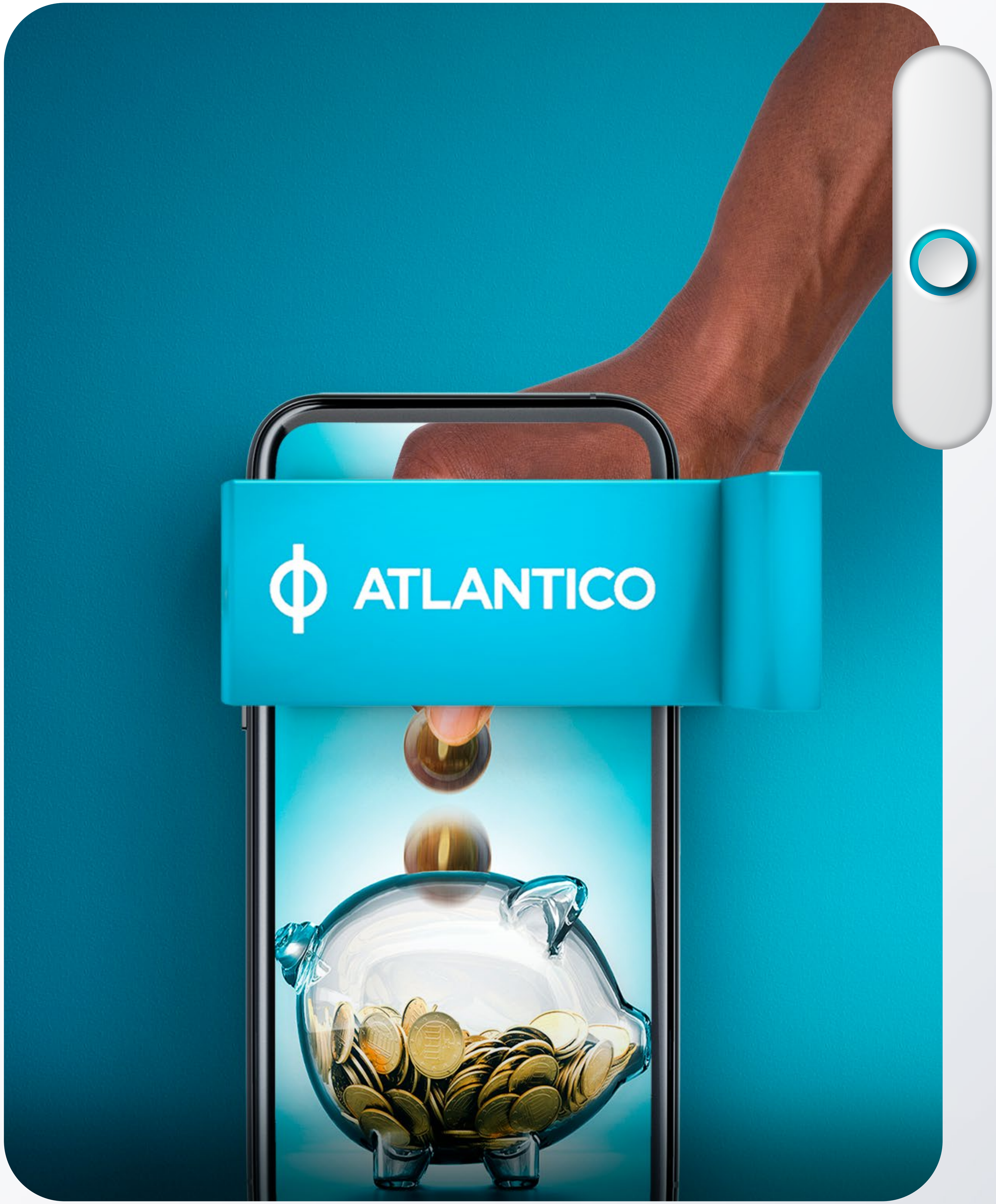


04

RISK MANAGEMENT

4.0. Risk management

ATLANTICO sees risk management as a central element in its strategic vision, supporting this function in a structure of collegiate bodies composed of Committees and Commissions independent from the other governance structures. Thus, the risk management function is independent of the risk generating areas and provides decision-making and control mechanisms directly dependent on the Bank's Board of Directors.

By acting across the organisation, Risk Office has the ability to define, identify and quantify and report the various risks in an individual and integrated manner. Thus, in addition to the policies adopted for each type of risk identified, there is a joint analysis of all these risks which guarantees the consistency of the risk measurement and imposes overall limits which enable the prudential management of the institution to be established.

The management of these risks is essential for the development, profitability and sustainability of the business, ensuring compliance with legal requirements and definitions in full articulation with the strategic assumptions of the financial year, namely the correct determination of necessary own capital and adequate exposures to credit risk, liquidity and other risks arising from the financial activity.

