# ANNUAL REPORT '19

Banco BIR
Temos Resposta

Banco
BIR
Temos Resposta

# WE HAVE THE ANSWER

In 2019, Banco BIR determinedly pursued a path of support for the development of the Angolan economy, directing its action towards the sustainable growth of its operations, consolidating its assets and its stability as a diligent and responsible financial institution. Depositary of strong trust capital in the market, Banco BIR established several commercial partnerships, simultaneously expanding the scope of its products and services, cementing the good relationship with customers and consumers, through the accuracy of the information provided and the agility of the support always available. Increasingly assuming itself as a full-scale commercial financial entity, Banco BIR reaffirms the expansion of its services and the reinforcement of personalised service. Working closely, we clarify, we advise and we decide on a solution together. **We have the answer.**

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# MESSAGE FROM THE CHAIRMEN



In 2019, Banco BIR celebrated its 6th anniversary, reaching a new notoriety, reinforcing its image as a commercial bank, as a solid institution that is strongly committed to the development and growth of the Angolan economy.

The year of 2019, similarly to previous years, was a very demanding year for the Angolan economy and the financial sector. The economy continued in a recession, with a -1.1% growth projected, thus marking the 4th year of negative GDP growth.

In macroeconomic terms, implementation of the programme for macroeconomic stabilisation continued, with support from the IMF, aiming at fiscal and budgetary consolidation, the control of inflation and the foreign exchange market, in addition to the stabilisation of international reserves.

In the banking sector, the NBA promoted the Asset Quality Assessment programme, covering 13 institutions, with the aim of assessing the stability, strength and resilience of the financial system.

The NBA also promoted, through Notice no. 4/2019 and subsequently, no. 7/2019 and no. 10/2020, the granting of loans to specific and crucial sectors for the development of the country. In this area, Banco BIR, doing justice to its headquarters, supported projects related to Agriculture and Fisheries, far exceeding the minimum level of credit that the supervisor set.

Additionally, the NBA implemented measures with a direct impact on the banks' banking product structure, namely in the scope of the foreign exchange market.

It was in this scenario that the bank was able to comply with the objectives set out in the business plan, reinforcing its assets, profitability and solvency, despite having promoted a strong policy to protect its balance sheet, namely as regards the reinforcement of impairments (plus 1,891 million Kwanzas), as well as the quality of the loan portfolio, which is strongly collateralised by first degree guarantees.

The significant devaluation of the Kwanza was used by management to promote the soundness of the balance sheet, and it should be noted that the results obtained in this way were almost entirely used to reinforce impairments.

The year of 2019 is also marked by yet another milestone, which is very important for the institution's management and shareholders, given that the core income, the financial margin and the Kwanzas business commissions were higher than foreign exchange earnings and directly related fees.

The growth recorded in structural costs reflects the bank's commitment to business development, human capital formation and social policy, aiming to create conditions for all bank staff to carry out their tasks in the best way.

2019 ended with a net profit of 5.572 billion Kwanzas, equivalent to a return on equity of 66%, reaching a solvency ratio of 79.5%.

In another plan, we also note the bank's registration with Bodiva, as a trading and settlement member, the acceptance of the BIR as Mastercard's Principal Member and the start of the Bancassurance business.

In 2020, the bank, in addition to strengthening its achievements in 2019, aims to significantly improve its service to its customers, with the launch of new products and the opening of the Contact Centre.

On behalf of the Board of Directors and the Executive Board, we would like to thank all our Employees for their daily dedication and delivery, which allows us to say every day - **WE HAVE AN ANSWER.**

We are also grateful to shareholders, customers, suppliers and other interested parties, for all the support that has been given to us and that allows us to reinforce confidence in the future of the BIR project.

**ANTÓNIO DA SILVA INÁCIO**
Chairman of the Administrative Board

**LÍGIA MARIA GOMES PINTO MADALENO**
Chairman of the Executive Board

# Highlights

## HIGHLIGHTS IN 2019

H1. KEY INDICATORS

# KEY INDICATORS



| INDICATORS | 2018 | 2019 | VARIATION |
|---|---|---|---|
| **Assets** | 15 012 | 80 533 | 436,5% |
| **Net Income** | 202 | 5572 | 2658,4% |
| **Equity** | 8524 | 14 770 | 73,3% |
| **Customer Funds** | 6352 | 53 461 | 741,7% |
| **Credit** | 5217 | 10 967 | 110,2% |
| **Impairment** | 34 | 1051 | 2991,2% |
| **Securities Portfolio** | 2525 | 27 046 | 971,1% |
| **Cost-to-Income Ratio** | 78% | 28% | -50% |
| **Transformation Ratio** | 82% | 21% | -61% |
| **ROE** | 4,4% | 65,4% | 61% |
| **Solvency Ratio** | 100,9% | 79,5% | -21,4% |
| | | | (MILLION AKZ) |

| INDICATORS | 2018 | 2019 | VARIATION |
|---|---|---|---|
| **Active Customers** | 1372 | 3162 | 130,5% |
| **Branch Network** | 3 | 5 | 66,7% |
| **Employees** | 56 | 82 | 46,4% |
| | | | |
| **Banking Income** | **1437** | **10 475** | 628,9% |
| Net Interest Income | 937 | 5435 | 480,0% |
| Foreign Exchange Gains and Losses | 140 | 2928 | 1988,4% |
| Net Charges | 439 | 2245 | 411,5% |
| Other operating income | -79 | -133 | 68,4% |
| **% NII/BI** | **65,2%** | **51,9%** | -13,3% |
| | | | |
| **Structural Costs** | **1178** | **2941** | 149,6% |
| Staff | 639 | 1786 | 179,5% |
| Third Party Supplies and Services | 453 | 789 | 74,4% |
| Depreciations | 87 | 366 | 321,7% |
| **% Staff / Structure Costs** | **54,2%** | **60,7%** | **6,5%** |
| **% TPSS / Structure Costs** | **38,4%** | **26,8%** | **-11,6%** |
| | | | (MILLION AKZ) |

# Environment

## ECONOMIC ENVIRONMENT

E1. INTERNATIONAL ENVIRONMENT

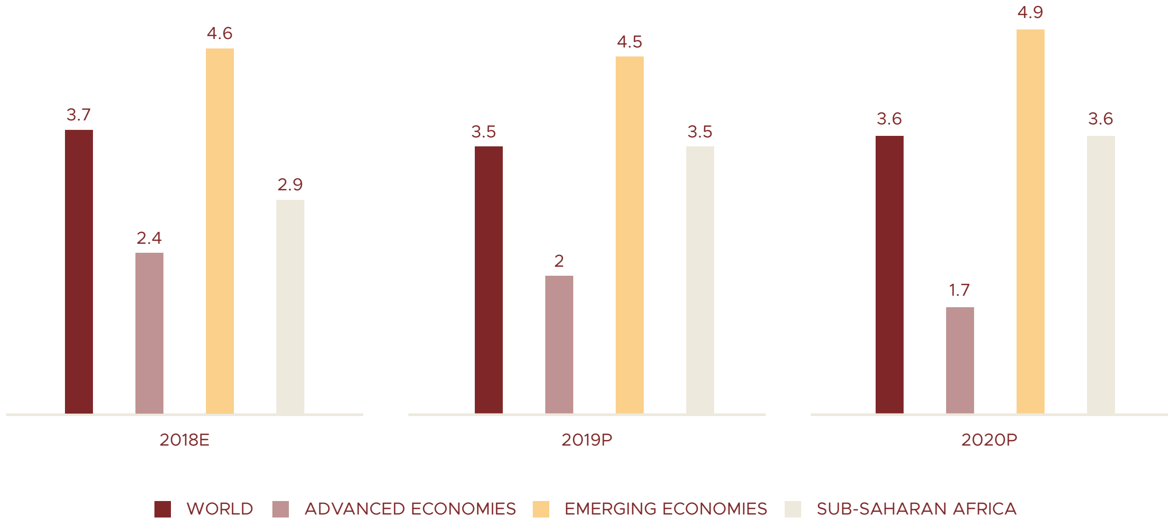
# EVOLUTION OF GLOBAL ECONOMIC ACTIVITY AND OUTLOOKS

The prospects for the evolution of the global economy have been linked to expectations for a resolution of the Chinese-American trade war. In its latest World Economic Outlook, the International Monetary Fund (IMF) revised downward the world growth figures for 2019 and 2020.

The IMF estimates that the expansion of the global economy is expected to slow down to 3% this year, compared with the 3.6% estimated for 2018. Next year, a slight acceleration to 3.4% is expected. These projections reflect cuts of 0.2 and 0.1 percentage points (pp) compared to the July forecasts for 2019 and 2020, respectively.

The poor performance expected from the world's largest economies is expected to be the main factor in reducing world GDP growth this year. There were cuts in the growth forecast for the USA, China, Germany, the United Kingdom, France and others. Indeed, some of these economies have been reporting GDP data for the third quarter, below the target and market expectations.

### LOBAL GROWTH OUTLOOK






## USA

The North American economy slowed, again, in the third quarter, with an annual growth of 2.1%, below the 2.3% of the previous quarter, influenced by a strong reduction in the investments of the companies, which had a decrease of 3%. It was one of the lowest rates in the past three and a half years, reflecting, in a way, the effects of the trade war with China. In the labour market, there was a slight increase in the unemployment rate to 3.6% in October, above the historical minimum of 3.5%. As for monetary policy, the Federal Reserve (Fed) sought to support economic growth and sustain inflation, which stood at an average of 1.7% in the last three months, reducing its interest rate in the range of 1.75 % to 1.5%.

## CHINA

Similarly, China slowed again in the third quarter, with annual growth dropping from 6.2% in the second quarter to 6%, the slowest pace in almost three decades. Like the United States, the Chinese economy has experienced significant impacts from the prolonged trade conflict between the two countries, as a low level of industrial production is observed, as companies prefer to postpone their plans for new investments due to the increased uncertainty.

# EUROZONE

The economic slowdown has been transversal to other parts of the globe, however, in the third quarter, the Eurozone had the same annual growth seen in the previous three months (1.2%), contrary to all expectations of deceleration. The bloc's economy was supported by its largest economy, Germany, which also remained stable at 1.2%. Growth also stabilised in Spain (2%) and accelerated in Italy (0.3%). Inflation in the region has been declining and is currently below 1%, significantly below the target set by the European Central Bank (ECB), which, coupled with weak growth, justified a cut in the interest rate on deposits, by 10 basis points, to -0.5% and the reintroduction of stimulus packages to the economy, which includes the purchase of debt in the markets, at a rate of EUR 20 billion per month.

# SUB-SAHARAN AFRICA

the first half of the year. In Nigeria, activity slowed in both the first and second quarters of 2019, with growth going from 2.38% at the end of 2018 to 1.94%. The same was true both in Angola, whose analysis of GDP we will see below, and in South Africa, where the growth rate dropped to 1.3% in the fourth quarter of last year to 0.9% between April and June this year. For Sub-Saharan Africa, the IMF forecasts growth stagnation at 3.2% this year and an acceleration next year (3.6%). The projection for 2019 was revised downwards, which, of course, took into account the weak growth seen in the largest economies in the region, during





# GLOBAL MARKETS

**The current year has been characterised by high volatility in the global markets due to various factors:**

1. Need for a trade agreement between the two largest world economies[1];
2. Uncertainties regarding the effective exit of the United Kingdom (Brexit) from the European Union and the scope of an agreement between the parties;
3. Social tensions in various places, with emphasis on the protests in Hong Kong, one of the largest financial markets in the world;

Despite this, global stock markets have been appreciating, benefiting from the support of many governments for economic growth. In the foreign exchange market, despite the prolonged trade conflict with China, the dollar appreciated by around 5% between January and mid-November this year, compared to its main counterparts. For its part, the Eurozone's currency lost 5.5% against the dollar, penalised by the slowdown in the bloc's economy and a monetary policy that had changed very little.

Brexit uncertainties had a negative impact on the pound sterling, which fell about 5.2% against the US currency.

[1] The United States and China announced on 7 November that they would withdraw mutually imposed tariffs as part of the partial agreement reached. However, the effective date since the semi-agreement was changed to December, as opposed to November, as initially planned.

[2] As of October this year, protests have been triggered by socioeconomic issues in several countries such as Chile, Ecuador, Peru, Hong Kong and others.

# PETROLEUM MARKET AND OTHER COMMODITIES

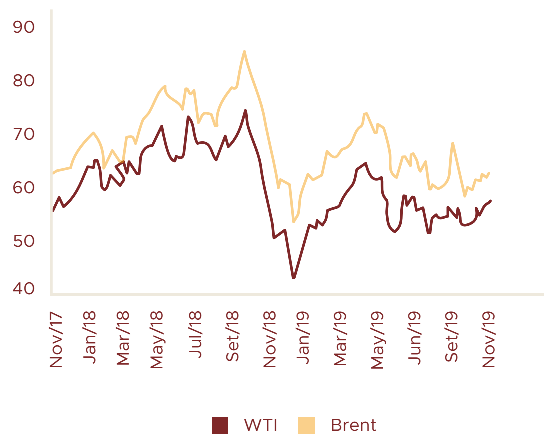
The oil market continued to experience an increase in volatility, which depended, essentially, on the weak prospects for world economic growth and geopolitical tensions.

Also, the Organization of the Petroleum Exporting Countries (OPEC) remained committed[3] to its production reduction agreement, having cut more than 2 million barrels per day between January and October this year, although there were also involuntary cuts by some of its members, as well as the effects of sanctions on Iran and Venezuela.

The commitment of the OPEC and its allies to support oil prices was, once again, demonstrated at its last meeting this year (5 and 6 December), which culminated in an agreement to expand[4] the volume of the group's production cuts to 1.7 million barrels per day (2% of the global supply). The value of the cuts will be 500 thousand barrels a day above the 1.2 million approved in 2017.

Thus, the excess supply that occurred in 2018, ceased to exist in the third quarter of this year. Global production currently corresponds to 98.3 million barrels per day, below the 100.7 million barrels per day of global demand.

### OIL PRICE TRENDS (USD / BARREL)






### PETROLEUM MARKET - DEMAND AND OFFER

| PROJECTION | 2018 | 2T19 | 3T19 | 2019P | 2020P |
|---|---|---|---|---|---|
| **Global Demand** | 98,8 | 98,8 | 100,7 | 99,8 | 100,9 |
| OCDE | 47,9 | 47,3 | 48,4 | 47,9 | 48 |
| China | 12,7 | 13,2 | 13 | 13,1 | 13,4 |
| Other | 38,2 | 28,3 | 39,3 | 38,8 | 39,5 |

Source: OPEC

| PROJECTION | 2018 | 2T19 | 3T19 | 2019P | 2020P |
|---|---|---|---|---|---|
| **Global Supply** | 99,1 | 98,6 | 98,3 | - | - |
| OPEP LNG | 4,7 | 4,8 | 4,71 | 4,8 | 4,8 |
| OPEP | 31,9 | 30 | 29,4 | - | - |
| Non-OPEC | 62,5 | 63,8 | 64,2 | 64,3 | 66,5 |
| d/q: OCDE | 28,3 | 29,7 | 29,7 | 29,9 | 31,6 |
| Difference | 0,3 | -0,2 | -2,4 | - | - |

Source: OPEC MILLIONS OF BARRELS PER DAY

[3] Degree of implementation reached 147% in

[4] The deadline remains as March 2020, and can be extended to June or December.

Despite the reduction in supply, raw material prices have been falling around 63 - 64 USD per barrel[5] in the London market. As mentioned above, in addition to the weak prospects for growth in demand, the reduction in supply has been offset by the increase in US oil reserves (+7% in the first 10 months of 2019).

## OPEC PRODUCTION TRENDS

| CARTEL MEMBERS | 2018 AVERAGE (1) | AUG-2019 (2) | SEPT-2019 (3) | OCT-2019 (4) | VARIATION 4/1 |
|---|---|---|---|---|---|
| Algeria | 1.042 | 1.016 | 1.020 | 1.019 | -23 |
| Angola | 1.505 | 1.385 | 1.399 | 1.356 | -149 |
| Congo | 317 | 320 | 335 | 325 | 8 |
| Equador | 519 | 543 | 548 | 448 | -71 |
| Equatorial Guinea | 125 | 117 | 122 | 125 | - |
| Gabon | 187 | 204 | 197 | 207 | 20 |
| Iran | 3.553 | 2.193 | 2.164 | 2.146 | -1 407 |
| Iraq | 4.550 | 4.781 | 4.732 | 4.690 | 140 |
| Kuwait | 2.745 | 2.638 | 2.658 | 2.674 | -71 |
| Libya | 951 | 1.074 | 1.160 | 1.167 | 216 |
| Nigeria | 1.718 | 1.870 | 1.848 | 1.811 | 93 |
| Saudi Arabia | 10.311 | 9.851 | 8.796 | 9.890 | -421 |
| United Arab Emirates | 2.986 | 3.082 | 3.083 | 3.106 | 120 |
| Venezuela | 1.354 | 735 | 644 | 687 | -667 |
| **TOTAL** | **31 863** | **29 809** | **28 706** | **29 651** | **-2 212** |

Source: Secondary sources of the OPEC — THOUSAND BARRELS PER DAY

Oil prices have been pressured by low expectations for growth in demand. Supply is expected to increase more than demand, with countries outside the OPEC driving these increases. As for prices, the average of the projections from over 30 international institutions puts Brent around 69 USD in the first quarter of next year. Such projections can be considered optimistic, if it is considered that global growth forecasts will remain weak.

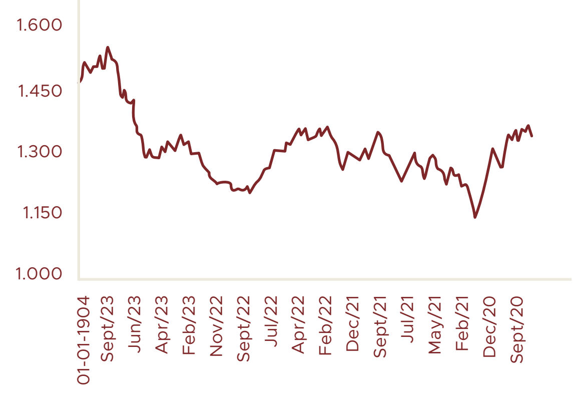


As for other commodities, gold stands out, which appreciated 9% on average, due to the perception of increased risk and volatility in the financial markets. The commodity, which has usually served as a refuge in times of greater uncertainty in the markets, saw prices rising, even trading at USD 1,468 per ounce in the first half of 2019, compared to USD 1,213 in the same period last year.

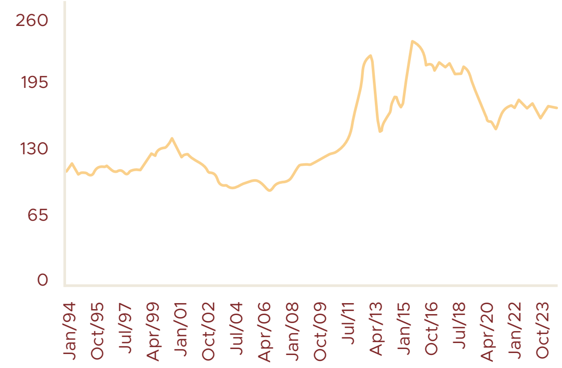
With regard to food commodities, the FAO index, which tracks food prices in a basket with about five essential goods, remained practically stable compared to last year. The weak growth in food prices worldwide was also based, among other factors, on the weakening of global economic activity.

The fall in the prices of oils (-11%) and cereals (-0.4%) was offset by increases in the prices of meat (+3.6%), dairy products (+1.2%) and sugars (+1.4%).

**PRICE OF GOLD (USD/OUNCE OF GOLD)**




**FAO INDEX (POINTS)**




[5] It should be noted that, in September, the price of Brent reached around 70 USD due to attacks perpetrated against Saudi oil installations, affecting about 5.7 million barrels of its daily production, which corresponded to 5% of global supply. As a result, prices soared by almost 20%, however, the effects were temporary and limited, bringing prices back to levels prior to the attack.

# FOREIGN EXCHANGE MARKET



The NBA has introduced a set of measures in the foreign exchange domain. It should be recalled that, in 2018, with the instruction 19/2018 of 3 December[6], the NBA revoked the instruction that imposed an exchange rate of +/- 2% in the primary market. Thus, banks had, by law, greater flexibility in their bidding for the exchange rate. However, the NBA had the power to reject proposals that it considered to be speculative, which implied that in each foreign exchange auction the variations in the exchange rate were similar to those that occurred prior to the entry into force of this instrument.

As we will see later, this year the net placement of Treasury bills was negative, meaning, there were more bailouts than issuances. Thus, the liquidity levels of the financial system were constantly a concern for the NBA. In order to better manage these liquidity levels and thus control exchange rate pressure, the Central Bank limited liquidity transfers to commercial banks and absorbed liquidity with open market operations. In addition, the Central Bank communicated, throughout the year, a series of adjustments, of an operational nature, in the financial system. In particular, between July and October of this year, the following can be highlighted:

- The deadline for settling foreign exchange sales, for some auctions, went from 2 days (D+2) to immediate settlement (D+0);
- The NBA started to demand the availability of liquidity in national currency in an amount equivalent to the needs map presented by each bank;
- Creation of a new type of ceiling allocation for opening import letters of credit (IDC), where it was required that part of the IDC's money be seized in cash at the NBA, and remunerated at the equivalent rates of open market operations;
- Realisation of some auctions of open market operations convertible into foreign currency, that is to say, at the time of the repayment of the liquidity absorbed by the NBA, it was converted into foreign currency;

In October, the NBA started accepting exchange rate bids that it previously defined as speculative. Thus, depreciations of over 2% began to occur in each foreign exchange auction, for example in the auctions N144 and 145, where the maximum rates started to be increasingly higher.





## CURRENCY AUCTIONS (10/14/2019 TO 10/23/2019)

| AUCTION NUMBER | OFFER (MILLIONS OF EUR) | PURCHASE (MILLIONS OF EUR) | AUCTION DATE | MAXIMUM RATE | MINIMUM RATE | WEIGHTED AVERAGE RATE | NUMBER OF BANKS |
|---|---|---|---|---|---|---|---|
| 141* | **9,1** | **9,1** | 14/10 | 458,611 | 454,158 | **456,060** | 12 |
| 142* IDC | **10,7** | **10,7** | 15/10 | 469,209 | 455,019 | **460,675** | 11 |
| 144* | **9,1** | **9,1** | 16/10 | 479,102 | 472,714 | **474,867** | 11 |
| 145* | **9,0** | **9,0** | 17/10 | 498,187 | 496,831 | **496,831** | 12 |
| 146* | **9,0** | **9,0** | 18/10 | 510,494 | 496,831 | **504,167** | 10 |
| 147* | **8,9** | **8,9** | 21/10 | 510,724 | 506,035 | **508,151** | 10 |
| 148* IDC | **23,7** | **23,7** | 22/10 | 519,376 | 506,05 | **508,138** | 16 |
| 149* | **9,0** | **9,0** | 23/10 | 514,530 | 509,325 | **511,124** | 12 |

Source: NBA

* UCTIONS HELD IN DOLLARS
IDC AUCTIONS FOR CREDIT COVERAGE

[6] This measure only came into force in 2019 and was intended to adjust the procedures for organising and operating auctions for the purchase and sale of foreign currency by the NBA. The publication of this instruction occurred at the same time as Instruction 20/2018, which changed the methodology for calculating the NBA reference exchange rate.

According to the central bank's perception, at the time, the conditions precedent for the flexibility of the foreign exchange market were created[7] and there was a significant reduction in the speculative practices that had been occurring in access to foreign exchange by the private sector.

In this context, on 23 October, an extraordinary session of the Political Committee (CPM) was held in order to introduce new measures to support the new exchange rate regime. The most relevant measure implemented was the elimination of the margin limit of 2% of the exchange rate practiced by commercial banks in the sale of foreign currency to their customers[8]. In other words, banks from this moment on may place the exchange rate they deem to be the most appropriate[9]. To make this measure operational, Instruction N16/2019 was released[10].

Still in the foreign exchange domain, in that CPM another set of measures was also decided on, which were later put into operation by Instruction 18/2019, related to the functioning of the foreign exchange market. The measures were aimed at: (i) easing the limits applicable to the various payment instruments for importing goods[11]; (ii) the increase in the maximum annual value of 120 thousand USD for private operations, which compares with the previous 12 million Kz; and (iii) reduction of the period for settlement of open letters of credit, the importer being able to proceed with his payment as soon as it presents the proof of entry of the goods into national territory.

At the same time, because the NBA was concerned that the liquidity levels of the financial system could put additional pressure on the evolution of the exchange rate and, consequently, on the inflation trajectory, some restrictive monetary policy measures were taken. In particular, the interest rate for the 7-day liquidity absorption facility increased from 0% to 10%, while the reserve requirement ratio increased by 5 percentage points to 22%[12] (Instruction N17/2019 and supplemented by the directive 08/DMA/DRO/2019 of 25 October 2019).

As expected, in the auctions following the announcement of the extraordinary CPM measures, the exchange rate experienced considerable depreciation. Between 23 October and 1 November, the depreciation was over 9%. At the same time, there was also a notable increase in the dispersion between the minimum and maximum rates of successful bids in the auction. For example, between 28 October and 30 October, this dispersion was, on average, 6%.

In operational terms, NBA again allowed each bank to present its clients' complete currency needs map, without having to be covered by the available liquidity of that same bank.

The central bank, therefore, wanted to have more complete information on the effective demand for foreign exchange, with a view to offering the market the amounts necessary to settle it.





At this point, it is also worth mentioning, from the outset, the auction N156, of 30 October, in the amount of EUR 137.8 million. This amount was clearly higher than that normally offered at each auction and aimed to cover a large part of the banks' needs map. Its timing was also very relevant, since the settlement of this auction by the NBA took place on D+2, which implied a considerable liquidity absorption when the fulfilment of mandatory reserves with the 22% coefficient came into effect (4 November). It can be deduced that the fulfilment of this new requirement implied an absorption of around 150 billion Kz, about half of the free reserves at that time.

[7] According to the NBA communiqué on 23 October regarding the extraordinary session of the CPM, the conditions created referred to were defined as: "(i) end of the indexation of the kwanza to the United States dollar, (ii) regularisation of foreign exchange operations by executed in commercial banks since 2014, (iii) elimination of the sale of foreign currency directly to companies and citizens by the NBA and (iv) replacement of liquidity levels in foreign currency of commercial banks, allowing their customers to have greater capacity for handling Bank accounts."

[8] It should be remembered that in the interbank market, the exchange rate could already be negotiated freely (instructive 20/2018).

[9] Although, in the following days, banks continue to practice the spread of 2% on the reference rate for the execution of their clients' operations, this practice is no longer general. Today, the exchange rates practiced by commercial banks can be consulted on the NBA website, which are already quite different among them.

[10] It should be noted that, in this instruction, there is also a change in the reference purchase exchange rate, normally used to buy foreign currency from the Ministry of Finance and oil companies, which will be calculated with a reduction of up to 2% on the purchase exchange rate (contrary to the 1% differential stipulated in Instruction 20/2018).

[11] Specifically: (i) Elimination of the annual limit on prepayments in import operations and increase of the limit per operation from EUR 25 thousand to USD 50 thousand; (ii) Removing the annual limit on documentary shipments and increasing the limit per operation from 50 thousand EUR to 200 thousand USD; (iii) Extinction of the limits in force for payments in the form of documentary collections and documentary import credit;

[12] The instruction also allows 80% of the credits granted to agriculture, fisheries, livestock and forestry with a maturity greater than or equal to 24 months, as well as 100% of the credits, for any maturity, to the real sector of the economy (defined according to article 7. N of Notice 04/2019, of 3 April, combined with Notice 07/2019, of 7 October).

## CURRENCY AUCTIONS (23/10/2019 TO 01/11/2019)

| AUCTION NUMBER | OFFER (MILLIONS OF EUR) | PURCHASE (MILLIONS OF EUR) | AUCTION DATE | MAXIMUM RATE | MINIMUM RATE | WEIGHTED AVERAGE RATE | NUMBER OF BANKS |
|---|---|---|---|---|---|---|---|
| 149* | **9,0** | **9,0** | 23/10 | 462,873 | 458,191 | **511,124** | 12 |
| 150* | **9,0** | **9,0** | 24/10 | 474,030 | 466,598 | **522,223** | 10 |
| 152 | **20,0** | **20,0** | 25/10 | 540,501 | 533,896 | **537,174** | 12 |
| 153 | **38,1** | **38,1** | 28/10 | 560,340 | 536,865 | **549,780** | 21 |
| 155 | **25,1** | **25,1** | 29/10 | 571,084 | 540,891 | **556,829** | 13 |
| 156 | **137,8** | **137,8** | 30/10 | 578,406 | 534,556 | **557,551** | 20 |
| 157 | **10,0** | **10,0** | 31/10 | 565,914 | 557,551 | **559,693** | 13 |
| 158 | **22,6** | **22,6** | 01/11 | 572,146 | 535,000 | **559,463** | 16 |

Source: NBA

* UCTIONS HELD IN DOLLARS

Thus, between 4 and 11 November, exchange rates followed an appreciation. In addition to the factors mentioned, the NBA, in order to stimulate the interbank market, did not provide liquidity that week. This context created a situation that was not intended by the NBA. This movement of appreciation was divergent from the theoretical equilibrium rate. In other words, the appreciation was the result of a verified distortion that consisted of the existence of an insufficient level of liquidity in the banking system. Thus, the price was not compatible between foreign exchange supply (central bank) and real demand (economic agents, final consumers of foreign exchange), since banks did not have the capacity to bridge the gap between these two sides of the market[13].

It is also important to note that on 6 November, the NBA ceased its quantity auctions, where an upper limit was attributed for opening letters of credit for import.

In this way, banks began to be responsible for the entire process underlying the opening and settlement of the letter of credit, and should use the currency obtained in auctions to settle them.





## CURRENCY AUCTIONS (01/11/2019 12/11/2019)

| AUCTION NUMBER | OFFER (MILLIONS OF EUR) | PURCHASE (MILLIONS OF EUR) | AUCTION DATE | MAXIMUM RATE | MINIMUM RATE | WEIGHTED AVERAGE RATE | NUMBER OF BANKS |
|---|---|---|---|---|---|---|---|
| 158 | 22,6 | 22,6 | 01/11 | 572,146 | 535,000 | 559,463 | 16 |
| 159 | 20,0 | 18,0 | 04/11 | 568,079 | 536,835 | 557,017 | 12 |
| 161 | 20,0 | 18,2 | 05/11 | 562,030 | 529,013 | 546,664 | 8 |
| 163 | 20,0 | 6,7 | 06/11 | 545,461 | 491,998 | 521,061 | 6 |
| 167 | 20,0 | 12,5 | 08/11 | 521,217 | 502,823 | 514,586 | 8 |
| 170 | 20,0 | 15,0 | 12/11 | 515,101 | 509,708 | 513,597 | 10 |

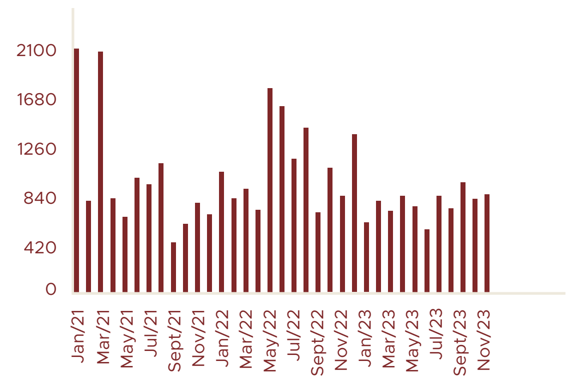
Source: NBA

As of the second week of November, liquidity management has been opposed to that assumed over the year by the central bank. In a context where the shortage of liquidity in national currency started to be a major problem, the NBA used open market operations to introduce liquidity into the system. In other words, a movement reverted to the securities repurchase agreements that it previously carried out, where the NBA only used open market operations to absorb liquidity. On the other hand, the NBA also allowed the liquidity absorbed in traditional open market operations to be authorised to access currency auctions. As a result, the exchange rate returned to a more subdued depreciation pace, with the supply of foreign exchange being, as a rule, fully absorbed by demand.

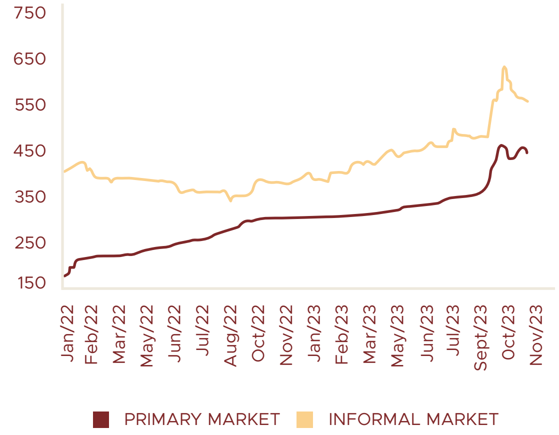
In cumulative terms, the National Bank of Angola made, in the first eleven months of 2019, the equivalent of USD 8.5 billion available to the market, a decrease of 29.7% compared to the amount sold in the same period last year. Despite the decline in foreign exchange sales, demand appears to be normal and there was also a considerable settlement of arrears.

[13] In other words, economic agents could have sufficient national currency for a foreign currency transaction, but commercial banks do not have sufficient national currency liquidity to obtain the necessary currencies to execute the client's transaction.

FOREIGN EXCHANGE SALES (MILLION USD)




AVERAGE EXCHANGE RATE (USD/KZ)




The gap between the formal and parallel markets narrowed from 31%, at the end of the previous year, to around 26%, at the time this report is being prepared (5 December). In the official market, the reference exchange rate against the USD depreciated around 57% over this year up to 5 December, while the informal market exchange rate depreciated 50%.

Despite the reduction in the spread of the foreign exchange market, it is important to note that on 4 November, the USD was sold above 700 Kz informally, which, at the time, represented a spread above 40% of the official exchange rate. Such an occurrence may indicate that the margin for reducing the spread of the exchange rate in this market will always be limited and at times of greater volatility in the foreign exchange market, it may even increase, even at prices considered to be prohibitive. However, through some contacts with informal market operators, it can be seen that the size of this market has drastically decreased since the NBA decided to provide greater flexibility in the exchange rate. Thus, the analysis of spread between these two markets begins to be of little relevance.

Finally, it is important to mention the most recent measures taken in the CPM of 27 November, with effects from 2020, which could mean a new structural change in the exchange rate regime, with the reduction of the NBA's role in the supply of foreign exchange to the banking sector. and boosting the interbank foreign exchange market.

First, the NBA will stop buying foreign currency from oil companies, and they should start selling it directly to commercial banks.

At the time of writing this report, there is still no specific legislation on this measure, but it is to be expected, as in other countries, that in this situation only a few banks, with a more relevant dimension and reputation, may take greater control of this negotiation. Thus, the NBA also decided to reduce the limit on the foreign exchange position of commercial banks from 5% to 2.5%, in order that banks capable of absorbing foreign exchange from oil companies, assume the role of dealers and negotiate with other banks in the system.

It should also be noted that, ultimately, when there is an excess supply of foreign currency from oil companies in view of the demand from commercial banks, the NBA will be the buyer of this excess at the reference purchase rate.

# TAX ACCOUNTS AND PUBLIC DEBT

## NET PLACEMENT OF SECURED DEBT

The issuance of public debt in the first ten months of the year decreased 44%, year on year, to stand at 789 billion Kz. This decrease resulted mainly from the weak issue of Treasury bonds (T-Bonds), which reached 349 billion Kz, significantly below the 767 billion Kz in the same period last year. Of this amount, around 7.2 billion Kz corresponded to issues of foreign exchange indexed bonds (OTTXC), carried out on 30 May and 27 June[14]. This figure is significantly below the 141.1 billion Kz that are forecast in the SAP 2019. Regarding issues of foreign currency bonds (OTME), in this period, offers were observed in the total amount of USD 125.5 million, of which USD 104.5 million were actually issued, with interest rates between 4% and 6% for maturities between 2 and 5 years.

Also, the placement of Treasury bills (TB) has been decreasing, having decreased 33% to 440 billion Kz. Banks and other buyers of government debt have shown themselves to be less and less interested in government bonds. This was evident in the gap between the amounts offered and sold. The issuance of TB's corresponded to only 21% of the 2,118 billion Kz on offer, while for T-Bonds, around 51% of what had been offered to the market was purchased.

Despite the gap between the issue and the offer, the execution of TB's, in relation to the forecast contained in the Annual Debt Plan (PAE 2019), stood at 88%. However, for T-Bonds, there was a weak execution compared to PAE 2019 (28%).



## PLACEMENT OF TREASURY BONDS

| | MIL MILHÕES DE KZ | 2018 JAN-NOV | 2019 JAN-NOV | VAR. | YEAR |
|---|---|---|---|---|---|
| TB | Offer | 1 577 | 2 118 | 34% | 88% |
| | Issue | 652 | 440 | -33% | |
| | Bailout | 1 301 | 709 | -46% | 135% |
| | Net Charges | - 648 | - 269 | - | |
| T-Bond | Offer | 1 387 | 682 | -51% | 28% |
| | Issue | 767 | 349* | -54% | |
| | Bailout | 1 086 | 571** | -47% | 48% |
| | Net Charges | - 319 | - 222 | - | |
| | **Total Issue** | **1 419** | **789** | **-44%** | **45%** |
| | **Total Bailout** | **2 387** | **1 279** | **-46%** | **75%** |

Source: SIGMA

* INCLUDES 7.2 BILLION ISSUANCES OF BONDS INDEXED TO THE EXCHANGE
** DOES NOT INCLUDE NOVEMBER BAILOUTS

Between January and October, the State amortised debts, in the amount of 1,279 billion Kz, of which, most of them corresponded to the payment of TB's (709 billion Kz). The execution of the bailouts of TB's surpassed what was expected, by 51%, while for T-Bonds, the Ministry of Finance continued to postpone the payment of debts (rollover), having executed only 55% of what was forecast.

