.698.370)	(2.575.524)	(10.368.510)	(848.789)	(10.000)	(410.209)
	<u>(18.494.781)</u>	<u>(2.575.524)</u>	<u>(10.418.510)</u>	<u>(848.789)</u>	<u>(219.173)</u>	<u>(422.018)</u>
						<u>(32.978.795)</u>
Differential	<u>(11.136.276)</u>	<u>(1.702.498)</u>	<u>(6.786.540)</u>	<u>8.286.172</u>	<u>11.787.479</u>	<u>2.925.446</u>
						<u>3.373.783</u>
	2009					
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undetermined
Assets:						
Cash and deposits at Central Banks	5.219.191	-	-	-	-	-
Deposits in other credit institutions	694.123	-	-	-	-	-
Investment with credit institutions	180.651	4.299	36.259	-	108.225	97
Loans to customers (gross balances)	1.229.383	894.972	3.167.774	6.946.529	10.642.660	3.373.865
	<u>7.323.348</u>	<u>899.271</u>	<u>3.204.033</u>	<u>6.946.529</u>	<u>10.750.885</u>	<u>3.373.962</u>
						<u>32.498.028</u>
Liabilities:						
Resources from Central Banks	(250.000)	-	-	-	-	-
Resources from other Credit Institutions	(412.877)	-	(100.000)	(110.265)	(230.090)	(13.139)
Customer funds and other loans	(11.806.275)	(2.359.891)	(13.506.903)	(66.281)	-	(374.260)
	<u>(12.469.152)</u>	<u>(2.359.891)</u>	<u>(13.606.903)</u>	<u>(176.546)</u>	<u>(230.090)</u>	<u>(387.399)</u>
						<u>(29.229.981)</u>
Differential	<u>(5.145.804)</u>	<u>(1.460.620)</u>	<u>(10.402.870)</u>	<u>6.769.983</u>	<u>10.520.795</u>	<u>2.986.563</u>
						<u>3.268.047</u>

The periods shown are contractual but in reality demand deposits included in the item “Customer Funds and other loans” indicate stability and longer periods, thus enabling the Caixa to meet the liquidity ratios required by the Banco de Cabo Verde.

The column “Undetermined” includes interest receivable and payable and amounts received or paid which are being deferred and overdue loans.

Interest rate risk

Management of the interest rate risk envisages to protect the asset value and to optimize the net interest income of the Caixa.

The Caixa assumes the interest rate risk whenever the contracted operations include future financial flows sensitive to changes in interest rates.

The methodology for measuring this risk is the pooling of assets and liabilities sensitive to time intervals, according to the respective dates of review of interest rates. In each interval, the cash flows of assets and liabilities are calculated, as well as the corresponding gap of interest rate risk.

Market risk

Market risk is defined as the risk of loss in the off-balance sheet accounts due a change in market prices, namely the instruments related to exchange rate risks in any of the balance sheet and off balance sheet items, and the instruments associated with the interest rate risks that comprise the trading portfolio.

The exchange rate risk is calculated on the overall position in foreign currencies in conformity with the Law No. 3/V/96, of July 1, and the Decree-Law No. 12/2005, dated February 7.

The value of minimum equity allocated to hedge the market risk related to the exchange rates is of 10% of the overall foreign currency position.

Credit risk

Credit risk reflects the possibility of occurrence of loss if the counterparty or its guarantor is unable to meet its financial obligations, namely repayment of the loan.

The Caixa applies a risk management strategy that relies on rules and procedures and a provisioning policy based on the analysis of individual and collective claims. To that end, concepts, principles and rules to be observed during the life of the loan are defined, including in the recovery phase. Risk assessment of off-balance sheet lending is supported by the analysis of the quality of the proposed transaction, namely its purpose, duration, security, among others. The specific assessment of the risk to the concentration of exposure also considers the limits to large exposure under the prudential perspective.

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Maximum exposure to credit risk

On December 31, 2010 and 2009, maximum exposure to credit risk at the Caixa presented the following composition:

	2010	2009
Investment in credit institutions	1.169.958	329.531
Loans to customers	28.308.840	24.770.081
	<u>29.478.798</u>	<u>25.099.612</u>
Guarantees and sureties	602.051	623.807
Documentary credits	96.060	413.050
	<u>698.111</u>	<u>1.036.857</u>
Maximum exposure	<u>30.176.909</u>	<u>26.136.469</u>

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Quality of credit granted to customers

On December 31, 2010 and 2009, the gross balance sheet value of credit granted to customers indicated the following composition:

	2010			
	Performing loans	Non-performing loans	Default loans	Total
Companies				
Loans to companies				
Outstanding	7.072.498	47.703	746.319	7.866.520
Overdue	10.227	21.009	287.129	318.365
	<u>7.082.725</u>	<u>68.712</u>	<u>1.033.448</u>	<u>8.184.885</u>
Guarantees & documentary credit to companies				
Outstanding	593.899	19.006	2.714	615.619
Retail				
House Mortgages				
Outstanding	8.027.763	312.301	1.007.311	9.347.375
Overdue	53	3.135	118.536	121.724
	<u>8.027.816</u>	<u>315.436</u>	<u>1.125.847</u>	<u>9.469.099</u>
Consumer loans				
Outstanding	4.770.528	131.416	287.092	5.189.036
Overdue	-	12.334	176.615	188.949
	<u>4.770.528</u>	<u>143.750</u>	<u>463.707</u>	<u>5.377.985</u>
Small business				
Outstanding	1.072.319	79.472	193.369	1.345.160
Overdue	12.620	4.727	111.858	129.205
	<u>1.084.939</u>	<u>84.199</u>	<u>305.227</u>	<u>1.474.365</u>
Other credit				
Outstanding	910.319	14.259	153.993	1.078.571
Overdue	640	3.159	51.870	55.669
	<u>910.959</u>	<u>17.418</u>	<u>205.863</u>	<u>1.134.240</u>
Guarantees				
Outstanding	82.492	-	-	82.492
Public Sector				
Outstanding	783.862	-	-	783.862
Overdue	-	20	831	851
	<u>783.862</u>	<u>20</u>	<u>831</u>	<u>784.713</u>
Total outstanding credit	<u>23.313.680</u>	<u>604.157</u>	<u>2.390.798</u>	<u>26.308.635</u>
Total overdue credit	<u>23.540</u>	<u>44.384</u>	<u>746.839</u>	<u>814.763</u>
Total credit	<u>23.337.220</u>	<u>648.541</u>	<u>3.137.637</u>	<u>27.123.398</u>

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2009				
	Performing loans	Non-performing loans	Default loans	Total
Companies				
Loans to companies				
Outstanding	5.887.452	128.597	509.071	6.525.120
Overdue	13.465	5.958	259.715	279.138
	<u>5.900.917</u>	<u>134.555</u>	<u>768.786</u>	<u>6.804.258</u>
Guarantees & documentary credit to companies				
Outstanding	<u>588.777</u>	<u>20.268</u>	<u>366.504</u>	<u>975.549</u>
Retail				
House mortgages				
Outstanding	7.080.583	524.107	879.924	8.484.614
Overdue	-	3.322	102.028	105.350
	<u>7.080.583</u>	<u>527.429</u>	<u>981.952</u>	<u>8.589.964</u>
Consumer loans				
Outstanding	4.140.553	273.197	265.570	4.679.320
Overdue	425	16.814	155.880	173.119
	<u>4.140.978</u>	<u>290.011</u>	<u>421.450</u>	<u>4.852.439</u>
Small business				
Outstanding	1.007.164	80.571	132.268	1.220.003
Overdue	9.892	8.251	66.895	85.038
	<u>1.017.056</u>	<u>88.822</u>	<u>199.163</u>	<u>1.305.041</u>
Other credit				
Outstanding	747.912	11.760	214.670	974.342
Overdue	1.464	6.054	50.358	57.876
	<u>749.376</u>	<u>17.814</u>	<u>265.028</u>	<u>1.032.218</u>
Guarantees				
Outstanding	<u>61.308</u>	<u>-</u>	<u>-</u>	<u>61.308</u>
Public Sector				
Outstanding	519.909	-	7.533	527.442
Overdue	-	831	47.335	48.166
	<u>519.909</u>	<u>831</u>	<u>54.868</u>	<u>575.608</u>
Total outstanding credit	<u>20.033.658</u>	<u>1.038.500</u>	<u>2.375.540</u>	<u>23.447.698</u>
Total overdue credit	<u>25.246</u>	<u>41.230</u>	<u>682.211</u>	<u>748.687</u>
Total credit	<u>20.058.904</u>	<u>1.079.730</u>	<u>3.057.751</u>	<u>24.196.385</u>

In preparing the above tables, the following classifications have been considered:

- “Performing loans”
 - Companies: loans without any installment due or with overdue balances up to 30 days;
 - Individuals: loans without any installment due or with overdue balances up to 7 days;
- “Non-performing loans”
 - Companies: loans with overdue balances between 30 days and 90 days;
 - Individuals: loans with overdue balances between 7 days and 90 days;
- “Default loans” – loans with overdue balances exceeding 90 days. In what concerns credit granted to companies, in case the customer presents at least one transaction with installments due for more than 90 days, the entire exposure before the Caixa has been reclassified to this category.