The Bank's risk management is carried out in accordance with strategies and policies defined by the Board of Directors, with the respective delegation of powers to the Executive Committee, with the Risk Office being assigned to a Director without direct responsibility for the commercial departments, and the Risk Office, which is responsible for implementing the strategies and policies defined.

On the organisational side, it is important to stress the relevance of the Risk Management Committee, in which two Directors participate, as well as those responsible for the Departments that manage and control financial (credit, interest rate, exchange rate, liquidity and solvency) and non-financial risks (namely operational risk, compliance risk, reputational risk and information systems risk).

The governance of risk management is articulated in the actions of the following committees:

Risk Management Committee – is the collegial body responsible for the supervision of credit, market, liquidity, solvency and operational risks. It has the responsibility to monitor, evaluate and propose measures to correct deviations from the policies and limits defined for the various types of risk. It meets on a quarterly basis.

Assets and Liabilities Committee (ALCO) – is responsible for deciding on structural measures to bring the balance sheet into line with the Bank's strategy and objectives, and for analysing and discussing the evolution of the main balance sheet indicators. It meets every two months.

Credit Committee – is the body with intervention in credit risk management. Its main responsibilities are to make rulings on all operations submitted to it in accordance with current credit policies and rules, which are embodied in specific regulations. It meets every week.

In order to reinforce the independence of the control functions, a Risk Committee is also established, with powers delegated directly by the Board of Directors and independent from the Executive Committee. This Committee is provided with diverse management information, planning as well as the results of key activities, and is responsible for monitoring the overall level of risk assumed by the Bank and controlling its management process.

In this sphere of action, the following events stand out as the most significant throughout 2020:

1. Conducting a stress test requested by Banco Nacional de Angola on the impacts of the Covid-19 pandemic and the reduction in the price of oil.

2. Analysis and drafting of a report on the impact of the downgrade of the rating of the Republic of Angola.

3. Implementation of the action plan defined under the Asset Quality Review (AQA) process, namely in the review of the model for determining the impairment of financial assets arising from the guidelines set out in Directive No. 13-DSB-DRO-2019.

4. Continuous improvement processes focusing on the reconciliation and quality of information and the automation of integrations between critical systems for assessing credit, liquidity, solvency and interest rate risk and the automation of the production of critical reports in the monthly closing process, with a view to keeping the duration of this process to a minimum.

5. Review and approval of the Bank's Risk Profile for 2020.

6. Development of Impairment Model Supervision reports to Banco Nacional de Angola.

7. Preparation for the change in reporting to the Credit Risk Information Centre of Banco Nacional de Angola (CIRC 3.0 project).

8. Definition of the programme of preparatory work for the implementation of the Supervisory Review and Evaluation Process (SREP) and development and reporting of the ICAAP (internal capital adequacy assessment process) and ILAAP (internal liquidity adequacy assessment process) methodologies, under the schedule for implementation of the measures in accordance with the Equivalence of Supervision Project that BNA is developing with completion scheduled for 2021.

9. Definition of the action plan for implementation of Directive 02/DSB/DRO/2020 – Guidelines on Management Recommendations and Non-Performing and Forborne Exposures and Foreclosed Assets in Datio in Solutum.

10. Review of the credit write-off policy.

11. Monitoring of the Capital and Liquidity Contingency plan and definition of targets for the plan to improve liquidity indicators in local and foreign currency.

12. Monitoring of compliance with the Exchange Rate Replenishment Plan agreed with Banco Nacional de Angola in May.

13. Modelling of the derivatives valuation calculation and preparation of the respective procedure.

14. Design of a new specific scoring model to support automatic credit decisions, considering the transactional profile and financial behaviour of the Prestige segment's private Customer base.

15. Continuation of the process of improving the automatic scoring model developed in previous years to support the Kitadi product, so as to ensure claim levels appropriate to the Bank's risk profile.

16. Beginning of the implementation of an IT tool to support the rating function and its integration with the credit decision process, with the following goals: creation of a workflow for assigning degrees of risk, creation of a balance sheet centre based on companies' financial statements, automation of the production of economic and financial indicators, definition of multiple scoring and rating models and automation of the scoring calculation. In 2020, the private Customer scoring component was successfully completed, including the workflow for assigning degrees of risk and its integration with the workflow for granting credit.

17. Definition of the pricing model for issuing bank guarantees.

18. Implementation of the communication plan within the scope of Operational Risk management, promoting risk culture and closer involvement of the first line of defence in the management model.

19. Implementation of the Operational Risk management model in all representative processes of the Bank's activity – operationalisation of all management instruments (mapping of processes, risk self-assessment, capture of operating losses and key risk indicators) in the 41 listed processes.