Rollover continued to be a strategy used by the Government due to the need to shift debt over the long term and thus relieve pressure on the State's treasury in the short term.

The fees for issuing Treasury bills were 12% and 14.68% for the maturities of 182 and 364 days, representing decreases of 1.5 and 0.25 percentage points compared to the rates observed at the end of 2018.

The rate for 91-day TB's remained at the same 13.6% recorded in December last year due to the fact that securities no longer issued at this maturity.

[14] The demand to supply ratio for these two issues was only 36%.

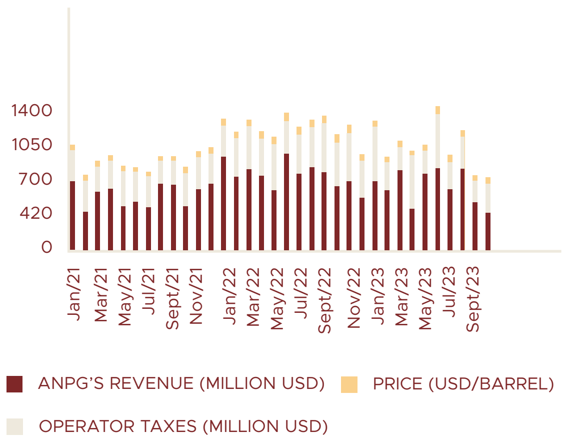
## COLLECTION OF PETROLEUM REVENUE

The 8.3% reduction in national oil production and the 23.6% decrease in the average price of a barrel of oil, led to a 16.4% decrease in oil tax revenues collected between January and October this year.

In this period, approximately 9.4 billion USD of petroleum tax revenues were obtained, of which 65% correspond to the revenue belonging to the National Agency of Oil, Gas and Biofuels (ANPG) and the remaining amount came from taxes charged to the oil companies (35%).

The average export of the first 10 months stood at 1.34 million barrels per day[15], below the assumption of a production of 1.43 million barrels per day in the revised 2019 Budget. Likewise, the average export price of Angolan oil, in the period in question, was below the Government's target, which recommended a minimum of 55 USD per barrel.

### PETROLEUM REVENUE VS EXPORT PRICE




Taxes charged to operators in the sector fell 12.6% compared to last year and stood at USD 3.3 billion. The decrease was mainly due to the lower collection of the Petroleum Production Tax (USD -415 million to USD 530 million). As for the other two oil taxes, reductions were also noted. The Petroleum Income Tax decreased by USD 110 million and reached USD 2.5 billion), while in the Petroleum Transaction Tax, a reduction of USD 78 million to USD 121 million was felt.

In the first disclosures this year, MINFIN had included, for the first time, in the statistics on sector revenues, two new items: one on taxes charged to gas production (record of USD 131 million in January, April, July and October) and the other on the amounts of oil revenues destined for debt service (USD 1.2 billion[16] in January and February).

Taking into account the production by blocks, 15 and 17 stand out, of which came about 48% of the total production in the period under analysis. The accumulated production of block 15 came to a total of around 67 million barrels from January to October, which would correspond to nearly 200 thousand barrels per day. Block 17 released, daily, a little more than 430 thousand barrels, which added up to almost 134 million barrels in accumulated terms. However, the production of these two blocks followed the general fall in production, contracting around 7% and 20% respectively. It should be noted that production losses have supplanted the increases in certain blocks, in particular that of block 32 projects, leading to a net reduction of 21 million barrels since the beginning of the year.





[15] Calculated based on the monthly export volume, assuming 31 days for each month.

[16] This amount corresponded to 61% of the total collected in the first two months of the year. For unknown reasons, in the following months, both the Gas Rate and Debt Service captions were no longer shown. For unknown reasons, in the following months, the caption Debt service was no longer shown.

### PETROLEUM PRODUCTION BY BLOCKS - MILLIONS OF BARRELS

| DESCRIPTION | 2018 JAN-OUT | 2019 JAN-OUT | VAR. |
|---|---|---|---|
| Block 0 A | 51,60 | 48,58 | -5,9% |
| Block 0 B | 21,91 | 18,95 | -13,5% |
| Block 2/05 | 0,18 | 0,63 | 259,7% |
| Block 2/85 | - | - | - |
| Block 3/05 | 6,89 | 5,46 | -20,7 |
| Block 4/05 | 0,95 | 2,29 | 141,2% |
| Block 14 | 19,75 | 15,88 | -19,6% |
| Block 14 K/A-IMI | 2,39 | 1,69 | -29,3% |
| Block 15 | 72,46 | 67,11 | -7,4% |
| Block 15/06 | 42,53 | 40,22 | -5,4 |
| Block 16 | - | - | - |
| Block 17 | 167,76 | 134,00 | -20,1% |
| Block 17/06 | - | - | - |
| Block 18 | 25,52 | 16,94 | -33,6% |
| Block 25 | - | - | - |
| Block 31 | 35,13 | 24,09 | -31,4% |
| Block FS / TPSS | 0,55 | 0,34 | -38,4% |
| Block 32 | 3,77 | 43,90 | - |
| Zona Sul T. Cabinda | 0,36 | 0,18 | -49,3% |
| **TOTAL** | **452** | **420** | **-7,0%** |

Source: Minfin

According to ANPG projections, national oil production may continue to fall and should reach, on average, around 830 thousand barrels per day in 2025. The agency's forecasts show that this year, the sector will lose about 37 thousand barrels per day, which compares with the 1.428 million barrels produced daily in 2018. Except in 2020, where a slight increase in production is expected (+7 thousand barrels), it is expected that in the following years, the falls will be accentuated, with average decreases of 121 thousand barrels per day until 2025.

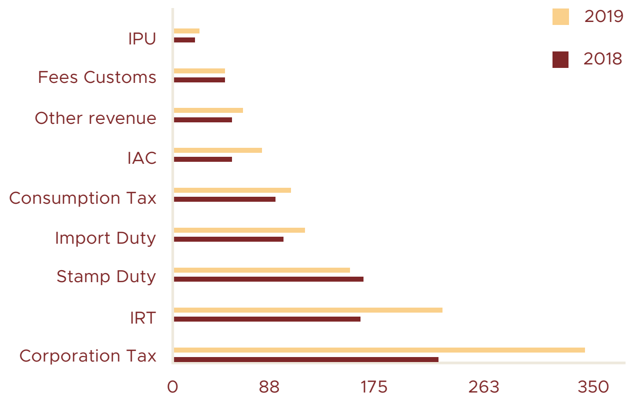
However, in the latest 2020 State Budget justification, the Government announced some proposed measures to redirect the current profile of declining oil production. Of these, the following were of particular note:

1. Strict compliance with maintenance and inspection programmes to ensure operational efficiency above 95%;
2. Carrying out light interventions in the wells continuously, and ensuring the revitalisation programmes of the Malongo West, Kungulo and Banzala fields, in Block 0, as well as interventions in wells in Blocks 14,15,18 and 31;
3. Restoration and improvement of water injection in several concessions;
4. Mobilisation of probes for drilling or repairing holes;
5. Optimisation of work during scheduled stops;
6. Implementation of Margin Field Development Strategy.

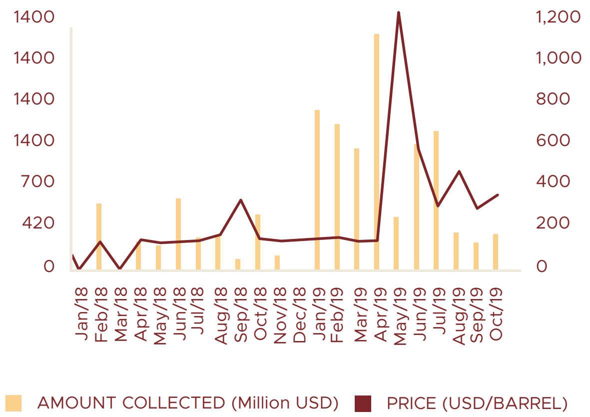
## COLLECTION OF NON-PETROLEUM REVENUE

The data made available by the AGT on the country's non-oil tax revenues, reported up to the month of July[17], and corresponded to a collection of around 1,148 billion Kz. The Industrial tax continued to be the tax with the greatest weight on the total, around 30%, followed by the tax on labour income (20%).

**JANUARY NON-PETROLEUM REVENUE - JULY (BILLION KZ)**




**DIAMOND REVENUE**




Regarding taxes obtained in the diamond sector, the data are updated until October this year. Thus, this year, diamond taxes amounted to USD 120.2 million (25.8 billion Kz) in taxes and royalties from the sector. Of the total collected, most corresponded to industrial tax (55.8%) and the remaining 44.2% came from royalties.

The carat price has risen significantly this year, from an average of 156 USD in 2018 to 355 USD[18], above the 154.4 USD per carat estimated in the revised 2019 Budget. As for production, it decreased by 11% over the ten months under analysis and reached around 7.1 million carats, below the production expected by the Government for the period.

In order to boost non-oil tax revenue, the Government has sought to implement measures to broaden the country's tax base. In this sense, and in line with the recommendations of the IMF, in addition to VAT and the Excise Tax (which came into force both on 1 October), proposals to amend the Income Tax code the Labour, Circulation Rate and Urban Property Tax are being discussed. These changes are essentially aimed at broadening the tax base, in order to create more spaces for increasing State revenues.

## REVIEW OF THE 2019 REVISED MACROECONOMIC PROPAGATION AND PROPOSAL FOR THE GENERAL STATE BUDGET FOR 2020

In the Revised Macroeconomic Programming of 2019 (PMER19), the Government was less optimistic for most of the assumptions used, having carried out a downward revision of almost all assumptions compared to those assumed in the Revised General State Budget (OGE19R):

- Oil production, set at 1.39 million barrels per day (Mbpd), that is, a reduction of 40 thousand barrels per day, compared to what was programmed in the OGE19R;
- The inflation rate should end the year at 17.7%, 0.2 percentage points higher than the projection in the OGE19R;
- The new forecast for economic growth points to the fourth consecutive year of recession in the country, with the economy falling by 1.1%. For the oil sector (including the production of natural gas) a more pronounced drop is expected (-5.2%), while for non-oil activities a less significant advance is expected (0.6%).

Only the assumption for the average price of oil was revised in a positive light to the budget. An average price of 63.2 USD per barrel is assumed in 2019, an increase of 8.2 USD per barrel that appears in the OGE19R.

[17] Consultation made on 01/12/2019.

[18] The rise in prices had to do with the beginning of the diamond auctions, a programme that fits into the new form of diamond marketing approved by the Government.

## ANALYSIS OF THE PROPOSED GENERAL STATE BUDGET 2020

Regarding the proposal of the State Budget for the next year (OGE 2020), the Government considered the following scenario:

**A) The average price of oil at USD 55 per barrel** – an assumption that can be considered as conservative, since it is below the minimum value of the average of the projections of several international institutions;

**B) Oil production should be around 1.44 million barrels/day** – that is, about 50 thousand barrels above the closing estimate for 2019 contained in PMER19. This upward revision is fundamentally justified by infrastructural improvements in several concessions and the entry into production of new fields;

**C) Inflation is expected to rise to 25%** – an assumption justified by the impact of the adjustment in prices of fuels and other oil products;

**D) Implicit exchange rate should be contained between the (500 - 520) USD/Kz range**[19] – although the exchange rate assumed in the budget is not presented in the document, perhaps to avoid speculation about it, it is easily possible to deduce this exchange rate. This assumption is not very consistent with the current reality, where the exchange rate already comfortably exceeds that assumed for the 2020 Budget. Such disparity, and considering
the importance of this assumption for the State Budget, it may result in the urgent need to revise it.

**E) Economic growth rate (1.8%)** – in addition to the 1.5% growth of the oil sector[20], the executive admits a growth of 1.9% in the non-oil sector for the next year. It is wise to admit that it will be a challenging year for the non-oil sector to resume growth. A number of measures have recently been introduced which, although necessary for structural change in the economy, may be restrictive for growth in the coming year. The release of the exchange rate, the current level of State indebtedness, an uncertain monetary and financial framework, the introduction of VAT and the increase in fuel prices are some of the factors that may create difficulties for the growth of the non-oil sector, as a whole, next year.

For 2020, an increase in the weight of tax revenues on GDP is projected, which should be situated at 8,611 billion Kz (with the weight going from 19.3% GDP to 20.4% GDP). In nominal terms, an increase in revenues of around 44% to 8,611 billion Kz should be observed. This increase is explained by petroleum tax revenues, which are expected to increase by over 50% next year. In turn, non-oil revenues are expected to grow by around 26% to 2,517 billion Kz, representing 6% of GDP forecast for 2020.

The increase in non-oil tax revenues is widely explained by the widening of the tax base, within the scope of the reform that the Executive has been carrying out. It is expected that in 2020 the greatest impact will be felt with the introduction of some measures already carried out in 2019, which include the introduction of VAT and excise duty. In the document



**ASSUMPTIONS**

| Inflation (%) | OGE19R | PMER19 | OGE 2020 |
|---|---|---|---|
| Oil production (million barrels/day) | | | |
| Barrel price (USD) | 17,5 | 17,7 | 25 |
| Real GDP growth (%) | 1,43 | 1,39 | 1,44 |
| Oil | 55 | 63,2 | 55 |
| Non-Oil | 0,3 | -1,1 | 1,8 |
| Source: Minfin - 2020 Budget Proposal Justification | -3,5 | -5,2 | 1,5 |
| | 1,6 | 0,6 | 1,9 |

under analysis, it can be seen that these two new taxes together should represent about 8% of the revenues to be collected in the next year. In particular, it is expected that around 574.4 billion Kz of VAT will be collected, about 1% of the forecast GDP[21].

On the expenditure side, the attempt at budgetary consolidation through expenditure restraint is noteworthy. Expenses are fixed at 8,092 billion, which represents a smaller nominal increase (35%) than that of revenues (44%), implying a reduction of 0.1 percentage point in the weight of public spending in GDP to 19.2%.

Among the captions of current expenses, it is observed that 58% of the total will be used to pay salaries and interest. Taking into account the high budgeted amounts for debt repayment (7.226 billion Kz), we can anticipate the difficulties that the Government is expected to face in 2020 and the existence of little scope for other economic objectives to be met[22].

Regarding the financing of the 2020 Budget, this will mainly be carried out externally, with the State receiving disbursements of the equivalent of 4.867 billion Kz, that is, about 11.6% of the expected GDP. In net terms, a net internal indebtedness (-2.243 billion Kz) and an increase in external indebtedness (1.724 billion Kz) are budgeted.

[19] This fee is not shown in the document. The document's only reference to the exchange rate is that: in 2020, in line with the target set for the inflation rate, we will continue to deepen the new exchange rate policy aimed at eliminating the imbalance that still prevails in the country's foreign exchange market.

[20] This growth is justified by the 3.4% growth in oil production, which more than compensates for the 21.8% contraction in gas production.

[21] It should be noted that this expectation is significantly below the average for African countries, which is normal, as it is the first full year of its implementation. According to the AGT Tax Studies Centre, in Senegal this tax represents 12% of GDP, while in South Africa this ratio reaches 11%. For Mozambique and Togo, VAT corresponds to 9% of GDP.

[22] Putting the problem in another way: tax revenues and domestic debt disbursements practically cover debt amortisation and current expenses excluding wages and interest. In this perspective, the high amount of external indebtedness of the Executive is practically allocated to the payment of debt salaries and interest.

## 2020 STATE BUDGET - MACRO FISCAL FRAMEWORK

| BILLION KZ | 2019 | | 2020 | | VAR. 4/2 (P.P.) |
|---|---|---|---|---|---|
| | REVISED STATE BUDGET (1) | % OF GDP (2) | OGE (3) | % OF GDP (4) | |
| **Revenue** | **5 986** | **19,3** | **8 611** | **20,4** | 1,1 |
| Oil | 3 568 | 11,5 | 5 581 | 13,2 | 1,7 |
| Of which: ANPG rights* | 2 061 | 6,7 | 3 099 | 7,4 | 0,7 |
| Non-Oil | 1 996 | 6,5 | 2 517 | 6,0 | **-0,5** |
| Other revenue | 422 | 0,8 | 514 | 1,2 | 0,4 |
| Expenses | 5 986 | 19,3 | 8 092 | 19,2 | **-0,1** |
| Current expenses | 4 949 | 16,0 | 6 761 | 16,0 | 0,1 |
| Salary | 1 793 | 5,8 | 2 218 | 5,3 | **-0,5** |
| Interest | 1 599 | 5,2 | 2 474 | 5,9 | 0,7 |
| External | 858 | 2,8 | 1 405 | 3,3 | 0,6 |
| Internal | 742 | 2,4 | 1 069 | 2,5 | 0,1 |
| Other current expenses | 2 594 | 8,4 | 3 400 | 8,1 | **-0,3** |
| Capital Expenses | 1 037 | 3,4 | 1 331 | 3,2 | **-0,2** |
| Budget Balance | 0,0 | 0,0 | 1,2% | 0,0 | 0,0 |
| Domestic Financing (net) | -500 | -1,6 | -2 243 | -5,3 | **-3,7** |
| Disbursements | 1 678 | 5,4 | 2 481 | 5,9 | 0,5 |
| Amortisation | -1 649 | -5,3 | -4 082 | -9,7 | **-4,4** |
| Foreign Financing (net) | 500 | 1,6 | 1 724 | 4,1 | 2,5 |
| Disbursements | 2 585 | 8,4 | 4 867 | 11,6 | 3,2 |
| Amortisation | -2 085 | -6,7 | -3 144 | -7,5 | **-0,7** |

Source: Minfin - 2020 Budget Proposal Justification/ *National Oil and Gas Agency

Considering that a large part of the domestic debt is sensitive to the exchange rate, this greater external indebtedness will put greater pressure on the public debt, taking into account that a considerable variation in the average exchange rate is expected next year.

We can also see the high amount foreseen for the amortisation of domestic debt, a situation that could give the banking sector additional liquidity and, consequently, create greater pressure to depreciate the exchange rate.







From a functional point of view, financial expenses, which include debt amortisation plus interest, are expected to exceed 60% of global expenditure and 23% of GDP. Thus, the payment of the debt service in 2020 is expected to grow by almost 90%, when compared to the expenditure of 2019, initially estimated in the 2019 State Budget.

Excluding financial expenses, tax expenditure will be mostly concentrated in the social sector, with around 2,553.8 billion, which is equivalent to 41%.

The areas of education and health had the greatest weight within this caption. In the economic sector, however, agriculture started to assume an important weight, with its value more than doubling and being the most important in this sector. Next came transport and fuel, which, in turn, can be explained by the objective of removing the subsidy at the respective prices.

## DIVISION OF FUNCTIONAL EXPENSES

| BILLION KZ | 2019 STATE BUDGET | 2020 STATE BUDGET | VARIATION | WEIGHT (%) | % GDP |
|---|---|---|---|---|---|
| Social Sector | 2 001,4 | 2 553,8 | 28% | 41% | 6% |
| Education | 628,8 | 845,9 | 35% | 13% | 2% |
| Health | 587,6 | 796,9 | 36% | 13% | 2% |
| Other | 785 | 911 | 16% | - | - |
| Economic Sector | 967,9 | 689,3 | **-29%** | 11% | 2% |
| Agriculture, Forestry, Fishing and Hunting | 97 | 216,1 | 123% | 3% | 1% |
| Transport | 200,8 | 213,2 | 6% | 3% | 1% |
| Fuels and Energy | 235,8 | 162,7 | **-31%** | 3% | 0% |
| Extractive, Transformative and Construction Industries | 59,7 | 44,9 | **-25%** | 1% | 0% |
| Other | 374,6 | 52,4 | **-86%** | - | - |
| Defence, Security and Public Order | 999,8 | 1 211,7 | 21% | 19% | 3% |
| General Public Services | 1 099,3 | 1 816,5 | 65% | 29% | 4% |
| Tax Expenses | 5 068,4 | 6 217,4 | 24% | - | 15% |
| Financial Expenses | 5 332,5 | 9 699,2 | 82% | 155% | 23% |
| **General State Budget Total** | **10 400,9** | **15 970,6** | **54%** | **-** | **38%** |

Source: Minfin - 2020 Budget Proposal Justification

## EVALUATION OF RATING AGENCIES AND EVOLUTION OF EXTERNAL PUBLIC DEBT

The last actions on the rating of Angola were carried out, up until July this year. Standard & Poor's and Fitch maintained their notes, in B- and B, respectively, but reduced their prospects for the evolution of the country's debt, from stable to negative. The increase in the debt-to-GDP ratio and the country's weak economic growth were the basis of this decision.

## LATEST RATING CHANGES TO THE SOVEREIGN DEBT IN ANGOLA

| RATING AGENCY | LONG TERM | | | | SHORT TERM | | | |
|---|---|---|---|---|---|---|---|---|
| | FC | | NC | | FC | | NC | |
| | DATE | RATING (OUTLOOK) | DATE | RATING | DATE | RATING | DATE | RATING |
| Moody's | 27/04/2018 | B3 (Stable) | 27/04/2018 | B3 | - | - | 27/04/2018 | NP |
| | 07/02/2018 | B2 (Under Review) | 07/02/2018 | B2 | - | - | 07/02/2018 | NP |
| S&P | 08/02/2019 | (Negative) | 11/08/2017 | B- | 19/05/2010 | B | 19/05/2010 | B |
| | 11/08/2017 | B - (Stable) | 12/02/2016 | B | 19/05/2010 | B | 19/05/2010 | B |
| Fitch | 12/07/2019 | B (Negative) | 11/02/2019 | B | 28/12/2018 | B | 28/12/2018 | B |
| | 28/12/2018 | B (Stable) | 28/12/2018 | B | 28/12/2018 | B | 28/12/2018 | B |

Source: Referred Rating Agencies

However, more recently, the more accelerated exchange rate depreciation seen in the last two months has triggered concerns from rating agencies regarding the evolution of Angolan debt. Fitch points to a deterioration in the debt-to-GDP ratio due to the continued decline in international reserves and the postponement of economic growth.

The agency has renewed this negative outlook in the context of the assessment of the recent bonds issued by Angola in the international market (Eurobonds). Fitch reiterated its rating in B, which is generally attributed to an issuer who, despite having the financial capacity to honour the commitments made, has vulnerabilities that place the debt issuances at the level of speculative classification, or "junk", as it is generally referred to.







Looking at the evolution of external debt, the most recent NBA data indicates a total of USD 63.6 billion in the second quarter of this year, which represents an increase of 1% compared to the same period in 2018, with the debt ratio/GDP being around 69%[23]. However, considering that throughout the year other financing and credit lines were contracted, it can be deduced that, until now, the said ratio may be above this level.

Among the new financing agreements, we highlight the recent issuance of Eurobonds (USD 3 billion) and World Bank financing, which are essentially intended for the budgetary and operational support of Government programmes, aiming to mitigate the social effects the financing program with the International Monetary Fund (IMF), which foresees the elimination of subsidies to the energy, water, public transport and fuel sectors by 2020.

[23] NBA statistics do not show whether this methodology used includes the debts of Sonangol and Taag or not.

## MAIN FINANCING AND CREDIT LINES ACQUIRED BY CONTRACT SINCE EARLY 2019

| INSTRUMENT | DATE | DESTINATION OF FUNDS | NACIONAL | FOREIGN | AMOUNT |
|---|---|---|---|---|---|
| Presidential Order ((DP) N 2/2019 | 01/07/2019 | Acquisition of equipment for the Angolan Armed Forces | MINFIN | Development Bank of the Republic of Belarus | 200,00 |
| Presidential Decree (DCP) N 22/19 | 14/01/2019 | Support for the agricultural development fund | MINFIN | China Development Bank | 13,00 |
| DP N 14/19 | 16/01/2019 | Construction and equipping of the Tômbwa jetty | MINFIN | Banco Totta Santander | 15,50 |
| DP N 49/19 | 04/01/2019 | Agricultural productivity programme for Southern Africa | MINFIN | World Bank -IBRD | 25,00 |
| DP N 52/19 | 04/09/2019 | Promotion of the Private Sector | MINFIN | Deutsche Bank | 1 200,00 |
| DP N 83/19 | 22/05/2019 | Modernisation of Soyo's naval facilities | MINFIN | CGD | 294,40 |
| DP N 90/19 | 06/04/2019 | Support for the national treasury (Development Policy Operation) | MINFIN | World Bank -IBRD | 500,00 |
| IMF Report[1] | 06/12/2019 | Second tranche of financing under the EFF | MINFIN | FMI | 248,00 |
| DP N 97/19 | 17/06/2019 | Samba Cajú integrated development project | MINFIN | Standard Chartered Bank | 73,70 |
| DP N 97/19 | 17/06/2019 | Samba Cajú integrated development project | MINFIN | Standard Chartered Bank | 12,20 |
| DP N 118/19 | 18/07/2019 | Construction of the Luanda Ophthalmic Hospital | MINFIN | Banco Bilbao Vizcaya | 150,00 |
| DP N 117/19 | 18/07/2019 | Funding for the requalification and equipping of the Main Military Hospital of Luanda | MINFIN | Banco Bilbao Vizcaya | 120,00 |
| DP N 116/19 | 18/07/2019 | Funding for the construction of five 24-room schools in the province of Luanda | MINFIN | Banco Bilbao Vizcaya | 37,40 |



Banco BIR Temos Resposta

| INSTRUMENT | DATE | DESTINATION OF FUNDS | NACIONAL | FOREIGN | AMOUNT |
|---|---|---|---|---|---|
| DP N 137/19 | 23/07/2019 | Funding for the project to strengthen the National Social Protection System - Cash Transfer | MINFIN | World Bank-IBRD | 320,00 |
| DP N 136/19 | 23/07/2019 | Financing line to cover public investment projects for Spanish contractors | MINFIN | Banco Bilbao Vizcaya | 585,10 |
| DCP N 143/19 | 08/09/2019 | Electrification of three municipalities in the province of Cuanza Norte | MINFIN | Credit Agricole (France) | 100,70 |
| DP N 163/19 | 27/09/2019 | Integrated project for the development of Baía do Namibe | MINFIN | Development Bank of Southern Africa | 100,00 |
| DP N 177/19 | 23/10/2019 | Hydroelectric use of Laúca | MINFIN | AFREXIMBANK | 100,00 |
| DP N 179/19 | 23/10/2019 | Construction of the photovoltaic plant in the east of the country | MINNFIN | ING Bank | 580,00 |
| DP N 183/19 | 28/10/2019 | Implementation of the Laúca hydroelectric project | MINFIN | Gemcorp Capital LLP | 400,00 |
| DP N 191/19 | 11/05/2019 | Revitalisation of the Road Axes of the City of Luanda | MINFIN | Standard Bank Angola | 75,70 |
| DP N 192/19 | 11/05/2019 | Reformulation of the Samba node, Avenida Pedro de Castro Van Dúmen Loy | MINFIN | Standard Bank Angola and Nedbank Limited | 51,20 |
| DP N 197/19 | 11/07/2019 | Issuance of Eurobonds | MINFIN | International Markets | 3 000,00 |
| DP N 202/19 | 21/11/2019 | Financing of five schools in the province of Uige | MINFIN | Banco Bilbao Viscaya and Argentina | 50,60 |
| DP N 206/19 | 22/11/2019 | Macroeconomic stabilisation project | MINFIN | African Development Bank | 200,00 |

Source: NBA / Jurisnet

Highlighting Angola's Eurobonds, new bonds were issued for the third time in the international market, in the global amount of USD 3.0 billion. The first tranche, with a nominal value of 1.75 billion USD, whose maturity was 10 years and an interest rate of 8.0%. The second tranche has a nominal value of USD 1.25 billion, with a 30-year maturity and an interest rate of 9.13%.

Compared to the previous issuance, there was a 0.25 percentage point reduction in interest rates. Explaining is also, among other factors, the fact that these issues coincided with a period in which Angolan yields are at levels lower than in the same period last year.



## ISSUANCES OF EUROBONDS

| DATE OF ISSUE | 04-NOV-15 | 02-MAI-18 | | 19-NOV-19 | |
|---|---|---|---|---|---|
| Maturity (Years) | 10 | 10 | 30 | 10 | 30 |
| Interest rate | 9,50% | 8,25% | 9,38% | 8,00% | 9,13% |
| Amount (Million USD) | 1.500 | 1.750 | 1.250 | 1.750 | 1.250 |

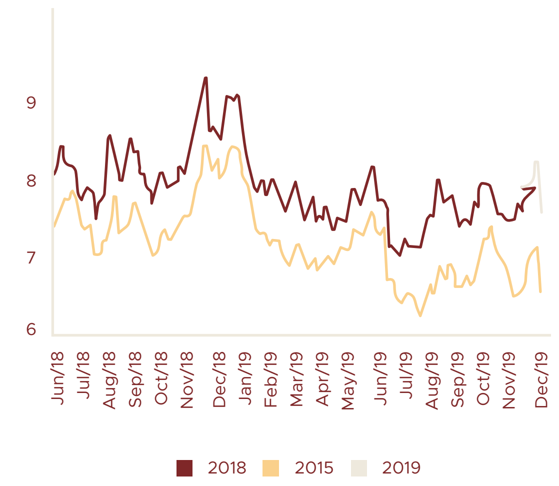
Source: Bloomberg

Between January and November this year, Angolan yields decreased by approximately 1 percentage point for almost all maturities. With emphasis on accentuating the decline in yields, between May and mid-July, which coincided with the approval, by the IMF board, of the second tranche of financing in progress, resulting from the first evaluation of the programme.

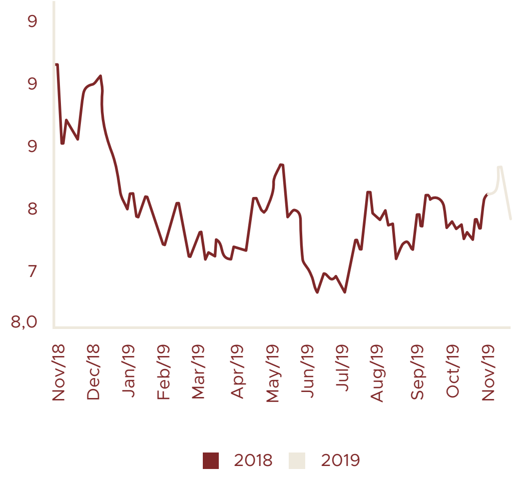
The institution's positive views on the government's implementation of reforms and the achievement of most of the targets set out in the agreement are expected to have improved investors' perceptions of the economy.

However, in October, there was a deterioration in the evolution of interest rates on Angolan bonds in the international market, which will be related to the release of statistics on GDP performance in the second quarter, as well as adjustments in the foreign exchange market that allowed a faster acceleration of the exchange rate.

**10 YEAR OLD MATURITY YIELDS (%)**




**30 YEAR OLD MATURITY YIELDS (%)**




## EXTERNAL ACCOUNTS

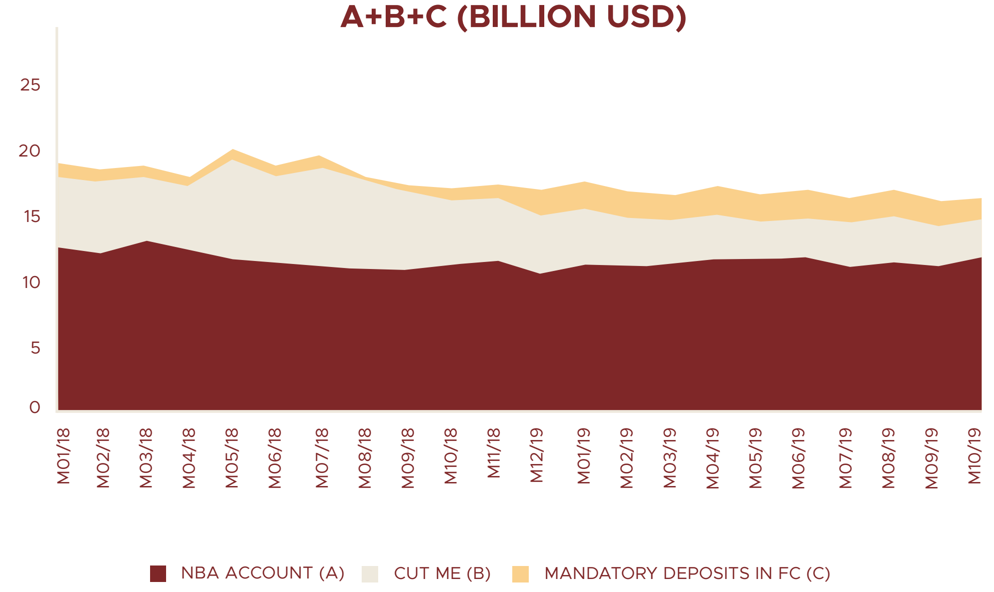
The accumulated balance of the goods account, for the first ten months of 2019, was a surplus of USD 14.8 billion, but was 34.4% lower than that observed in the same period of the previous year (22.6 billion USD). Exports decreased 22.5% to USD 27.0 billion, while imports were practically stable at USD 10 billion.

As for net international reserves (NIR), in the last 12 months until October, they fell by 12.6% to USD 10.2 billion. Despite the contraction, NIRs remain comfortably above the 9.1 billion demanded by the IMF at the end of this year[24]. In turn, gross international reserves dropped to USD 15.5 billion (-4.5% since October 2018).



[24] The revised IMF target for NIRs, which is one of the criteria for assessing the financing agreement in progress with Angola, is set at USD 9.1 billion by December, and is expected to increase to USD 9.3 billion by the middle 2020.

## GROSS INTERNATIONAL RESERVES A+B+C (BILLION USD)




Among the three components of gross reserves, the decrease of 40% in Government deposits in the National Treasury Account (CUTME) stands out, having closed the month of October with USD 2.8 billion. Conversely, the currencies deposited in the NBA account grew 4.5% compared to October 2018. The banks' mandatory foreign currency reserves increased by more than 70% in the last 12 months and stood at USD 1.5 billion.

The reduction in national oil production, and the consequent drop in the entry of oil revenues, as well as the need for the Executive to carry out current expenses, are the main reasons that can be pointed out for the deterioration of the country's international reserves.

## EVOLUTION OF ECONOMIC ACTIVITY

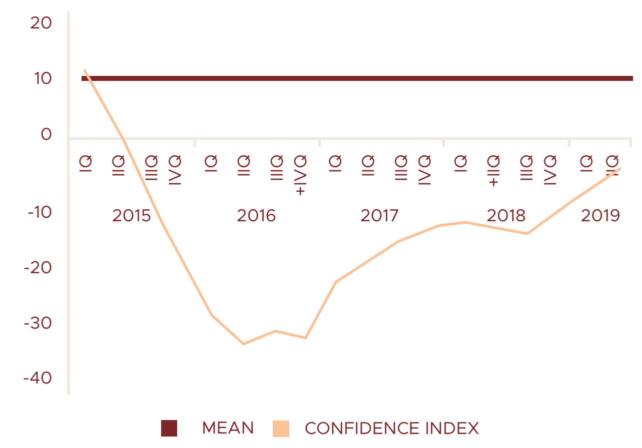
### ECONOMIC CLIMATE INDEX

The Economic Climate Index (ICE) improved in the second quarter of this year, both in quarterly terms and in the annual comparison. The global index went from minus 26 points in the second quarter of 2018 to minus 5 points.

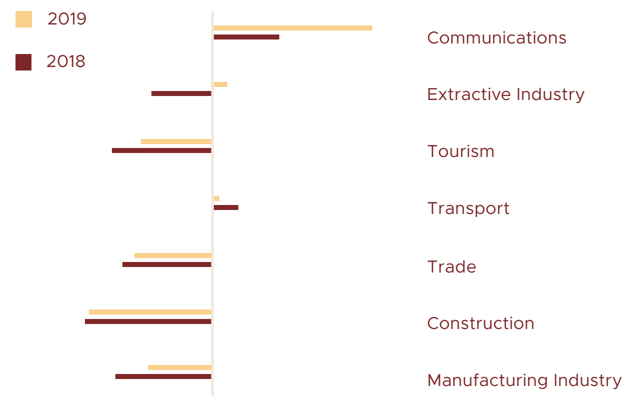
The improvement was transversal to almost all sectors, with emphasis on the areas of communication and the extractive industry. On the negative side, there was the construction sector, which decreased 5 points, year on year.



### ECONOMIC CLIMATE INDEX (POINTS)




### ECONOMIC CLIMATE INDICATOR




Despite the positive evolution for most sectors, the indicator remains in negative territory, which suggests that the business environment in our country is still unfavourable for economic activity.

Based on the ICE survey of entrepreneurs, factors such as:

- Limitations on the acquisition of raw materials and equipment;
- Difficulties in accessing electricity;
- Excessive interference and state regulations;
- Scarcity of specialised human resources;
- Demand reduction;
- High staff absenteeism and stock outs.

## BUSINESS CLIMATE INDEX

Recently, the World Bank's Doing Business report showed a deterioration in Angola regarding the business environment. The document, which focuses on the private sector and assesses certain critical factors for business activity, points to a deterioration of Angola's classification, moving from position 173 to 177.

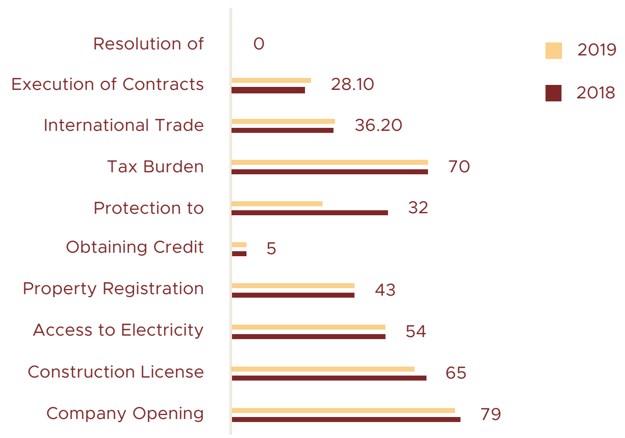
Angola's global score worsened from 43.83 to 41.3 points, leaving the country further from the best international practices regarding the business environment and with one of the worst classifications in the world.