Additionally, overdue credit includes only the amounts of transactions or installments due and unpaid on the date of reference. In Note 7, the heading “Overdue loans” includes the entire amount to be received for transactions with overdue values.

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On December 31, 2010, the balance of credits assigned with specific impairment through individual analysis totaled tCVE 2.250.303, with impairment reaching tCVE 602.566. As described in Note 2.2. d), the loans subject to individual analysis which were not assigned with specific impairment have been merged in a collective analysis.

On December 31, 2010 and 2009, the balance sheet value of credit granted to customers whose terms have been restructured can be detailed as follows:

	2010	2009
Companies	331.062	20.888
Individuals	151.664	52.273
	<u>482.726</u>	<u>73.161</u>

Fair value

The table below presents the comparison between the fair value and the balance sheet value of the main financial assets and liabilities kept at amortized cost on December 31, 2010 and 2009.

2010				
	Balances analysed			Balances not analysed
	Bal. Sheet value	Fair value	Difference	Bal. Sheet value
Assets:				
Cash and deposits at Central Banks	4.791.318	4.791.318	-	-
Deposits in other credit institutions	315.138	315.138	-	-
Financial assets available for sale	3.823	3.823	-	-
Investment with credit institutions	1.169.958	1.169.958	-	-
Loans to customers	23.520.897	22.516.642	(1.004.255)	4.787.943
	<u>29.801.134</u>	<u>28.796.879</u>	<u>(1.004.255)</u>	<u>4.787.943</u>
Liabilities:				
Resources from other credit institutions	(1.067.393)	(1.089.253)	(21.860)	-
Customer funds and other loans	(31.911.402)	(14.542.678)	17.368.724	-
	<u>(32.978.795)</u>	<u>(15.631.931)</u>	<u>17.346.864</u>	<u>-</u>
				<u>34.589.077</u>
2009				
	Balances analysed			Balances not analysed
	Bal. Sheet value	Fair value	Difference	Bal. Sheet value
Assets:				
Cash and deposits at Central Banks	5.219.191	5.219.191	-	-
Deposits in other credit institutions	694.123	694.123	-	-
Financial assets available for sale	3.823	3.823	-	-
Investment with credit institutions	329.531	329.531	-	-
Loans to customers	20.042.564	19.328.827	(713.737)	4.727.517
	<u>26.289.232</u>	<u>25.575.495</u>	<u>(713.737)</u>	<u>4.727.517</u>
Liabilities:				
Resources at Central Banks	250.000	250.000	-	-
Resources from other credit institutions	866.371	796.668	(69.703)	-
Customer funds and other loans	28.081.625	27.913.446	(168.179)	31.985
	<u>29.197.996</u>	<u>28.960.114</u>	<u>(237.882)</u>	<u>31.985</u>
				<u>29.229.981</u>

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The following assumptions have been used in calculating the fair value:

- For demand balances and short term investment with credit institutions, the balance sheet value corresponds to the fair value;
- For the financial assets available for sale:
 - The Portuguese Government bonds were recorded at historical cost with impairment in the total amount of investment, tCVE 200, in order to reduce the book value to its estimated realizable value.
 - Due to its reduced balance sheet value, the participation in the GARI Fund was recorded at historical cost.
- The fair value of the remaining instruments was determined by the Caixa based on models of discounted cash flows, taking into account the contractual terms of operations and using appropriate interest rates due to the type of instrument and the rates charged on similar instruments issued or contracted by year-end.
- The column “Balances not analyzed” includes essentially overdue loans, net of any impairment made.

Sensitivity analysis – Interest rate

On December 31, 2010 and 2009, the impact on the fair value of financial instruments sensitive to the interest rate risk, excluding derivative financial instruments of parallel movement in the curve of reference interest rates of 50, 100, and 200 bps (basis points), respectively, can be demonstrated in the following tables:

		2010					
		-200 bp	-100 bp	-50 bp	+50 bp	+100 bp	+200 bp
Loans to customers (gross balance)		506.406	246.675	125.430	(101.549)	(207.899)	(397.134)
Total sensitive assets		506.406	246.675	125.430	(101.549)	(207.899)	(397.134)
Resources from other credit institutions		(21.361)	(11.148)	(6.311)	2.865	7.218	15.485
Total sensitive liabilities		(21.361)	(11.148)	(6.311)	2.865	7.218	15.485
Total Gains/ (Losses)		527.767	257.823	131.741	(104.414)	(215.117)	(412.619)