20. Improvement in the quality of the information supporting the identification of Credit Rights that may be used to calculate the Reserve Requirements.

21. Monitoring of the conversion process of loans granted in foreign currency for the acquisition of owner-occupied housing by private Customers within the scope of Instruction No 15/2020.

22. Review of exposure limits for Domestic and International Counterparties.

23. Continuous monitoring of the recording and revaluation of collateral in credit operations, supporting and promoting continuous improvement in the quality of the recording of collateral and its allocation to operations, with a view to optimising the consumption of capital.

24. Involvement in Multilateral Bank due diligence processes and management of covenants for credit facilities already approved, namely through the preparation of regular reports on credit, liquidity and solvency information and clarifications on the quality of assets in accordance with the risk profile defined for the Bank.

At ATLANTICO, **the risk management function is independent of the risk generating areas** and provides decision-making and control mechanisms directly dependent on the Bank's Board of Directors.

4.1. Risk profile

The principles of risk governance in financial institutions, established by the BNA's Notice No. 7/2016, are based on the essential principle that "given that risk acceptance plays a key role on their activity, they must find a balance between the risk they are willing to take and the returns they expect to achieve, in order to ensure a sound and sustainable financial situation".

In order to identify, amongst the risks inherent to the activity and characteristics of the institution, which risks are materially relevant, ATLANTICO has defined a set of indicators that allow an assessment, for each type of financial and non-financial risk, of the Bank's exposure to these risks and the existence or not of a potential significant impact on the Bank's balance sheet structure or activity.

To ensure that all elements are integrated into the business and management strategy, compliance with limits and tolerance levels is ensured and their monitoring is systematically reported. Thus, the adequacy of the limits is tested on a regular basis, promoting at least an annual review of the institution's risk profile, approved by the Bank's Board of Directors together with the budget approval. The last revision of the Risk Profile was approved in March 2020.

The Risk Office is responsible for monitoring and checking the risk profile and for communicating the main results and conclusions, as well as advising the Executive Committee and the Bank's Board of Directors on its review and periodic risk updating, as well as evaluating the corrective actions or measures to be implemented whenever there is a breach of the established limits that may condition or negatively impact the Bank's activity.

The limits that make up ATLANTICO's risk profile are established on three levels, deriving from them the responsibilities for communication and the development of corrective actions.

- Risk appetite reflects the level of risk for which ATLANTICO is prepared and is willing to accept, taking into account its strategy and its financial capacity to assume losses.
- The definition of a tolerance zone makes it possible to establish a timely warning system and trigger corrective measures before the Bank reaches its maximum risk-taking capacity.
- The capacity limit refers to the maximum amount of risk that the Bank is prepared to accept in the course of its business without undermining its stability, positioning and solvency.

Within the risk profile, one or more follow-up metrics are associated for each risk typology, which in turn have specific appetite, tolerance and capacity limits.

Since its approval in 2017, this risk management instrument has been fully implemented in terms of its dynamics of monitoring and generating corrective actions for deviations and is now fully integrated into the Bank's strategic and prudential planning management, in accordance with its main objective.

Formal risk profile monitoring reporting is carried out quarterly in the Risk Management Committee. Whenever any of the indicators calculated at a lower frequency are outside the established limits, it must be duly reported so that subsequent actions can be established in a timely manner.

4.2. Credit risk

Credit risk management is based on a set of policies and guidelines established according to business strategies and risk profile of the institution.

GRANTING OF CREDIT

The activity of granting credit is developed and based on regulations and standards, which are regularly reviewed and regulate the activity and clearly establish the delegation of powers, both in value and profitability, according to the implicit risk of Customers, segments and operations.

Credit Committee is the body with intervention in credit risk management. Its main responsibilities are to make rulings on all operations submitted to it in accordance with current credit policies and rules, which are embodied in specific regulations.

In addition to the regulations, the granting of credit is supported by the assessment and classification of the Customer's risk with the support of scoring and rating models, and the assessment of the level of collateral coverage of operations. For the most significant exposures, capital consumption and its impact on the limits to large risks (credit risk concentration) are also analysed on a case-by-case basis.

The credit analysis and opinion are the responsibility of the Credit Department, with the attribution of ratings to companies and scoring to individuals being the responsibility of the Risk Office Rating Unit, based on the models developed internally based on four vectors (two qualitative: Business and Shareholders/Management and two quantitative: Economic-Financial Analysis and Solvency and Liabilities). Thus, the analysis of Client risk is carried out by a separate unit of the Credit Division, ensuring the principle of independence advocated in the best risk management practices.