Among the worst indicators, we highlight the solvency resolution that was pointed out in the report as the component that had no score. According to the World Bank, there were no new files filed for closure, liquidation or reorganisation in the last 12 months, making it difficult to assess this indicator.

On the negative side of the business environment, the report highlights obtaining credit, with a score of only 5 points, leaving the country below the average for sub-Saharan Africa. Pressuring the global score, there were also the indicators of building license and opening of new companies, which deteriorated compared to last year.

Meanwhile, indicators related to contract execution and international trade showed a slight improvement compared to the previous year, with the respective scores increasing by 0.05 and 2 percentage points. However, in these two indicators, our country remains at the bottom of the list of countries covered by the mentioned index, occupying 186N in the execution of contracts and 174N in international trade.

**DOING BUSINESS / SCORES BY INDICATORS**







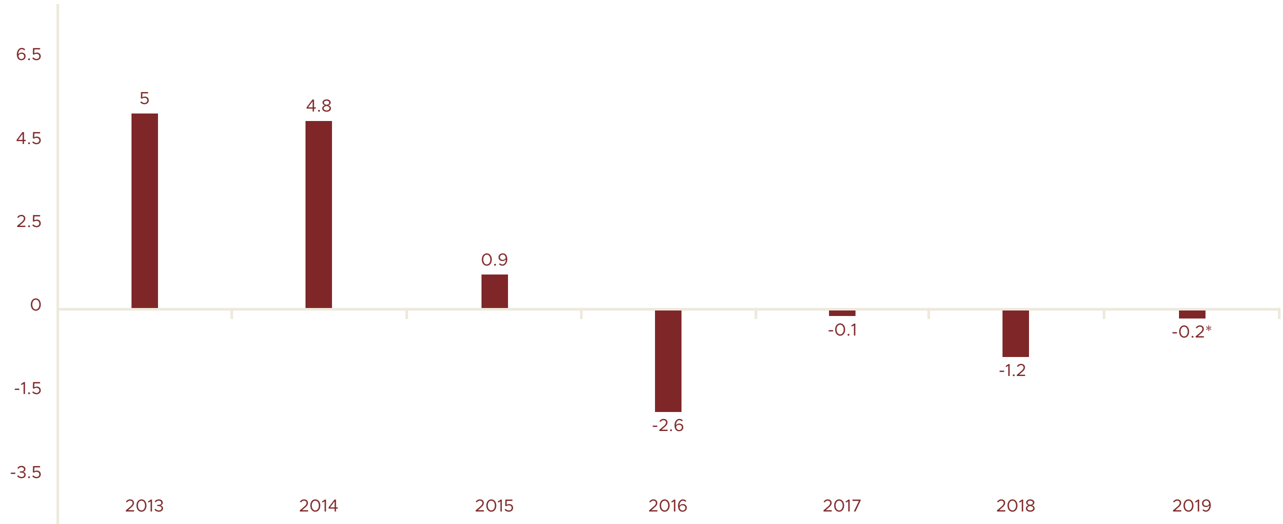

| INDICATORS | 2019 | 2020 | DEVELOPMENT |
|---|---|---|---|
| **RANK (190 COUNTRIES)** | **173** | **177** | **2 PLACES** |
| 1. Company Opening | 139 | 146 | 7 |
| 2. Construction License | 87 | 120 | 33 |
| 2. Construction License | 152 | 156 | 4 |
| 2. Construction License | 170 | 167 | **-3** |
| 5. Obtaining Credit | 184 | 185 | 1 |
| 6. Investor protection | 89 | 147 | 58 |
| 7. Tax Burden | 104 | 106 | 2 |
| 8. International Trade | 174 | 174 | 0 |
| 9. Execution of Contracts | 186 | 186 | 0 |
| 10. Insolvency Resolution | 168 | 168 | 0 |

Source: World Bank

## ECONOMIC GROWTH

According to data published for real economic activity this year, after the contraction of 0.3%, year on year, in the first quarter of this year, GDP contracted 0.1% and, 8% in the following quarters, also in comparison with the same period last year. In accumulated terms, the contraction of the economy is 0.4%, lower than the 3.1% observed in the first six months of last year.

## REAL GDP GROWTH RATE (%)




*YEAR ACCUMULATED VARIATION UNTIL JUNE

Despite moderating the fall[25], the oil sector continued to be the one that most penalised the economic performance of the second quarter, given the weight that this component has in the economy. The GDP of this sector declined by 4.1% annually in the second quarter, being the thirteenth consecutive quarter of contraction. The oil economy has thus maintained a downward trend since the first quarter of 2016, the last time that a positive growth rate was seen in this sector.

Regarding the non-oil sector, it appears that growth in the second quarter was slightly positive. In particular, we have the growth in the construction (3.5%), real estate (3%), energy and water (2.5%) and agricultural sectors (1%). Among the other sectors of the economy that also showed declines, fishing (-19%), financial intermediation (-17%) and diamond mining and other minerals (-8%) are of particular importance.

The country's economic activity remains highly dependent on the oil sector and on the foreign exchange generated with the respective exports.





## GDP GROWTH / 2019

| SECTORS | 2018 | | 2019 | | | ACCUM. UP TO 3RD QUARTER |
|---|---|---|---|---|---|---|
| | ACCUM. UP TO 3RD QUARTER | TOTAL | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | |
| Agribusiness and Silviculture | -2,27 | -2 | 0,9 | 1,1 | 1,0688266 | 1,02 |
| Fishing | -13,90 | -17,1 | -7,4 | -19,3 | -19,903838 | -15,53 |
| Oil Extraction and Refining | -9,37 | -9,5 | -6,9 | -4,1 | -8,6688527 | -6,56 |
| Extraction of Diamonds, Metallic Minerals and Manufacturing Products | -9,80 | -6,3 | 0,1 | -8,1 | 41,364334 | 11,12 |
| Electricity and Water | 2,93 | 4,6 | -6,5 | 1,1 | -1,5371416 | -2,31 |
| Construction | 2,70 | 22,3 | 9,9 | 2,4 | 3,1179378 | 5,14 |
| Trade | -1,90 | 0,4 | 11,3 | 3,5 | 2,7695746 | 5,86 |
| Transport and Storage | -6,43 | -1,4 | -3,2 | -7,4 | 8,0150888 | -0,86 |
| Post and Telecommunications | -1,40 | -1,8 | 0,5 | -0,8 | 2,4375822 | 0,71 |
| Financial and Insurance Intermediation | -0,43 | 1,8 | -6,8 | -2,1 | -0,511646 | -3,14 |
| Public Administration, Defence and Social Security | 8,77 | 9,9 | -4 | -17,3 | 6,4053612 | -4,96 |
| Contribution | 2,07 | 1,2 | 2,3 | 0,4 | 5,2281184 | 2,64 |
| Real Estate and Rental Services | 2,93 | 3 | 2,9 | 3 | 3,0367438 | 2,98 |
| Other Services | -3,13 | -1,6 | -0,9 | -1,8 | 1,8098725 | -0,30 |
| Financial Intermediation Services | -19,13 | -15 | -28,3 | -26,4 | -13,010883 | -22,57 |
| Tax on Products | -19,17 | -13,3 | -30,2 | -42,8 | -35,134601 | -36,04 |
| Subsidies (-) | -77,00 | -62,9 | -12,7 | 61 | 232,58465 | 93,63 |
| **GDP** | **-2,53** | **-1,2** | **-0,3** | **-0,1** | **-0,8** | **-0,40** |

Source: INE

[25] It is very likely that the contraction of the oil sector in the second quarter will be revised downwards in the publication of GDP for the third quarter, given the continuous fall in oil production.

| 2018 | | 2019 | | | ACCUM. UP TO 3RD QUARTER |
|---|---|---|---|---|---|
| ACCUM. UP TO 3RD QUARTER | TOTAL | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | |
| -2,27 | -2 | 0,9 | 1,1 | 1,0688266 | 1,02 |
| -13,90 | -17,1 | -7,4 | -19,3 | -19,903838 | -15,53 |
| -9,37 | -9,5 | -6,9 | -4,1 | -8,6688527 | -6,56 |
| -9,80 | -6,3 | 0,1 | -8,1 | 41,364334 | 11,12 |
| 2,93 | 4,6 | -6,5 | 1,1 | -1,5371416 | -2,31 |
| 2,70 | 22,3 | 9,9 | 2,4 | 3,1179378 | 5,14 |
| -1,90 | 0,4 | 11,3 | 3,5 | 2,7695746 | 5,86 |
| -6,43 | -1,4 | -3,2 | -7,4 | 8,0150888 | -0,86 |
| -1,40 | -1,8 | 0,5 | -0,8 | 2,4375822 | 0,71 |
| -0,43 | 1,8 | -6,8 | -2,1 | -0,511646 | -3,14 |
| 8,77 | 9,9 | -4 | -17,3 | 6,4053612 | -4,96 |
| 2,07 | 1,2 | 2,3 | 0,4 | 5,2281184 | 2,64 |
| 2,93 | 3 | 2,9 | 3 | 3,0367438 | 2,98 |
| -3,13 | -1,6 | -0,9 | -1,8 | 1,8098725 | -0,30 |
| -19,13 | -15 | -28,3 | -26,4 | -13,010883 | -22,57 |
| -19,17 | -13,3 | -30,2 | -42,8 | -35,134601 | -36,04 |
| -77,00 | -62,9 | -12,7 | 61 | 232,58465 | 93,63 |
| **-2,53** | **-1,2** | **-0,3** | **-0,1** | **-0,8** | **-0,40** |





For the future, the country's economic growth prospects remain weak. The Government expects the economy to decline 1.1% this year, explained by a 6.1% drop in the oil sector and weak growth (0.6%) in the non-oil economy. The view is supported by several international institutions. For example, the Economist Intelligence Unit expects a 3.8% contraction this year.

As already mentioned, in 2020 State Budget proposal justification, the Government expects the economy to return to economic growth in 2020, after the four consecutive years of recession.

## GDP GROWTH PROJECTIONS (%)

| INSTITUTIONS | 2019 | 2020 |
|---|---|---|
| 2020 STATE BUDGET | -1,1 | 1,8 |
| IMF | -0,3 | 1,2 |
| Bloomberg | -0,6 | 1,3 |
| The Economist | -3,8 | -1,4 |

Source: GEF compilation

## UNEMPLOYMENT IN ANGOLA

INE started, on 4 September this year, the quarterly publication of information on the characterisation of the population in relation to the labour market. This information is based on the employment survey carried out in the country, which is part of the statistical project financed by the World Bank. More recently, the second report was released, with the unemployment rate rising from 29% in the second quarter of this year to 30.7% in the third quarter.

The data indicates that about 4.1 million people were unemployed in Angola, which compares with the 3.9 million registered in the previous quarter. Regarding geographical areas, the unemployment rate in the urban area stood at 41%, about 3 times higher than in the rural area (14.3%). With regard to gender, the unemployment rate for men stood at 29%, while for women the percentage was 32%. On the other hand, the employment rate dropped from 64.8% to 60%. It should be noted that, among employed persons, INE also considers those who are in informal work, namely:

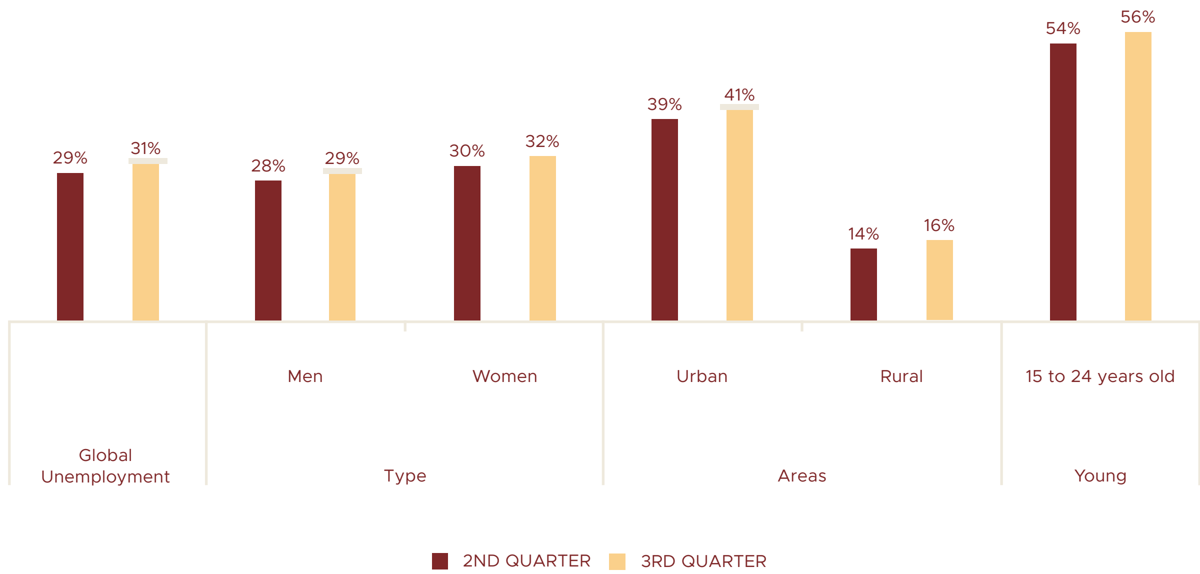
i) those who work without a written contract; ii) those who work in any production unit not registered with public agencies and iii) those who work, but do not benefit from social support (holidays, health insurance, etc.).

According to available data, Angola has the third highest unemployment rate among SADC countries, having been surpassed only by the Democratic Republic of Congo (DRC) and Namibia. Angola's 30.7% rate is above the average for SADC countries (18.4%).





## UNEMPLOYMENT RATE IN ANGOLA




## PRICE EVOLUTION

Despite the increases recorded in the months of July and August, annual inflation maintained its downward trend that started in 2017 and ended December at 16.9%, below the 18.60% observed at the end of last year. Against all expectations, the month of December did not experience a price acceleration, as expected due to the implementation of VAT.

The prices of the health class were the ones that grew the most (18.8%), despite having been a growth below the verified (24.9%) last year. Next were the prices of the clothing and footwear classes, with 18.1% (26.0%) and leisure, recreation and culture, with 17.7% (22.9%).

Several factors have contributed to the decline in inflation, most notably the greater control of the monetary base by the NBA. The central bank has used the instruments at its disposal to change the growth of money available in the banking sector and, consequently, the growth of monetary aggregates.

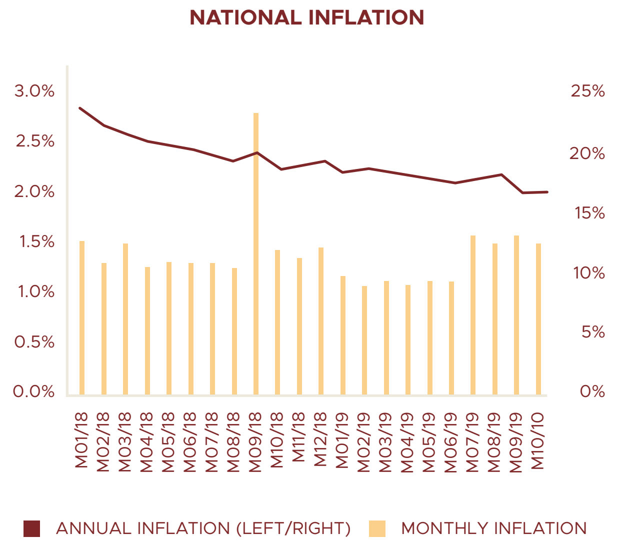
Thus, the containment of inflationary pressures is associated with the current context of weakening economic activity in general and high levels of unemployment, which has reduced the purchasing power of households and generated loss of profit margins by many importing companies. Despite the tight monetary conditions, the period of exchange rate adjustment continues to put some pressure on price growth due to the high dependence on imported goods.

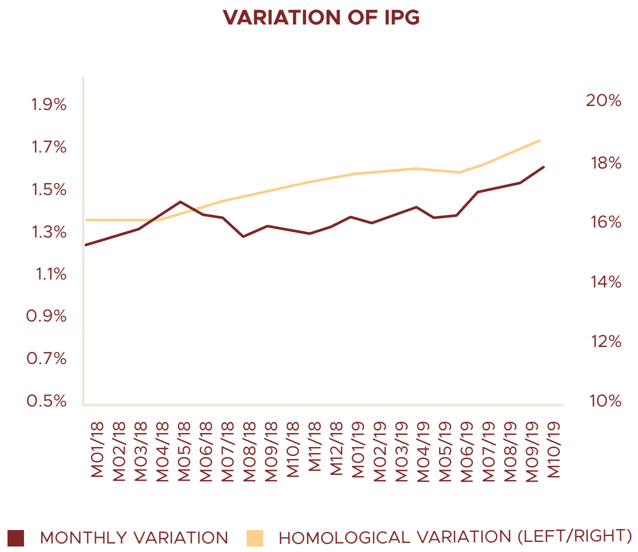


Another price pressure factor is the price adjustments in certain sectors, such as energy prices. As already mentioned, for 2020, price growth is expected to accelerate due to the elimination of fuel price subsidies.

In contrast to consumers, for traders and producers there was an increase in inflation, as measured by the Producer Price Index (PPI). The index closed December at 18.1%, above the 16.86% observed at the end of 2018.

The index that accompanies the evolution of the prices of national products grew 20.69% in the last 12 months. Among these, the largest contribution came from the variation in prices of the fishing classes (28.26%) and agriculture (22.71%). In turn, the prices of imported products increased 14.47% (17.40% in annual terms), mainly influenced by the prices of agricultural goods (23.18%).



# MONETARY AND FINANCIAL OVERVIEW

### NBA SUMMARY

The Government has received 1.060 billion Kz loans from the NBA and has deposited around 1.461 billion Kz in its central bank account. Deducting deposits, it should be noted that the Central Government's net indebtedness to the NBA corresponded to 401 billion Kz, an increase of 15% compared to December 2018.

Notwithstanding this year-on-year growth, it is expected that the NBA's exposure to the Government will be reduced in the year, taking into account the requirements of the IMF, where it stipulates that the central bank's credit value granted to the Government will drop to zero at the end of this year.

As for the NBA's liabilities, there was an increase in the monetary base of 37% between October 2018 and October this year to 2,162 billion Kz. The monetary base in national currency, considered by the NBA as the main instrument for conducting monetary policy, increased 23%, in annual terms, and 12% in the accrued income in 2019.

The increase in the banks' free reserves was visible until October, which can be explained by the reduced interest in government bonds and the need for banks to make money available to access currency auctions. With the aforementioned measures of the extraordinary CPM of 23 October, it is to be expected that the statistics point to a reduction in the liquidity level of the bank. As for mandatory deposits in national currency, these reached around 1,141 billion Kz (+41% in annual terms), which should have a significant increase in the following months due to the change in the respective coefficient, as already mentioned.



### NBA BALANCE SHEET SUMMARY

| BILLION KZ | OCT-18 | DEC-18 | OCT-19 | VAR. YTD | VAR. YOY |
|---|---|---|---|---|---|
| Credit to Central Administration (net) | -350 | -828 | -401 | -52% | 15% |
| Credit | 1 274 | 693 | 1 060 | 53% | -17% |
| Deposits and Other Liabilities | 1 624 | 1 521 | 1 461 | -4% | -10% |
| In national currency | 207 | 214 | 91 | -58% | -56% |
| In Foreign Currency | 1 416 | 1 307 | 1 370 | 5% | -3% |
| Credit to Other Deposit Companies | 338 | 312 | 261 | -16% | -23% |
| In national currency | 329 | 302 | 248 | -18% | -24% |
| In Foreign Currency | 10 | 10 | 12 | 26% | 26% |
| Credit to other resident sectors | 52 | 49 | 51 | 5% | -2% |
| Monetary Base | 1 583 | 1 709 | 2 162 | 27% | 37% |
| Banknotes and Coins in Circulation | 424 | 498 | 464 | -7% | 9% |
| Bank Reserves | 1 159 | 1 210 | 1 698 | 40% | 47% |
| Mandatory Deposits | 812 | 841 | 1 141 | 36% | 41% |
| In national currency | 556 | 584 | 722 | 24% | 30% |
| In Foreign Currency | 256 | 257 | 419 | 63% | 64% |
| Surplus Deposits | 347 | 369 | 557 | 51% | 61% |
| In national currency | 206 | 215 | 268 | 25% | 30% |
| In Foreign Currency | 141 | 154 | 289 | 88% | 105% |
| Other Liabilities Against ODS[1] | 48 | 88 | 224 | 154% | 363% |

Source: NBA

(1) INCLUDES SECURITIES OF THE NATIONAL BANK OF ANGOLA AND REPAIR AGREEMENTS WITH OTHER DEPOSIT COMPANIES





NATIONAL ECONOMY

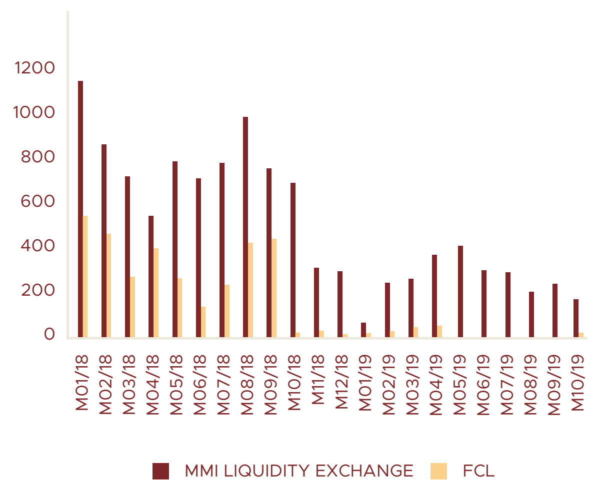
## INTERBANK MONEY MARKET

From January to October, banks exchanged liquidity in the amount of Kz 2,713 billion, corresponding to a drop of 68% compared to the same period in 2018. The amount obtained by banks from the central bank's liquidity-providing facility has also significantly decreased, from Kz 3,400 billion in 2018 to Kz 181.5 billion this year. As a result, interest rates closed the period up by around 6 percentage points.

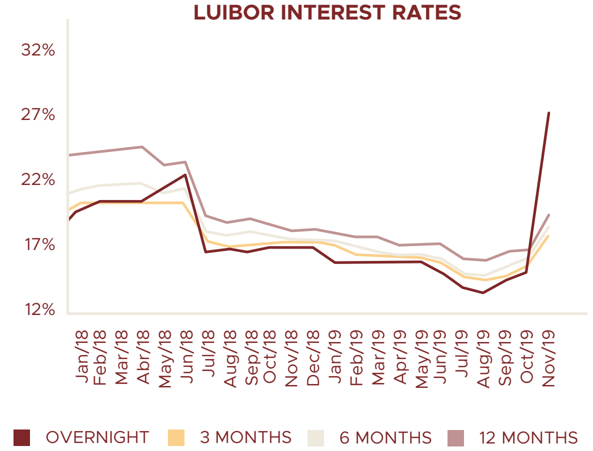
Luibor overnight (1 day loan) went from 16.75% in December 2018 to 22.48% in December this year.

As an explanation for the increase in Luibor rates, there are the recent changes in the monetary and exchange rate policy mentioned above, the main impact of which was the reduction of banks' free reserves, which is deduced to have removed more than 100 billion Kz from the market, leaving some seats in a less comfortable position. As a result, the remaining Luibor rates, which had ended October with declines compared to last year, started in November, a strong upward trend.

**MMI AND FCL TRANSACTION (BILLION KZ)**




**LUIBOR INTEREST RATES**






## SUMMARY OF BANKING INSTITUTIONS

Although the issuance of public debt securities is falling compared to last year, the State's net indebtedness to commercial banks has grown and is at historically high levels. The lower collection through bonds has been offset by other types of disbursements and withdrawal of deposits by the Government, thus maintaining the high exposure of banks to the State. Thus, in October, the State's debtor position with the banking system had an annual increase of about 12%.

The total credit stock granted by the private sector stood at 4,346 billion Kz, a variation of 22%. Separating by currencies, there is an increase of only 14% in the component in national currency and a decrease of 10% in loans in foreign currency, when converted into dollars.

Credit from commercial banks to the private sector is mainly concentrated in a few sectors of activity. Of the global amount granted until October, around 61% was held by businessmen in the areas of commerce, with a weight of 22%, real estate (15%), construction (13%) and services (12%).

In monetary aggregates, it can be seen that M2 grew 31% year on year, partly explained by the effect of the change in the exchange rate. When disaggregating its components, there will be a growth of only 11% in deposits in NC and a decrease of 3% in the component in FC, when converted to USD.

Demand deposits in national currency grew by 29% year on year, while time deposits increased by 35%. Banknotes and coins held by the public, in turn, have risen by 15% in the last 12 months, despite having decreased by 2% in 2019.

## SUMMARY OF THE BANK'S BALANCE SHEET

| BILLION KZ | OCT-18 | DEC-18 | OCT-19 | VAR. YTD | VAR. YOY |
|---|---|---|---|---|---|
| Credit to Central Administration (net) | 3 578 | 3 307 | 3 704 | 12% | 4% |
| Credit to Central Administration | 4 865 | 4 795 | 5 749 | 20% | 18% |
| Liabilities to Central Administration (1) | 1 287 | 1 488 | 2 046 | 37% | 59% |
| Of which: In Foreign Currency | 270 | 263 | 615 | 134% | 128% |
| Credit to the National Bank of Angola (net) | 1 004 | 1 144 | 1 752 | 53% | 75% |
| Credit to the Private Sector | 3 565 | 3 622 | 4 346 | 20% | 22% |
| Companies | 3 001 | 3 036 | 3 618 | 19% | 21% |
| National Currency Loans | 2 286 | 2 310 | 2 565 | 11% | 12% |
| Foreign Currency Loans | 715 | 726 | 1 054 | 45% | 47% |
| Private individuals | 563 | 586 | 728 | 24% | 29% |
| National Currency Loans | 377 | 403 | 470 | 17% | 25% |
| National Currency Loans | 186 | 183 | 258 | 41% | 39% |
| M3 | 7 807 | 7 854 | 10 255 | 31% | 31% |
| M2 = (M1 + Near Money) | 7 801 | 7 845 | 10 248 | 31% | 31% |
| M1 | 3 865 | 4 087 | 4 940 | 21% | 28% |
| Banknotes and Coins in Public Possession | 318 | 373 | 365 | -2% | 15% |
| Demand deposits | 3 547 | 3 714 | 4 575 | 23% | 29% |
| In national currency | 2 235 | 2 409 | 2 589 | 7% | 16% |
| In Foreign Currency | 1 312 | 1 305 | 1 986 | 52% | 51% |
| Near Money | 3 936 | 3 758 | 5 307 | 41% | 35% |
| Time Deposits | 3 936 | 3 758 | 5 307 | 41% | 35% |
| In national currency | 1 699 | 1 459 | 1 760 | 21% | 4% |
| In Foreign Currency | 2 236 | 2 299 | 3 547 | 54% | 59% |
| Other Instruments Equivalent to Deposits (2) | 6 | 9 | 7 | -23% | 28% |

Source: NBA

(1) INCLUDES LIABILITIES RESULTING FROM THE TRANSFER OF FUNDS FOR LENDING (2) INCLUDES SECURITIES EXCEPT ACTIONS AND REPAIR AGREEMENTS IN NATIONAL FOREIGN CURRENCY



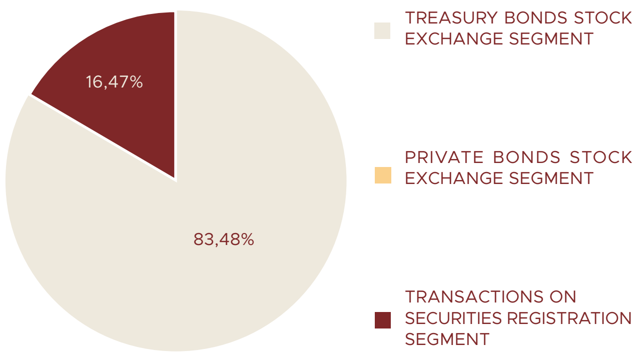


Banco BIR Temos Resposta

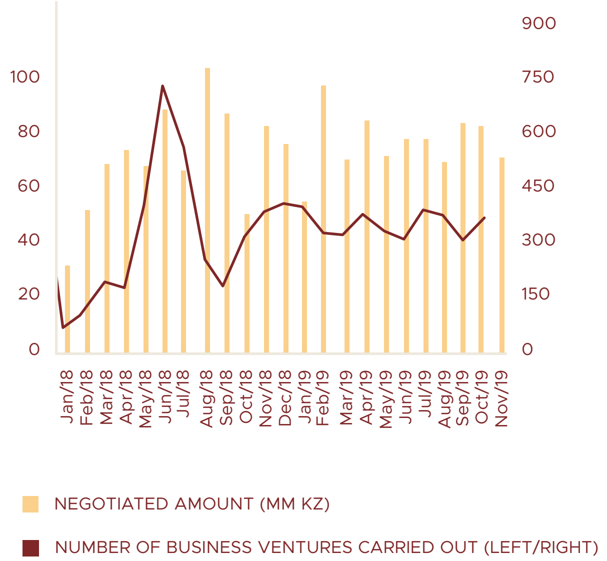
### SECONDARY DEBT MARKET

Over the 12 months of the year, around 786 billion Kz were traded on the Angolan Securities Debt Exchange, with an increase of 12% in the number of trades carried out for almost 4,000 operations. Turnover exceeded 724 billion Kz for the same period last year. It should be noted that the trading of securities with longer maturities was the most verified during this period, with emphasis on bonds indexed to the exchange rate. By segments, it was noted that, until October, the largest volume of trading was registered in the Treasury Securities Exchange Market, having reached about 419 billion Kz, which corresponded to 83.48% of the global value. Next was the Securities Transaction Registration Market, with around 16.47% of turnover, and the remainder (0.05% came from the private bond market. Until the month of October, Banco de Fomento Angola (BFA) and Banco Angolano de Investimentos (BAI) were responsible for around 55% of the global amount negotiated, holding shares of 34% and 21%, respectively.

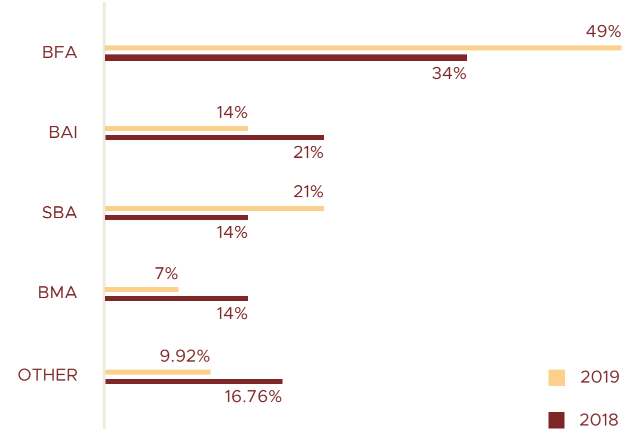
### BUSINESS VOLUME BY SEGMENT




### TRANSACTIONS CARRIED OUT IN BODIVA




### MARKET SHARES 2018 / 2019



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# Changes

REGULATORY
CHANGES

## REGULATORY CHANGES

| NAME | NUMBER | STATE | TOPIC | SUBJECT | PUBLICATION | EFFECTIVE DATE | VALUE OBTAINED |
|---|---|---|---|---|---|---|---|
| Notices | Notice N 15/2019 of 30 December | In force | Foreign Exchange Policy | - Foreign Investment by Non-Residents - Capital and Associated Income Operations | 03/01/2020 | 03/01/2020 | GCC |
| Directives | Directive N 13/DSB/ DRO/2019 of 27 | In force | Oversigh | Guide on Recommendations for the Implementation of AQA methodologies for the 2019 financial year | 27/12/2019 | 27/12/2019 | DGR |
| Directives | Directives Directive N 12/ DCF/ DRO/2019 of 27 | In force | Conduct | Consumer Protection of Financial Products and Services | 27/12/2019 | 27/12/2019 | DMC |
| Directives | Directives Directive N 11/ DSB/ DRO/2019 of 18 | In force | Financial Financial System | Information Reporting Deadlines via the Financial Institutions Portal (PIF) | 20/12/2019 | 20/12/2019 | Except the DCO |
| Notices | Notices Notice N 14/2019 of 2 December | In force | Foreign Exchange Policy | FOREIGN EXCHANGE POLICY - Foreign Exchange Position Limit | 11/12/2019 | 11/12/2019 | DTM/ GCC |
| Notices | Notice N 13/2019 of 2 December | In force | Foreign Exchange Policy | FOREIGN EXCHANGE POLICY - Foreign Exchange Operations in the Oil and Gas Sector for the sale of goods and services provided by foreign exchange residents | 11/12/2019 | 11/12/2019 | DOP |
| Notices | Notice N 12/2019 of 2 December | In force | Foreign Exchange Policy | FOREIGN EXCHANGE POLICY - Rules and Procedures for Foreign Exchange Transactions by Natural Persons | 11/12/2019 | 11/12/2019 | GCC/ DOP |
| Directives | Directive N 10/DSB/ DRO/2019 | In force | Financial System | Information Reporting Deadlines via the Financial Institutions Portal (PIF) | 10/12/2019 | 10/12/2019 | Except the DCO |
| Notices | Notice N 11/2019 of 26 November | In force | Foreign Exchange Policy | PRICES OF FOREIGN CURRENCY TRANSACTIONS - Maximum limits on commissions and expenses - Dunning currency | 09/12/2019 | 09/12/2019 | DTM/ GCC |
| Directives | Directive N 09/DSP/ DIF/2019 | In force | Payment System | Statistical Information for Mobile Payment Services | 27/11/2019 | 27/11/2019 | DOP |
| Notices | Notice N 10/2019 of 06 November | Repealed | Foreign Exchange Policy | FOREIGN EXCHANGE POLICY - Procedures for Foreign Exchange Transactions by Natural Persons | 12/11/2019 | 12/11/2019 | GCC/ DCOM |
| Notices | Notice N 09/2019 of 06 November | In force | Policy Exchange | PROVISION OF PAYMENT SERVICES - Operational Rules of the Money Transfer Service | 12/11/2019 | 12/11/2019 | GCC |
| Notices | Notice N 08/2019 of 06 Novemb | In force | Foreign Exchange Policy | CURRENCY EXCHANGES - Operational Rules | 12/11/2019 | 12/11/2019 | GCC |
| Directives | Directive N 04/DCC/2019 | In force | Foreign Exchange Policy | Definition of "exchange rate arrears" | 07/11/2019 | 07/11/2019 | - |



| NAME | NUMBER | STATE | TOPIC | SUBJECT | PUBLICATION | EFFECTIVE DATE | VALUE OBTAINED |
|---|---|---|---|---|---|---|---|
| Instructions | Instruction N 19/2019 of 06 November | In force | Foreign Exchange Policy | - Foreign Currency Purchase and Sale Auctions - Organisation and Operation Procedures | 07/11/2019 | 07/11/2019 | DTM/ GCC |
| Directives | Directive N 08/DMA/ DRO/2019 of 24 October | In force | Foreign Exchange Market | Requirements for the Calculation and Fulfilment of Mandatory Reserves | 25/10/2019 | 25/10/2019 | DCCG |
| Instructions | Instruction N 18/2019 of 25 October | In force | Foreign Exchange Policy | FOREIGN EXCHANGE POLICY Limits for foreign exchange operations for the import of goods | 25/10/2019 | 25/10/2019 | DOP |
| Directives | Directive N 03/DCC/ 2019 of 25 October | In force | Financial System | Settlement of letters of credit under quantity auctions | 25/10/2019 | 25/10/2019 | DOP |
| Directives | Directive N 02/DMA/ 2019 of 24 October | In force | Financial System | - NBA Base Interest Rate - NBA Rate, Interest Rates on Facilities Operations Permanent Lending and Liquidity Absorption | 25/10/2019 | 25/10/2019 | DTM |
| Instructions | Instruction N 17/2019 of 24 October | In force | Monetary Policy | Required Reserves | 25/10/2019 | 25/10/2019 | DCCG |
| Instructions | Instruction N 16/2019 of 24 October | In force | Foreign Exchange Policy | - Reference Exchange Rates - Calculation Methodology - Exchange Rates of Banking Financial Institutions | 25/10/2019 | 25/10/2019 | DCCG |
| Notices | Instruction N 07/2019 of 25 October | In force | Monetary Policy | Granting of loans to the real sector of the economy | 07/10/2019 | 07/10/2019 | DCR |
| Instructions | Instruction N 15/2019 of 6 September | In force | Financial System | Chart of Accounts of Non-Banking Financial Institutions | 09/09/2019 | 09/09/2019 | DTM |
| Instructions | Instruction N 14/2019 of 6 September | In force | Financial System | Chart of Accounts of Non-Banking Financial Institutions | 09/09/2019 | 09/09/2019 | DCCG |
| Notices | Notice N 06/2019 of 30 August | In force | Micro-credit Company | Change in the wording of articles 2.N and 6.N of Notice N 08/12, of 30 March | 09/09/2019 | 09/09/2019 | DTM |
| Notices | Notice N 05/2019 of 30 August | In force | Financial System | Standardisation and Accounting Harmonisation Process of the Angolan Banking Sector | 09/09/2019 | 09/09/2019 | DCCG |
| Instructions | Instruction N 13/2019 of 28 August | In force | Financial System | Effective interest rate method for recog-nition of income and expenses of financial instruments | 06/09/2019 | 06/09/2019 | DCCG |
| Instructions | Instruction N 12/2019 of 28 August | In force | Financial System | Securities | 06/09/2019 | 06/09/2019 | DTM |

