

NOTE 3.**Critical accounting estimates and judgments used in the preparation of the financial statements**

IAS/IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Bank reported results and related disclosure. A broad description of the main accounting policies used by the Bank is presented in Note 2 to the financial statements.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, the Bank reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the Bank's financial position and results fairly in all material aspects.

3.1. Impairment of financial assets at amortised cost or fair value through other comprehensive income

The critical judgments with the greatest impact on the recognised amounts of impairment of financial assets at amortised cost and at fair value through equity are as follows:

- Evaluation of the business model: the classification and measurement of financial assets depends on the SPPI test results and on the business model definition. The Bank determines the business model based on how it wants to manage financial assets and business objectives. The Bank monitors whether the classification of the business model is appropriate based on the analysis of the anticipated derecognition of assets at amortised cost or at fair value through equity considering whether a prospective change of the asset is necessary;
- Significant increase in credit risk: as described in policy 2.5 - Financial instruments, the determination of the transfer of an asset from stage 1 to stage 2 for impairment purposes is carried out based on a significant increase in its credit risk, and IFRS 9 does not objectively define what constitutes a significant increase in credit risk;
- Banks' definition for assets with similar credit risk characteristics: when expected credit losses are measured within a collective model, financial instruments are bundled based on the same risk characteristics. With the purpose to ensure that assets are properly reclassified in the event of changes in credit risk characteristics, the Bank monitors their suitability.

Models and assumptions used: the Bank uses several models and assumptions when measuring the estimate of expected credit losses. The judgment is applied in the identification of the most suitable model for each type of asset as well as in the determination of assumptions used in these models. In addition, in compliance with the IFRS 9 regulation that explains the need for the impairment result to consider multiple scenarios, a methodology for incorporating scenario analysis into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined for scenario analysis – definition of multiple perspectives of macroeconomic evolution with probability of relevant likelihood.

NOTE 4.

Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of AOA)

	31.12.2018	31.12.2017
Cash	11,206,639	11,654,182
Deposits at central banks	148,165,613	121,955,978
Angola Central Bank	148,165,613	121,955,978
	159,372,252	133,610,160

The balance Cash and deposits at Angola Central Bank corresponds to mandatory deposits intended to satisfy legal minimum cash requirements. In accordance with Instruction No. 10/2018 of Angola Central Bank, of 19 July 2018, the minimum reserve requirements on deposits payable on demand with BNA are summarised in accordance with the following table:

		National Currency	Foreign Currency
Rates on Reserve Base			
Central Government, Local Governments and Local Administration	Daily calculation	17%	100%
Other Sectors	Weekly calculation	17%	15%

Compliance with the minimum mandatory cash requirements for a given weekly observation period (Other Sectors) is carried out considering the average amount of balances of deposits with the Bank during that period. As at 31 December 2018, the total amount of liabilities (Central Government, Local Governments, Local Administrations and Other Sectors) amounts to AOA 148,165,613 thousand (2017: AOA 121,955,978 thousand). The current legislation also allows the Bank to comply with the Minimum Reserves through Treasury Securities or Funding to the Ministry of Finance.