All credit operations are preceded by a credit risk analysis in order to assess the repayment capacity and the best way to cover the risk, the decision levels being defined in the rules of procedure.

The Credit Department will issue an opinion or a credit decision after being duly informed of all the assumptions, and until then shall make every effort to obtain them from the commercial area and, the latter, from the Customer.

Credit decisions "authorised", "authorised with amendments" or "declined" shall be based on the grounds set out in the immediately preceding opinion. They are supportive and hold the Employees, the branches and the decision-making levels involved equally responsible.

The analysis of credit operations takes into account four elements: liquidity, profitability, security and, concentration.

- **Liquidity:** the Customer's ability to meet its financial commitments within agreed deadlines.
- **Profitability:** each of the credit operations should generate positive returns to the Bank.
- **Security:** the operation must always comply with the regulations defined internally and with the legal framework to which the Bank is subject. Obtaining additional guarantees may increase the credit security of the transaction, but a transaction should not be authorised solely on the basis of the guarantees provided.
- **Concentration:** Customer concentration should always be analysed. The more dispersed the credit portfolio is, the less likely it is to be lost.

CREDIT MONITORING

Credit monitoring is the responsibility of all those involved in the credit process, and in particular the commercial areas, which must ensure the provision of all information regarding the Client, capable of translating a change in the solvency conditions.

Credit conditions of Customers and the pursuit of appropriate actions to prevent the risk of default, to settle as soon as possible the actual default, to minimise the need for provisioning/impairment and to create conditions that leverage the results of recovery.

As a result of the detection of signs of deterioration in the Customer's financial situation or the existence of actual default and depending on the seriousness of the situation observed, Customers should be subject to re-examination of their degree of risk and the adoption of complementary monitoring procedures.

Credit recovery is the responsibility of the Credit Recovery Department and the Legal Department. The Credit Recovery Department monitors and manages the responsibilities assumed by Customers who have been in default for more than 45 days (overdrafts), 75 days (leasing) or 90 days (other credits). One year after joining the Credit Recovery Department, in accordance with the maturity defined in the previous line, the cases are transferred to the litigation area within the Legal Department.

CREDIT RISK MEASUREMENT

Credit risk monitoring involves monitoring and controlling the evolution of the Bank's portfolio exposure to credit risk and implementing mitigation actions to preserve credit quality and defined risk limits.

The Risk Office is responsible for defining and monitoring the Risk Profile indicators for credit risk and counterparty credit risk, as well as communicating them to the Board in the event of the established capacity limits being exceeded.

The Risk Office is responsible for calculating and reporting monthly credit impairment, regulatory provisions, prudential limits for large exposures and regulatory capital requirements for credit risk and counterparty credit risk.

The credit impairment analysis focuses on the debtor's credit quality, as well as on the expectations of recovery of the specific credit operation, taking into account, namely, the cash flows released and the evolution of the business plan, as well as the collaterals and existing guarantees, and may be based on statistical models for determining expected losses or on individual analysis of operations and Customers.

The assessment of impairment also includes the measurement of other financial assets, namely securities, equity investments in companies, money market financial investments and other asset values, using internally developed models based on the risk measured to the counterparties and provided that these assets are not valued at fair value.

The policy for calculating impairment associated with financial assets was defined in accordance with IFRS 9. This standard introduces the concept of expected credit losses, which differs significantly from the concept of incurred losses under IAS 39, by anticipating the recognition of credit losses in the financial statements of institutions. Thus, in determining the ECL (Expected Credit Loss), macroeconomic factors are taken into account, whose changes impact the expected losses.

The Bank measures the ECL individually, or on a collective basis, for portfolios of financial instruments that share similar risk characteristics. The measurement of the provision for losses is based on the present value of the expected cash flows of the asset using the asset's original effective interest rate, whether measured individually or collectively. The determination of the ECL to be applied depends on the allocation of the agreement to one of three stages.

At the initial recognition, each agreement is allocated to Stage 1 (with the exception of Acquired or Originated Agreements with Objective Evidence of Loss), and an analysis of the variation in the risk of default from that date to the expected maturity of the agreement must be performed at each subsequent reporting date. If there is an increase in risk, the estimated loss provision for credit risk should be increased.

Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

- **Stage 1:** no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

- **Stage 2:** instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, the impairment will reflect the expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- **Stage 3**: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

When calculating the impairment attributable to the Angolan State, a risk to which the Bank is significantly exposed through its position held in Treasury Bonds, until December 2019 the Bank applied a 0.25% impairment rate to the public debt securities supported on the rationale for calculating the theoretical probability of default (PD) for the Angolan State, based on a percentage (15%) of the best PD for companies estimated in the Bank's loan portfolio, adopting the principles of Article 10 of Notice no. 10/2014 and Article 5 of Notice no. 11/2014. which state that no guarantor or debtor can have better quality than the State. In December 2019, the BNA issued Directive No. 13/DSB/DRO/2019 implementing the impairment calculation rule, which considers a 12-month or lifetime probability of default for Angola's rating published in the Moody's study applicable to the financial year concerned and loss given default (LGD) associated with the sovereign default events occurred, as indicated in that study.