| NAME | NUMBER | STATE | TOPIC | SUBJECT | PUBLICATION | EFFECTIVE DATE | VALUE OBTAINED |
|---|---|---|---|---|---|---|---|
| Instructions | Instruction N 11/2019 of 28 August | In force | Financial System | Treatment of losses in the loan portfolio | 06/09/2019 | 06/09/2019 | DCR |
| Instructions | Instruction N 10/2019 of 28 August | In force | Financial System | LEASES Alteration of the Wording of Points 7.3 and 8.2 of Instrument N 08/16 of 08 August | 06/09/2019 | 06/09/2019 | DTM |
| Instructions | Instruction N 09/2019 of 27 August | In force | Financial System | Disclosures of financial instruments | 02/09/2019 | 02/09/2019 | DCCG |
| Instructions | Instruction N 08/2019 of 27 August | In force | Financial System | Impairment losses for the loan portfolio | 02/09/2019 | 02/09/2019 | DGR |
| Directives | Directive N 06/DCC/DMA/ 2019 of 05 July | In force | Foreign Exchange Policy | FOREIGN EXCHANGE POLICY - Import Documentary Credits - Attribution of Ceilings by the National Bank of Angola - Applicable Terms and Conditions | 08/07/2019 | 08/07/2019 | DOP/ GCC |
| Instructions | Instruction N 07/2019 of 05 July | In force | Financial System | PAYMENT SYSTEM OF ANGOLA Value Limits on Operations Performed on the Payments | 08/07/2019 | 08/07/2019 | DOP |
| Instructions | Instruction N 06/2019 of 05 July | In force | Financial System | FINANCIAL SYSTEM Kwanza Bank Deposit and With-drawal Operations | 08/07/2019 | 08/07/2019 | DCO |
| Instructions | Instruction N 05/2019 of 05 July | In force | Financial System | FINANCIAL SYSTEM Handling of Notes with Doubtful Legitimacy | 08/07/2019 | 08/07/2019 | DCO |
| Directives | Directive N 02/DMA/ 2019 of 30 May | In force | Monetary Policy | NBA rate - Notice N 12/2012 of 02 April | 04/07/2019 | 04/07/2019 | DCO |
| Directives | Directive N 04/DSP/DRO/ 2019 of 11 April | In force | Payment System | GUARANTEES ON CCAA SUBSYSTEMS Parameters for Determination and Penalty for Non-Compliance | 04/06/2019 | 04/06/2019 | DOP |
| Directives | Directive N 05/DSB/DRO/ 2019 of 20 May | In force | Monetary Policy | Reporting of Information on the Granting of Loans to the Real Sector of the Economy Through the System of Supervision of Financial Institutions (SSIF) | 21/05/2019 | 21/05/2019 | DCR |
| Directives | Directive N 02/DCC/ 2019 of 14 May | In force | Foreign Exchange Policy | Definition of "exchange rate arrears" | 16/05/2019 | 16/05/2019 | DOP/ GCC |
| Instructions | Directive N 02/DCC/ 2019 of 14 May | In force | Monetary Policy | FINANCIAL SYSTEM Granting of Loans | 26/04/2019 | 26/04/2019 | DCR |
| Directives | Directive N 03/DEE/DSB/ DRO 2019 of 28 March | In force | Monetary Policy | - Sending Additional Information on New Credits and Deposits through the Financial Institutions Supervision System - SSIF - Monthly Information / Commercial Banks | 16/04/2019 | 16/04/2019 | DCR |





| NAME | NUMBER | STATE | TOPIC | SUBJECT | PUBLICATION | EFFECTIVE DATE | VALUE OBTAINED |
|---|---|---|---|---|---|---|---|
| Instructions | Instruction N 03/2019 of 03 April | In force | Payment System | PAYMENT SYSTEM - Automated Clearing House of Angola - Balance Settlement Guarantees | 08/04/2019 | 08/04/2019 | DOP |
| Notices | Notice N 04/2019 of 3 April | In force | Extension of Credit | - Granting of Loans to the Real Economy Sector - Terms and Conditions | 03/04/2019 | 03/04/2019 | DOP |
| Notices | Notice N 03/2019 | In force | Financial Conduct | PRICES OF FOREIGN CURRENCY TRANSACTIONS Max. Fees and Expenses / Max. Exchange Margin Applicable to Certain Operations Dunning currency | 31/04/2019 | 31/04/2019 | DMC |
| Directives | Directive N 002/DSP/ DRO/2019 of 21 February | In force | Payment System | Payment Cards Expiry Date | 22/03/2019 | 22/03/2019 | DOP |
| Directives | Directive N 01/DCC/2019 of 05 February | In force | Foreign Exchange Policy | Provision of Information Regarding Declarations of Payment Commitment, Issued by Commercial Banks, for Realisation of Export of Goods | 12/02/2019 | 12/02/2019 | GCC/ DOP |
| Directives | Directive N 01/DMA/2019 of 30 January | In force | Foreign Exchange Policy | NBA Rate - Notice N. 10/2011, of 20 October | 31/02/2019 | 31/02/2019 | DTM |
| Instructions | Instruction N 02/2019 of 03 January | In force | Financial System | Duty to Provide Information to Customers about the Deposit Guarantee Fund | 18/01/2019 | 18/01/2019 | DMC/ DCO |
| Directives | Directive N 07/DSB/DRO/ DMA/2018 of 2 | In force | Foreign Exchange Policy | - Foreign exchange position limit - Daily Information - Commercial Banks | 10/01/2019 | 10/01/2019 | DTM/ GCC |
| Directives | Directive N 01/DSP/DRO 2019 of 03 January | In force | Payment System | Guarantees in CCAA Subsystems Parameters for Determining Minimum Guarantees and Penalty for Non-Compliance | 04/01/2019 | 04/01/2019 | DGR / DOP |
| Instructions | Instruction N 01/2019 of 03 January | In force | Payment System | - Automated Clearing House of Angola - Balance Settlement Guarantees | 04/01/2019 | 04/01/2019 | DOP |
| Notices | NOTICE N 12/2018 | In force | Foreign Exchange Policy | Foreign exchange position limit | 02/01/2019 | 02/01/2019 | DTM/ GCC |

G

Government

# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

Corporate governance is the central pillar of a financial institution, given its responsibility to enforce the regulatory framework. NBA Notice 1/13 was introduced to govern the policies and processes to be instituted by financial institutions in matters of Corporate Governance.

Banco BIR has been implementing a range of Corporate Governance practices with implications for the management model, through the definition of rules regarding the capital and organisational structure, the remuneration policy, the code of conduct and conflict management and transparency and information disclosure processes, while also establishing reporting rules for the governance model.

In response to Instruction 1/13 of 22 March, which regulates the submission of information to the NBA by financial institutions under the provisions of Notices 1/13 and 2/13 of 22 March, the Board of Directors of Banco BIR submitted to the regulator on 20 December 2018 the Annual Report on Corporate Governance and the Internal Control System, which includes the opinion of the Supervisory Board and the External Auditor. The guiding principles of the Corporate Governance policy are in line with best practice and respect the model and requirements defined by the NBA. Of these, we may highlight:

**1) Management Transparency:**
Internal – Complete and timely information. This allows non-executive members of the Board of Directors and members of the Supervisory Board to perform their duties of supervision and oversight effectively.
External – Comprehensive and accurate information. This allows stakeholders to evaluate the quality and compliance of the information provided and the results achieved.

**2) Independence:** Independence of executive management from Shareholders and/or specific interests.

**3) Equity:** Equity in the relationship with Shareholders, Customers and Employees.

**4) Loyalty:** Loyalty materialised through the implementation of mechanisms that prevent the occurrence of situations of conflict of interests.

**5) Efficiency:** Efficiency in the operation and interaction of all the Company's Management and Supervisory Bodies.

**6) Accuracy:** Consistency in managing the various risks underlying the Bank's business.

**7) Participation in the Decision:** Participation in decision-making through the adoption of collegial models in decision-making processes and the fostering of teamwork.

**8) Value Creation:** Primary objective of Banco BIR's Management and Employees.

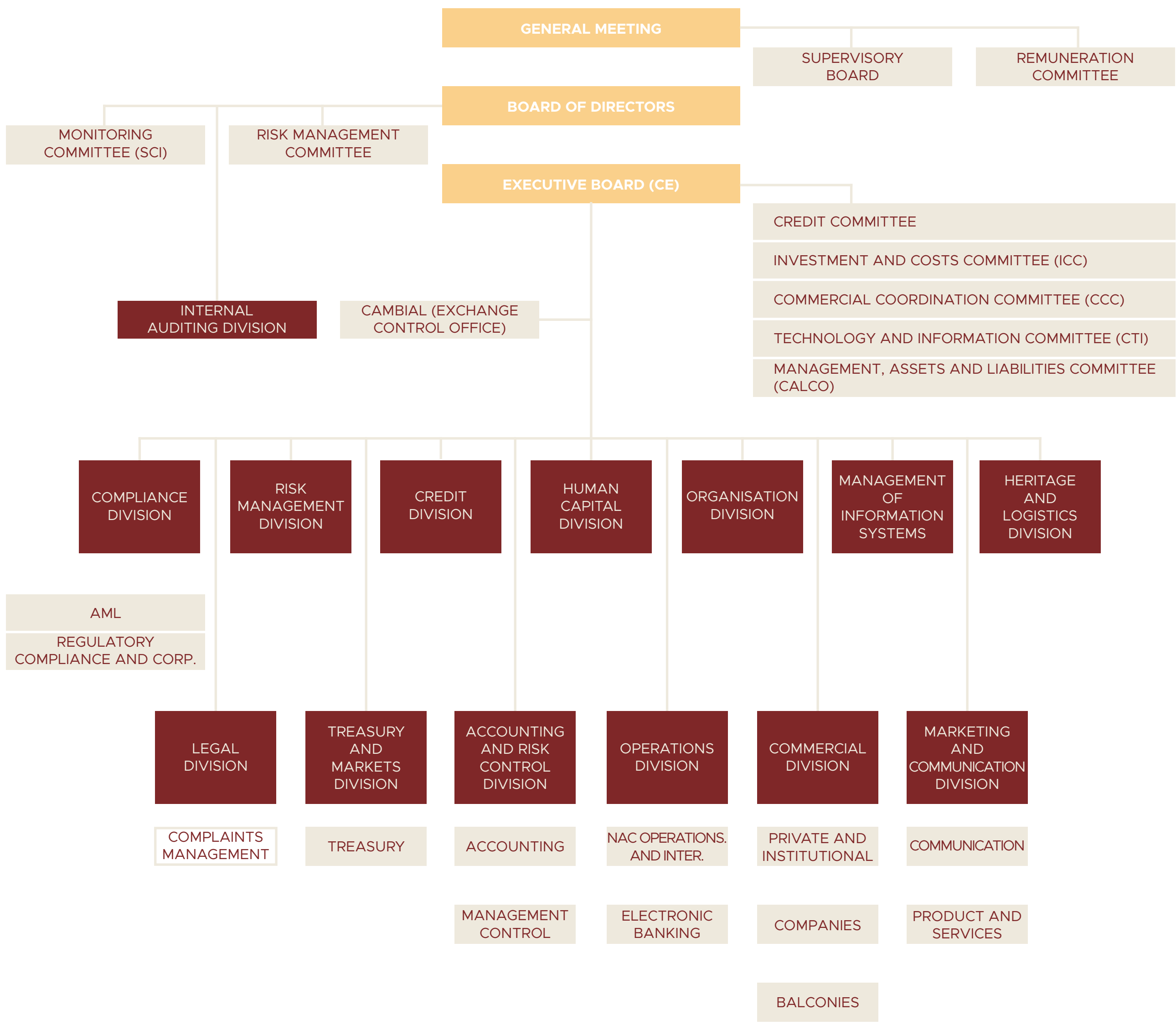
# GOVERNANCE MODEL



Banco BIR's operating model is established in its Bylaws and complies with the requirements of the Law on Financial Institutions (Law 13/5). The Governing Bodies of Banco BIR are the General Meeting, the Board of Directors and the Supervisory Board. Advisory and support bodies to the General Meeting and the Board of Directors are the Remuneration Committee, the Risk Management Committee and the Internal Control System Monitoring Committee. As support bodies to the Executive Committee, the Capital, Assets and Liabilities Committee, Credit Committee, Trade Coordination Committee and Investment and Costs Committee were established.

All members of Banco BIR's Governing Bodies are bound by strict duties of confidentiality and are subject to a set of rules designed to prevent conflicts of interest or insider dealing, observing best practice and best principles of proper and prudent management.

Additionally, all members of the Management Bodies have the technical competence, professional experience and moral standing to perform their respective duties.



## GENERAL MEETING

This is the governing body consisting of all shareholders with voting rights, and its resolutions are binding on all of them, when taken in accordance with the Law and the bylaws. The General Meeting may not be chaired by a shareholder.

The main duties of this body are as follows:
- Election of the Board of the General Meeting;
- Election of the Board of Directors, respective Chair and Vice-Chair;
- Election of the Supervisory Board;
- Election of members of the governing body support committees.

As of 31 December 2018, the Chair of the General Meeting was Mr. João Henriques Pereira.

## BOARD OF DIRECTORS

The Board of Directors of Banco BIR, SA is responsible for exercising the broadest powers of management and representation. As of 31 December 2017, the following persons were members of this body:

**Chair –** António da Silva Inácio
**Executive Director –** Lígia Maria Gomes Pinto Madaleno
**Executive Director –** Bruno Sandro Rodera da Silva Grilo
**Executive Director –** Artur Jorge Fernandes Rodrigues
**Non-Executive Director –** Fernanda de Fátima Marques da Silva Santos

According to the bylaws, the Bank's management must be exercised by an Board of Directors consisting of five members. The term of office is four years, which may be renewed as many times as the General Meeting approves. Regarding the duties of non-executive Directors, the following are of particular note:
- Ensuring that day-to-day management is carried out in a healthy, prudent and effective manner;
- Providing an independent opinion in decision-making;
- Participating in the definition and monitoring of business strategy;
- Analysing and discussing reports produced by key internal control system functions – Internal Audit, Compliance and Risk;
- Overseeing the process of disclosing accounting and management information;





## EXECUTIVE BOARD

The day-to-day management of Banco BIR, SA is exercised by the Executive Committee, the main functions of which are listed below:
- Deciding on a daily basis and continuously on matters relating to the Bank's Management, excluding those relating to the definition of business strategy, organisational structure, statutory disclosure of information and relevant operations, according to their amount, risk or special characteristics;
- Preparing an annual business plan and monitoring the Bank's annual activity, taking into consideration the business strategy framework established by the Board of Directors;
- Distributing responsibilities among its members, respecting the rules of segregation between business, support and control functions.

As of 31 December 2018, the responsibilities were distributed among the Executive Directors as follows:

**Lígia Madaleno**
Human Resources Division
Assets and Logistics Division
Marketing Division
Commercial Division
Legal Division

**Bruno Grilo**
Finance and Markets Division
Information Systems Division
Compliance Division
Organisation Division

**Artur Rodrigues**
Accounting and Management Control Division
Risk Department Credit Department
Operations Division

The Internal Audit Division reports directly to the Chair of the Administrative Board.

## SUPERVISORY BOARD

The Supervisory Board consists of a minimum of three and a maximum of five full members. The Supervisory Board is responsible for supervising the business and issuing an opinion regarding the reliability and accuracy of the financial statements. This body meets at least once a month.

As of 31 December 2018, the following persons were members of this body:

**Chair –** Faustino Mpemba Madia
**Member –** Nuno Ricardo Duarte Barros
**Member –** Carlos Ferraz

## ANTONIO DA SILVA INÁCIO

**Name:** António da Silva Inácio
**Election date:** 2014/15
**Nationality:** Angolan
**Position:** PCA-Chairman of the Administrative Board
**Qualifications:** Degree in Economics -1974 / I.S.C.E.F-Lisbon

**Background, banking experience:**
He began his professional career in Feb/1975 in Angola with a career in Planning and Economic Integration Services, National Planning Committee and Ministry of Planning.

Member of the Banking Activity Coordinating Committee (August/75 to March/77).

Vice - Governor and Governor of NBA (Dec/82 to June/90). Director of BPC (Banco de Poupança e Crédito) from August/92 to Oct/2011 Coordination of the first works related to strategic privatisation scenarios and the areas of planning and studies, commercial area in the retail segments, companies (PME/Corporate) and foreign services (coordination in setting up and structuring transactions, under unions and framework agreements with risk covered by sovereign guarantee and/or private international credit with the participation of institutional export credit insurance agencies).

Director (Non-Executive) and PCA of BIR-Banco de Investimento Rural since 2014/15 and re-elected in Oct/2018.

He chairs the Board of Directors and the specialised Commissions within the scope of Corporate Governance, namely, the Internal Control System Monitoring Committee (SCI) and the Risk Management Committee.





## LÍGIA MARIA GOMES PINTO MADALENO

**Name:** Lígia Maria Gomes Pinto Madaleno
**Election date:** 2018
**Nationality:** Angolan
**Position:** Chairman of the Executive Board 83
**Qualifications:** Degree in International Relations

**Background, banking experience:**
Lígia Maria Pires Gomes Pinto Madaleno began her career in 2002, having worked at Banco Espírito Santo Angola, where she was an Advisor to the Administration, and at Banco Valor where she was Executive Director and Vice-President of the Board of Directors.

In her professional career, she has worked in the Commercial, Marketing, Electronic Banking, Organisation, Heritage and Logistics and Human Capital areas.

She currently holds the position of Chairman of the Executive Committee of Banco BIR, which she has held since October 2018.

## BRUNO SANDRO RODERA DA SILVA GRILO

**Name:** Bruno Sandro Rodera da Silva Grilo
**Election date:** 2018
**Nationality:** Angolan
**Position:** Executive Director
**Qualifications:**

- Degree in Production and Marketing Management (Catholic University of Angola);
- Degree in Financial Management (Catholic University of Angola);
- Degree in Economics (Catholic University of Angola);
- Postgraduate Course in Business Management (Catholic Lisbon School);
- Intensive Human Resources Programme (Catholic Lisbon School);
- MBA in Finance (BBS - Brazilian Business School);
- MBA in Projects (To be completed - BBS - Brazilian Business School).

**Background, banking experience:**
Bruno Sandro Rodera da Silva Grilo began his career in 2006 at Banco Privado Atlântico (BPA), ATLANTICO and participated in the merger (ATL/BMA) creating Banco Millennium ATLANTICO (BMA), and Banco Desenvolvimento de Angola (BDA).

In his professional career, he has always held positions in the Treasury and Markets Department, being Financial Director of ATL and BDA.

Rafael Arcanjo Kapose has been Executive Director of Banco BIR since June 2018.

**Pelouros:**
a. Treasury and Markets Division (DTM);
b. Computer Security Division (DSI)
c. Credit Division (DCRÉDITO)
d. Compliance Division (DCOM)
e. Exchange Control Office (GCC)



## ARTUR JORGE FERNANDES RODRIGUES

**Name:** Artur Jorge Fernandes Rodrigues
**Election date:** 2018
**Nationality:** Portuguese
**Position:** Executive Director
**Qualifications:**

- Degree in Accounting and Business Administration;
- Specialisation in Banking Administration.

**Background, banking experience:**
Artur Jorge Fernandes Rodrigues began his career in 1992, having worked at Banco Português do Atlântico, União de Bancos Portugueses and Banco Mello.

In his professional career, he performed duties in the areas of accounting, planning and management control, specialised credit, means of payment and investment and equity funds and Logistics.

In Angola since 2009, where he worked at Banco Millennium Angola, as coordinating director and at Banco Valor, as director and later Administrator.

He has been Executive Director of Banco de Investimento Rural since October 2018.

**Pelouros:**
a. Accounting and Management Control Division (DCCG)
b. Risk Division (DRISCO)
c. Credit Division (DCRÉDITO)
d. Operations Division (DOP)

## FERNANDA DE FÁTIMA MARQUES DA SILVA SANTOS

**Name:** Fernanda de Fátima Marques da Silva Santos
**Election date:** 2018
**Nationality:** Angolan
**Position:** Non-Executive Administrator
**Qualifications:**
Degree in Economics and Finance, enrolled in the Order of Accountants and Accounting Experts of Angola as an accounting expert with the licence no. 20120009.
**Pós graduações em:**
- Business Management and Marketing
- Management of Senior Corporate Management

At Banco de Investimento Rural, from 2014 to 2018, as Executive Director, she was responsible for the Organisational Units linked to the Commercial, Credit, Finance and Markets and Marketing Departments.
Currently, she is a non-executive director at Banco BIR.

**Background, banking experience:**
Fernanda Santos started her career in banking in 1983, going through the BPC (Banco de Poupança e Crédito), BCGA (Banco Geral Caixa Angola), Banco Keve and the extinct BPD/BPPH, where she had the opportunity to work and collaborate comprehensively, the structure of commercial banking, in the areas of business, control and support, with a focus on commercial, financial and credit issues.

In her professional career, she worked as a director in the Commercial, Credit Accounting and Financial, Operations, Heritage and Marketing areas.

At Banco de Investimento Rural, from 2014 to 2018, as Executive Director, she was responsible for the Organisational Units linked to the Commercial, Credit, Finance and Markets and Marketing Departments.

Currently, she is a non-executive director at Banco BIR.

# INTERNAL CONTROL SYSTEM



Banco BIR's internal control system consists of the organisation of all methods and procedures adopted by the Board to achieve the management objective of ensuring, to the extent possible, the methodical and efficient conduct of its activities, including adhering to the management's policies, safeguarding assets, preventing and detecting fraud and errors, ensuring the reliability and completeness of accounting records and the timely preparation of reliable financial information.

According to the NBA Notice 2/13, which regulates the obligation of Financial Institutions to implement an Internal Control system, an adequate and effective internal control system is one that provides reasonable assurance to the Administrative Board and the Management that the Bank's strategic and operational objectives are being met, the reporting system is reliable and the rules and regulations are being complied with.

Banco BIR's internal control system is based on 4 key elements:
**Control Environment –** this refers to the attitudes and actions of the Bank's management bodies and employees, taking into account the levels of knowledge and experience appropriate to their functions, as well as the high ethical principles and integrity with which they operate.

**Risk Management System –** aims to establish a set of policies and processes that ensure the correct identification, assessment, monitoring, control and reporting of risks. It takes all relevant risks into account and ensures effective, consistent and timely management.

**Information and Communication –** aims to ensure complete, reliable, consistent and understandable information aligned with defined objectives and measures, as well as procedures for collecting, processing and disseminating that information, in accordance with best practice.

**Monitoring –** concerns the continuous, effective and timely detection of shortcomings in strategy, policies, risk categories as well as ethical and professional principles.





## ETHICAL PRINCIPLES AND CONFLICTS OF INTEREST

The code of conduct, the Administrative Board regulations and the Executive Committee regulations contemplate the highest standards of action, in accordance with ethical and deontological principles, defining rules, principles and procedures to identify, monitor and mitigate potential conflicts of interest.

Banco BIR promotes transparency in relationships involving Governing Bodies and employees, prohibiting participation in illegal activities as well as excessive risk-taking, which contributes to the transparency of contractual relations between the Bank and its counterparties, stipulating that, both Members of the Corporate Bodies and employees may not receive gifts of non-symbolic value that compromise the performance of their duties with complete independence.

The professional activity of the members of the Governing Bodies and employees is governed by the ethical principles laid down in the Code of Conduct, available on the intranet and on the institutional website, the main lines of which may be summarised as follows:

1. To comply with the rules and duties deriving from the legal and regulatory provisions and to pursue the Bank's activity in strict compliance with ethical and deontological principles and exemplary civic conduct.
2. To ensure diligence and professional competence, in particular in the performance of professional duties, in compliance with the dictates of good faith, and to act with a high degree of diligence, loyalty and transparency, guaranteeing Customers and the competent authorities a rigorous, timely and complete response, subject to the duty of professional secrecy.
3. To ensure strict maintenance of professional secrecy.
4. To establish equal treatment for Bank Customers in all situations in which there is no legal and/or contractual reason and/or risk dictating otherwise.
5. To manage conflicts of interest: i) in situations where there is conflict between the interests of two or more Customers; ii) in situations where there is a conflict of interests of customers, on the one hand, and those of the Bank or its employees and members of the Governing Bodies, on the other;
6. To prohibit illegitimate benefits and abuse of position.
7. Obligation for credit to be granted to related parties under market terms and properly supported by an independent opinion.

# VISION COMMITMENTS MISSION AND STRATEGY



## VISION

It is the ambition of Banco BIR to be a universal service Bank, focusing on:

**Innovation –** In products, customer channels and service.

**Transparency –** In its relationship with customers and employees, and with the other stakeholders.

**Proximity –** Through comprehensive availability of the entire Bank structure and the establishment of partnerships.

## COMMITMENTS

**Customers –** To ensure satisfaction and quality of service.

**Employees –** To invest in professional and personal growth.

**Shareholders –** Value creation.

**Angola –** To contribute towards the sustainable development of the National Economy.

## MISSION

To develop solutions, products and services that promote lasting partnerships with its customers and create value for shareholders.

## STRATEGY

The Bank's challenges and priorities focus on the Customer and aim to create greater involvement in the context of rapidly and constantly changing markets. The Bank's strategy consists of:

**Objective –** To create differentiation through a close relationship with customers.

**Commitment to Customers:**

Comprehensive availability of the entire Bank structure.

**Innovation –** digital services and products.

**Simplification of Processes –** Increased efficiency and reduced operational risk.

**Product Diversification –** Increased range of products to be made available to customers.

**Strategic Priorities:**

- To invest in the establishment of partnerships with customers.
- To develop technical and analytical skills to better understand customers and their needs.
- To invest in innovation to keep abreast of customer needs.
- To invest in Digital Banking.
- To maintain the quality of the Bank's assets.





**Critical success factors:**

**Speed in processes -** Be agile in processes and make decisions quickly to better serve Customers. **91**

**Operational Excellence -** Leading to rapid processing and risk mitigation.

**BIR Culture –** The BIR culture is the third critical key element for success. We must attract and retain talent and develop a culture of constant customer focus.

# Government

## GOVERNANCE AND ORGANISATION OF RISK MANAGEMENT

# GOVERNANCE AND ORGANISATION OF RISK MANAGEMENT



For effective risk management, Banco BIR continuously and permanently seeks to achieve and maintain a balance of risk/return that best fits its scale, complexity and risk profile. Thus, risk governance is based on a prudent management model aligned with best practice, the guiding principles of which are:

- Involvement of divisions and Administrators in management and decision-making.
- Integration and attribution of clearly defined responsibilities for continuous risk management.
- Independence in risk monitoring and control through structures different from those taking the risk.
- Periodic review and audit of risk management mechanisms.
- Adoption of a conservative position in defining assumptions and control limits.

## RISK MANAGEMENT ORGANISATION AND MODEL

The main objective of risk management is to ensure that it is managed in a manner that mitigates its potential impact, ensuring the satisfaction of customers, employees, shareholders and the community. Thus, Banco BIR promotes the structure so that risk control and management forms an integral part of the business plan and responsibility of all organisational units.

Monitoring the main risks inherent to the Bank's activity is the responsibility of the Administrative Board and the Executive Committee. To ensure risk control and management, the Bank has 3 lines of defence in place:

**1ª) Line of Defence:**
**Commercial Division and Transactional Banking Division**
It is the responsibility of the Commercial Directors to manage the risk of their activities on a daily basis, taking into account the defined principles, rules and limits, as well as to ensure their regular reporting.

The Transactional Banking Division is responsible for ensuring full compliance with all defined rules and procedures, with a view to mitigating risk, either through clear segregation of duties or review of the processes received for execution.

**2ª) Line of Defence :**
**Risk Division, Credit Committee and Capital Committee, Assets and Liabilities**
The Risk Division is responsible for actively managing and controlling risk in all its aspects, as well as incorporating recommendations on these matters.



The committees are responsible for monitoring the risk management policies of the institution and advising on the risk strategy to be implemented.

**3ª) Line of Defence :**
**Internal Audit**

This is responsible for ensuring an independent and objective review and assessment of compliance with applicable internal and external procedures, regulations and standards.

We therefore have a risk management model based on the following phases:

**Identification –** Aims to identify the current and potential risks to which the activity is subject, through the use of updated, timely and reliable information, developed through the following activities:

- Collection of reliable and timely information from the various departments;
- Definition of a strategy to identify risks;
- Identification of existing and potential risks;
- Definition and review of indicators and limits;
- Incorporation of recommendations from the risk report;

**Evaluation –** Consists of the qualitative and quantitative evaluation of the information collected, having as activities:

- Gathering reliable and timely data from the entire organisation;
- Defining assumptions and risk measurement models;
- Developing risk measurement models;
- Validating and ensuring the updating of risk measurement models;
- Calculating and analysing the impact of the risks identified;
- Subjecting the measurement models to periodic audits and implementing recommendations for improvement;

**Monitoring and Control –** Risk management is subject to a continuous monitoring process. For this, limits and control mechanisms are defined, which are developed through the following activities:

- Monitoring risk indicators;
- Guaranteeing and updating the indicators and limits to the different economic cycles;
- Developing risk control and warning mechanisms;
- Performing stress testing based on the definition of risk scenarios;
- Monitoring the adequacy of the risk management system;

**Reporting -** Results should be reported whenever necessary or according to an established frequency.
This phase has as its most relevant activities:
- Preparation of reports;
- Preparation of risk mitigation recommendations;
- Submission of reports to the Credit Committee and the Capital, Assets and Liabilities Committee;
- Monitoring the implementation of the activities defined in the action plan.

**Materially significant risks**
Taking into account the activity, the risks considered most relevant, and consequently the most evaluated, monitored and audited, are as follows:
- Credit risk
- Liquidity risk
- Exchange risk
- Operational risk
- Interest rate risk
- Compliance risk

## CREDIT RISK

Credit risk is the risk of loss associated with customers defaulting on their contractual credit obligations. Credit risk may arise not only from the counterparty due to a loss event, but also from a concentration on a single counterparty, industry, product, geography or maturity.

The Bank does not grant credit to customers who report material incidents, are in default to the Bank or who belong to the same group of customers who are in the following situations:
- Default in making any principal or interest payments due to any Financial Institution;
- Irregular use of means of payment under the responsibility of that person or entity;
- Pending legal action against such entity, provided that the outcome of such action is deemed to have a materially adverse effect on the respective economic or financial situation.

## CREDIT RISK ANALYSIS PROCEDURES

The credit risk assessment and control process is the responsibility of the Credit Division. The appraisal of credit proposals presupposes a rigorous analysis, framed by parameters summarised below:
- No credit transaction is approved without the prior collection, verification and critical analysis of relevant information regarding the proposer of the transaction and his/her economic and financial situation, the operation to be financed and the guarantees provided;
- Proposals for credit operations or guarantees to be submitted to the competent bodies comply with the following principles:

1. They are appropriately delineated in the technical file, which contains all the essential and ancillary information necessary for the confirmation of the operation;
2. They respect the product sheet, where applicable;
3. They are accompanied by duly substantiated credit risk analysis;
4. They contain the signatures of the respective proposing bodies;

- The credit risk analysis considers the Bank's total exposure to the customer or group to which the customer belongs, in accordance with applicable law at any given time.

## ANALYSIS AND WEIGHTING OF GUARANTEES

- All credit operations have associated guarantees appropriate to the risk of the borrower and the nature and term of the operation;
- Real guarantees are assessed prior to the credit decision.

The Bank has internally defined the following risk level assignment rules for new operations:
- Minimum risk level attributed to new credit operations - B (Very low risk);
- The Bank does not grant credit with a risk rating higher than C (Low risk).

The risk grades of all credit operations are reviewed on a monthly basis by the Risk Division.

The Bank has defined and implemented an impairment loss calculation model.

The model is based on the Bank's own methodology, which consists of an individual analysis of the entire loan portfolio. Transactions without signs of impairment are analysed collectively based on market benchmarks, as the Bank's portfolio is small and relatively recent.

At the close of 2018, the Bank had an incident-free portfolio and strong collateralisation. Physical collateral, financial pledges, mortgages and collateral from the Guarantee Fund covered 60% of the loan portfolio.

## LIQUIDITY RISK

Liquidity risk is defined as the likelihood of negative impacts resulting from the Bank's inability to have sufficient liquid funds available to meet its financial obligations.

The Bank conducts prudent management of its liquidity levels, ensuring a stable, secure and sufficient position, relative to its size, based on liquid and eligible assets, maintaining a prudent transformation ratio.

The DFM ensures the fulfilment and control of the daily liquidity gap, controlling the inflows and outflows of funds, taking into account compliance with Compulsory Minimum Reserves.

Liquidity risk is also analysed by the Capital, Assets and Liabilities Committee, with a view to defining the strategy to be adopted regarding the policies to be implemented at this level.

It should be noted that, on 30 August 2016, the NBA published Instruction 19/2016, specifically regarding matters of liquidity. The Bank, as required by the supervisor, proceeds with the analysis and reporting of this information, comfortably complying with the limits required by the Central Bank.

At 31 December 2018, according to the methodology of the National Bank of Angola, the Bank had the following liquidity ratios:

- National currency 476% (NBA minimum 100%)
- Foreign currency 530% (NBA minimum 150%)

## EXCHANGE RATE RISK

Exchange Risk results from unfavourable fluctuations in exchange rates between currencies and arises from the difference between the asset and liability positions, in each foreign or indexed currency, that the Bank presents in its Balance Sheet.

Banco BIR rigorously manages its foreign exchange position, actively seeking to control its risk by maintaining a position for each currency and set of currencies, which mitigates this risk without compromising its trading capacity. The DFM is responsible for managing these positions.

Exchange Risk is the subject of analysis by the Capital, Assets and Liabilities Committee, with a view to defining the strategy to be adopted regarding these matters.



With the publication of Notice 6/16, which establishes new capital requirements to hedge market risk, and Notice 9/16, which establishes new prudential risk limits, Banks are no longer subject to the limits on the exchange rate exposure ratio that previously existed. In 2018, the NBA has resumed this view, having established a new foreign exchange position limit (without indexed products), defining the following limits:

- Until 31 March 2018, Banks shall not have a foreign exchange position greater than or less than 20% of their regulatory own funds;

- Until 30 June 2018, Banks shall not have a foreign exchange position greater than or less than 10% of their regulatory own funds, and whenever the long position exceeds this limit, the Bank shall sell the excess currency to the NBA. If the Bank exceeds this short position limit, it must correct the situation or be subjected to penalty measures by the supervisor.

From 2019, the NBA has defined that the foreign exchange position may not exceed 5% of regulatory own funds.
At the close of 2018, the Bank had a foreign exchange position far from this figure, standing at 1.5%.

## INTEREST RATE RISK

Interest rate risk results from fluctuations in balance sheet interest rates, which result from the impact of changes in interest rates on the valuation of assets and liabilities and the difference in repricing terms.

This risk is managed by controlling the aggregate Balance sheet interest rate risk and controlling the impacts on equity and net interest income arising from a parallel variation in the interest rate curve.

Interest Rate Risk is analysed by the Capital, Assets and Liabilities Committee, with a view to defining the strategy to be adopted on this matter.

On 22 June 2016, NBA published Notice 8/16, which established the analysis requirements to be observed by financial institutions (FI) from January 2016, within the scope of interest rate risk. The NBA requires FI to provide detailed information on their level of interest rate risk exposure, considering an instantaneous positive or negative 2% shock in interest rates, which results in a parallel movement of the yield curve of the same magnitude, and the impact on the present value of cash flows and interest margin is estimated.

The NBA requires immediate reporting whenever this analysis results in a potential reduction in economic value of 20% or more of the institution's regulatory own funds.

At the end of 2018, the Bank had a positive impact of 6.96%

## OPERATIONAL RISK

Operational risk results from the execution of internal business processes, from people, from systems or from events, and is inherent to any activity.

Inadequate management of operational risk can cause irreparable damage to an institution's reputation.

In order to mitigate this risk, the Bank promotes the elaboration and maintenance of rules of procedure, as well as internal manuals for each area of the Bank. The rules are available for consultation by all employees on the intranet.

Whenever there is external regulation, the Bank, through its Compliance Division, arranges the disclosure and discussion of these standards with the main areas involved in the processes, and also promotes the adjustment of internal standards and manuals, if necessary. Additionally, the members of the Bank's governing bodies and employees are subject to the Code of Conduct, as approved by the Administrative Board.

The assessment of compliance with internal regulations and the code of conduct is the responsibility of the Internal Audit Division (IAD), which assesses the effectiveness, efficacy and adequacy of the internal control system, considering the risks associated with the various activities, so as to guarantee and safeguard the integrity and security of the assets of the Bank and its customers.

The IAD's activity takes place independently of the audited units and in accordance with internationally recognised and accepted principles of internal auditing. Periodic reviews are carried out of the activities of the commercial bodies and central services, with a view to assessing their effectiveness and compliance with the various rules governing their activities, the level of dissemination and the level of knowledge held by employees and management. The adequacy of the various control processes is also observed, given the new risks identified and their adjustment to current legislation. This assessment is complemented by a thematic audit by the external auditor.





## COMPLIANCE RISK

Compliance risk comprises the likelihood of events having a negative impact on the institution's results or capital as a result of violations or non-compliance with laws, rules, regulations, codes of conduct, instituted practices or established ethical principles.

The emergence of compliance risk is intrinsic to any banking structure and its business, given that it is underpinned by a normative and legal base, guided by rules defined by the various supervisory and monitoring entities, and by contracts signed with business partners and customers.

The effective detection, management and mitigation of such risks are key instruments in the management of reputation risk, as they represent one of the main guiding pillars of the Bank's activities.

The Compliance Department is responsible for developing policies and actively participating in the creation of processes and procedures to mitigate the risk of non-compliance, money laundering and terrorist financing.

In 2015, Angola established an intergovernmental agreement with the US – FATCA, which aims to prevent tax evasion by entities subject to taxation in the United States (US Persons), in relation to foreign income. Under this agreement, the Angolan FI undertake, in a summarised manner, to identify customers who are US Persons and to report annually those customers' financial assets to the national tax authority, which in turn reports them to the American tax authorities. Within the structure of the BIR, the Compliance Division is responsible for compiling and reporting this information.