		2009					
		-200 bp	-100 bp	-50 bp	+50 bp	+100 bp	+200 bp
Loans to customers (gross balance)		294.820	139.918	68.757	(62.451)	(123.046)	(235.534)
Total sensitive assets		294.820	139.918	68.757	(62.451)	(123.046)	(235.534)
Resources from other credit institutions		(200.361)	(195.415)	(193.075)	188.639	186.536	182.542
Total sensitive liabilities		(200.361)	(195.415)	(193.075)	188.639	186.536	182.542
Total Gains/ (Losses)		495.181	335.333	261.832	(251.090)	(309.582)	(418.076)

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The table below presents the effect on the net interest income projected for the years 2010 and 2009, respectively, of a parallel shift of the curves of interest rates of 50, 100 and 200 bps indexing financial instruments sensitive to changes in interest rates:

	Projection of Net Interest Income					
	-200 bp	-100 bp	-50 bp	+50 bp	+100 bp	+200 bp
Financial year 2010	(42.490)	(21.245)	(10.623)	10.623	21.245	42.490
Financial year 2009	(38.822)	(19.411)	(9.705)	9.705	19.411	38.822

In calculating the impacts presented in the above table, it was assumed that the assets and liabilities sensitive to interest rate on the reference dates of the calculation would remain stable over the years 2010 and 2009, respectively, being renewed where applicable considering the market conditions prevailing in those renewal dates and the average spread of live operations on December 31, 2010 and 2009.

It should be noted that the information contained in the previous tables refers to a static scenario, not taking into account any changes in the strategy and policies required to manage the interest rate risks that the Caixa can adopt as a result of changes in benchmark interest rates.

On December 31, 2010 and 2009, loans to customers were mostly granted at a fixed rate which amounted to tCVE 18.794.767 and tCVE 16.715.148, respectively.

Exchange risk

Breakdown of financial instruments by currency

On December 31, 2010 and 2009, the financial instruments presented the following breakdown by currency:

	2010				
	Currency				Total
	Cape Verdean Escudos	Euros	U.S. Dollars	Other	
Assets:					
Cash and deposits at Central Banks	3.634.391	921.344	173.388	62.195	4.791.318
Deposits in other credit institutions	41.029	33.965	194.175	45.969	315.138
Financial assets available for sale (gross values)	-	3.823	-	-	3.823
Investment with credit institutions	998.634	171.324	-	-	1.169.958
Loans to customers (net balance)	27.867.771	441.068	1	-	28.308.840
Investment in subsidiaries, associated comps. & joint ventures	101.950	-	-	-	101.950
Other assets	605.552	20.899	3.790	1.071	631.312
	<u>33.249.327</u>	<u>1.592.423</u>	<u>371.354</u>	<u>109.235</u>	<u>35.322.339</u>
Liabilities:					
Resources from other credit institutions	(570.817)	(492.421)	(4.155)	-	(1.067.393)
Customer funds and other loans	(31.098.656)	(394.587)	(415.253)	(2.906)	(31.911.402)
Other liabilities	(257.923)	(219)	(4)	-	(258.146)
	<u>(31.927.396)</u>	<u>(887.227)</u>	<u>(419.412)</u>	<u>(2.906)</u>	<u>(33.236.941)</u>
Net Exposure	<u>1.321.931</u>	<u>705.196</u>	<u>(48.058)</u>	<u>106.329</u>	<u>2.085.398</u>

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	2009				
	Currency				
	Cape Verdean Escudos	Euros	U.S. Dollars	Other	Total
Assets:					
Cash and deposits at Central Banks	4.341.891	698.519	94.261	84.520	5.219.191
Deposits in other credit institutions	107.045	301.261	227.778	58.039	694.123
Financial assets available for sale (gross values)	-	3.823	-	-	3.823
Investment with credit institutions	149.914	179.617	-	-	329.531
Loans to customers (net balance)	24.290.781	479.295	5	-	24.770.081
Investment in subsidiaries, associated comps. & joint ventures	43.476	-	-	-	43.476
Other assets	530.207	24.010	2.620	219	557.056
	<u>29.463.314</u>	<u>1.686.525</u>	<u>324.664</u>	<u>142.778</u>	<u>31.617.281</u>
Liabilities:					
Resources at Central Banks	(250.000)	-	-	-	(250.000)
Resources from other credit institutions	(279.584)	(582.938)	(3.849)	-	(866.371)
Customer funds and other loans	(27.330.739)	(460.466)	(317.745)	(4.660)	(28.113.610)
Other liabilities	(249.576)	(973)	(12)	-	(250.561)
	<u>(28.109.899)</u>	<u>(1.044.377)</u>	<u>(321.606)</u>	<u>(4.660)</u>	<u>(29.480.542)</u>
Net Exposure	<u>1.353.415</u>	<u>642.148</u>	<u>3.058</u>	<u>138.118</u>	<u>2.136.739</u>

33. ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The impact of the adoption of the International Financial Reporting Standards on owner equity of the Caixa on December 31, 2008 can be summarized as follows:

	Note	
Balances according to the PCSB (Accounting Plan for the Banking System)		<u>2.187.063</u>
Impact of the rules adopted with reference to January 1, 2008		
Buildings and other tangible assets	(a)	7.597
Intangible assets	(b)	-
Deferral of fees associated with credit operations	(b)	(205.199)
Deferred tax	(c)	58.774
Investment in associated companies	(d)	10.981
Impairment of loans to customers	(e)	(52.953)
Other		3.738
		<u>(177.062)</u>
Balances according to the IFRS - Pro forma accounts		<u><u>2.010.001</u></u>

The transition adjustments related to property and other tangible assets can be decomposed as follows:

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	<u>31-12-2008</u>
Tangible assets	
Changes in useful life	7.597
Other	<u>41</u>
	<u><u>7.638</u></u>
Investment property	
Changes in useful life	<u>101</u>
	<u><u>7.739</u></u>

- a) In accordance with IAS 16, depreciation of tangible assets should be based on their estimated useful life (subject to periodical review), reflecting the standard by which the economic benefits generated by the use of the asset are consumed by the entity. The Caixa undertook a review of the useful life assigned to tangible assets, namely buildings for own use and rented buildings, which began to be capitalized at 60 years instead of 25 years and 10 years instead of 3 years, respectively, with changes being made with prospective effect as from January 1, 2008.
- b) As mentioned in Note 2.2 n), in light of the IFRS the Caixa began to defer the fees charged in the beginning of loans over the period of their operations. Thus, a survey was carried out on the charges related to credit operations live on January 1, 2008 and the corresponding deferred income was recorded, resulting in a negative impact on earnings.
- c) Under the previous standards and practices in the banking sector of Cape Verde, the Caixa has not recorded deferred taxes. The value indicated corresponds to the calculation of deferred taxes within the scope of Standard IAS 12 regarding adjustments of the conversion to the IFRS (Note 12).
- d) This impact derives from the valuation of Caixa's shares in IMOTUR (Real Estate and Tourism in Cape Verde) and SISP (Interbank Payments System), which are classified as investments in associated companies under Standard IAS 28.
- e) With the introduction of the IFRS, the Caixa stopped setting aside provisions for credit risks according to Notice No. 4/2006, of November 13, as amended by Notice No. 6/2007, and impairment started to be recorded in conformity with the guidelines deferred by Standard IAS 39, which include, among other aspects, impairment by collective analysis and the obligation to consider the time effect in determining the expectations of recovery. The amount of impairment established in accordance with the methodology adopted by the Caixa with reference to the date of transition exceeded the provisions previously recorded by tCVE 52.953.

34. CAPITAL MANAGEMENT

In line with the prudential rules, the Caixa Económica is subject to compliance with the solvency ratio, liquidity ratio, division of the risks and a balanced balance sheet.

Management of owner's equity of the Caixa is conducted so as to meet the level of prudential owner equity set forth in Notice No. 3/2007 of the Banco de Cabo Verde, dated November 19, on "Owner Equity of credit institutions, non-banking institutions and international financial institutions", in order to cover risk weighted credit, operational risks and market risks.

The Notice No. 3/2007 of the Banco de Cabo Verde defines the requirements of Owner Equity applicable to the Credit Institutions and the methods of calculating the solvency ratio.

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Owner Equity is divided into two categories:

- the base Owner Equity determined from capital deducted from unrealized gains and losses;
- the additional Owner Equity which is limited to 100% of the amount of base capital and primarily comprised by subordinated loans.

The deductions related to shares in other credit institutions reduce the value of total owner equity.

Under the rules in force, the Caixa must continuously observe a solvency ratio of 10%.

On December 31, 2010 and 2009, the Caixa Económica de Cabo Verde fulfilled its regulatory requirements, as evidenced below:

	<u>Dividends</u>	<u>Div./Leg.Res.</u>	<u>Equity</u>	<u>Solvency</u>	<u>Limit of fixed assets</u>
2010	208.800	55,0%	3.224.527	13,56%	227,10%
2009	275.616	89,6%	3.077.174	14,11%	266,11%