In September 2020, the international rating agencies Moody's and Fitch announced a downgrade of Angola's rating to Caa1 and CCC, respectively, indicating a possible default on public debt payments.

The impairment model approved by the Bank establishes that the Stage 2 classification for sovereign risks, supranational entities and financial institutions with ratings awarded by international agencies is based on the observation of a significant increase in the level of credit risk arising from a downgrade of more than two notches in at least two rating agencies since the origination date of the asset or when there is a default on credit obligations by that counterparty within a period of more than 30 days.

4.3. Market and liquidity risk

The main players in the daily management of market and liquidity risks are the Treasury and Markets Department and the Risk Office. The Treasury and Markets Department is responsible for selecting and carrying out transactions with the market and for the daily management of liquidity, within the limits defined in the Bank's risk profile. The Risk Office is responsible for identifying, measuring and monitoring risk, ensuring that the defined limits are followed.

The Risk Management Committee and the ALCO Committee are the bodies responsible for overseeing these risks and are in charge of monitoring, assessing and proposing measures to correct deviations from management policies and limits set for liquidity and market risks (foreign exchange and interest rate).

LIQUIDITY RISK

The assessment of liquidity risk is based on the calculation and analysis of indicators that allow the Bank's liquidity situation to be identified for short-term horizons. The monitoring of current and structural liquidity levels, according to the amounts and deadlines of commitments and resources in the portfolio, is carried out through the identification of liquidity gaps, for which exposure limits are defined. These indicators are based on the distribution by time bands of the flows of existing liabilities and assets at the date of the analysis, according to pre-established assumptions.

The liquidity position of ATLANTICO is regularly assessed and the factors that justify the changes are identified. This control is strengthened by performing stress tests in order to define the Bank's risk profile and ensure that its obligations can be met in a scenario of deteriorating market conditions.

In August 2016, BNA published Instruction no. 19/2016 – Liquidity Risk, defining individual information on the distribution of balance sheet and off-balance sheet positions by time bands and breakdown analysis in national currency and relevant foreign currencies. The Bank closely monitors its compliance with the limits set out in this Notice.

In August 2020, the BNA issued Instruction no. 14/2020, which establishes a custody fee of 0.1% (zero point one per cent) that will be applied by Banco Nacional de Angola to the excess reserves of Commercial Banks, when these amount to the minimum of AOA 3,000,000,000 (three billion Kwanzas). The decision to maintain the level of reserve requirements at 22% for national currency and the CPM's decision of 28 September to increase the foreign currency reserve coefficient from 15% to 17% (to be set up in national currency) together with the introduction of the custody fee have made the funding capacity of the Interbank Money Market more challenging, as banks tend to have fewer free liquidity and consequently less capacity to lend funds. Additionally, the Permanent Liquidity Facility instrument approved in the CPM has not been available.

INTEREST RATE RISK

The assessment of interest rate risk is carried out through a risk sensitivity analysis process carried out for the operations comprising the Bank's balance sheet. The interest rate risk is calculated by classifying all assets, liabilities and off-balance-sheet items in the banking book which are sensitive to interest rate movements, by marginal maturity bands of interest rate reset. The Bank analyses daily the main reference rates of the domestic and international markets, namely LUIBOR, EURIBOR and LIBOR, in order to assess the risk inherent to assets and liabilities sensitive to interest rate variations.

In its analysis, the Bank considers Notice No. 8/2016, that regulates the interest rate risk in the banking portfolio, which considers an instantaneous positive or negative shock of 2% on interest rates and results in a parallel movement of the yield curve of the same magnitude, estimating the impact on the current value of cash flows and the financial margin of institutions. It is monitored on a systematic basis according to the repricing periods of assets and liabilities.

The calculation of the fair value of securities in the Bank's own portfolio is also a means of monitoring interest rate risk. The fair value of a financial instrument is the amount by which a financial asset or liability can be sold or settled between independent, informed parties interested in carrying out the transaction under normal market conditions.

The Risk Office is responsible for the monthly calculation of the fair value of fixed-income securities in its own portfolio using the discounted cash-flows methodology (based on a curve calculated on the basis of issues of securities with indexation characteristics and equivalent maturities).

EXCHANGE RATE RISK

ATLANTICO monitors its exposure to foreign exchange risk by monitoring and revaluing on a daily basis the exposure of the global open positions taken in the various currencies and adopts global hedging strategies to ensure that these positions remain within the limits approved by the Board.