Report

# MANAGEMENT REPORT

# MANAGEMENT REPORT



The year of 2019, similarly to previous years, was a very demanding year for the Angolan economy and the financial sector. The economy continued in a recession, with a -1.1% growth projected, thus marking the 4th year of negative GDP growth.

The Kwanza recorded a strong devaluation again, 56.3% and 53.2% against the USD and EURO, respectively. In cumulative terms, since 31/12/17, the Kwanza depreciated 190.6% and 191.7% against the USD and EURO, respectively. This is a violent movement, considering the Angolan economy's strong dependence on imports.

In terms of inflation, due to the strong monetary restriction implemented by the NBA, there was a reduction of 1.3%, with 2019 registering an inflation of 16.9%, despite depreciation and the introduction of VAT. This evolution of the inflation rate, allows Angola to leave the category of hyperinflationary economies, where it has been since 2017.

In terms of oil, the year was also not positive, given the average selling price recorded in the market and production. In fact, one of the biggest problems facing the Angolan economy is the continued fall in production, the divestment recorded in recent years and the end of the useful life of many wells.

The delay in payments from the State to companies has not helped economic activity, with the consequent impacts on the financial sector, in terms of the volume of overdue loans, whose latest indicators published by the NBA (May/19) reveal a slight decrease compared to the end of 2018, where they stood at around 30%.

The year for the financial sector was marked by an Asset Quality Assessment (AQA), for the 13 banks with the highest systemic risk in the system. This process was concluded at the end of the year, with the NBA granting 6 months for these banks to correct the capital deficiencies, resulting from the corrections of the detected deficiencies. The results are not public, but given the scope of the AQA, the need for robust capitalisation of several banks and/or consolidation movements is anticipated.

The activity of the financial sector was also affected by the reduction in the sale of foreign currency by the NBA, 34% less than in 2018 and also, by a strong intervention in the market by the Central Bank, imposing the reduction of banks' price in terms of commissions and foreign exchange spread. At the end of the year, the NBA liberalised the spread, maintaining, however, the price list in terms of commissions.





Still in terms of intervention, the NBA, through Notice 4 (later updated by Notice 7), imposed on the financial sector, minimum quotas for granting credit to certain sectors, imposing a maximum interest rate and commissions of 7.50% (when inflation stood at almost 17%), thus penalising the sector's balance sheets and operating accounts.

The strictly restrictive policy implemented by the authorities led to stressful situations in the financial system, with deficiencies in the functioning of the money market, where several institutions were unable to finance and others chose to apply excess liquidity to the NBA.

The Banco BIR developed its activity against this background, with constant concern to protect its Balance Sheet and liquidity, bearing in mind, however, the need to ensure the growth that is indispensable for the Bank's viability. Another visible difficulty that management had to face, was the legislative volatility of the supervisor, who in 2019 approved and revoked several norms and regulations, which required a constant adaptation of the business, processes and investments.

The main focus of management in 2019 was the implementation of the approved strategic vision, namely:

- Transform Banco BIR into a commercial bank, with a wide range of products, maintaining, however, special attention to the primary sector and its value chain with relevance to the agri-food and manufacturing industry;
- Strong focus on growth of Bank resources to support rapid organic growth;
- Focus on efficiency – Process automation and development of electronic banking;
- Strengthening of Corporate Governance, with the approval and formalisation of several manuals, policies and procedures.

The work carried out resulted in several achievements that should be noted:

- Expressive growth of the Bank's assets - 436%
- Significant increase in funds raised - 742%
- Notable growth in the loan portfolio - 110%
- Quality of the balance and off-balance loan portfolio (impairment collateral coverage of 81% and 71%, respectively);
- Comfortable liquidity levels - Liquidity Coverage Ratio (LCR) balance 661%, NC 993% and FC 188%, all comfortably above the NBA minimums;
- Balance resilience to the most diverse stress tests.

It is a source of pride for the management to be one of the banks that complied with the requirements of the supervisor, in terms of Notice 4, through the approval of two operations in the total amount of AKZ 5,960 million, of which AKZ 1,873 million were made available until 31 December 2019. These are two projects that, through consistency, the promoters' know-how and the bank's support, will certainly contribute to the diversification of the economy and in the space of 3 to 4 years start to produce relevant results.

Still in 2019, management implemented a new impairment model, in order to meet the requirements of IFRS9. These changes resulted in a substantial reinforcement of impairments:

- Disbursement credit + 1,007 billion
- Others (Securities, cash, IDC and Malanje) + 880 million

This effort, in order to protect the bank in the future, allows the BIR to present one of the most solid balance sheets in the financial system, anticipating an effort at this much less demanding level.

The bank's main indicators and summary of management's work in 2019 are presented in the following table:





| INDICATORS | 2018 | 2019 | VARIATION |
|---|---|---|---|
| **Assets** | 15 012 | 80 533 | 436,5% |
| **Net Income** | 202 | 5 572 | 2 658,4% |
| **Equity** | 8 524 | 14 770 | 73,3% |
| **Customer Funds** | 6 352 | 53 461 | 741,7% |
| **Credit** | 5 217 | 31 195 | 110,2% |
| **IDC** | 2 547 | 10 967 | 1 124,8% |
| **Credit impairment** | 34 | 1 051 | 2 991,2% |
| **Securities Portfolio** | 2 525 | 27 046 | 971,2% |
| **Cost-to-Income Ratio** | 78% | 28,1% | - |
| **Transformation Ratio** | 82% | 21% | - |
| **ROE** | 4,4% | 65,4% | - |
| Solvency Ratio | 100,9% | 79,5% | - |
| **Active Customers** | 1 372 | 3 162 | 1 305% |
| **Branch Network** | 3 | 5 | 66,7% |
| Employees | 56 | 82 | 46,4% |
| Banking Product | **1 437** | **10 608** | **638,2%** |
| Net Interest Income | 937 | 5 435 | 480% |
| Foreign Exchange Gains and Losses | 140 | 2 928 | 1 988,4% |
| Net Charges | 439 | 2 245 | 411,7% |
| **Other income** | - | - | - |
| **Operation** | **-79** | **-133** | **-68,4%** |
| **% NII/BI** | 65,2% | 51,2% | - |
| Structural costs | **1 178** | **2 941** | **149,7%** |
| Staff | 639 | 1 786 | 179,6% |
| Third Party Supplies and Services | 453 | **789** | 74,2% |
| **Depreciation** | 87 | 366 | 320,7% |
| **% Staff / Structural Costs** | **54,2%** | **60,7%** | - |

MILLIONS OF (AKZ)

During 2019, management devoted special attention to the bank's organisational issues, aiming to prepare the institution for the near future and, equally, to adapt its governance model to the best international practices. Management believes that this evolution is critical, not only to respond to the new demands that are anticipated by the NBA, but also to maintain and boost the bank's relationship with current and new correspondents.

In conclusion, 2019 was a difficult year, anticipating that 2020 will not be easier. Despite the difficulties, the bank managed to obtain results, at the most diverse very relevant levels, namely in terms of gains in market share - resources, foreign exchange and electronic banking.

The work carried out made it possible to make the Institution more solid and with greater notoriety, thus strengthening the bases for the future of the Bank.

2019 marks a new milestone in the bank, as did 2018 when the first positive results were recorded. In fact, the bank with the results obtained - AKZ 5,572,452,337.66 manages to clear the past of negative retained earnings (AKZ 1,496,258,258.61 at the end of 2018) and for the first time to distribute dividends to shareholders, in the amount of AKZ 2,500,000,000.00 - 44.9% of the Institution's net profit in 2019.

**The Board of Directors' proposal to the GM, for the application of the 2019 results, is as follows:**

**LEGAL RESERVE - 10%**
AKZ 557.245.233,77

**UNAPPROPRIATED RETAINED EARNINGS - 45.6%**
AKZ 2.515.207.103,89

**DIVIDENDS - 44.4%**
AKZ 2.500.000.000,00

Statements

# FINANCIAL STATEMENTS

## STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

Statement of income and other comprehensive income on 31 December 2019 and 31 December 2018 (amounts expressed in thousands of Kwanzas, except when expressly indicated).

| | NOTE | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| Interest and Other Similar Income | 5 | 6 762 194 | 1 028 582 |
| Interest and similar charges | 5 | -1 326 587 | -91 146 |
| **Net Interest Income** | **-** | **5 435 636** | **937 436** |
| Income from services and fees | 6 | 2 394 699 | 449 533 |
| Expenses from services and fees | 6 | -148 720 | -10 625 |
| Results from Investments at Amortised Cost | - | 0 | 0 |
| Foreign Exchange Gains and Losses | 7 | 2 928 039 | 140 218 |
| Income from Disposal of Other Assets | - | 0 | 0 |
| Other operating profit or loss | 8 | -132 806 | -78 909 |
| **Proceeds from Banking Activity** | **-** | **10 476 848** | **1 437 653** |
| Staff Costs | 9 | -1 786 342 | -638 993 |
| Third-party supplies and services | 10 | -789 188 | -452 536 |
| Depreciation and amortisation for the year | 11 | -366 230 | -86 774 |
| Net provisions from cancellations | 12 | -66 360 | -55 297 |
| Impairment on customer loans net of reversals and recoveries | 12 e 18 | -1 007 298 | -37 640 |
| Impairment on Other Financial Assets net of reversals and recoveries | 12 | -396 583 | 35 596 |
| Impairment on Other Assets net of reversals and recoveries | - | -425 321 | 0 |
| **Earnings before taxes** | **-** | **5 639 526** | **202 009** |
| Income Taxes | 13 | -67 074 | 0 |
| **Net Income** | **-** | **5 572 452** | **202 009** |
| Items that may be reclassified as income | - | 673 651 | 0 |
| Items that will not be reclassified as income | - | 0 | 0 |
| **Total Comprehensive Income** | **-** | **6 246 103** | **202 009** |



## BALANCE

Balance sheet on 31 December 2019 and 31 December 2018 (amounts expressed in thousands of Kwanzas, except when expressly indicated).

| | NOTE | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| Cash and cash balances at central banks | 14 | 17 807 437 | 4 683 969 |
| Cash balances at other credit institutions | 15 | 9 352 012 | 1 632 749 |
| Investments at central banks and other credit institutions | - | 12 587 346 | 0 |
| Financial assets at fair value through other comprehensive income | 16 | 17 730 104 | 41 067 |
| Investments at amortised cost | 17 | 9 315 605 | 2 483 822 |
| Customer Loans | 18 | 9 916 597 | 5 149 876 |
| Non-current assets held for sale | 19 | 0 | 407 171 |
| Other tangible assets | 11 | 1 869 928 | 120 134 |
| Intangible assets | 11 | 498 580 | 159 881 |
| Current tax assets | 13 | 15 868 | 6244 |
| Other Assets | 20 | 1 439 871 | 351 584 |
| **Total Assets** | **-** | **80 533 348** | **15 036 497** |
| Funds from central banks and other credit institutions | - | 7 506 182 | 15 573 |
| Customer funds and other loans | 21 | 53 461 029 | 6 351 716 |
| Provisions | 12 | 92 218 | 25 480 |
| Deferred Tax Liabilities | - | 288 707 | 0 |
| Other liabilities | 22 | 4 415 167 | 119 785 |
| **Total Liabilities** | **-** | **65 763 303** | **6 512 554** |
| Share Capital | 23 | 10 000 000 | 10 000 000 |
| Other reserves and retained earnings | 23 | -802 407 | -1 678 066 |
| Individual Net Income for the Year | - | 5 572 452 | 202 009 |
| **Total Equity** | **-** | **14 770 045** | **8 523 943** |
| **Total Equity and Liabilities** | **-** | **80 533 348** | **15 036 497** |

## STATEMENTS OF CHANGES IN OWN FUNDS

Balances on 31 December 2019 and 31 December 2018 (amounts expressed in thousands of Kwanzas, except when expressly indicated).

| | NOTE | CAPITAL | RESERVES AND RETAINED EARNINGS | NET INCOME FOR THE PERIOD | TOTAL EQUITY CAPITAL |
|---|---|---|---|---|---|
| **Balance on 31 December 2017** | **-** | **2 950 000** | **-1 473 519** | **-182 036** | **1 294 445** |
| Incorporation into Retained Earnings | 23 | 0 | -182 036 | 182 036 | 0 |
| Expenses with Capital Increase | 23 | 0 | -22 511 | 0 | -22 511 |
| Net Earnings for the Year | 23 | 0 | 0 | 202 009 | 202 009 |
| Increases / Decreases in equity | 23 | 7 050 000 | 0 | 0 | 7 050 000 |
| **Balance at 31 December 2018** | **-** | **10 000 000** | **-1 678 066** | **202 009** | **8 523 943** |
| Incorporation into Retained Earnings | 23 | 0 | 202 009 | -202 009 | 0 |
| Financial assets at fair value through other comprehensive income | 23 | 0 | 673 650 | 0 | 673 650 |
| Net Earnings for the Year | 23 | 0 | 0 | 5 572 452 | 5 572 452 |
| Increases / Decreases in equity | 23 | 0 | 0 | 0 | 0 |
| **Balance at 31 December 2018** | **-** | **10 000 000** | **-802 407** | **5 572 452** | **14 770 045** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

Statement of income and cash flow 31 December 2019 and 31 December 2018 (amounts expressed in thousands of Kwanzas, except when expressly indicated).

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Cash flows generated by operating activities** | **-** | **-** |
| Interest, commissions and other similar income received | 9 156 893 | 1 478 115 |
| Interest, commissions and other similar expenses paid | -1 475 307 | -101 771 |
| Payments to employees and suppliers | -2 575 530 | -1 091 529 |
| Other income | -42 710 | -40 512 |
| **Cash flows before changes to operating Assets and Liabilities** | **5 063 346** | **244 303** |
| Increases / Decreases in Operating Assets: | - | - |
| Investments at central banks and other credit institutions | -12 587 346 | 400 718 |
| Financial Investments at Amortised Cost | -6 831 783 | 73 354 |
| Customer Loans | -4 766 721 | - 5 004 510 |
| Non-current assets held for sale | 0 | 0 |
| Other Assets | - 1 088 287 | -146 881 |
| **Net flow from Operating Assets** | **-25 274 17** | **-4 677 319** |
| Increases / Decreases in Operating Assets: | - | - |
| Funds from central banks and other credit institutions | 7 490 609 | -6732 |
| Customer funds and other loans | 47 109 313 | 2 321 137 |
| Other liabilities | 4 295 382 | 70 690 |
| **Net flow from operating liabilities** | **58 895 304** | **2 385 095** |
| Net cash generated by operating activities before income taxes | 38 684 513 | -2 047 921 |
| Income taxes paid | -90 096 | -38 397 |
| **Net cash generated by operating activities** | **38 594 417** | **-2 086 318** |
| **Cash flows from investment activities** | **-** | - |
| Acquisition of Intangible Assets, Net Assets and Disposal | 2 761 542 | 211 337 |
| **Net cash from investment activities** | **2 761 542** | **211 337** |
| **Cash flows from financing activities** | **-** | **-** |
| Capital increase | 0 | 7 027 489 |
| Distribution of dividends | 0 | **0** |
| **Net cash from financing activities** | **0** | **7 027 489** |
| **Cash variation and its equivalents** | 41 355 959 | 5 152 508 |
| Cash and cash equivalents at the beginning of the period | 6 316 718 | 1 144 530 |
| Effects of exchange variation on cash and cash equivalents | -7 925 882 | 19 680 |
| **Cash and cash equivalents at the end of the period** | **39 746 795** | **6 316 718** |

# NOTE 1.
## INTRODUCTORY NOTE

Banco de Investimento Rural, SA, hereinafter also referred to as "Bank" or "BIR", headquartered in Malange, is a private capital bank established on 5 November 2013, having banking as its corporate purpose, in the terms and within the limits of Angolan Law. Commercial activity began on 28 February 2015.

# NOTE 2.
## MAIN ACCOUNTING POLICIES

### BASES OF PRESENTATION

The Bank's financial statements were prepared on the assumption that operations would continue and in accordance with International Financial Reporting Standards ("IFRS"), pursuant to Notice N 6/2016 of 22 June, from the National Bank of Angola. The IFRS include accounting standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"). The Bank first adopted the IFRS in the year ended 31 December 2018.

The financial statements now presented refer to the year ended 31 December 2019.

The accounting policies used by the Bank in the preparation of its financial statements, for the year ended 31 December 2019, are consistent with those used on 31 December 2018, with the exception of the first adoption of IFRS 16 on 1 January 2019, as mentioned in note 2.18.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments - Recognition and Measurement" and establishes new rules for the recognition and measurement of financial instruments, presenting changes mainly with regard to the classification and measurement and the impairment requirements.

The Bank's financial statements are expressed in thousands of Kwanzas, rounded to the nearest thousand, with assets and liabilities denominated in other currencies being converted into national currency, based on the average indicative exchange rate published by the National Bank of Angola on each reference date. The financial statements have been prepared in accordance with the historical cost principle, modified by applying fair value to derivative financial instruments and financial assets and financial liabilities recognised at fair value through profit or loss, except for those for which fair value is not available.

The financial statements for the year ended 31 December 2019 were approved by the Bank's Board of Directors on 19 February 2020.



The accounting standards and interpretations recently issued that have not yet come into force and that the Bank has not yet applied in the preparation of its financial statements can be analysed in note 2.19.

### FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are converted into the functional currency (Kwanza) at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are converted into the functional currency at the exchange rate in effect on the balance sheet date. Exchange differences resulting from the conversion are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency and recorded at historical cost are converted into the functional currency at the exchange rate in force on the date of the transaction. Non-monetary assets and liabilities recorded at fair value are converted into the functional currency at the exchange rate in force on the date when the fair value is determined and recognised against income, with the exception of those recognised in financial assets at fair value through other comprehensive income, the difference of which is recorded in the income statement.

The AKZ/USD and AKZ/EUR exchange rates as at 31 December 2019 and 2018 were as follows:

| CURRENCY | 2019 | 2018 |
|---|---|---|
| USD | 482,227 | 308,607 |
| EUR | 540,817 | 353,015 |

On the date of contracting, purchases and sales of foreign currency in cash and in instalments are immediately recorded in the spot or forward exchange position, whose content and revaluation criteria are as follows:

**Spot Foreign Exchange Position:**
The spot foreign exchange position in each currency is given by the net balance of the assets and liabilities of that currency, as well as the cash transactions awaiting settlement and the forward transactions maturing in the two subsequent business days. The spot foreign exchange position is revalued daily based on the average exchange rate published by the NBA on that date, giving rise to changes in the foreign exchange position account (national currency), in the income statement.

**Foreign Exchange Forward Position:**
The foreign exchange forward position in each currency corresponds to the net balance of forward transactions awaiting settlement, excluding those maturing within the next two business days. All contracts related to these operations (currency forwards) are revalued at market forward exchange rates or in their absence, through their calculation based on the interest rates applicable to the residual term of each operation. The difference between the equivalents in Kwanzas at the applied forward revaluation rates and the counterparts at the contracted rates, which represent the cost or profit or the revaluation cost of the forward foreign exchange position, is recorded under the "Foreign exchange operations" captions of the asset or liabilities, in the income statement.

## FINANCIAL INSTRUMENTS - IFRS 9

**CLASSIFICATION OF FINANCIAL ASSETS**

As a result of the application of IFRS9 as from 1 January 2018, the Bank classifies its financial assets in one of the following valuation categories:

a) Investments at amortised cost;

b) Financial assets that are investments in debt instruments at fair value through other comprehensive income;

c) Financial assets that are investments in equity instruments of other entities at fair value through other comprehensive income.

d) Financial assets at fair value through profit and loss.

Immediately after initial recognition, an impairment for expected credit losses (ECL) is also recognised for financial assets measured at amortised cost and for financial assets corresponding to investments in debt instruments measured at fair value through other comprehensive income. Changes in impairment losses are recognised in the income statement.

The classification requirements for debt and equity instruments are presented as follows:

**DEBT INSTRUMENTS**

Debt instruments are instruments that satisfy the definition of a financial liability from the perspective of the issuer, such as loans, public and private bonds and accounts receivable acquired from customers with factoring contracts without recourse.

The subsequent classification and valuation of these instruments in the previous categories is carried out based on the following two elements:

- The Bank's business model for the management of these financial assets.
- The characteristics of contractual cash flows from financial assets.

Based on these elements, the Bank classifies its debt instruments, for the purpose of their valuation, in one of the following three categories.

a) Financial assets at amortised cost, when the following two conditions are met:

- A business model is followed whose objective is to maintain financial assets until maturity in order to receive contractual cash flows.
- The contractual conditions give rise to cash flows on specific dates, which are only payments of capital and interest on the amount of outstanding capital.

The category of Financial Assets at amortised cost includes "Customer Loans" and "Investments at central banks and other credit institutions".

b) Financial assets at fair value through other comprehensive income, when the following two conditions are met:

- A business model is followed whose objective combines the receipt of contractual cash flows from financial assets with their sale in certain circumstances.





- The contractual conditions give rise to cash flows on specific dates, which are only payments of capital and interest on the amount of outstanding capital.

c) Financial assets at fair value through profit or loss, whenever due to the Bank's business model or due to the characteristics of its contractual cash flows, it is not appropriate to classify financial assets in any of the previous categories. On the transition date, in order to classify financial assets in this category, the Bank also took into account whether it expects to recover the book value of the asset by selling it to a third party.

Also included in this portfolio are all instruments for which any of the following characteristics are fulfilled:

- Being originated or acquired with the aim of trading them in the short term.
- Being part of a group of financial instruments identified and jointly managed for which there is evidence of recent actions with the aim of obtaining short-term gains.
- Are derivative instruments or hybrid instruments that do not meet the definition of a financial guarantee contract or have not been designated as hedging instruments.

**BUSINESS MODEL EVALUATION**

The business model reflects the way in which the Bank manages its assets with a view to generating cash flows.

Thus, it is important to understand whether the Bank's objective is only to receive the contractual cash flows from the assets or whether it intends to receive the contractual cash flows and cash flows resulting from the sale of the assets. If none of these situations are applicable (e.g. financial assets are held for trading), then financial assets are classified as part of an "other" business model and recognised at fair value through profit or loss. The factors considered by the Bank when identifying the business model for a set of assets include past experience with regard to how cash flows are received, how asset performance is assessed and reported to management, how risks are assessed and managed and how directors are remunerated.

Securities held for trading are held primarily for the purpose of being sold in the short term, or to be part of a portfolio of jointly managed financial instruments, for which there is clear evidence of a recent pattern of short-term gains. These securities are classified in "other" business models and recognised at fair value through income.

The evaluation of the business model does not depend on the intentions for an individual instrument, but for a set of instruments, taking into account the frequency, the value, the sales calendar in previous years, the reasons for the referred sales and the expectations regarding future sales. Sales that are infrequent, or insignificant, or close to the maturity of the asset and those motivated by an increase in the credit risk of financial assets, or to manage concentration risk, among others, may be compatible with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual clause that can modify the schedule or the value of contractual cash flows (such as early amortisation clauses or extension of duration), the Bank determines whether the cash flows that will be generated during the life span of the instrument, due to the exercise of said contractual clause, are only payments of capital and interest on the amount of outstanding capital.

In the event that a financial asset contemplates a periodic adjustment of the interest rate, but the frequency of that adjustment does not coincide with the term of the reference interest rate (for example, the interest rate is adjusted every three months), the Bank evaluates , at the time of initial recognition, this inconsistency in the interest component to determine whether the contractual cash flows represent only payments of capital and interest on the amount of outstanding capital.

Contractual conditions that, at the time of initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional or highly unlikely events (such as settlement by the issuer) do not prevent their classification in portfolios at amortised cost or at fair value through other comprehensive income.

**SPPI EVALUATION**

When the business model involves holding assets in order to (i) receive contractual cash flows or (ii) receive contractual cash flows and sell these assets, the Bank assesses whether the cash flows of the financial instrument correspond only to payments of principal and interest on principal outstanding (the "SPPI" test). In this assessment, the Bank considers whether the contractual cash flows are consistent with a basic loan agreement, that is, the interest includes only considerations relating to the time value of money, credit risk, other normal credit risks and a profit margin which is consistent with a basic credit agreement. When the contractual terms introduce exposure to risk or variability in cash flows that are inconsistent with a simple credit agreement, the financial instrument is classified and measured at fair value through profit or loss.

If a financial asset contains a contractual clause that can modify the schedule or the value of contractual cash flows (such as early amortisation clauses or extension of duration), the Bank determines whether the cash flows that will be generated during the life span of the instrument, due to the exercise of said contractual clause, are only payments of capital and interest on the amount of outstanding capital. In the event that a financial asset contemplates a periodic adjustment of the interest rate, but the frequency of that adjustment does not coincide with the term of the reference interest rate (for example, the interest rate is adjusted every three months), the Bank evaluates , at the time of initial recognition, this inconsistency in the interest component to determine whether the contractual cash flows represent only payments of capital and interest on the amount of outstanding capital.

Contractual conditions that, at the time of initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional or highly unlikely events (such as settlement by the issuer) do not prevent their classification in portfolios at amortised cost or at fair value through other comprehensive income.

Financial assets with embedded derivatives (hybrid instruments) are considered in their entirety when determining whether the cash flows correspond only to payments of principal and interest on outstanding capital ("SPPI" test). These assets are always classified in the category of fair value through profit or loss.

**INVESTMENTS IN EQUITY INSTRUMENTS**

Investments in equity instruments of other entities are instruments that satisfy the definition of capital from the perspective of the issuer. That is, they are instruments that do not contain a contractual obligation to pay and that show a residual interest in the issuer's net assets. An example of equity instruments is ordinary shares.



As a general rule, the Bank exercises, following the possibility provided by IFRS 9, the option, on initial recognition, to designate irrevocably in the category of financial assets at fair value through other comprehensive income, investments in equity instruments that are not classified as held for trading and that, if they do not exercise this option, would be classified as financial assets that are mandatorily accounted for at fair value through profit or loss. Impairment losses (and impairment reversals) are not recorded separately from other changes in fair value.

## CLASSIFICATION OF FINANCIAL LIABILITIES

A financial instrument is classified as a financial liability where there is a contractual obligation for a settlement to be made through the presentation of money or another financial asset, regardless of its legal form.

Financial liabilities are derecognised when the underlying obligation is settled, expires or is cancelled. Non-derivative financial liabilities include resources from central banks and other credit institutions, resources from customers and other loans.

The Bank designates, in its initial recognition, certain financial liabilities at fair value through profit or loss (Fair Value Option) provided that at least one of the following requirements is met:

- Financial liabilities are managed, evaluated and analysed internally based on their fair value (duly documented strategy);
- Derivative operations are contracted in order to hedge these assets or liabilities economically, thus ensuring consistency in the valuation of assets or liabilities and derivatives (accounting mismatch);
- Financial liabilities contain embedded derivatives.
- The other financial liabilities are subsequently measured at amortised cost.

## RECOGNITION AND INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

At the time of their initial recognition, all financial instruments are recorded at their fair value. For financial instruments, which are not recorded at fair value through profit or loss, fair value is adjusted by adding or subtracting transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are immediately recognised in the income statement.

Transaction costs are defined as costs directly attributable to the acquisition or disposal of a financial asset, or to the issue or assumption of a financial liability, which would not have been incurred had the Bank not carried out the transaction. These include, for example, commissions paid to intermediaries (such as promoters) and mortgage formalisation expenses. Financial assets are recognised in the balance sheet on the transaction date - the date on which the Bank commits to purchase the assets, unless there is a contractual stipulation or applicable legal figure that determines that the transfer of rights occurs at a later date.

At initial recognition, when the fair value of financial assets and liabilities differs from the transaction price, the entity should recognise this difference as follows:

- When the fair value is evidenced by the quotation in an active market of an equivalent asset or liability (that is, level 1 inputs) or based on a valuation technique that uses only observable market data, the difference is recognised in the results, and
- In the remaining cases, the difference is deferred and the moment of initial recognition of the gain or loss is determined individually. This difference can then be (i) amortised over the life of the instrument, (ii) deferred until the fair value of the instrument can be determined using observable market data, or (iii) recognised through the liquidation of the asset or liability.

Accounts receivable from commercial operations that do not have a significant financing component, including commercial credits and short-term debt instruments, are initially measured at the transaction price.

## INCOME AND EXPENSES OF FINANCIAL INSTRUMENTS

Income and expenses from financial instruments measured at amortised cost are recognised according to the following criteria:

i. Interest is recorded in the income statement under "Interest and similar income" and "Interest and similar charges", based on the effective interest method (using the effective interest rate of the transaction). Interest is determined by applying the effective interest rate to the amortised cost of the instrument, except in the case of assets with objective evidence of impairment where the effective interest rate is applied to the amortised cost net of accumulated impairments.

ii. The remaining changes in the carrying amount of the assets (for example, arising from changes in contractual cash flows) are recognised in the income statement as income or expense in the period in which they occur. Results arising from the derecognition of financial assets will also be recognised in income, for example, through sale. These income and expenses are recognised in the caption "Results from investments at amortised cost".

iii. The increases and decreases in impairment losses recorded under the caption "Impairment for loans to customers net of reversals and recoveries", in the case of loans to customers, or under the heading "Impairment for other financial assets net of reversals and recoveries", in the case of other financial assets.

Treasury Bonds issued in national currency, indexed to the United States Dollar exchange rate, are subject to exchange rate adjustment. The result of the exchange rate adjustment is reflected in the income statement for the period in which it occurs, under "Net interest income - Interest and similar income".

Income and expenses from financial instruments at fair value through results correspond to changes in the fair value of the instruments and are recognised in the caption "Income from financial assets and liabilities at fair value through profit or loss".



Income and expenses from financial assets at fair value through other comprehensive income, are recognised according to the following criteria:

i. O Interest or, when applicable, dividends are recognised in the income statement "Interest and similar income" and "Income from equity instruments", respectively. For interest the procedure is the same as for assets at amortised cost.

ii. Exchange differences arising on investments that are debt instruments are recognised in the income statement under the caption "Foreign Exchange Gains and Losses".

iii. The increases and decreases in impairment losses on debt instruments are recognised in the income statement under the caption "Impairment for other financial assets net of reversals and recoveries".

iv. The remaining changes in fair value are recognised in other comprehensive income. "Resultados cambiais".

Thus, when a debt instrument is measured at fair value through other comprehensive income, the amounts recognised in the income for the year are the same as those that would be recognised if measured at amortised cost.

When a debt instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the corresponding accumulated gains or losses in other comprehensive income are reclassified to the result for the period. On the other hand, when an investment in an equity instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the accumulated gain or loss in other comprehensive income is not reclassified to results.

## RECLASSIFICATION BETWEEN CATEGORIES OF FINANCIAL INSTRUMENTS

Only if the Bank decided to change its business model to the management of financial assets, would it reclassify all financial assets affected in accordance with the requirements of IFRS 9. This reclassification would be made prospectively from the date of reclassification. According to IFRS 9, changes in the business model are expected to occur infrequently. Financial liabilities cannot be reclassified.

## FAIR VALUE

The methodology used to determine the fair value of the securities used by the Bank is as follows:

i. Whenever possible, the average trading price on the day of the reporting date, when this is not available, the average trading price on the previous business day;

ii. When a trading price is not available for the security, the price of a similar financial instrument, taking into account, at least, the payment and maturity terms, credit risk and the currency or index (all inputs observable in the market).

iii. When it is not possible to obtain the trading prices referred to in the previous points, the probable net realisable value obtained by adopting an internal valuation technique or model (using inputs not observable in the market).

iv. In rare cases, when it is not possible to use any of the previous approaches, the price set by the National Bank of Angola.

## MODIFICATION OF CREDITS

The Bank occasionally renegotiates or modifies contractual cash flows from loans to customers. In this situation, the Bank assesses whether the new terms of the contract are substantially different from the original terms. The Bank makes this analysis considering, among others, the following factors:

- If the debtor is in financial difficulties, if the modification only reduces the contractual cash flows to an amount that the debtor is expected to be able to pay;
- If any significant new term has been introduced, such as profit sharing or equity-based return, which substantially affects credit risk;
- Significant extension of the maturity of the contract when the debtor is not in financial difficulties;
- Significant change in the interest rate;
- Change in the currency in which the credit was contracted;
- Inclusion of collateral, a guarantee or other improvement associated with credit, which significantly affects the credit risk associated with the loan.



If the terms of the contract are significantly different, the Bank derecognises the original financial asset and recognises the new asset at fair value, calculating its new effective interest rate. The renegotiation date is considered the initial recognition date for the purpose of calculating the impairment, including for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new recognised financial asset is impaired at initial recognition, especially when the renegotiation is related to the fact that the debtor has not made the payments originally agreed. Differences between the carrying amount of the original asset and the carrying amount of the new asset are recognised in results, as a gain or loss of derecognition.

If the terms of the contract are not significantly different, the renegotiation, or modification, does not result in derecognition and the Bank recalculates the carrying amount (amortised cost) based on the revised cash flows of the financial asset and recognises a gain or loss from this modification in results. The amortised cost is recalculated discounting the modified cash flows at the original effective interest rate (or adjusted effective interest rate for impaired financial assets, originated or acquired).

## DERECOGNITION THAT DOES NOT RESULT FROM A MODIFICATION

The transferred financial assets are derecognised when the associated cash flows are extinguished, charged or disposed of to third parties and (i) the Bank transfers substantially all the risks and benefits associated with holding the asset, or (2) the Bank does not transfer or substantially hold all the risks and benefits associated with holding the asset, but transfers control over the asset. Gains and losses obtained on the disposal of credits on a definitive basis (with derecognition) are recorded in "Other operating profit or loss". These gains or losses correspond to the difference between the fixed sale value and the carrying amount of these assets, net of impairment losses.





The Bank participates in transactions in which it has the contractual right to receive cash flows from assets, but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all risks and benefits. These transactions result in the asset being derecognised if the Bank:

- You are under no obligation to make payments, unless you receive equivalent amounts of assets;
- You are prohibited from selling or pledging the assets;
- You have an obligation to remit any cash flow you receive from assets without material delays.

The guarantees granted by the Bank (shares and bonds) through repurchase agreements and security lending and borrowing operations are not derecognised because the Bank substantially holds all risks and benefits based on the pre-established repurchase price, thus, the derecognition criteria are not observed (see note 2.5).

Financial liabilities are derecognised when the underlying obligation is settled, expires or is cancelled.

## WRITE-OFF POLICY

The Bank proceeds to write off financial assets, in part or in whole, at the moment when it concludes that there is no reasonable expectation of receipt, leading to an extreme scenario of total impairment. The indicators that demonstrate that there is no reasonable expectation of receipt are (i) the closing of the activity and (ii) the cases in which the recovery depends on the receipt of a collateral, but in which the value of the collateral is so low that there is no reasonable expectation of fully recovering the asset.

- The rules implemented for the selection of credits that may be written off from assets are as follows:
- Credits cannot have a collateral attached;
- Loans must be fully closed (recorded as overdue loans in full and with no outstanding debt);
- Credits cannot have the mark of renegotiated credits overdue, or be involved under an active payment agreement.



## IMPAIRMENT OF FINANCIAL ASSETS

The Bank determines impairment losses for debt instruments that are measured at amortised cost and at fair value through comprehensive income, as well as for other exposures that have associated credit risk such as bank guarantees and irrevocable commitments.

The IFRS 9 requirements aim to recognise expected credit losses from operations, assessed on an individual or collective basis, taking into account all reasonable, reliable and duly substantiated information that is available, including information from a forward looking perspective and that do not involve excessive cost or effort. Impairment losses on debt instruments that are measured at amortised cost are recognised against accumulated impairment on the balance sheet, which reduces the book value of the asset, while the impairment of assets measured at fair value by other comprehensive income is recognised against other comprehensive income.

The increases or decreases in impairment losses for the year related to credit to customers are recognised in the income statement under "Impairment for credit to customers net of reversals and recoveries" and those of the remaining financial assets under "Impairment for other financial assets net of reversals and recoveries".

Impairment losses on exposures that have associated credit risk and that do not have positions recorded in assets (namely financial guarantees and irrevocable unused credit commitments) are recorded as a provision under "Accrued Liabilities" presented in liabilities. The increases and decreases are recorded under "Net accrued liabilities of cancellations" in the income statement.

For the purpose of measuring impairment losses on debt instruments, the following definitions should be taken into account:
**a) Credit Losses:** correspond to the difference between all the cash flows owed to the Bank, according to the contractual conditions of the financial asset and all the cash flows that the Bank expects to receive (that is, the total lack of cash flow), discounted at the original effective interest rate or, for financial assets purchased or originated in impairment with credit losses, at the effective interest rate adjusted by the loan quality.

In the case of irrevocable commitments assumed, the contractual cash flows owed to the Bank that are expected to be received in the case of use of the commitment are compared with the cash flows expected to be received when the asset is recognised. In the case of bank guarantees, payments are considered that the Bank expects to make less the cash flows it expects to receive from the originator.

The Bank estimates cash flows taking into account the contractual term defined for operations.

For the purposes of determining cash flows, those arising from the sale of real guarantees received are also included, taking into account the flows that would be obtained from their sale, less the costs necessary for obtaining, maintaining and subsequently selling them, or other guarantees that form an integral part of contractual conditions, such as financial collateral.

**b) Expected Credit Losses:** correspond to the weighted average of credit losses, using the probability of the occurrence of default events. The following distinction will be taken into account: (i) expected credit losses during the lifetime of the operation: these are the expected credit losses that result from possible default events during the expected life of the operation; (ii) expected credit losses within 12 months: these are part of the expected credit losses over the lifetime of the instrument that represents the expected credit losses that result from defaulting situations with regard to a financial instrument that may occur within the period of 12 months from the reference date.