The Bank's assessment of exchange rate risk is based on the identification and control of limits established for short- and long-term foreign exchange exposure and its relationship with Regulatory Own Funds.

In addition to monitoring exchange position and exposure and comparing it with the limits established by ATLANTICO, the Risk Office is responsible for preparing stress tests in which it assesses the impact of any exchange rate appreciation or devaluation on the Bank's asset structure, results and solvency ratio.

4.4. Solvency risk

The calculation of regulatory own funds and solvency ratio is performed and reported by ATLANTICO, since January 2018, based on the New Regulatory Package published by BNA in April 2016.

In order to align the regulations with international best practices, this set of regulations introduced a series of changes, which include the calculation of regulatory capital requirements for credit risk and counterparty credit risk (Notice No. 3/2016), capital requirements for market risk and counterparty credit risk in the trading portfolio (Notice No. 04/2016) and capital requirements for operational risk (Notice No. 05/2016). Overall, these requirements reflect a greater demand on the robustness of banks' capital structure.

Regulatory own funds are the sum of basic own funds and additional own funds. The solvency ratio corresponds to the ratio between regulatory own funds and the value calculated for capital requirements as determined by the value of risk-weighted assets plus market and operational risk, with a minimum regulatory value of 10%.

The Bank has a preventive approach to solvency risk management:

- The Risk Profile defines minimum limits for the solvency ratio from which the Risk Office performs interim calculations to measure the impact of the evolution during the month of the main balance sheet items on the value of the ratio, reconciling it with events detected in the management of other risks, namely credit, foreign exchange rate, liquidity and operational.

- Investment or disinvestment operations, as well as credit granting or settlement operations, which have significant volumes are previously assessed by the Risk Office for their impact on the Bank's solvency – via earnings and capital consumption.

The final amount and detail of the Regulatory Own Funds and Regulatory Solvency Ratio calculation performed by the Risk Office are included in the monthly earnings presentation to the Board of Directors. Analysis and projections are regularly presented to the Risk Management Committee.

The impacts on the Solvency Ratio resulting from stress tests, as well as other ratios that relate exposure to a certain risk to the level of the Bank's Own Funds are reported to the Board on a regular basis.

Foreseeing the potential impacts of the Covid-19 pandemic, the Bank did not distribute in 2020 the 2019 profits in the form of dividends, in order to maintain the ratio in line with the established risk appetite. Additionally, within the scope of the reinforcement of impairment associated with the downgrade of Angola's rating, the impact was mitigated through the results generated by the Bank up to the end of the year, and therefore it was not necessary to defer the impact of these impairments on capital for a maximum period of 36 months, as provided for in Notice no. 21/2020, published in November by the BNA.

4.5. Operational risk

The operational risk management model is based on a process-based approach, with an end-to-end perspective of the product and service value chain in operational risk management and allows the identification of potential risks and assessment of the impact of improvements.

Mindful of the importance of effective monitoring and control of operational risk and in order to achieve the proposed objectives, ATLANTICO has designated persons in charge of operational risk management for each process – the process owners. The profile of these persons in charge includes a strong command of the themes of their area of intervention, namely in terms of knowledge of business processes and capacity to suggest risk mitigation measures and increase efficiency, ensuring the recording and monitoring of all events that may lead to financial losses.

In the Bank's day-to-day business, the process owners and those responsible for each Organic Unit are responsible for ensuring the correct implementation of policies and methods for operating risk control, with the Risk Office being responsible for the complementary monitoring of the risks incurred, the centralisation of the recording of events and mitigation actions, as well as their implementation.

The responsibility of the Organic Units and process owners in the identification and active management of operational risk is key to the methodology.

ATLANTICO's operational risk management model is based on three main instruments:

- Gathering information on losses resulting from operational risk events;

- Risk self-assessment meetings which allow the Bank to take a qualitative approach to identifying potential risks through an analysis of the materialisation of losses in the process, considering the worst scenarios in each category of risk and defining the strategy and action plans for reducing the risk inherent in each process to the maximum acceptable level of risk;

- Identification and quantification of Key Risk Indicators (KRI), i.e. metrics that alert to changes in the risk profile or effectiveness of process controls, allowing the preventive launch of corrective measures.

During the annual risk self-assessment, each representative process of the Bank evaluates in the Risk Tolerance Matrix the 20 categories of risk in terms of level of severity (level of financial impact in the event of risk occurrence) and frequency (probability of risk occurrence) with which certain operational risk events may occur. The Bank's exposures to operational risks are classified as insignificant, low, medium, high and/or catastrophic, allowing for the identification of the processes with the highest risks and the most significant risk categories for the Bank.