The measurement of impairment at each reporting date is made according to the three-stage model of expected credit losses:
**Stage 1 -** From the initial recognition and until the moment when there is a significant increase in credit risk, impairment is recognised based on the amount of expected credit losses if the default occurs within 12 months after the reporting date.
**Stage 2 -** After the significant increase in credit risk compared to the initial recognition date of the financial asset, impairment is recognised based on the amount of expected credit losses for the remaining period of the financial asset.
**Stage 3 -** For financial assets considered to be credit impairment, impairment is recognised based on the amount of expected credit losses for the remaining period of the financial asset.

## CUSTOMER LOANS IMPAIRMENT MODEL

### INDIVIDUAL ANALYSIS

The methodology adopted by the Bank initially provides for the identification of economic groups considered to be individually significant.

Given the small number of economic groups with reference to 31 December 2019, the Bank individually analysed the entire loan portfolio.

If the individual analysis results in an impairment other than zero, the final impairment of the economic groups is the result of the individual analysis. If the individual analysis results in a null impairment, the impairment of the economic groups is the result of stage 1 of the homogeneous segment of the collective impairment risk.

In determining the impairment losses, in individual terms, the following factors are taken into account:
- The total exposure of each customer to the Bank and the existence of non-performing loans;
- The economic and financial viability of the customer's business and his ability to generate enough means to deal with debt service in the future;
- The existence, nature and estimated value of the collateral associated with each loan;
- The customer's assets in situations of liquidation or bankruptcy;
- The existence of privileged creditors;
- The customer's indebtedness to the financial sector;
- The amount and the estimated recovery periods; and
- Other factors.

Impairment losses are calculated by comparing the present value of expected future cash flows discounted at the original effective interest rate of each contract and the book value of each credit, with the losses being recorded in the income statement.

The book value of impaired credits is shown in the net balance of impairment losses. For credits with a variable interest rate, the discount rate used corresponds to the effective annual interest rate, applicable in the period in which the impairment was determined.

**COLLECTIVE ANALYSIS**

When calculating collective impairment, the Bank considers the following credit risk parameters:

a. Exposure: The exposure at default (EAD) corresponds to the estimated amount owed in case of default.
b. Probability of default: the Bank applies a methodology for calculating the forecast of the probability of default (PD - probability of default) for each borrower for the entire loan portfolio and for each risk segment.
c. Loss due to default: the loss given default (LGD) corresponds to the percentage of debt that will not be recovered in the event of a customer default.

The parameters of the risk segments were determined based on a market benchmark, since the Bank does not have historical data with statistical significance to calculate the parameters.

The parameters are reviewed and updated periodically to reflect the economic situation and to be representative of the current economic context at all times. In the review processes, the necessary improvements that are detected in the back testing exercises will also be introduced.

**EVALUATION OF SIGNIFICANT INCREASE IN CREDIT RISK**

The identification of a significant increase in credit risk requires significant judgments. The movements between stage 1 and stage 2 are based, whenever possible, on comparing the instrument's credit risk at the reporting date with the credit risk at the time of origination. The assessment is generally carried out at the instrument level, however, it may consider information at the level of the debtor.

This assessment is carried out at each reporting date based on a set of qualitative and/or non-statistical quantitative indicators. Instruments with a delay of more than 30 days are generally considered to have seen a significant increase in credit risk.

**DEFINITION OF DEFAULT**

The definition of default was developed taking into account the risk management processes, namely in the component of credit recovery, as well as the best international practices in this area. The definition of default can differ between segments and considers both qualitative and quantitative factors. The criteria for default are applied at the operation level for private customers and the debtor level for corporate customers. Default will occur when there are more than 90 days of delay and/or when it is considered less likely that the debtor will comply with its obligations in full, for example due to the existence of reduced capital or multiple restructuring of credit operations. The definition of default is applied consistently from period to period.



## IMPAIRMENT MODEL OF OTHER FINANCIAL ASSETS

The Bank classifies exposures in stages of impairment. In particular, exposures related to Sovereign States rated as investment grade by recognised agencies are classified in stage 1 and exposures in which the return is adjusted to the risk of the issuer and it is within the limits defined in the Bank's risk profile. These exposures qualify for the determination of impairment losses for 12 months.

The risk factors applied are those associated with each level of counterparty rating defined by the external provider.

Regarding Angolan sovereign debt in national currency, considering the rating of the Republic of Angola and the results of the Asset Quality Assessment process promoted by the NBA, the Bank started to assume a credit loss in its portfolio, recognising the respective impairments.

The Bank did not apply the reduced credit risk exemption to any financial asset for the year ended 31 December 2019.

## OPERATIONS WITH PURCHASE OR RESALE AGREEMENT

Securities transferred with a repurchase agreement (repos) for a fixed price, or for a price, which equals the sale price plus interest inherent to the term of the transaction are not derecognised from the balance sheet. The corresponding liability is recorded in amounts payable to other credit institutions or customers, as appropriate. The difference between the sale price and the repurchase value is treated as interest and is recognised over the lifetime of the agreement, using the effective interest rate method.

Securities purchased with reverse repos for a fixed price, or for a price that equals the purchase price plus interest inherent to the term of the transaction, are not recognised in the balance sheet, the purchase value being recorded as loans other credit institutions or customers, as appropriate. The difference between the purchase price and the resale value is treated as interest and is deferred over the life of the agreement, using the effective rate method.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Bank can carry out derivative financial instrument operations, within the scope of its activity, managing its own positions based on expectations of market developments or meeting the needs of its customers.

All derivative instruments are recorded on the date of their trading at fair value and changes in fair value are recognised in the income statement, unless they qualify as cash flow hedges or net investment in foreign operating units. Derivatives are also recorded in off-balance sheet accounts at their reference value (notional value).

Derivative financial instruments are classified as hedging (provided that all designation conditions are met) or trading, depending on their purpose.

**HEDGING DERIVATIVES**

The Bank decided to continue to apply the hedge accounting requirements provided for in IAS 39 at the time of the first adoption of IFRS 9, as provided for in this last standard.

The Bank designates derivatives and other financial instruments to hedge the interest rate and foreign exchange risk, resulting from its business. Derivatives that do not qualify for hedge accounting are recorded as trading (with changes in their fair value recorded in results).

Hedging derivatives are recorded at fair value and gains or losses resulting from revaluation are recognised in accordance with the adopted hedge accounting model.

A hedging relationship exists when:

- At the beginning of the relationship there is formal documentation of the coverage;
- The coverage is expected to be highly effective;
- The effectiveness of the hedging can be reliably measured;
- Coverage is assessed on an ongoing basis and effectively determined to be highly effective over the financial reporting period;
- Regarding the coverage of an anticipated transaction, this is highly probable and presents an exposure to changes in cash flows that could ultimately affect the results.

According to IFRS 9, for the effectiveness requirement to be met:

a. a. There must be an economic relationship between the hedged item and the hedging instrument;
b. The credit risk of the counterparty of the hedged item or hedging instrument should not have a dominant effect on changes in value resulting from that economic relationship;
c. The coverage ratio of the hedge accounting relationship, understood as the part of the item covered by the hedging instrument, must be the same as the coverage ratio that is used for management purposes.

When a derivative financial instrument is used to hedge foreign exchange variations of monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated with the derivative is recognised in profit or loss for the year, as well as changes in the foreign exchange risk of the underlying monetary elements.

**FAIR VALUE HEDGE**

Changes in the fair value of derivatives that are designated and that qualify as fair value hedge are recorded in the income statement, together with changes in the fair value of the asset, liability or group of assets and liabilities to be covered with respect to the risk covered.



If the hedge relationship no longer meets the requirements of hedge accounting, the derivative financial instrument is transferred to the trading category and hedge accounting is subsequently discontinued (the adjustment made to the carrying amount of a hedge instrument, in that the effective interest rate method is used, is amortised through results for the period until its maturity and recognised in the financial margin). If the hedged asset or liability corresponds to a fixed income instrument, the accumulated gains or losses due to changes in the interest rate risk associated with the hedging item up to the date of the hedge discontinuation are amortised through profit or loss over the remaining period of the hedged item.

**CASH FLOW COVERAGE**

Changes in the fair value of derivatives, which qualify to cover cash flows, are recognised in other comprehensive income - cash flow reserves - in the portion considered effective in hedging relationships. Changes in the fair value of the portion considered ineffective in hedge relationships are recognised in the income statement, when they occur.

The amounts accumulated in equity are reclassified to income for the year in the periods when the hedged item affects results.

When the hedging instrument is derecognised, or when the hedge relationship no longer meets the hedge accounting requirements or is revoked, the hedge relationship is discontinued prospectively. Accordingly, changes in fair value accumulated in reserves up to the date of the hedge discontinuation can be:

- Deferred for the remaining term of the covered instrument;
- Recognised immediately in the results of the exercise, in case the instrument covered has extinguished.

In the case of the discontinuation of a hedge relationship for a future transaction, the changes in the derivative's fair value recorded in equity remain there until the future transaction is recognised in the income statement. When the transaction is no longer expected to occur, the accumulated gains or losses recorded against equity are immediately recognised in the income statement.

At 31 December 2019, the Bank did not have hedge derivatives.

**EMBEDDED DERIVATIVES**

An embedded derivative is when we are in the presence of a hybrid instrument. A hybrid instrument is an instrument that contains a host contract (for example, a loan granted) and a derivative embedded in it (for example, a conversion option).

Derivatives embedded in hosting contracts that are financial assets cannot be separated and the hybrid instrument as a whole will be measured at fair value through profit and loss (assuming that the contractual provisions of the derivative are genuine).

Derivatives embedded in hosting contracts that are financial liabilities will be separated whenever:

- The risks and economic benefits of the derivative are not related to those of the main instrument (host contract), and

- A separate instrument with the same terms meets the definition of a derivative, and
- The hybrid instrument (as a whole) is not initially recognised at fair value through results.

When the separation occurs, the embedded derivatives are presented under the captions financial assets or liabilities at fair value through results, being measured at fair value with the respective variations reflected in the results. In these cases, reception contracts are, after separation, measured at amortised cost.

The Bank performs the separation of embedded derivatives by first calculating the fair value of the derivatives and withdrawing the same at the transaction price received.

## INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Branches are entities (including investment funds and securitisation vehicles) controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to the variability in returns arising from its involvement with that entity and can take over them through the power it has over the relevant activities of that entity (de facto control).



Associates are entities over which the Bank has significant influence, but does not exercise control over its financial and operating policy. It is understood that the Bank has significant influence when it holds more than 20% of the voting rights of the associate. Should the Bank hold, directly or indirectly, less than 20% of the voting rights, it is understood that it does not have a significant influence, unless this influence may be clearly demonstrated.

The existence of significant influence by the Bank is usually demonstrated by one, or more than one, in the following ways:
- Representation on the Board of Directors or equivalent management board;
- Participation in the process of defining policies, including participation in decisions regarding dividends and other distributions;
- Material transactions between the Bank and the investee;
- Exchange of management staff;
- The provision of essential technical information.

Investments in branches and associates are accounted for in the Bank's financial statements at historical cost less any impairment losses.

**IMPAIRMENT**

The recoverable amount of investments in subsidiaries and associates is assessed whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable value of investments in subsidiaries or associates and their book value. The identified impairment losses are recognised in the income statement and are subsequently reversed if there is a reduction in the estimated loss in a subsequent period.



The recoverable value is determined based on the higher of the value in use of the assets and the fair value less costs to sell, being calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, time value and business risks.

## EQUITY INSTRUMENTS

A financial instrument is classified as a capital instrument when there is no contractual obligation to settle it by delivering cash or another financial asset to third parties, regardless of its legal form, showing a residual interest in the assets of an entity after deducting all your liabilities.

Transaction costs directly attributable to the issue of equity instruments are recorded against equity, as a deduction from the issue value. Amounts paid or received related to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

Any differences between the amounts received/paid on the sale and purchase of the Bank's equity instruments are recorded in reserves.

## INTANGIBLE ASSETS AND OTHER TANGIBLE ASSETS



Intangible assets are recognised only where: i) they are identifiable; ii) it is probable that future economic rewards will result; and iii) their cost can be measured reliably.

The acquisition cost of intangible assets comprises: i) purchase price, including costs with intellectual rights and fees after deducting any discounts and ii) any cost directly attributable to the preparation of the asset, for its intended use.

After initial accounting, the BIR measures its intangible assets according to the cost model.

Intangible assets, which mainly correspond to computer software, are recorded at acquisition cost and amortised on a straight-line basis over a three-year period.

Tangible fixed assets are valued at cost less accumulated depreciation and possible impairment losses. This cost includes: (a) the "considered cost" determined at the date of transition to IFRS, which corresponds to the net amount carried over from the previous standard, including legal revaluations and (b) the acquisition cost of assets acquired or built after that date.

Other tangible assets are recorded at acquisition cost, and their revaluation is permitted under the applicable legal provisions.

The acquisition cost of tangible fixed assets includes the purchase price of the asset, the expenses directly attributable to its acquisition and the costs incurred with the preparation of the asset, so that it is placed in its condition of use. Financial costs incurred on loans obtained for the construction of qualifying tangible assets are recognised as part of the construction cost of the asset. Maintenance and repair expenses are recognised as costs as they are incurred in accordance with the accrual principle.

Land is not amortised. Depreciation is calculated using the straight-line method at the maximum rates accepted as costs for tax purposes, in accordance with the Corporation Tax Code, which correspond to the following years of estimated useful life:

| | YEARS OF USEFUL LIFE |
|---|---|
| Properties for Own Use (buildings) | 25 a 50 |
| Equipment: | - |
| Furniture and material | 8 e 10 |
| Machines and tools | 4 e 10 |
| Computer equipment | 3 e 6 |
| Interior fittings | 4 e 10 |
| Transport equipment | 4 |
| Safety Equipment | 10 |

## NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as non-current assets held for sale, when their book value is intended to be realised mainly through a sale transaction, instead of their continued use in the Bank's activities.

Under "Non-current assets held for sale", assets received as payment in kind are recorded, following the recovery of non-performing loans, which are available for immediate sale and whose sale is very likely (within one year).

Impairment losses are reversed up to the limit of the value of the assets, if impairment losses had never been recognised, but only the effects of functional wear were recognised through the depreciation record.

The value of the goods received as a donation is initially recorded at the lower of the fair value less costs to sell and the book value of the credit existing on the date the donation was made, and is not subsequently subject to amortisation.

When the outstanding amount of the credit operation is greater than its book value (net accrued liabilities), the difference must be recognised as income for the year, up to the value determined in the valuation of the assets. When the valuation of the assets is lower than the book value of the credit operation, the difference must be recognised as a cost for the year.





When these assets are property and their value is based on fair value less estimated costs of sale, they are classified at level 3 of the fair value hierarchy.

## IMPAIRMENT OF FINANCIAL ASSETS

Where there is an indication that an asset may be impaired, IAS 36 requires that its recoverable value should be estimated, and an impairment loss should be recognised where the net value of an asset exceeds its recoverable value. Impairment losses are recognised in the income statement, and are reversed in subsequent reporting periods, when the reasons that led to their initial recognition end. For this purpose, the new depreciated amount will not be higher than that which would have been recorded, had no impairment losses been attributed to the asset, considering the depreciation that it would have suffered.

The recoverable value is determined as the higher of the fair value less selling costs and the current use value of the asset, the latter being calculated based on the current value of estimated future cash flows arising from the continued use of the asset and its disposal at the end of its useful life.

On the date of derecognition of a tangible asset, the gain or loss calculated by the difference between the fair value less costs to sell and the net book value is recognised in the income statement under "Results from the sale of other assets".

## CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the amounts recorded in the balance sheet with a maturity of less than three months from the balance sheet date, and with a risk of immaterial fair value variation, which includes cash and available at other credit institutions.

## DIVIDENDS

Dividends (income from equity instruments) are recognised in the income statement when the right to receive them is attributed.

## COMMISSIONS

Income from services and commissions is recognised in accordance with the following criteria:

- When they are obtained as services are rendered, they are recognised in profit or loss over the period to which they relate; and
- When they result from a provision of services, recognition occurs when that service is
- completed;
- When they are an integral part of the effective interest rate of a financial instrument, income from services and commissions is recorded in the financial margin.

## EMPLOYEE BENEFITS

Short-term benefits are reflected in the caption "Staff Costs" in the period to which they refer, in accordance with the principle of accrual basis.

The Bank's employees are covered by Law N 7/04, of 15 October, which regulates the Social Security system of Angola, and which provides for the attribution of retirement pensions to all Angolan employees registered with Social Security. The value of these pensions is calculated based on a table proportional to the number of years of work, applied to the average monthly gross wages received in the periods immediately before the date on which the employee ceases to function. According to Decree N 38/08, of 9 June, the contribution rates for this system are 8% for the employer and 3% for employees.

Pursuant to Article N 262 of Law N 2/00, of 11 February (General Labour Law), the BIR set up provisions to cover liabilities in terms of "Compensation for retirement", which are determined by multiplying 25% of the basic monthly salary practiced on the date the worker reaches the legal retirement age, for the number of years of seniority on the same date. The total amount of liabilities is determined on an annual basis by experts, using the "Projected Unit Credit" method for liabilities for past services.

On 15 September 2015, Law N 7/15, of 15 June (New General Labour Law) came into force, which revoked Law N 2/00, of 11 February. The New General Labour Law does not refer to the need to set up provisions to cover liabilities related to "Compensation for retirement". On 11 February 2017, Law N 2/00, of 11 February, was revoked. In 2017, the Bank reversed the provisions set up for "Compensation for retirement" recognised in previous years.

**EMPLOYMENT TERMINATION BENEFIT**

This type of benefit is recognised when the Bank terminates the employment contract before the employee reaches his normal retirement date, or when an employee accepts the termination of employment in exchange for these benefits. The Bank recognises liability for termination benefits on the earliest of the following dates: when the Bank is no longer able to withdraw the offer of benefits; when the Bank recognises the expenses of a restructuring, within the scope of the recognition of provisions for restructuring. Benefits due more than 12 months after the end of the reporting period are discounted to their present value.

## TAX ON PROFITS AND OTHER TAXES

**Income taxes**

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

**CURRENT TAX**

Current tax is calculated based on the taxable profit for the year, which differs from the accounting result due to adjustments to the tax base resulting from costs or income not relevant for tax purposes, or which will only be considered in future periods according to the applicable tax laws (Industrial Tax Code).





**DEFERRED TAX**

Deferred taxes correspond to the impact on tax recoverable/payable in future years resulting from deductible or taxable temporary differences between the balance sheet value of assets and liabilities and their tax base used in determining taxable profit. Deferred taxes are calculated based on the prevailing tax rate, or the one officially communicated at the financial reporting date, and which is estimated to be applicable on the date of realisation of the deferred tax assets or on the date of payment of the deferred tax liabilities.

Deferred tax liabilities are normally recorded for all taxable temporary differences, whereas deferred tax assets are only recognised up to the amount in which it is probable that future taxable profits will exist that will allow the use of the corresponding deductible temporary differences or the tax loss carryback. Additionally, no deferred tax assets are recorded in cases where their recoverability may be questionable due to other situations, including questions of interpretation of prevailing tax law.

**CORPORATION TAX**

Corporation Tax is levied on the Bank, which is considered a Group A taxpayer subject to a tax rate of 30%. On 1 January 2015, the new Industrial Tax Code came into force, approved by Law N 19/2014, of 22 October, which stipulated the Industrial Tax rate at 30%.

The new Industrial Tax Code determines that the income subject to Capital Investment Tax ("IAC"), is deducted for the purpose of determining taxable profit, under Industrial Tax, and the IAC does not constitute a tax deductible cost.

Income from Treasury Bonds and Treasury Bills, issued by the Angolan State after 1 January 2013 is subject to the IAC, at the rate of 10% (5% in the case of debt securities admitted to trading on a regulated market and that have a maturity of three years or more) and the Industrial Tax, in the case of gains or losses obtained (including any exchange rate revaluations on the capital component).

Income subject to IAC is excluded from Industrial Tax.

**TAX ON CAPITAL EXPENDITURE (IAC)**

The new IAC code, approved by Presidential Legislative Decree N 2/2015, of 20 October, came into force on 19 November 2014.

The IAC is generally charged on income from the Bank's financial investments. The rate varies between 5% (in the case of interest received on debt securities that are admitted to trading on a regulated market and that have a maturity of three years or more) and 10%. Without prejudice to the above, with regard to the yield of public debt securities, according to the understanding of the Tax Authorities and the National Bank of Angola addressed to the Angolan Banking Association (letter from the National Bank of Angola, dated 26 September 2013), only those arising from securities issued on or after 1 January 2013 are subject to this tax.

On 1 August 2013, the process of automation of withholding tax by the NBA of the Capital Application Tax began, in accordance with the provisions of Presidential Legislative Decree N 5/11, of 30 December.

After 1 January 2015, the IAC is no longer in the nature of payment on account of the Industrial Tax, the respective income being excluded from taxation, under the Industrial Tax.

**OTHER TAXES**

**Property Tax:**

IPU is levied at the rate of 0.5% on the net asset value of the properties that are intended for development of the normal activities of the Bank when their value is greater than AKZ 5,000.

**Other Taxes**

The Bank is also subject to indirect taxes, specifically customs duties, Stamp Duty, Consumption Tax, as well as other taxes.

## ACCRUED AND CONTINGENT LIABILITIES

A provision is recognised where there is a present obligation (legal or non-formalised) resulting from past events for which the future expenditure of resources is probable and can be reliably determined. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability at the balance sheet date. Accrued liabilities are measured at the present value of the estimated costs of paying for the obligation using a pre-tax interest rate that reflects the market valuation for the discount period and the risk of the provision concerned.

If the future expenditure of resources is unlikely, it is a contingent liability, and they will be disclosed in accordance with the requirements of IAS 37 - "Accrued liabilities, contingent liabilities and contingent assets".

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



## FINANCIAL AND PERFORMANCE GUARANTEES

**FINANCIAL GUARANTEES**

Financial guarantees are contracts that require the issuer to make payments in order to compensate the holder for losses incurred, as a result of non-compliance with the contractual terms of debt instruments, namely the payment of the respective capital and/or interest.

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

The financial guarantees issued by the Bank normally have a defined maturity and a periodic fee charged in advance, which varies depending on the counterparty risk, amount and period of the contract. On this basis, the fair value of the guarantees, on the date of their initial recognition, is approximately equivalent to the value of the initial commission received, taking into account that the agreed conditions are in the market. Thus, the amount recognised on the contracting date equals the amount of the initial commission received which is recognised in the income statement during the period to which it relates. Subsequent commissions are recognised in the income statement, in the period to which they relate.

**PERFORMANCE GUARANTEES**

Performance guarantees are contracts that result in the compensation of one of the parties, if it does not fulfil the contractual obligation. Performance guarantees are initially recognised at fair value, which is normally evidenced by the value of commissions received during the term of the contract. When the contract is breached, the Bank has the right to reverse the guarantee, the amounts being recognised in Customer Loans, after the transfer of the loss compensation to the guarantee beneficiary.

## LEASES

IFRS 16 was adopted by the Bank retrospectively from 1 January 2019, through the modified retrospective approach. The adopted approach allowed the accounts not to be restated for the comparative period of 2018, with the reclassifications and adjustments resulting from the new principles introduced by the standard being recognised in the balance sheet or retained earnings (when applicable) on the transition date. The comparative period information continues to be presented, in accordance with the provisions of IAS 17 - 'Rental', and IFRIC 4 - 'Determining whether an Agreement contains a Lease'.

As part of the process of adopting IFRS 16, the Bank analysed all the relevant contracts in order to reassess whether they constitute or contain a lease at the date of initial application, not applying the practical lease definition procedure defined in the standard. From operations considered as leases under IFRS 16, the lease liability was measured at the present value of the remaining lease payments, discounted based on the Bank's incremental financing rate with reference to 1 January 2019.

On the transition date, the Bank determined an incremental financing rate segmented by nature of the underlying asset to determine the lease liability, namely: (i) property rental, (1.7%); (ii) car rental, (1.7%); (iii) car rental (5.2%); and (iv) equipment rental, (3%).

Assets for use rights were measured at an amount equal to the lease liability, adjusted for amounts paid in advance.

For leases previously classified as finance leases, the Bank recognised the carrying amounts of the corresponding assets and liabilities immediately before the transition to IFRS 16 as the amounts of the initial recognition of the assets for use and liabilities on the date of initial application.

As part of the adoption of IFRS 16, the Bank resorted to the following practical procedures provided for in the standard:
- Use of an incremental financing interest rate, determined by type of asset underlying the rental;
- Use of past assessments to determine whether certain leases are costly;
- Failure to include the initial direct costs incurred in measuring the asset for use rights associated with the lease;
- Non-recognition of the lease liability and the asset for use in leases where the contract has a duration not exceeding 12 months short-term leases;
- Non-recognition of the lease liability and the asset for use in leases where the value of the underlying asset of the contract, in its new state, has a value of less than 2.5 million kwanzas - low-value leases;
- Non-separation, when measuring the lease liability, of non-lease components included in lease agreements;
- Retrospective use of information to determine the lease term when the contract has options for extending or terminating the lease.

The lease liability recognised on 1 January 2019 in accordance with the requirements of IFRS 16 corresponds to the discounted value of commitments with operating leases disclosed on 31 December 2018 in accordance with the requirements of IAS 17.

The recognised rights of use assets correspond only to the rental of buildings.

Lease liabilities on the date of the first application of the standard, corresponding to the present value of lease payments, amounted to 259,678 thousand kwanzas. On the same date, assets for use rights amounted to 884,139 thousand kwanzas, corresponding to the amount of liabilities on initial recognition plus the deferral of rents paid at the end of 2018.

| | 01-JAN-2019 |
|---|---|
| Lease Liabilities | 259 678 |
| Payments on account in advance | 624 461 |
| Assets by Right of Use | 884 139 |



The 2019 financial statements are in all material respects comparable to the financial statements presented in this document for the previous period, with the exception of the regulatory changes that came into effect on 1 January 2019.

In addition, a set of changes to IAS/IFRS occurred in 2019, which we present below, which had no impact on accounting policies or financial statements presented at 31 December 2019.

## NEW STANDARDS AND CHANGES TO STANDARDS AND INTERPRETATIONS

### IMPACT OF THE ADOPTION OF NEW STANDARDS, CHANGES TO THE STANDARDS AND INTERPRETATIONS THAT BECOME EFFECTIVE ON 1 JANUARY 2019:

**a) IFRS 16 (new) - 'Leases'. This standard replaces IAS 17 -** 'Leases', having a significant impact on accounting by tenants who are now required to recognise for all leases (except for leases that have a term of no more than 12 months or that relate to low value assets) a lease liability that reflects future lease payments and an asset for the right to use the identifiable asset in the lease. The definition of a lease has also been changed and is now based on the right to control the use of an identifiable asset. In its initial application (transition), IFRS 16 can be applied retrospectively with restatement of comparatives or a modified retrospective approach can be followed in which comparatives are not restated and the effects of the initial adoption of the standard are recognised in the opening balance of results carried over.

**b) IFRS 9 (amendment) -** 'Prepayment elements with negative compensation'. This amendment introduces the possibility of classifying financial assets with prepayment conditions with negative compensation, at amortised cost, provided that specific conditions are met (low credit and liquidity risk), instead of being classified at fair value through results. This amendment has no impact on the financial statements from the Bank.

**c) IAS 19 (amendment) -** 'Changes, reductions and settlements of defined benefit plans'. This amendment to IAS 19 requires an entity to: (i) use updated assumptions to determine the current service cost and net interest for the remaining period after the plan change, reduction or settlement; and (ii) recognise in profit or loss as part of the cost of past services, or as a gain or loss on settlement, any reduction in the coverage surplus, even if the coverage surplus has not been previously recognised due to the impact of the asset ceiling. The impact on the asset ceiling is always recorded in the Other Comprehensive Income, and cannot be recycled by the results of the year. No impact on the financial statements from the Bank.

**d) IAS 28 (amendment) -** 'Long-term investments in associates and joint ventures'. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investment in associates and joint ventures), which are not being measured using the equity method, are accounted for in accordance with IFRS 9 - ' Financial instruments'. Long-term investments in associates and joint ventures are subject to the estimated losses impairment model, before being added for the purpose of impairment testing to the overall investment in an associate or joint venture, when there are impairment indicators. without impact on the Bank's financial statements.

e) Improvements to the 2015 - 2017 standards. This improvement cycle has effects on the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11 No impact on the financial statements from the Bank.

f) IFRIC 23 (new) - 'Uncertainty about the treatment of income tax'. This is an interpretation of IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there are uncertainties regarding the acceptance of a certain tax treatment by the tax administration in relation to income tax. In case of uncertainty regarding the tax administration's position on a specific transaction, the entity should make its best estimate and record the income tax assets or liabilities under IAS 12, and not IAS 37 - 'Accrued liabilities, contingent liabilities and contingent assets', based on the expected value or the most likely value. The application of IFRIC 23 can be retrospective or modified retrospective. No impact on the financial statements from the Bank.

**CHANGES TO THE PUBLISHED STANDARDS, WHICH APPLICATION IS MANDATORY FOR ANNUAL PERIODS STARTING ON OR AFTER 1 JANUARY 2020:**

**a) IAS 1 and IAS 8 (amendment) -** 'Definition of material'. This amendment introduces a modification to the concept of material and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, and the entity should assess the materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of "main users of financial statements", which are defined as 'current and future investors, financiers and creditors' who depend on the financial statements to obtain a significant part of the information they need. No impact on the financial statements from the Bank.



**b) Conceptual Structure -** 'Changes in the reference to other IFRS. As a result of the publication of the new conceptual framework, the IASB introduced changes to the text of various standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of assets / liabilities and expense / income, in addition to some of the characteristics of financial information. These changes are retrospective in application, unless impracticable. No impact on the financial statements from the Bank.

**c) a) IFRS 3 (amendment) -** 'Definition of business'. This amendment constitutes a revision to the definition of business for the purpose of recording business combinations. The new definition requires that an acquisition include an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits for shareholders. 'Concentration tests' are now allowed to determine whether a transaction relates to the acquisition of an asset or a business. No impact on the financial statements from the Bank.

**d) IFRS 9 and IFRS 7 (amendment) -** 'Reform of the reference interest rates'. These changes are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the benchmark reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: i) risk components; ii) 'highly likely' requirement; iii) prospective assessment; and iv) recycling of the cash flow hedge reserve, with the objective that the reform of the reference interest rates does not result in the termination of hedge accounting. However, any hedge ineffectiveness determined should continue to be recognised in the income statement without impact on the Bank's financial statements.



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

This new standard replaces IFRS 4 and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical responsibilities, at each reporting date. Current measurement can be based on a complete ("building block approach") or simplified ("premium allocation approach") model. The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is retrospective in application. No impact on the financial statements from the Bank.

**ACCOUNTING POLICIES**

**a) IFRS 16 - Leases:**

The Bank adopted IFRS 16 - "Leases" on 1 January 2019, replacing IAS 17 - "Leases", which was in force until 31 December 2018. IFRS 16 allows entities to adopt the new standard following a full retrospective approach or through the modified retrospective approach, the second of which does not imply the disclosure of impacts at the date of the previous reporting period (does not require restatement of comparatives), recognising the cumulative effect of the initial application of the standard as an adjustment to retained earnings on the transition date (1 January 2019). As disclosed in the transition note, the Bank adopted a modified retrospective approach in the transition to IFRS 16.



At the beginning of the contract, the Bank assesses whether a contract is or contains a lease. In order for a contract to be considered a lease, it must cumulatively comply with the following conditions:

a) There is an identifiable asset:

- The contract identifies one or more leased assets.

b) The entity has the right to control the use of the identifiable asset during the term of the contract, through a consideration:

- The entity obtains substantially all the economic benefits arising from the use of the identifiable asset;
- The entity has the right to direct the use of the identifiable asset.

The Bank intervenes in lease contracts only as a lessee. In accordance with IFRS 16, under the lease contracts to which it is a party, the lessee recognises, on the date it obtains control over the use of the leased asset, an asset corresponding to the right to use the identifiable asset and a lease liability for corresponding to the obligation to make payments to the lessor.

The lease liability is initially measured at the present value of future lease payments. For this purpose, the Bank discounts the lease payments using the implicit interest rate of the lease, if the same is determinable. When the implicit leasing interest rate is not available or cannot be determined, the Bank uses the incremental financing interest rate. The incremental interest rate on financing corresponds to the rate that the Bank provides for financing for the acquisition of an asset of a value similar to the leased asset, in an economic environment with terms and conditions comparable to those of the lease.

The lease payments considered when measuring the lease liability constitute: (i) fixed payments (including payments that in substance are fixed), less any amounts receivable for lease incentives, (ii) variable payments dependent on an index or an rate (if the payments considered variable do not depend on an index or rate, they must be recognised in the income statement as an expense at the time they are incurred), (iii) the amount related to the exercise of the call option, if it is reasonably it is certain that the Bank will exercise it, (iv) amounts that the Bank is expected to pay as guarantees of residual value, and (v) penalty payments to terminate the lease, such an outcome is reasonably certain.

Lease liabilities are subsequently increased by interest on the lease liability (using the effective interest rate method) and reduced by payments made.

The lease liability is remeasured whenever there is a change in one of the following variables: (i) change in the value of the variable payments depending on an index or rate (only for the period in question), (ii) change in the assessment regarding the decision to exercise, or not, the call option on the underlying asset, (iii) change in the residual value of the asset, or (iv) change in the term of the contract. If there is a change in the term of the contract or a change in the assessment of the exercise of the purchase option (points (ii) and (iv)), a new discount rate must be calculated for the remeasurement of the liability. If the modification qualifies as a separate lease, this should give rise to the quantification and recognition of a new asset by right of use, together with the respective lease liability.



When the lease liability is remeasured, the respective difference is recorded against the asset for the right to use, being recorded in the income statement if the carrying amount of the asset for the right of use has been reduced to zero.

The asset for use right is initially measured at cost, which corresponds to the sum of:
- Initial value of the lease liability, plus payments made up to the start date and less any rental incentives received;
- Initial direct costs related to the lease incurred by the Bank;
- When applicable, an estimate of the present value of the costs to disassemble and remove the underlying asset or to restore the underlying asset or the location in which it is located, less any lease incentives received.

Subsequently, the asset for use is depreciated by the Bank using the straight-line method, over a period corresponding to:
- Useful life of the identifiable asset, when the exercise of the call option by the Bank is reasonably certain;
- The shortest between the useful life of the asset or the lease term, when the exercise of the call option by the Bank is not reasonably certain.

Additionally, the asset for use right is, when applicable, periodically reduced by impairment losses and adjusted by the effects of remeasurements of the lease liability.



Impairment tests are carried out on assets by right of use whenever there are signs of impairment. The asset's carrying amount per use right will be reduced to its recoverable amount whenever it is lower.

The Bank proceeds, when applicable, to separate multiple components of the lease existing in the contract. The Bank chose, for all leases, not to separate service components when they are present in the respective contracts, thus measuring the lease liability and the asset for use right considering the total payments provided for in the contracts.

The lease term is defined at the beginning of the lease as the sum of the following components:
- Non-cancellable rental period;
- Period covered by an option to extend the lease term if its exercise is reasonably certain;
- Period covered by an option to terminate the lease if its exercise is not reasonably certain.

The Bank adopted the practical procedures provided for in IFRS 16. In particular, it opted for the non-recognition of the lease liability and the respective asset by right of use corresponding to lease contracts with a duration not exceeding 12 months (short term) and to lease contracts whose assets have a value lower than 2.5 million kwanzas (low value). Payments for these leases are recognised as an expense under "General Administrative Expenses" on a straight-line basis over the respective periods.



When the Bank is a sublease, the recognition of the main lease and the sublease is carried out separately. The sublease is classified as a finance or operating lease by reference to the asset for the right to use the main lease. When a contract in which the Bank intervenes as a sublease includes payments for rental components and other components, the Bank applies IFRS 15 - Revenue from contracts with customers to allocate contract remuneration to each component, being only considered for the purpose of registration in IFRS 16, the amounts allocated to the lease components.

**b) IAS 17 - Leasing**

Until 31 December 2018, the Bank classified leasing operations as finance leases or operating leases in compliance with the criteria defined in IAS 17 - Leases. The classification was made based on the substance and not the legal form of the transaction, being considered as financial leases the leases in which risks and benefits intrinsic to the ownership of an asset were substantially transferred to the lessee.

**FINANCIAL LEASING**

Financial leasing operations were recorded as follows:

**i) As Lessor:**

As a lessor, assets sold under financial leasing were derecognised from the balance sheet, with a credit granted to customers being recorded (amount equivalent to the net investment value in the leased assets, together with any residual value not guaranteed in favour of the Bank), which was repaid through the amortisation of capital contained in the financial plan of the contracts. The interest included in the rents was recorded as financial income under "Interest and similar income", based on a constant periodic rate of return, calculated on the referred net investment value.

**ii) As Lessee:**

As a lessee, assets held under a finance lease were recorded at the beginning of the lease at the lowest value between the fair value of the leased asset and the present value of the minimum lease payments, each determined at the start date of the contract under "Other Tangible Assets", and being depreciated over the shortest period between the asset's useful life and the lease period when the Bank had no call option at the end of the contract, or over the estimated useful life when the Bank intended to acquire the assets at the end of the contract.

The liability to the lessor is also recorded in the liability, which was being reduced by the capital amortised in the rents. Interest paid was recorded in "Interest and similar charges".

**OPERATING LEASING**

The Bank only intervened in operational leasing contracts as a lessee, with those contracts recording monthly income for each contract that reflects the cost of using the equipment in "General Administrative Expenses". As of 1 January 2019, the lease contracts recognised in "General Administrative Expenses" refer only to short term lease contracts (equal to or less than 12 months) or low value assets (less than 2.5 million kwanzas).



**SPECIFIC LEASE DISCLOSURES**

The Bank is a tenant under several real estate lease agreements corresponding to the head office and the Viana branches, Centro Empresas Viana, Bairro Azul, SIAC Cazenga.

The lease contracts have a term of 1 year, with the exception of the headquarters whose term is 4 years, being automatically renewed for periods of 1 year. The Bank determined the lease term considering that the contracts would be renewed for an additional period of 5 years.

The contracts are denominated in kwanzas, containing a clause for reviewing lease payments based on the US dollar exchange rate (variable payments). The Bank analysed this review clause and concluded that it is not a separable embedded derivative. There are no other variable payments associated with lease agreements. The contracts do not include other clauses related to covenants or other restrictions.

At 31 December 2019, there are no guaranteed residual values nor is the Bank committed to leases that have not yet started. Likewise, on this date the Bank was not an integral part of sublease contracts or sale & leaseback transactions. In the year ended 31 December 2019, there were no short-term leases or low-value assets.



During the year the assets by right of use showed the following evolution:

| | 01-JAN-2019 | AMORTISATION | 31-DEZ-2019 |
|---|---|---|---|
| PROPERTIES | 884 139 | -191 064 | 693 093 |

Depreciation was registered in the account 51080109026.

During the year, the lease liabilities showed the following evolution:

| | 01-JAN-2019 | EFFECTIVE INTEREST | PAYMENTS | 31-DEZ-2019 |
|---|---|---|---|---|
| PROPERTIES | 259 678 | 43 006 | -42 700 | 259 984 |

The effective interest was registered in the account 5101010201027.

The analysis of the maturity of lease payments, considering the options for extending the term whose exercise was considered reasonably certain, is as follows:



| | 2020 | 2021 | 2022 | 2023 | 2024 | TOTAL |
|---|---|---|---|---|---|---|
| PAYMENTS | 62 400 | 62 400 | 62 400 | 62 400 | 19 700 | 269 300 |

## EARNINGS PER SHARE

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

For diluted earnings per share, the average number of ordinary shares outstanding is adjusted to reflect the effect of all potential ordinary shares treated as dilutive. Contingent or potential issues are treated as dilutive when their conversion to shares decreases earnings per share.

If the earnings per share are changed as a result of shares being issued at a premium or discount, or another event that changes the potential number of ordinary shares or changes in accounting policies, the calculation of earnings per share for all periods presented is adjusted retrospectively.

# NOTE 3.
## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

The IFRSs establish a series of accounting treatments and require the Board of Directors to make judgments and make the necessary estimates to decide which accounting treatment is most appropriate. The main accounting estimates and judgments used in applying the accounting principles by the Bank are presented in this Note, with the objective of improving the understanding of how their application affects the Bank's reported results and their disclosure. A broader description of the main accounting policies used by the Bank is presented in Note 2 to the financial statements.

Considering that, in many situations, there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Bank could be different if a different treatment were chosen. The Board of Directors considers that the choices made are appropriate and that the financial statements present fairly and appropriately the Bank's financial position and the results of its operations in all material respects.



### IMPAIRMENT LOSSES ON FINANCIAL ASSETS AT AMORTISED COST OR FAIR VALUE THROUGH OTHER INTEGRAL INCOME

The determination of impairment losses for financial assets at amortised cost or at fair value through other comprehensive income is carried out in accordance with the criteria described in Note 2.4. The estimates made by the Bank, with regard to the risk of realisation of credit portfolios and other financial instruments, result from the application of assumptions determined based on external information, namely with regard to the segmentation of the portfolio, the probabilities of default, rates, recovery periods and costs, as well as the evaluation of the information available in relation to the debtor.

If the Bank used different criteria and assumptions in determining impairment losses for financial instruments, the amounts determined would be different from those currently reflected in notes 17 and 18 of the financial statements. However, the Bank considers that the current methodology used adequately reflects the losses associated with these assets.

### CLASSIFICATION OF FINANCIAL ASSETS

The Bank classifies its financial assets based on: (i) the Bank's business model for the management of financial assets, and (ii) the characteristics of the contractual cash flows of financial assets. In the judgment made, the Bank assesses its intention and ability to hold these investments.



The use of methodologies and assumptions different from those used in the definition of a business model could have different impacts on results. Assets at amortised cost are tested for impairment, which follows an analysis and decision by the Bank. The use of methodologies and assumptions different from those used in the calculations could have different impacts on results.

### INCOME TAXES

In order to determine the overall amount of taxes on profits, it was necessary to make certain interpretations and estimates. There are several transactions and calculations for which the determination of taxes payable is uncertain during the normal business cycle.

Other interpretations and estimates could result in a different level of tax on current and deferred profits recognised in the period.

The Tax Authorities may review the calculation of the tax base carried out by the Bank within a period of five years. Therefore, corrections to the tax base are possible, mainly resulting from differences in the interpretation of the tax legislation, which by its probability, the Board of Directors considers will not have a material effect in terms of the financial statements.



### NON-CURRENT ASSET HELD FOR SALE

The Bank classifies properties held for credit recovery under the caption non-current assets held for sale when there is an expectation of sale within a maximum period of one year and under the heading of other assets when this period has passed. The properties are initially measured at the lowest value between the fair value less costs to sell and the book value of the credit existing on the date the payment was made or the judicial auction of the property.

As mentioned in note 2.10, the valuations of these properties are carried out according to one of the following methodologies, applied according to the specific situation of the asset: market method, income or cost.

The evaluations carried out are conducted by independent entities specialised in this type of services. The appraisal reports are analysed internally to assess the suitability of the processes, comparing the sale values with the revalued values of the properties.

### FINANCIAL REPORT ON HYPERINFLATIONARY ECONOMIES

International accounting standard 29 - Financial Reporting in Hyperinflationary Economies (IAS 29) states that an assessment should be made of when it is necessary to restate the financial statements, in accordance with this standard.

A This assessment must take into account the characteristics of the country's economic environment, namely the following:

- The general population prefers to keep their wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of the national currency held are immediately invested to maintain purchasing power;
- The general population sees monetary amounts, not in terms of national currency, but in terms of a stable foreign currency. Prices may be quoted in that currency;
- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- Interest rates, wages and prices are linked to a price index;
- The inflation rate accumulated over three years approaches 100%, or exceeds this value.

With regard to the Angolan economy, the Angolan Banking Association ("ABANC") and the National Bank of Angola ("NBA") have always expressed an interpretation that all the requirements set out in IAS 29 are not met so that the Angolan economy is considered hyperinflationary. Thus, in the year ended 31 December 2019 and earlier, the Bank's Management decided not to apply the provisions contained in that Standard to its financial statements.



# NOTE 4.
# RESTATEMENT OF COMPARISONS

## ADOPTION OF IFRS 9

The Bank adopted IFRS 9 as published by the IASB in July 2014, with a transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not adopt IFRS 9 in advance.

With the entry into force of IFRS 9, the Bank decided to adopt a structure of the financial statements that converged with the guidelines of the National Bank of Angola, which has the following changes, compared to that presented on 31 December 2017:

| DESIGNATION 31 DECEMBER 2017 (IAS 39) | DESIGNATION 31 DECEMBER 2019 (IAS 9) |
|---|---|
| Investments held to maturity | Investments at amortised cost |
| Financial Assets Available | Financial assets at fair value through other Comprehensive Income |
| Results from Investments Held-to-maturity | Results from Investments at Amortised Cost |
| Results from Financial Assets Available for sale | Results of Financial Assets at Fair Value through Other Comprehensive Income |



The Bank decided not to restate the comparative amounts, as provided for in the transitional standard of IFRS 9. All adjustments, made to the accounting amounts of financial assets and liabilities, on the transition date, were recognised in Other reserves and retained earnings for the current period. The Bank also decided to continue to use the hedge accounting requirements of IAS 39 when adopting IFRS 9. Consequently, in the release of the notes, the consequent changes to the disclosures in IFRS 7 were considered only in the current period. The notes released for the comparative period reproduce the disclosures made in the previous year.

The adoption of IFRS 9 resulted in changes in accounting policies for the recognition, classification and measurement of financial and financial assets and impairment of financial assets. IFRS 9 also caused significant changes in other standards related to financial instruments, such as IFRS 7 "Financial Instruments: Disclosures".

# NOTE 5.
# NET INTEREST INCOME

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Interest and Similar Income** | - | - |
| Credit Interest | 1 079 334 | 139 069 |
| Interest on Financial Assets at Fair Value through Other Comprehensive Income | 1 032 141 | - |
| Interest from Investments at Amortised Cost | 3 791 365 | 850 287 |
| Interest on Investments at central banks and other Credit institutions | 859 354 | 39 226 |
| | 6 762 194 | 1 028 582 |
| **Interest and similar charges** | - | - |
| Interest and Customer Funds | (900 307) | (89 761) |
| Interest on funds from central banks and other credit institutions | (426 280) | (1 385) |
| | (1 326 587) | (91 146) |
| **Net Interest Income** | **5 435 607** | **937 436** |

At 31 December 2019, investment interest at amortised cost includes 2,052,878 thousand Kwanzas from the exchange revaluation of Angolan Treasury Bonds indexed to the USD.

# NOTE 6.
## INCOME FROM SERVICES AND FEES

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Services and Fees Received** | - | - |
| For Posted Banking Services | 2 086 680 | 419 820 |
| Other Fees - Revenue | 308 019 | 29 713 |
| | **2 394 699** | **449 533** |
| **Services and Fees Paid** | - | - |
| For Banking Services Provided by Third Parties | (148 720) | (10 625) |
| | **(148 720)** | **(10 625)** |
| **INCOME FROM SERVICES AND FEES** | **2.245 979** | **438 908** |



# NOTE 7.
## FOREIGN EXCHANGE GAINS AND LOSSES

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Profits in:** | - | - |
| Banknotes and Coins | 38 293 | 48 |
| Currencies | 106 366 398 | 15 884 995 |
| | **106 404 691** | **15 885 043** |
| **Tax** | - | - |
| Banknotes and Coins | (1 205 045) | (67 412) |
| Currencies | (102 271 578) | (15 677 413) |
| | **(103 476 623)** | **(15 744 825)** |
| **INCOME FROM SERVICES AND FEES** | **2 928 068** | **140 218** |

This caption includes the results from the sale of foreign currency and the results from the exchange rate revaluation of monetary assets and liabilities expressed in foreign currency, with the exception of the Angolan Treasury Bonds indexed to the USD (see Note 5).



# NOTE 8.
## OTHER OPERATING PROFIT OR LOSS

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Fees | (9 242) | (218) |
| Other Taxes | (90 096) | (38 397) |
| Penalties Applied by Regulatory Authorities | (14 281) | (5 767) |
| Contribution Costs | (6 259) | (23 185) |
| Other costs | (14 274) | (12 086) |
| Other Revenue | 1 346 | 744 |
| **Other operating profit or loss** | **(132 806)** | **(78 909)** |

The caption other taxes mainly concerns costs with the IAC.

# NOTE 9.
## STAFF EXPENSES

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Members of the Management and Supervisory Bodies** | **-** | **-** |
| Base salary | (177 411) | (153 931) |
| Christmas and Holiday Allowances | (75 972) | (24 280) |
| Other Subsidies | (5 054) | (2 499) |
| Social Security Expenses | (12 146) | - |
| | **(270 583)** | **(180 710)** |
| **Employees** | **-** | **-** |
| Base salary | (465 499) | (214 083) |
| Christmas and Holiday Allowances | (153 913) | (63 980) |
| Other Additional Remunerations | (619 839) | (4 100) |
| Other Subsidies | (118 294) | (123 937) |
| Social Security | (89 103) | (29 197) |
| Health Insurance Charges | (69 111) | (22 986) |
| | **(1 515 759)** | **(458 283)** |
| **Staff Expenses** | **(1 786 342)** | **(638 993)** |

Employees have no benefit associated with the existence of a pension fund.



# NOTE 10.
## THIRD-PARTY SUPPLIES AND SERVICES

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Water, energy and fuels | (3 644) | (3 160) |
| Current Consumables | (65 191) | (28 659) |
| Leases and Rents | (73 812) | (80 620) |
| Communications | (121 615) | (76 519) |
| Travel, Stays and Representations | (25 656) | (12 565) |
| Publications, advertising and publicity | (48 997) | (15 565) |
| Upkeep and Repair | (105 410) | (42 639) |
| Audits, Studies and Consultations | (81 208) | (110 402) |
| Computing | (183 257) | (62 840) |
| Other Specialised Services | (27 745) | (724) |
| Staff Training | (11 979) | (1 628) |
| Insurance | (6 972) | (146) |
| Litigation | (26 762) | (4 165) |
| Other external supplies and services | (6 940) | (12 904) |
| **Other external supplies and services** | **(789 188)** | **(452 536)** |

# NOTE 11.
## TANGIBLE AND INTANGIBLE ASSETS

The value of this item constitutes:

| | 31.12.2018 | ADDITIONS | WRITE-OFFS | REG. TRANS. | 31.12.2019 |
|---|---|---|---|---|---|
| **Other tangible assets** | - | - | - | - | - |
| Properties for Own Use | 0 | 120 000 | 0 | 0 | 120 000 |
| Furniture, fixtures, installations and equipment | 175 720 | 463 193 | 0 | -3 056 | 635 856 |
| Tangible Assets in progress | 672 | 266 597 | 0 | -79 732 | 187 537 |
| Works on leased real estate (improvements) | 25 726 | 398 369 | 0 | 0 | 424 095 |
| Rights of Use | 0 | 884 139 | 0 | 0 | 884 139 |
| Other tangible assets | 509 | 0 | 0 | 0 | 509 |
| | **202 627** | **2 132 298** | **0** | **-82 788** | **2 252 137** |
| (-) Accumulated depreciations | -82 493 | -261 926 | 0 | -37 787 | -382 206 |
| | **120 134** | **1 870 371** | **0** | **-120 575** | **1 869 931** |
| **Intangible Assets** | - | - | - | - | - |
| Automatic data-processing systems (Software) | 302 861 | 326 842 | 0 | 66 728 | 696 431 |
| Intangible Assets in course of construction | 80 264 | 289 901 | 0 | -290 000 | 80 165 |
| Other Intangible Assets | 60 129 | 12 501 | 0 | -758 | 71 872 |
| | **443 254** | **629 245** | **0** | **-224 030** | 848 468 |
| (-) Accumulated amortisation | -283 373 | -53 520 | 0 | -12 995 | -349 888 |
| | **159 881** | **471 847** | **0** | -237 026 | **498 580** |
| | | | | | **2 368 510** |



| | 31.12.2017 | ADDITIONS | WRITE-OFFS | REG. TRANS. | 31.12.2019 |
|---|---|---|---|---|---|
| **Other tangible assets** | - | - | - | - | - |
| Furniture, fixtures, installations and equipment | 156 332 | 21 178 | (7 790) | - | 175 720 |
| Tangible Assets in progress | 4 587 | 672 | - | (4 587) | 672 |
| Works on leased real estate (improvements) | 25 726 | - | - | - | 25 726 |
| Other tangible assets | 509 | - | - | - | 509 |
| | **187 154** | **27 850** | **(7 790)** | **(4 587)** | **202 627** |
| (-) Accumulated depreciations | (61 545) | (28 749) | 7 801 | - | (82 493) |
| | **125 609** | **(899)** | **11** | **(4 587)** | **120 134** |
| **Intangible Assets** | - | - | - | - | - |
| Automatic data-processing systems (Software) | 254 748 | 48 113 | - | - | 302 861 |
| Other Intangible Assets | 60 129 | 135 374 | (25 726) | (29 384) | 140 393 |
| | **314 877** | **183 487** | **(25 726)** | **(29 384)** | **443 254** |
| (-) Accumulated amortisation | (225 348) | (58 025) | - | - | (283 373) |
| | **89 529** | **125 462** | **(25 726)** | **(29 384)** | **159 881** |

As a result of the application of IFRS 16 - Leases, the caption Other tangible assets, now includes an amount referring to Rights of use, in the amount of AKZ 884,139 thousands. This value reflects the application of the international standard, which now considers that leases should be treated as leases, and the asset - right of use and liability - future rents to be settled should be recognised.

In this way, the bank stopped recording these rentals in TPSS, recognising the depreciation of the right to use and the financial margin as a cost, in case of prepayment of rent, which is common in the Angolan market.





FINANCIAL STATEMENTS

# NOTE 12.
## IMPAIRMENT AND ACCRUED LIABILITIES

The value of this item constitutes:

| | BALANCE ON 31.12.2018 | REVERSIONS/ DONATIONS | USES | TRANS. | EXCHANGE DIFFERENCES AND OTHER | BALANCE ON 31.12.2019 |
|---|---|---|---|---|---|---|
| Impairment on customer loans | (43 215) | (1 007 298) | - | - | - | (1 050 513) |
| Impairment for guarantees and other commitments | (25 480) | (66 360) | - | - | - | (91 840) |
| Impairment of non-current assets held for sale | (3 526) | (425 321) | - | - | - | (428 847) |
| Impairment for Other Assets | (378) | (396 583) | - | - | - | (396 961) |
| **Total Accrued Liabilities and Impairment** | **(72 599)** | **(1 895 562)** | - | - | - | **(1 968 161)** |

| | BALANCE ON 31.12.2017 | REVERSIONS/ DONATIONS | USES | TRANS. | EXCHANGE DIFFERENCES AND OTHER | BALANCE ON 31.12.2018 |
|---|---|---|---|---|---|---|
| Impairment on customer loans | (5 575) | (37 640) | - | - | - | (43 215) |
| Impairment for guarantees and other commitments | - | (55 297) | - | - | - | (25 480) |
| Impairment of non-current assets held for sale | - | (3 526) | - | - | - | (3 526) |
| Impairment for Other Assets | (39 122) | 39 122 | - | - | **(378)** | (378) |
| **Total Accrued Liabilities and Impairment** | **(44 697)** | **(57 341)** | - | - | **(378)** | **(72 599)** |

# NOTE 13.
## INCOME TAX

The Bank is subject to taxation in terms of industrial tax, being considered a group A taxpayer for tax purposes.

Income taxes (current or deferred) are reflected in the income for the year, except in cases where the transactions that originated them have been reflected in other equity captions. In these situations, the corresponding tax is also reflected against equity, without affecting the income for the year.

The calculation of the current tax for the years ended 31 December 2019 and 2017 was determined in accordance with paragraphs 1 and 2 of Article 4N, of Law N 19/14, of 22 October with the applicable tax rate of 30%.Tax returns are subject to review and correction by the tax authorities for a period of 5 years, which may result, due to different interpretations of tax legislation, in possible corrections to taxable income for the years 2014 to 2018. However, it is not expected that any correction related to these exercises will occur and, if it occurs, no significant impacts are expected on the Financial Statements.

Tax losses determined in a given year, as provided for in article 46 of the Industrial Tax Code, can be deducted from taxable profits for the following three years. Deferred taxes are calculated based on the tax rates expected to be in force on the date of reversal of temporary differences, which correspond to the rates approved or substantially approved on the balance sheet date. Thus, for 2019 and 2018, the deferred tax was, in general terms, calculated based on a rate of 30%.

The Bank assessed the recoverability of its deferred taxes on the balance sheet based on the expectation of future taxable profits. As a precaution, deferred taxes for tax losses were not recorded in the balance sheet. However, the Bank has reportable losses in the amount of 182,036 thousand kwanzas with expiry in 2 years and 493,811 thousand kwanzas with 51 expiry in one year.

# NOTE 14.
## CASH AND CASH BALANCES AT CENTRAL BANKS

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Treasury Values** | - | - |
| Treasury Values National Currency | 513 575 | 165 793 |
| Treasury Values Foreign Currency | 344 140 | 62 |
| | **857 715** | **165 855** |
| **Availability at the Central Bank** | - | - |
| Treasury Values National Currency | 15 354 545 | 4 490 975 |
| Treasury Values Foreign Currency | 1 595 177 | 27 139 |
| | **16 949 722** | **4 518 114** |
| **Cash and cash balances at central banks** | **17 807 437** | **4 683 969** |

The caption Cash and cash equivalents at the Central Bank includes deposits of a mandatory nature, in the amount of AKZ 9,286,895 thousands and AKZ 673,317 thousands, respectively at the end of 31 December 2019 and 31 December 2018. These values aim to satisfy the legal requirements regarding the constitution of mandatory minimum reserves, both in national and foreign currencies, in accordance with Instruction N 10/2018 of 19 July.

# NOTE 15.
## CASH BALANCES AT OTHER CREDIT INSTITUTIONS

At 31 December 2019 and 2018 the value of this item is:

| | 2019 | 2018 |
|---|---|---|
| In Credit Institutions in the Country | - | - |
| In Credit Institutions Abroad | 9 352 012 | 1 632 749 |
| | **9 352 012** | **1 632 749** |

# NOTE 16.
## FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER

| | 2019 | 2018 |
|---|---|---|
| **Bonds and Other Fixed Income Securities:** | **-** | **-** |
| Treasury Bills | 736 903 | - |
| Treasury Bonds | 16 952 134 | - |
| | 17 689 037 | - |
| **Shares and Other Variable Income Securities** | 41 067 | 41 067 |
| | **17 730 104** | **41 067** |

The amount recognised in the share caption corresponds to the participation held by the Bank in EMIS, measured at acquisition cost. Given the low level of investment in EMIS as at 31 December 2019 and 2018, the Bank's Board of Directors considers that its acquisition cost represents an adequate approximation of the fair value of this investment on each reference date.



# NOTE 17.
## INVESTMENTS AT AMORTISED COST

The value of this item is composed of Bonds and Treasury bills of Angola, namely:

| NAME | 2019 | | | | |
|---|---|---|---|---|---|
| | COUNTRY | INTEREST RATE | NOMINAL VALUE | BALANCE SHEET VALUE | REVALUATION |
| **From Public Issuers** | **-** | **-** | **-** | **-** | **-** |
| Treasury Bonds Indexed to USD | Angola | 7% | 6 792 677 | 9 315 605 | 2 442 617 |
| Treasury bonds in NC | Angola | 12% | - | - | - |
| Treasury Bills | Angola | 18% | - | - | - |
| | | | | **9 315 605** | **2 442 617** |

| NAME | 2018 | | | | |
|---|---|---|---|---|---|
| | COUNTRY | INTEREST RATE | NOMINAL VALUE | BALANCE SHEET VALUE | REVALUATION |
| **From Public Issuers** | **-** | **-** | **-** | **-** | **-** |
| Treasury Bonds Indexed to USD | Angola | 7% | 449 885 | 852 194 | 386 839 |
| Treasury bonds in NC | Angola | 12% | 389 443 | 389 443 | - |
| Treasury Bills | Angola | 18% | 1 242 185 | 1 242 185 | - |
| | | | | **2 483 822** | **386 839** |

As at 31 December 2019 and 2018, the investment schedule at amortised cost by maturity is as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **From National Public Issuers** | **-** | **-** |
| Less than 3 months | - | 96 808 |
| Between 3 months and 1 year | 4 329 852 | 1 145 378 |
| Over 1 year | 4 985 753 | 1 241 638 |
| **Investments at amortised cost** | **9 315 605** | **2 483 822** |

# NOTE 18.
## CUSTOMER LOANS

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Domestic credit: | 10 659 629 | 5 198 320 |
| Interest on Outstanding Balance Sheets | 173 036 | 18 515 |
| Loans and accrued interest | 168 938 | 74 |
| Deferred Revenue | (34 493) | (23 818) |
| **Gross Credit** | **10 967 110** | **5 193 091** |
| Loan Portfolio Impairment | (1 050 513) | (43 215) |
| **Customer Loans** | **9 916 597** | **5 149 876** |



The credits presented in the portfolio on 31 December 2019 and 2018, were all granted in national currency. The credits by residual maturity are shown below:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Up to 30 days | 1 773 168 | 203 385 |
| From 30 to 90 days | 904 263 | 350 175 |
| From 90 to 180 days | 2 097 346 | 50 000 |
| From 90 to 180 days | 1 348 402 | 50 478 |
| From 1 to 2 years | 1 481 881 | 11 269 |
| Over 2 years | 3 362 051 | 4 527 784 |
| **Total Gross Credit** | **10 967 110** | **5 193 091** |

As mentioned in note 2, the parameters of the risk segments were calculated based on a market benchmark since the Bank does not have historical data with statistical significance that allow it to calculate its own parameters in accordance with the provisions of IFRS 9.

The table below reflects the parameters applied on 31 December 2019. The collaterals referred to in the table are pledges of time deposits, first-rate mortgage and guarantees received from the Credit Guarantee Fund for financing granted under the Angola Investe programme.



| 31.12.2019 | GROSS CREDIT | COLLATERALS | COLATERAL NET CREDIT | IMPAIRMENT | % IMPAIRMENT (GROSS COLLATERAL CREDIT ) | % IMPAIRMENT (NET COLLATERAL CREDIT ) |
|---|---|---|---|---|---|---|
| Stage 1 | 10 575 932 | 8 313 675 | 2 262 257 | -837 314 | 8% | 37% |
| Stage 2 | 275 005 | 221 325 | 53 680 | -84 557 | 31% | 158% |
| Stage 3 | 150 698 | 24 134 | 126 564 | -128 642 | 85% | 102% |
| | **11 001 635** | **8 559 135** | **2 442 500** | **-1 050 513** | **10%** | **43%** |

The detail of the amount of impairment constituted by segment in accordance with IFRS 9 on 31 December 2019 is as follows:

| 31.12.2019 | STAGE 1 | STAGE 2 | STAGE 3 |
|---|---|---|---|
| Investment Support | -407 570 | -60 849 | -128 001 |
| Treasury Support | -291 178 | -23 708 | 0 |
| Bank overdrafts | -15 200 | 0 | -641 |
| Employees | -36 471 | 0 | 0 |
| Credit Income | -86 895 | 0 | 0 |
| | **-837 314** | **-84 557** | **-128 642** |

| 31.12.2018 | STAGE 1 | STAGE 2 | STAGE 3 |
|---|---|---|---|
| Investment Support | -25 935 | -2 455 | 0 |
| Treasury Support | -5 517 | 0 | 0 |
| Bank overdrafts | -5 077 | 0 | -74 |
| Employees | -4 092 | -20 | 0 |
| Credit Income | -45 | 0 | 0 |
| | **-40 666** | **-2 475** | **-74** |

The impairment movements by stages that occurred from 31 December 2018 to 31 December 2019 are presented as follows:

| | STAGE 1 | STAGE 2 | STAGE 3 | TOTAL |
|---|---|---|---|---|
| **01.01.2018 (IFRS 9)** | **-5 575** | **0** | **0** | **-5 575** |
| (Increase) / Reversal | -35 091 | -2 475 | -74 | -43 215 |
| Exchange Differences and Other | 0 | 0 | 0 | 0 |
| **31.12.2018 (IFRS 9)** | **-40 666** | **-2 475** | **-74** | **-43 215** |
| (Increase) / Reversal | -796 648 | -82 082 | -128 568 | -1 007 298 |
| Exchange Differences and Other | 0 | 0 | 0 | 0 |
| **31.12.2019 (IFRS 9)** | **-837 314** | **-84 557** | **-128 642** | **-1 050 513** |

Employee financing represents approximately 5% of the gross amount of credit granted.

The parameters are reviewed and updated periodically to reflect the economic situation and to be representative of the current economic context at all times.





Credit to Customers as at 31 December 2019, by maturity and activity sector is as follows:

| | UP TO 6 MONTHS | FROM 6 TO 12 MONTHS | FROM 1 TO 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| Agriculture | 40 393 | - | 169 211 | 1 575 503 | 1 785 107 |
| Production of Other Food Products | 80 975 | - | - | - | 80 975 |
| Beverage Industry | 149 975 | - | - | - | 149 975 |
| Production of Pulp, Paper, Cardboard and their Items | 246 062 | - | - | - | 246 062 |
| Production of Pulp, Paper, Cardboard and their Items | 115 757 | - | - | - | 115 757 |
| Iron and Steel Industry and First Transformation Activities | 391 820 | - | - | - | 391 820 |
| Motor Vehicle Trade | 174 750 | - | - | - | 174 750 |
| Wholesale Trade Agents | 73 279 | - | 891 983 | - | 965 262 |
| Wholesale of raw agricultural products, live animals, food products, beverages and tobacco | 2 | - | 202 621 | 312 164 | 514 787 |
| Wholesale Trade, N.E. | 606 247 | - | - | - | 606 247 |
| Retail Sale of New Products in Specialised Stores | 728 216 | - | 267 559 | - | 995 774 |
| Other Trade and Retail of New Products in Specialised Stores | 300 329 | - | 272 306 | - | 572 635 |
| Restaurants, Drink Establishments and Canteens | 14 713 | - | - | - | 14 713 |
| Attached and Auxiliary Activities of Transport; Travel and Tourism Agencies | 2 | - | - | - | 2 |
| Monetary Intermediation | 31 033 | - | - | - | 31 033 |
| Other Financial Intermediation | 27 085 | - | - | - | 27 085 |
| Social Action Activities | 2 | - | 65 484 | - | 65 486 |
| Other Associative Activities | 2 | - | - | - | 2 |
| Other Service Activities | 285 450 | 2 094 114 | - | - | 2 379 565 |
| Private individuals | 1 337 358 | 3 231 | 57 455 | 452 028 | 1 850 073 |
| | **4 603 451** | **2 097 346** | **1 926 619** | **2 339 694** | **10 967 110** |

# NOTE 19.
## NON-CURRENT ASSETS HELD FOR SALE

This item at 31 December 2019 and 2018 is analysed as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Non-current assets held for sale** | - | - |
| Properties | 418 671 | 410 696 |
| Impairment losses | (418 671) | 3 526 |
| **Total** | **-** | **407 170** |

In 2017, the bank received as a donation a property that it recorded under this caption, considering that its sale is highly probable in a short period of time (less than 1 year).

At the end of the 2019 financial year, the Bank did not reclassify it to the caption Other assets, as Management expects that it will be sold during the next financial year.

The detail of the property donated is as follows:

| NAME | YEAR OF ACQUISITION | ACQUISITION COST | IMPAIRMENT | NET BOOK VALUE | MARKET VALUE | DATE EVALUATION |
|---|---|---|---|---|---|---|
| Melange - Administrative Area | 2017 | 418 671 | (418 671) | - | - | Out/18 |
| **Total** | **-** | **418 671** | **(418 671)** | **-** | **-** | **-** |

In 2019 the Bank made some contacts for the possible sale, in view of the unsuccessful closure of the Agency, in view of this and due to the high maintenance costs, an impairment of 100% was constituted.

The movements in the gross balances of this item are presented as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| | PROPERTIES | PROPERTIES |
| **Opening balance** | 410 696 | **371 575** |
| Entries | - | - |
| Sales | - | - |
| Transfers | - | 39 121 |
| Exchange Differences and Other | 7 975 | - |
| **Closing Balance** | **418 671** | **410 696** |



# NOTE 20.
## OTHER ASSETS

This item at 31 December 2019 and 2018 is analysed as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Sundry debtors | 32 797 | 156 149 |
| Prepaid expenses | 127 352 | 133 659 |
| Other Operations to be Settled | 1 137 999 | 144 |
| Income receivable | 141 723 | 62 010 |
| Miscellaneous Accounts | - | - |
| | 1 439 871 | 351 962 |
| | - | (378) |
| Impairment for Other Assets | **1 439 871** | **351 584** |

The balance of AKZ 32 million recorded on 31 December 2019 under the caption Sundry debtors is related to advances to shareholders, and the remaining balance is expected to be fully settled by the end of the fiscal year 2020.

The caption other operations to be settled, includes AKZ 976 M, referring to a EUR/USD buy/sell operation, whose settlement was only concluded in early 2020.

This caption also has AKZ 24 M guarantee to Mastercard and AKZ 136 M referring to the check clearing system, which was settled in early 2020.

The caption prepaid expenses includes AKZ 71 M for Employee health insurance, AKZ 12 M for work and car accident insurance and AKZ 12 M for advances to suppliers.

The caption receivables refers to amounts receivable from the Ministry of Economy related to subsidised loans made under the Angola Investe programme.

# NOTE 21.
## CUSTOMER FUNDS AND OTHER LOANS

The balance of the caption Customer resources and other loans is composed, as to its nature, as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Demand deposits | 38 263 630 | 5 761 739 |
| Time Deposits | 15 197 399 | 589 977 |
| **Customer funds and other loans** | **53 461 029** | **6 351 716** |

Regarding the institutional sector and currency, the breakdown of the caption is as follows:

| | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| **DEMAND DEPOSITS** | CURRENCY NACIONAL | CURRENCY FOREIGN | TOTAL | CURRENCY NACIONAL | CURRENCY FOREIGN | TOTAL |
| Public Sector | 7 898 870 | 440 983 | 8 339 852 | 97 188 | - | 97 188 |
| Companies | 24 149 742 | 598 642 | 24 748 384 | 3 130 700 | 130 235 | 2 260 935 |
| Private individuals | 3 332 536 | 1 842 858 | 5 175 394 | 983 649 | 1 419 967 | 2 403 616 |
| **Demand deposits** | **35 381 148** | **2 882 483** | **38 263 630** | **4 211 537** | **1 550 202** | **5 761 739** |

| | 31.12.2018 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| **TIME DEPOSITS** | CURRENCY NACIONAL | CURRENCY FOREIGN | TOTAL | CURRENCY NACIONAL | CURRENCY FOREIGN | TOTAL |
| Companies | 8 144 037 | 6 683 529 | 14 827 627 | 500 000 | - | 500 000 |
| Private individuals | 218 464 | - | 218 464 | 36 080 | - | 36 080 |
| Interest | 260 506 | (109 198) | 151 308 | 53 897 | - | 53 897 |
| **Time Deposits** | **8 623 007** | **6 574 391** | **15 197 399** | **589 977** | **-** | **589 977** |

The staggering of customer funds and other loans by maturity, as of 31 December 2019 and 2018, is as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Expiration Term | - | - |
| Up to 3 months | 42 767 102 | 6 348 760 |
| From 3 to 6 months | 2 799 699 | 2 625 |
| From 6 months to 1 year | 7 894 228 | 331 |
| **Customer Funds to Other Loans** | **53 461 029** | **6 351 716** |



# NOTE 22.
## OTHER LIABILITIES

The value of this item constitutes:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Public Sector | 325 581 | 18 784 |
| Sundry Creditors | 170 205 | 49 790 |
| Costs Payable with Holidays and Holiday Allowances | 186 539 | 37 788 |
| Other Operations to be Settled | 3 472 858 | 13 423 |
| Other Lease Liabilities | 259 984 | - |
| **OTHER LIABILITIES** | **4 415 167** | **119 785** |

The caption other operations to be settled, concerns the prepayment of letters of credit (as authorised by the National Bank of Angola). These letters, in accordance with the UCP rules, will be settled by correspondents on the dates provided for in the conditions for opening and accepting the conditions of the IDC.

The caption Other liabilities for leases, refers to the application of IFRS 16 - Leases, which changed the way rents and rentals are accounted for. The amount of AKZ 259,984 M, refers to the rent value assumed by the bank, until the end of the lease contracts in force.

# NOTE 23.
## SHARE CAPITAL, OWN SHARES AND REVALUATION RESERVES

Under the terms of Notice N 2/2018 of 21 February, from the National Bank of Angola, regarding the Adequacy of the minimum share capital and regulatory capital required for AKZ 7,500,000,000 (seven thousand and five hundred million kwanzas), the Bank's shareholders BIR carried out the public deed of the institution's capital increase to AKZ 10,000,000,000 (Ten billion Kwanzas) on 14 December 2018, having been fully subscribed and paid in cash.

The costs with the capital increase in the amount of AKZ 22,511 thousand Kwanzas were recognised directly in Equity under the caption "Other reserves and retained earnings".

At 31 December 2019 and 2018, the shareholder composition was as follows:

| 2019 | | | AOA THOUSANDS |
|---|---|---|---|
| **SHAREHOLDERS** | **%** | **QUANTITIES OF SHARES** | **SHARE CAPITAL** |
| Helder Marcos Nunes da Silva | 2,5% | 25 000 | 250 000 |
| Joana D'Assunção Inacio Paixão Franco | 10,7% | 107 000 | 1 070 000 |
| João Henriques Pereira | 30,0% | 300 000 | 3 000 000 |
| Manuel João Gonçalves Fonseca | 3,0% | 30 000 | 300 000 |
| Valdomiro Minoru Dondo | 7,4% | 74 400 | 740 000 |
| Ligia Maria Madaleno | 46,4% | 464 000 | 4 640 000 |
| **Total** | 100% | 1 000 000 | 10 000 000 |

| 2018 | | | AOA THOUSANDS |
|---|---|---|---|
| **SHAREHOLDERS** | **%** | **QUANTITIES OF SHARES** | **SHARE CAPITAL** |
| Helder Marcos Nunes da Silva | 3,0% | 30 283 | 302 829 |
| Joana D'Assunção Inacio Paixão Franco | 16,7% | 166 667 | 1 666 667 |
| João Henriques Pereira | 30,0% | 300 000 | 3 000 000 |
| Manuel João Gonçalves Fonseca | 3,0% | 30 063 | 300 626 |
| Valdomiro Minoru Dondo | 7,4% | 74 167 | 741 667 |
| Ligia Maria Madaleno | 39,9% | 398 821 | 3 988 211 |
| **Total** | 100% | 1 000 000 | 10 000 000 |





# NOTE 24.
## INVESTMENTS AT CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

| | 2019 | 2018 |
|---|---|---|
| **Money market transactions** | **-** | **-** |
| Investments in National Credit Institutions | 3 148 456 | - |
| Investments in credit institutions abroad | - | - |
| Transactions for the purchase of third party securities with reverse repurchase agreement | 9 449 065 | - |
| | (10 175) | - |
| Impairment for Investments in Credit Institutions | **12 587 346** | **-** |

# NOTE 25.
## FUNDS FROM CENTRAL BANKS AND OTHER INSTITUTIONS

| | 2019 | 2018 |
|---|---|---|
| **Money market transactions** | **-** | **-** |
| Funds from central banks | - | - |
| Funds from Other Credit Institutions | 7 500 000 | - |
| Interest | 6 182 | - |
| | **7 506 183** | **-** |

The funds from other credit institutions are related to operations with the Banco de Desenvolvimento de Angola, intended to support credit projects of Banco BIR, SA.