The current management of this risk is carried out on a daily basis, through the identification, analysis, evaluation, quantification, monitoring and control of operational risk events or incidents, identified throughout the organisation and reported and managed (in terms of their classification and proposal for preventive and corrective mitigation actions) by the process owners. Furthermore, information is collected from other alternative sources, e.g. the Audit Department (frauds), the Processes and Organisation Department (Customer complaints), the Accounting Department (fines, cashier failures and other loss records) and the General Services Department (events related to security and assets) which ensure the completeness of the events recorded and reported.

The operating risk events captured are classified according to the category of risk to which they refer, allowing the categories in which the Bank incurred the greatest losses to be measured and, consequently, those in which it will have to make greater efforts to mitigate risk.

The three operational risk management instruments are developed on the basis of 20 risk categories, defined by the Bank in accordance with the recommendations of the BNA in Instruction No. 28/2016 and the guidelines of the Basel Committee, and grouped into the following categories:

- People risks;
- Information systems risks;
- Process risks;
- External risks;
- Organisational risks.

It is noticeable from the categories presented that ATLANTICO's operational risk management also covers compliance and information systems risks, including cyber threats. Reputational risk is assessed in the annual self-assessment exercises and is also included in the management model.

The **Bank's digital transformation** and the adoption of an organisation that is more geared towards the transversal management of processes has introduced **significant changes in procedural activities** and controls.

The management model described is fully operational in its various dimensions since the end of 2017, with the business processes, support and control being systematically reviewed in order to ensure an up-to-date and adequate risk assessment.

The Bank's digital transformation, in particular the implementation of IT tools that strengthen the control environment and have significantly changed process activities, and the adoption of an organisation that is more geared towards the transversal management of processes (both in terms of efficiency and risk) has introduced significant changes in procedural activities and controls, requiring an ongoing review of processes. Likewise, the implementation of IT tools that will strengthen the control environment and significantly change process activities and assigned responsibilities will require further revisions.

ATLANTICO is constantly monitoring these changes by involving the entire Bank in operational risk management, in particular through:

- Monitoring of the implementation of the 360 mitigation actions identified, of which 48% are already implemented;
- Quarterly presentations of results to the Risk Management Committee, including the most relevant operational risks, the processes with the highest risk and the alerts and mitigation proposals arising from the monitored risk indicators and captured operational risk events;
- Promoting workshops, presentations and multiple contacts with process owners and management to ensure the correct functioning of the first line of defence;
- Ongoing communication plan, which reinforces the Bank's risk culture, encourages the inclusion of all Employees in the management model (through the recording and reporting of events) and reinforces the process owners' responsibilities.

The Covid-19 pandemic had a significant impact on ATLANTICO's processes in the first half of the year, and the Bank responded appropriately as detailed in the section "Covid-19". The plan was targeted at preventing and mitigating the risks associated with the spread of the disease, in order to ensure the lives and health of Employees and their safety conditions, maintain essential services in operation, ensure the functionality of infrastructure, evaluate the asset value impacts and adjust processes to the new context.

Given that the pandemic is an operational risk event with the nature of an external risk, its duration and impacts, in particular on the risks originated by people (through Employee relations), the risks originated by systems, in particular those associated with cyber-risk and the external frauds associated with it, and the organizational risks that may arise from changes in relations with third parties, will require a review of the risks of the Bank's processes and the self-assessment of financial losses and frequency of events of the same nature during 2020 and 2021. This review will take into account past events as well as the Bank's investment in mitigating and controlling the most critical risks in the current context.

4.6. Cyber risk

The pandemic situation that affected the world in 2020, among other challenges, influenced workplace change in line with the #FicaEmCasa (#StayAtHome) directive. This has provided the exponential increase in cyberspace competition, resulting in an increase in mobile and digital devices interconnected to cyberspace and prone to attacks arising from this environment. With the pandemic situation, companies were forced to adopt more agile software development techniques, with rapid delivery of new digital services, products and processes that meet Customer needs, increasing the likelihood of exposure to vulnerabilities, leading to greater risk exposure.

The threat landscape is changing at a rapid pace and this change has challenged companies' adaptability. To this end, ATLANTICO is increasingly investing in automation and machine learning technologies for the analysis of events, in order to deal with constantly changing threat scenarios. The increase in threats inevitably leads to increased investment to strengthen our cyber security capabilities and to ensure full compliance with national regulations and internationally established best practice, with the aim of keeping systems, data and Customers protected from the increasing pace, scale and sophistication of cyber-attacks.