# NOTE 26.
## TRANSACTIONS RELATED PARTIES

At 31 December 2019 and 2018, the global amount of the Bank's assets and liabilities that refer to operations carried out with subsidiaries, associated and related entities of the Group, in addition to those mentioned above, is summarised as follows:

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| | SHAREHOLDERS | STATUTORY BODIES | PARTICIPANTS | OTHER | TOTAL |
| **Assets** | **-** | **-** | **-** | **-** | **2 895 479 553** |
| Credit granted | - | - | - | 2 895 446 756 | 2 895 446 756 |
| Balances Receivable | 32 797 | - | - | - | 32 797 |
| **Liabilities** | **-** | - | **-** | **-** | **4 437 279 772** |
| Demand deposits | 45 558 007 | 270 137 016 | - | 3 633 363 510 | **3 949 058 532** |
| Time Deposits | 60 000 000 | - | - | 428 221 240 | **488 221 240** |
| **Revenue** | **-** | **-** | **-** | **-** | **920 809 890** |
| Net interest income - Credit | - | - | - | 246 326 273 | **246 326 273** |
| Income from Foreign Exchange Transactions | 991 198 | 6 259 836 | - | 320 273 449 | **327 524 483** |
| Commissions | 329 940 | 810 288 | - | 345 818 906 | **346 959 134** |
| **Costs** | **-** | **-** | **-** | **-** | **69 525 077** |
| Net interest income - Funds | 1 471 070 | - | - | 68 054 008 | **69 525 077** |
| **Off-balance-sheet** | **-** | **-** | **-** | **-** | **-** |
| Documentary Credit and Guarantees | - | - | - | 3 870 237 426 | **3 870 237 426** |

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | SHAREHOLDERS | STATUTORY BODIES | PARTICIPANTS | OTHER | TOTAL |
| **Assets** | **-** | **-** | **-** | **-** | **206 149** |
| Credit granted | - | - | - | 50 000 | 50 000 |
| Balances Receivable | 156 149 | - | - | - | 156 149 |
| **Liabilities** | **-** | - | **-** | **-** | **2 110 956** |
| Demand deposits | 73 355 | 68 075 | - | 1 948 063 | **2 089 493** |
| Time Deposits | 21 463 | - | - | 428 221 240 | **21 463** |
| **Revenue** | **-** | **-** | **-** | **-** | **47 187** |
| Net interest income - Credit | - | - | - | 100 | **100** |
| Income from Foreign Exchange Transactions | 508 | 997 | - | 37 634 | **39 139** |
| Commissions | 1 496 | 2 577 | - | 3 875 | **7 948** |
| **Costs** | **-** | **-** | **-** | **-** | **5 236** |
| Net interest income - Funds | 5 236 | - | - | - | **5 236** |
| **Off-balance-sheet** | **-** | **-** | **-** | **-** | **-** |
| Documentary Credit and Guarantees | - | - | - | 61 1000 | **611 000** |



# NOTE 27.
## GUARANTEES AND UNDERTAKINGS

At 31 December 2019 and 2018, the Bank had the following irrevocable responsibilities:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Guarantees Provided | 14 000 | 270 000 |
| Documentary Credit | 31 293 084 | 2 276 540 |
| | **31 307 084** | **2 546 540** |

In relation to these positions, the bank has recognised impairment as of 31/12/2019 of AKZ 92,218,763.86.

# NOTE 28.
## ACCOUNTING AND FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The book value of the active financial instruments and liabilities distributed according to their measurement category is shown below:

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| | VAL. AT THE FAIR VALUE | VAL. AT THE AMORTISED COST | VAL. AT THE COST HISTORICAL | IMPARITY | NET VALUE |
| **ASSETS** | - | - | - | - | - |
| Cash and cash balances at central banks | - | 17 807 437 | - | - | 17 807 437 |
| Cash balances at other credit institutions | - | 9 352 012 | - | - | 9 352 012 |
| Investments at central banks and other credit institutions | - | 12 597 521 | - | (10 175) | 12 587 346 |
| Financial assets at fair value through other comprehensive income | 17 984 825 | - | - | (254 721) | 17 730 104 |
| Investments at amortised cost | - | 9 315 605 | - | - | 9 315 605 |
| Customer Loans | - | 10 967 110 | - | (1 050 513) | 9 916 597 |
| Non-current assets held for sale | - | - | - | - | - |
| **Liabilities** | - | - | - | - | - |
| Funds from Central Banks and Other Credit Institutions | - | 7 506 182 | - | - | 7 506 182 |
| Customer funds and other loans | - | 53 461 029 | - | - | 53 461 029 |

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | VAL. AT THE FAIR VALUE | VAL. AT THE AMORTISED COST | VAL. AT THE COST HISTORICAL | IMPARITY | NET VALUE |
| **ASSETS** | - | - | - | - | - |
| Cash and cash balances at central banks | - | 4 683 969 | - | - | 4 683 969 |
| Cash balances at other credit institutions | - | 1 632 749 | - | - | 1 632 749 |
| Investments at central banks and other credit institutions | - | - | - | - | - |
| Available-for-sale investments | 41 067 | - | - | - | 41 067 |
| Investments held to maturity | - | 2 483 822 | - | - | 2 483 822 |
| Customer Loans | - | 5 193 091 | - | (43 215) | 5 149 876 |
| Non-current assets held for sale | - | - | 407 171 | - | 407 171 |
| **Liabilities** | - | - | - | - | - |
| Funds from Central Banks and Other Credit Institutions | - | 15 573 | - | - | 15 573 |
| Customer funds and other loans | - | 6 351 716 | - | - | 6 351 716 |

Financial assets at fair value through other comprehensive income on 31 December 2019 are valued in accordance with the level 3 valuation hierarchy of IFRS 13. There was no sensitivity analysis of the main variables used in the respective valuation of these assets, as required by IFRS 13, as they are financial assets of immaterial individual value.



All assets recognised at fair value, year 2018, are valued in accordance with the level 2 valuation hierarchy of IFRS 13 (there are no assets recognised at fair value in the level 3 valuation hierarchy at the Bank).

The fair value is based on market quotations, whenever these are available. If these do not exist, fair value is estimated using internal models based on cash flow discount techniques. The generation of cash flows for the different instruments is based on the respective financial characteristics and the discount rates used that incorporate both the market interest rate curve and the current risk levels of the respective issuer.

Thus, the fair value obtained is influenced by the parameters used in the valuation model, exclusively reflecting the value attributed to the different financial instruments.

The fair value of financial assets and liabilities recorded in the Bank's balance sheet at amortised cost is presented as follows:

| | 31.12.2019 | | | |
|---|---|---|---|---|
| | FAIR VALUE | NÍVEL 1 | NÍVEL 2 | NÍVEL 3 |
| **ASSETS** | - | - | - | - |
| Cash and cash balances at central banks | 17 807 437 | - | 17 807 437 | - |
| Cash balances at other credit institutions | 9 352 012 | - | 9 352 012 | - |
| Investments at central banks and others Credit institutions | 12 587 346 | - | 12 587 346 | - |
| Financial assets at fair value through other Comprehensive Income | 17 730 104 | - | 17 730 104 | - |
| Investments at amortised cost | 9 315 605 | - | 9 315 605 | - |
| Customer Loans | 9 916 597 | - | 9 916 597 | - |
| **Liabilities** | - | - | - | - |
| Funds from Central Banks and Other Credit institutions | 7 506 182 | - | 7 506 182 | - |
| Customer funds and other loans | 53 461 029 | | 53 461 029 | - |

| | 31.12.2018 | | | |
|---|---|---|---|---|
| | FAIR VALUE | NÍVEL 1 | NÍVEL 2 | NÍVEL 3 |
| **ASSETS** | - | - | - | - |
| Cash and cash balances at central banks | 4 683 969 | - | 4 683 969 | - |
| Cash balances at other credit institutions | 1 632 749 | - | 1 632 749 | - |
| Investments at central banks and others Credit institutions | - | - | - | - |
| Available-for-sale investments | 2 483 822 | - | 2 483 822 | - |
| Customer Loans | 5 193 091 | - | 5 193 091 | - |
| **Liabilities** | - | - | - | - |
| Funds from Central Banks and Other Credit institutions | 15 573 | - | 15 573 | - |
| Customer funds and other loans | 6 351 716 | - | 6 351 716 | - |

The Bank uses the following fair value hierarchy, with three levels in the valuation of financial instruments (assets or liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters applied in determining the fair value assessment of the instrument, in accordance with IFRS 13:

**Level 1:** Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving financial instruments identical to the instruments to be valued. If there is more than one active market for the same financial instrument, the relevant price is the one prevailing in the main market of the instrument, or the most advantageous market for which access exists;

**Level 2:** Fair value is determined based on valuation techniques supported by data observable in active markets, whether direct (prices, rates, spreads...) or indirect (derivatives), and valuation assumptions similar to those that an unrelated party would use estimating the fair value of the same financial instrument. It also includes instruments whose valuation is obtained through quotations published by independent entities, but whose markets have less liquidity; and,

**Level 3:** Fair value is determined based on data not observable in active markets, using techniques and 176 assumptions that market participants would use to evaluate the same instruments, including assumptions about the inherent risks, the valuation technique used and the inputs used and contemplated processes for reviewing the accuracy of the values thus obtained.



The Bank considers an active market for a given financial instrument, on the measurement date, depending on the volume of business and the liquidity of the operations carried out, the relative volatility of quoted prices and the readiness and availability of information, and, for this purpose, it must verify the following minimum conditions:

- Existence of frequent daily trading quotes in the last year;
- The quotes mentioned above change regularly;
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered to be observable in the market if the following conditions are met:

- Whether its value is determined in an active market;
- If there is an OTC market and it is reasonable to assume that active market conditions exist, with the exception of the condition of trading volumes;
- The value of the parameter can be obtained by the inverse calculation of the prices of financial instruments and or derivatives where the remaining parameters necessary for the initial assessment are observable in a liquid market or in an OTC market that comply with the previous paragraphs.





# NOTE 29.
# ACTIVITY RISK MANAGEMENT

The Bank is subject to different risks in the context of the development of its activity. Risk management is performed centrally to the specific risks of each business.

The Bank's risk management policy aims to maintain an appropriate relationship between its own capital and the activity pursued, as well as the corresponding risk/return profile by line of business.

In this context, the monitoring and control of the main types of financial risks - credit, market, liquidity, property and operational risks - to which the Bank's activities is subject assumes particular importance.

## MAIN RISK CATEGORIES

**Credit -** Credit risk is associated with the degree of uncertainty in recovering the investment and its return, due to the incapacity of either a debtor (or his guarantor, if any), thus causing a financial loss for the creditor. Credit risk is shown in debt securities or other balances receivable.



**Market -** The concept of market risk reflects the potential loss that may be recorded by a given portfolio as a result of changes in rates (interest and exchange rates) and/or the prices of the different financial instruments that comprise it, considering both the correlations between them, and their respective volatilities. Thus, Market Risk encompasses interest rate, exchange rate and other price risks.

**Liquidity -** Liquidity risk reflects the Bank's inability to meet its obligations associated with financial liabilities at each maturity date, without incurring significant losses resulting from a deterioration in the conditions of access to finance (financing risk) and/or sale of its assets for values below the values usually practiced in the market (market liquidity risk).

**Operational -** Operational risk is defined as the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

## CREDIT RISK

With regard to credit risk, the portfolio of securitised financial assets maintains its dominant position in sovereign bonds of the Republic of Angola.

Below is information on the Bank's exposure to credit risk:

| | 31.12.2019 | | |
|---|---|---|---|
| | BOOK VALUE | IMPAIRMENT | NET BOOK VALUE |
| **Equity** | - | - | - |
| Cash balances at other credit institutions | 9 352 012 | - | 9 352 012 |
| Investments at central banks and other credit institutions | 12 597 521 | (10 175) | 12 587 346 |
| Financial assets at fair value through other comprehensive income | 17 984 825 | (254 721) | 17 730 104 |
| Investments at amortised cost | 9 457 467 | (141 862) | 9 315 605 |
| Customer Loans | 10 967 110 | (1 050 513) | 9 916 597 |
| Other assets | 1 957 581 | - | 1 957 581 |
| **Off-balance-sheet** | - | - | - |
| Funds from Central Banks and Other Credit institutions | 14 000 | - | 14 000 |
| Customer funds and other loans | 31 293 084 | (91 840) | 31 201 244 |

| | 31.12.2018 | | |
|---|---|---|---|
| | BOOK VALUE | IMPAIRMENT | NET BOOK VALUE |
| **Equity** | - | - | - |
| Cash balances at other credit institutions | 1 632 749 | - | 1 632 749 |
| Investments at central banks and other credit institutions | - | - | - |
| Customer Loans | 5 193 091 | (43 215) | 5 149 876 |
| Investments held to maturity | 2 483 822 | - | 2 483 822 |
| Other amounts | 351 962 | (378) | 351 584 |
| **Off-balance-sheet** | - | - | - |
| Funds from Central Banks and Other Credit institutions | 270 000 | - | 270 000 |
| Customer funds and other loans | 2 276 540 | (25 480) | 2 251 060 |



The exposure by caption and country is also presented below:

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| | ANGOLA | OTHER COUNT. OF AFRICA | EUROPE | OTHERS | TOTAL |
| Cash and cash balances at central banks | 17 807 437 | - | - | - | 17 807 437 |
| Cash balances at other credit institutions | - | - | 9 352 012 | - | 9 352 012 |
| Investments at central banks and other credit institutions | 12 587 346 | - | - | - | 12 587 346 |
| Financial assets at fair value through other comprehensive income | 17 730 104 | - | - | | 17 730 104 |
| Investments at amortised cost | 9 315 605 | - | - | - | 9 315 605 |
| Customer Loans | 9 916 597 | - | - | - | 9 916 597 |

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | ANGOLA | OTHER COUNT. OF AFRICA | EUROPE | OTHERS | TOTAL |
| Cash and cash balances at central banks | 4 518 114 | - | - | 165 855 | 4 683 969 |
| Cash balances at other credit institutions | - | - | 1 632 749 | - | 1 632 749 |
| Investments at central banks and other credit institutions | - | - | - | - | - |
| Customer Loans | 5 149 876 | - | - | | 5 149 876 |
| Investments held to maturity | 2 483 822 | - | - | - | 2 483 822 |
| Financial assets at fair value through other comprehensive income | 41 067 | - | - | - | 41 067 |

## MARKET RISK

The Bank continues to comply with Notice N 08/2016 of 16 May regarding interest rate risk in the banking book (financial instruments not held in the trading book).

The assessment of interest rate risk originating from banking book operations is carried out by analysing the risk sensitivity. Based on the financial characteristics of each contract, the respective projection of the expected cash flows is made, according to the rate reset dates and possible behavioural assumptions considered.

The aggregation, for each of the currencies analysed, of the expected cash flows in each of the time intervals allows the determination of the interest rate gaps by the reset period.

Following the recommendations of Instruction N 06/2016 of 08 August, from the National Bank of Angola, the Bank calculates its exposure to balance sheet interest rate risk based on the methodology defined in the instruction.

The sensitivity of the balance sheet interest rate risk, by currency, is calculated by the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows simulating parallel shifts of the market interest rate curve.

The following table shows the average interest rates verified for the major categories of financial assets and liabilities of the Bank, for the year ended 31 December 2019 and 2019, as well as the respective average balances and income and costs for the year:

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| | FIXED RATE | VARIABLE RATE | TOTAL SUBJECT TO INTEREST RATE | NOT SUBJECT TO INTEREST RATE | TOTAL |
| Cash and cash balances at central banks | - | - | - | 17 807 437 | 17 807 437 |
| Cash balances at other credit institutions | - | - | - | 9 352 012 | 9 352 012 |
| Investments at central banks and other credit institutions | 12 587 346 | - | 12 587 346 | - | 12 587 346 |
| Financial assets at fair value through other comprehensive income | 17 730 104 | - | 17 730 104 | 41 067 | 17 730 104 |
| Investments at amortised cost | - | 9 315 605 | 9 315 605 | - | 9 315 605 |
| Customer Loans | 9 916 597 | - | 9 916 597 | - | 9 916 597 |
| **ASSETS** | **40 192 980** | **9 315 605** | **40 508 585** | **27 200 516** | **76 709 101** |
| Customer funds and other loans | (15 197 399) | - | (15 197 399) | (38 263 630) | (53 461 029) |
| **Liabilities** | **(15 197 399)** | **-** | **(15 197 399)** | **(38 263 630)** | **(53 461 029)** |
| **Total** | **24 995 581** | **9 315 605** | **34 311 186** | **(11 063 114)** | **23 248 072** |

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | FIXED RATE | VARIABLE RATE | TOTAL SUBJECT TO INTEREST RATE | NOT SUBJECT TO INTEREST RATE | TOTAL |
| Cash and cash balances at central banks | - | - | - | 4 683 969 | 4 683 969 |
| Cash balances at other credit institutions | - | - | - | 1 623 749 | 1 623 749 |
| Investments at central banks and other credit institutions | - | - | - | - | - |
| Customer Loans | 5 149 876 | - | 5 149 876 | - | 5 149 876 |
| Investments at amortised cost | 1 969 768 | 514 054 | 2 483 822 | - | 2 483 822 |
| Financial assets at fair value through other comprehensive income | - | - | - | 41 067 | 41 067 |
| **ASSETS** | **7 119 644** | **514 054** | **7 633 698** | **6 357 785** | **13 991 483** |
| Customer funds and other loans | (589 977) | - | (589 977) | (5 761 739) | (6 351 716) |
| **Liabilities** | **(589 977)** | **-** | **(589 977)** | **(5 761 739)** | **(6 351 716)** |
| **Total** | **6 529 667** | **514 054** | **7 043 721** | **596 046** | **7 639 767** |

Detail of financial instruments with exposure to interest rate risk according to the maturity or reset date on 31 December 2019 and 2018:

| | 31.12.2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | UP TO 1 MONTH | 1-3 MONTHS | 3-6 MONTHS | 6 MONTHS-1 YEAR | 1-3 YEARS | 3-5 YEARS | OVER 5 YEARS | INDEFINITE | TOTAL |
| Cash and cash balances at central banks | - | - | - | - | - | - | - | - | - |
| Cash balances at other credit institutions | - | - | - | - | - | - | - | - | - |
| Investments at central banks and other credit institutions | - | 12 587 346 | - | - | - | - | - | - | 12 587 346 |
| Financial assets at fair value through other comprehensive income | - | 736 903 | 2 392 613 | 1 045 203 | 13 514 318 | - | - | - | 17 689 037 |
| Investments at amortised cost | - | - | 924 598 | 3 405 255 | 307 502 | 4 678 250 | - | - | 9 315 605 |
| Customer Loans | 1 677 922 | 1 298 579 | 1 391 942 | 2 034 360 | 851 674 | 604 201 | 2 092 413 | (34 493) | 9 916 597 |
| **ASSETS** | **1 677 922** | **14 622 528** | **4 709 153** | **6 484 818** | **14 673 494** | **5 282 451** | **2 092 413** | **(34 493)** | **49 508 585** |
| Customer funds and other loans | (1 037 653) | (1 605 121) | (2 799 699) | (7 173 446) | (2 581 480) | - | - | (38 263 630) | (53 461 029) |
| **Liabilities** | **(1 037 653)** | **(1 605 121)** | **(2 799 699)** | **(7 173 446)** | **(2 581 480)** | **-** | **-** | **(38 263 630)** | **(53 461 029)** |
| **Net Exposure** | **640 269** | **13 017 707** | **1 909 454** | **(688 628)** | **12 092 015** | **5 282 451** | **2 092 413** | **(38 298 123)** | **(3 952 444)** |

| | 31.12.2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | UP TO 1 MONTH | 1-3 MONTHS | 3-6 MONTHS | 6 MONTHS-1 YEAR | 1-3 YEARS | 3-5 YEARS | OVER 5 YEARS | INDEFINITE | TOTAL |
| Cash and cash balances at central banks | - | - | - | - | - | - | - | - | - |
| Cash balances at other credit institutions | - | - | - | - | - | - | - | - | - |
| Investments at central banks and other credit institutions | - | - | - | - | - | - | - | - | - |
| Customer Loans | 248 337 | 350 088 | 26 182 | 50 467 | 37 859 | 144 783 | 4 325 532 | (33 372) | 5 149 876 |
| Investments held to maturity | - | 105 601 | 470 642 | 1 012 749 | 844 054 | 50 776 | - | - | 2 483 822 |
| **ASSETS** | **248 337** | **455 689** | **496 824** | **1 063 216** | **881 913** | **195 559** | **4 325 532** | **(33 372)** | **7 633 698** |
| Customer funds and other loans | (332 811) | (254 209) | (2 625) | (332) | - | - | - | - | (589 977) |
| **Liabilities** | **(332 811)** | **(254 209)** | **(2 625)** | **(332)** | **-** | **-** | **-** | **-** | **(589 977)** |
| **Net Exposure** | **(84 474)** | **201 480** | **494 199** | **1 062 884** | **881 913** | **195 559** | **-** | **(33 372)** | **7 043 721** |

The sensitivity of the balance sheet interest rate risk, by currency, is calculated by the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows simulating parallel shifts of the market interest rate curve.

The following table shows the average interest rates verified for the major categories of financial assets and liabilities of the Bank, for the year ended 31 December 2019 and 2018, as well as the respective average balances and income and costs for the year:

At 31 December 2019 and 2018, the sensitivity analysis of financial instruments to interest rate variations are as follows:

| | 31.12.2019 | | | | | |
|---|---|---|---|---|---|---|
| | -10% | -5% | -2% | 2% | 5% | 10% |
| Customer Loans | -90 375 | -45 188 | -18 075 | 18 075 | 45 188 | 90 375 |
| Investments at Fair Value | -122 060 | -61 030 | -24 412 | 24 412 | 61 030 | 122 060 |
| Investments at amortised cost | -125 435 | -62 718 | -25 087 | 25 087 | 62 718 | 125 435 |
| **Assets** | **-337 870** | **-168 936** | **-67 574** | 67 574 | **168 936** | 337 870 |
| Customer funds and other loans | 453 725 | 226 863 | 90 745 | -90 745 | -226 863 | -453 725 |
| **Liabilities** | **453 725** | **226 863** | **90 745** | **-90 745** | **-226 863** | **-453 725** |
| **Net Exposure** | **115 855** | **57 927** | **23 171** | **-23 171** | **-57 927** | **-115 855** |

| | 31.12.2018 | | | | | |
|---|---|---|---|---|---|---|
| | -10% | -5% | -2% | 2% | 5% | 10% |
| Customer Loans | -20 640 | -10 320 | -4 128 | 4 128 | 10 320 | 20 640 |
| Investments at amortised cost | -9 935 | -4 968 | -1 987 | 1 987 | 4 968 | 9 935 |
| **Assets** | **-30 575** | **-15 288** | **-6 115** | **6 115** | **15 288** | **30 575** |
| Customer funds and other loans | 2 360 | 1 180 | 472 | -472 | -1 180 | -2 360 |
| **Liabilities** | **2 360** | **1 180** | **472** | **-472** | **-1 180** | **-2 360** |
| **Net Exposure** | **-28 215** | **-14 108** | **-5 643** | **5 643** | **14 108** | **28 215** |

Pursuant to Article 6 of Notice N 08/2016 of 16 May, the Bank must inform the National Bank of Angola whenever there is a potential reduction in the economic value equal to its banking book or greater than 20% of the regulatory own funds. During the years 2018 and 2017, the Bank complied with this requirement.



The breakdown of financial assets and liabilities at 31 December 2019 and 2017, by currency, is shown below.

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| | AOA | USD | EUR | OTHER CURRENCIES | TOTAL |
| Cash and cash balances at central banks | 15 868 120 | 182 485 | - | 1 756 832 | 17 807 437 |
| Cash balances at other credit institutions | 6 854 198 | 63 497 | 2 059 231 | 375 086 | 9 352 012 |
| Investments at central banks and other credit institutions | 12 586 346 | - | - | - | 12 587 346 |
| Financial assets at fair value through other comprehensive income | 17 730 104 | - | - | - | 17 730 104 |
| Investments at amortised cost | 9 315 605 | - | - | - | 9 315 605 |
| Customer Loans | 9 916 597 | - | - | - | 9 916 597 |
| **Assets** | **72 271 969** | **245 983** | **2 059 231** | **2 131 918** | **76 709 101** |
| Customer funds and other loans | (44 004 154) | (3 452 103) | (6 002 322) | (2 449) | (53 461 029) |
| **Liabilities** | **(44 004 154)** | **(3 452 103)** | **(6 002 322)** | **(2 449)** | **(53 461 029)** |
| **Net Exposure** | **28 267 815** | **(3 206 120)** | **(3 943 092)** | **(2 129 469)** | **23 248 072** |

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | AOA | USD | EUR | OTHER CURRENCIES | TOTAL |
| Cash and cash balances at central banks | 4 656 769 | 27 200 | - | - | 4 683 969 |
| Cash balances at other credit institutions | - | 28 876 | 1 602 326 | 1 547 | 1 632 749 |
| Investments at central banks and others credit institutions | - | - | - | - | - |
| Available-for-sale investments | 41 067 | - | - | - | 41 067 |
| Investments held to maturity | 2 483 822 | - | - | - | 2 483 822 |
| Customer Loans | 5 149 876 | - | - | - | 5 149 876 |
| **Assets** | **12 331 534** | **56 076** | **1 602 326** | 1 547 | **13 991 483** |
| Customer funds and other loans | (4 801 514) | (744) | (1 547 937) | (1 521) | (6 351 716) |
| **Liabilities** | **(4 801 514)** | **(744)** | **(1 547 937)** | **(1 521)** | **(6 351 716)** |
| **Net Exposure** | **7 530 020** | **5 332** | **54 389** | **26** | **7 639 767** |

The breakdown of financial assets and liabilities at 31 December 2019 and 2017, by currency, is shown below.

| | 31.12.2019 | | | | | |
|---|---|---|---|---|---|---|
| | **-20%** | **-10%** | **-5%** | **5%** | **10%** | **20%** |
| USD | -1 869 088 | -934 544 | -467 272 | 467 272 | 934 544 | 1 869 088 |
| EUR | -443 424 | -221 712 | -110 856 | 110 856 | 221 712 | 443 424 |
| Other currencies | -87 227 | -43 613 | -21 807 | 21 807 | 43 613 | 87 227 |
| **Total** | **-2.399 739** | **-1 199 869** | **-599 935** | **599 935** | **1 199 869** | **2 399 739** |

| | 31.12.2018 | | | | | |
|---|---|---|---|---|---|---|
| | **-20%** | **-10%** | **-5%** | **5%** | **10%** | **20%** |
| USD | 11 067 | 5 533 | 2 767 | -2 767 | -5 533 | -11 067 |
| EUR | 10 878 | 5 439 | 2 719 | -2 719 | -5 439 | -10 878 |
| Other currencies | 5 | 2 | 1 | -1 | -2 | -5 |
| **Total** | **21 950** | **10 974** | **5 487** | **-5 487** | **-10 974** | **-21 950** |

## LIQUIDITY RISK

The liquidity analysis is performed with a monitoring of liquidity positions from a prudential point of view, calculated according to the rules required by the National Bank of Angola (Instruction N 06/2016 of 08 August).

| | 31.12.2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SPOT | UP TO 1 MONTH | 1-3 MONTHS | 3-6 MONTHS | 6 MONTHS-1 YEAR | 1-3 YEARS | 3-5 YEARS | OVER 5 YEARS | INDEFINITE | TOTAL |
| Cash and cash balances at central banks | 17 807 437 | - | - | - | - | - | - | - | - | 17 807 437 |
| Cash balances at other credit institutions | 9 352 012 | - | - | - | - | - | - | - | - | 9 352 012 |
| Investments at central banks and other credit institutions | - | - | 12 587 348 | - | - | - | - | - | - | 12 587 346 |
| Financial assets at fair value through other comprehensive income | - | - | 736 903 | 2 392 613 | 1 045 203 | 13 514 318 | - | - | 41 067 | 17 730 104 |
| Investments at amortised cost | - | - | - | 924 598 | 3 405 255 | 307 502 | 4 678 250 | - | - | 9 315 605 |
| Customer Loans | - | 1 677 922 | 1 298 579 | 1 391 942 | 2 024 360 | 851 674 | 604 201 | 2 092 413 | (34 493) | 9 916 597 |
| **Assets** | **27 159 449** | **1 677 922** | **14 622 828** | **4 709 153** | **6 484 818** | **14 673 494** | **5 282 451** | **2 092 413** | **6 574** | **76 709 101** |
| Customer funds and other loans | - | (1 037 653) | (1 605 121) | (2 799 699) | (7 173 446) | (2 581 480) | - | - | (38 263 630) | (53 461 029) |
| **Liabilities** | **-** | **(1 037 653)** | **(1 605 121)** | **(2 799 699)** | **(7 173 446)** | **(2 581 480)** | **-** | **-** | **(38 263 630)** | **(53 461 029)** |
| **Liquidity Gap** | **27 159 449** | **640 269** | **13 017 707** | **1 909 454** | **(688 628)** | **12 092 015** | **5 282 451** | **2 092 413** | **(38 257 056)** | **23 248 072** |
| **Accumulated Liquidity Gap** | **27 159 449** | **27 799 718** | **40 817 425** | **42 726 879** | **43 038 250** | **54 130 265** | **5 282 451** | **61 505 128** | **23 248 072** | **46 496 144** |

| | 31.12.2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SPOT | UP TO 1 MONTH | 1-3 MONTHS | 3-6 MONTHS | 6 MONTHS-1 YEAR | 1-3 YEARS | 3-5 YEARS | OVER 5 YEARS | INDEFINITE | TOTAL |
| Cash and cash balances at central banks | 4 683 969 | - | - | - | - | - | - | - | - | 4 683 969 |
| Cash balances at other credit institutions | 1 532 749 | - | - | - | - | - | - | - | - | 1 632 749 |
| Investments at central banks and other credit institutions | - | - | - | - | - | - | - | - | - | - |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | - | 41 067 | 41 067 |
| Investments at amortised cost | - | - | 105 601 | 470 642 | 1 012 749 | 844 054 | 50 776 | - | - | 2 483 822 |
| Customer Loans | 203 056 | 45 281 | 340 319 | 26 182 | 50 467 | 37 859 | 144 783 | 4 355 301 | (33 372) | 5 149 876 |
| **Assets** | **6 519 774** | **45 281** | **445 920** | **496 824** | **1 063 216** | **881 913** | **195 559** | **4 355 301** | **7 695** | **13 991 483** |
| Customer funds and other loans | - | (332 811) | (254 209) | (2 625) | (331) | - | - | - | (5 761 740) | (6 351 716) |
| **Liabilities** | **-** | **(332 811)** | **(254 209)** | **(2 625)** | **(331)** | **-** | **-** | **-** | **(5 761 740)** | **(6 351 716)** |
| **Liquidity Gap** | **6 519 774** | **(287 530)** | **191 711** | **494 199** | **1 062 885** | **881 913** | **195 559** | **4 355 301** | **(5 754 045)** | **7 639 767** |
| **Accumulated Liquidity Gap** | **6 519 774** | **6 232 244** | **6 423 955** | **6 918 154** | **7 981 039** | **8 862 952** | **9 058 511** | **13 393 812** | **7 639 767** | **15 279 534** |

### CAPITAL MANAGEMENT AND SOLVENCY RATIO

The Bank's own funds are calculated in accordance with the applicable regulatory standards, namely with Notice N 02/2016.

Angolan financial institutions must maintain a level of own funds compatible with the nature and scale of operations duly weighted by the risks inherent in the operations, with a minimum Regulatory Solvency Ratio of 10%.

At 31 December 2019, the Bank's regulatory solvency ratio was 75.74%, broken down as follows:

| | | |
|---|---|---|
| Regulatory Solvency Ratio (RSR) | (ROF/ROF Requirements) X 10% (Amount in %) | 79.48% |
| Regulatory Own Funds (ROF) | Base Own Funds + Own Funds Complementary (Amount in Thousands of Kwanzas) | 13 843 441 382 |
| ROF Requirements | ROF Requirement for Credit Risk and Counterparty Credit Risk (Amount in Thousands of Kwanzas) | 1 308 790 491 |
| | ROF Requirement for Credit Risk and Counterparty Credit Risk in the Trading Book (Amount in Thousands of Kwanzas) | 205 531 223 |
| | ROF Requirement for Operational Risk (Amount in Thousand Kwanzas) | 227 484 187 |



# NOTE 30.
## SUBSEQUENT EVENTS

We are not aware of any facts or events after 31 December 2019 that justify adjustments in the disclosure in the Notes to the Accounts for the year under analysis, which affect the situations and/or information therein significantly and/or which have changed or expected to significantly alter the Bank's financial situation, results and/or activities.

The Coronavirus outbreak (COVID-19) and the evolution of the Oil market, have been causing strong impacts on financial markets and economic activity worldwide.

The Board of Directors monitors the evolution of the economic situation and its impacts, assessing the consequences that may arise for the Bank, in order to defend the interests of all stakeholders.

Considering the structure of the Bank's Assets, the main impacts result from an increase in credit risk and an increase in the volatility of financial and non-financial assets. For the purpose of estimating the expected loss of credit and other financial instruments (ECL) in 2020, the Bank will use reasonable and sustainable forward-looking information and assess the impact that each scenario may have on the estimate.

Management is convinced that the Bank has the capacity to accommodate the impacts, considering (i) the quality of the loan portfolio, its collateral and impairment, (ii) conservative risk management, (iii) control of the efficiency ratio, (iv) business diversification, (v) stable liquidity and (vi) regulatory own funds and regulatory solvency ratio, well above NBA requirements.

# Annexes

## ANNEXES

**REPORT AND OPINION OF THE SUPERVISORY BOARD**

Dear Shareholders of Banco de Investimento Rural, SA

In compliance with the legal and statutory provisions, namely Law 1/04 of 13 February (Commercial Companies Law) and article 232 and (g) of article 30 of the Banco de Investimento Rural statutes, we submit the Report for consideration and Opinion of the Supervisory Board on the Report and Accounts of Banco de Investimento Rural, SA, as well as the Management Report of the Board of Directors and on the proposal for the appropriation of results, for the year ended on 31 December 2019.

1. During the year, the Supervisory Board had the opportunity to monitor the Bank's activity as often as it deemed appropriate, through accounting information and contacts with Management.

2. The Supervisory Board, in the performance of its duties, obtained, whenever it was requested, additional clarifying information from the Board of Directors in meetings, held with this body.

3. The Supervisory Board considered the Financial Statements, including the Balance Sheet, the Income Statement and the respective notes and the Management Report of the Board of Directors, are in accordance with the International Accounting Standards (IASB) and the International Reporting Standards (IFRS).

4. The Supervisory Board considered the Internal Control Report, as well as the "2019 Corporate Governance and Internal Control System" report, having issued a favourable opinion, with the relevant recommendations.

5. In these terms and taking into account the work performed and the opinion of the Independent Auditors, the Supervisory Board considers that in the year ended on 31 December 2019:

    a. The Financial Statements, changes in the capital and respective notes and the Management Report of the Board of Directors, are in accordance with the legal and statutory provisions;

    b. The bank recorded full coverage of the negative results accumulated since the beginning of the business, reaching a net result of 5,572,452 thousand AKZ;

6. The Supervisory Board considers that the information referred to in point 3 is adequate and allows an understanding of the bank's financial situation and results in the different aspects and the way in which the activity was carried out is of the opinion that the General Meeting:

    a. Approve the Management Report of the Board of Directors for the year ended 31 December 2019;

    b. Approve the Accounts and the Application of the results for 2019.

7. The Supervisory Board reiterates its thanks to the Board of Directors and to all the bank's employees, for the helpful collaboration provided in the contacts maintained throughout the year.

Luanda, 03 March 2020.

The Supervisory Board

Faustino Mpemba Madia
Chairman

Carlos Feraz
Voting Member

Nuno Barros
Voting Member

Crowe

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**INDEPENDENT AUDITOR'S REPORT**
(Values expressed in thousands of Kwanzas)



To the Shareholders of:
Banco de Investimento Rural, SA

**Introduction**

1. We have examined the financial statements of Banco de Investimento Rural, SA ("Banco") which included, the balance sheet as of 31 December 2019 (showing a total of 80,533,348 tAOA and a total of 14,770,045 tAOA own funds, including a net result of tAOA 5,572,452), the statement of income by nature, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the accompanying notes to the financial statements that include a summary of significant accounting policies.

**Management's Responsibility for Financial Statements**

2. The Bank's Board of Directors is responsible for preparing and presenting the financial statements in an appropriate manner, in accordance with the International Financial Reporting Standards and for the internal control that it deems necessary to enable the preparation of those financial statements free from material misstatement due to fraud or error.

**Auditor's responsibilities**

3. Our responsibility is to express an independent opinion on the financial statements based on our audit, which was conducted in accordance with the Technical Standards of the Order of Accountants and Accounting Experts of Angola. These standards require us to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material distortion.

4. An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures chosen depend on the judgment of the auditor, including the assessment of the risks of material distortion of the financial statements due to fraud or error. In making such risk assessments, the auditor considers internal control relevant to the preparation and presentation of the financial statements by the entity in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the entity. An audit also includes evaluating the adequacy of the accounting policies used and the reasonableness of the accounting estimates made by the Bank's Management, as well as evaluating the overall presentation of the financial statements.

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



**Unqualified Opinion**

6. In our opinion, the financial statements referred to in paragraph 1 present, in all material respects, the financial position of Banco Investimento Rural, SA at 31 December 2019 and its financial performance and cash flows in an appropriate manner relating to the period ended on that date, in accordance with International Financial Reporting Standards (IFRS).

Luanda, 4 March 2020.

Crowe Angola
O Perito Contabilista

CROWE ANGOLA
Represented by João Martins de Castro
Accounting expert registered with the OCPCA with the number 20140123

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