The approach adopted for the mitigation of cyber risks encompasses procedural, technological and organisational controls, strongly focused on people. With the inevitable change in risk profile driven by the Covid-19 pandemic, the Bank has strengthened processes for continuous testing of systems and processes through independent bodies for ongoing vulnerability assessment. ATLANTICO, as part of its critical infrastructure, continues to actively manage cyber risk to contribute to the need to safeguard its Customers, its Ecosystem and, consequently, the national economy.

4.7. Compliance

Compliance activities focus on the promotion, definition, approval and implementation of policies and processes aimed at ensuring that management bodies, functional structures and all Employees comply with the legislation, rules and regulations (internal and external) that guide the Bank's activities.

These standards allow an appropriate management of the compliance risk, at the strategic and operational levels as well as avoiding the risk of the institution incurring legal or regulatory sanctions and financial or reputational losses arising from failure to comply with laws, codes of conduct and rules of good business practice and duties to which it is subject.

Compliance performs its functions in an autonomous, independent and permanent way, with full and free access to the Bank's internal information. However, the definition of the strategic guidelines for its functions is the responsibility of the Executive Committee, with supervision and monitoring by the Audit Committee.

The Prevention of Money Laundering and Terrorist Financing is presented as one of the aspects of compliance risk management.

There is a growing concern, both from ATLANTICO and the regulatory authorities, to implement procedures to control exposure to the risk of Money Laundering and Terrorist Financing, in order to reduce the likelihood of the Bank being used as vehicle for the circulation of funds with illegal origins and/or uses.

Accordingly, the ATLANTICO management model is based on the Policy on Prevention and Detection of Money Laundering and Terrorist Financing, the Policy on Iden-tification and Acceptance of Customers and the Policy on Sanctions, which define the activities aimed at carrying out operations and identifying and accepting their players, as well as the control activities, carried out by the areas of execution, Compliance and Internal Audit.

The Compliance function is based on two major units that complement each other: AML and Compliance.

AML (Anti Money Laundering): responsible for monitoring all anti-money laundering and terrorist financing activities and maintaining the relationship with the Correspondent Banks in the area of Compliance. Its main functions are:

1. To define rules, procedures and performance criteria in accordance with the legal standards associated with the account opening, filtering and monitoring, Customer acceptance and account closure processes;

2. Approve and control the account opening process through the Customer AML risk matrix at EAGLE (AML tool by ASSECO);

3. Track and monitor compliance with reporting obligations for suspicious transactions, designated entities, spontaneous communications and cash transactions to the FIU;

4. Ensure the proper functioning of EAGLE, updating the UN (United Nations), OFAC (Office of Foreign Assets Control), HMT (HM Treasury), EU (European Union) and PEP (Politically Exposed Person) international sanction lists and proposing actions to mitigate AML risks and sanctions;

5. Monitor and undertake due diligence from EAGLE on inactive accounts, and mitigate AML situations;

6. Define and update the rules to ensure the identification of suspicious transactions, through warnings on entities, accounts and transactions and the monitoring of these situations, based on risk analysis and management and in compliance with the legislation in force at EAGLE;

7. Define and update the rules, procedures and performance criteria for actions associated with the processes of filtering and monitoring Customers and transactions against international sanction lists (UN, OFAC, HMT, EU and PEP) at Firco trust;

8. Monitor and analyse potential conflict of interest situations when concluding service contracts or starting a business relationship involving potential counterparties, collecting all inherent data and issuing an opinion;

9. Due diligence and communication to the FIU of Customers and transactions associated with fraud, which are forwarded by Audit to Compliance, in order to mitigate AML risks, monitored from EAGLE;

10. Ensure the archive of suspicious Customers and transactions in the COF internal database, as well as in EAGLE;

11. Monitor alerts generated in EAGLE on Customer transactions, ensuring appropriate levels of due diligence, control and reporting;

12. Management of the Blacklist and internal PEP in EAGLE;

13. Ensure the review and update of the AML risk of Customers in EAGLE;

14. Prepare the AML, BNA and CMC (Angolan Capital Markets Commission) survey;

15. Ensure interaction with Correspondent Banks regarding Customers and foreign exchange transactions;

16. Ensure the response of AML surveys (KYC – Know Your Customer, AML) for the purposes of acceptance and updating of the corresponding Banking relationship;

17. Ensure compliance and the update of policies, processes and KYC within the corresponding Banking relationship;

18. Ensure responses and mitigate AML risk situations to the surveys issued by Correspondent Banks in the context of a Foreign Exchange Transaction;

19. List all processes and procedures necessary for the development of the Correspondent Banking relationship activity;

20. Research international legislation regulations and good practices on Correspondent Banking;

21. Monitor Western Union transactions in Excel Access database;

22. Monitor and filter transactions under foreign exchange operations in Firco Continuity;

23. Define from Firco Continuity rules, procedures and criteria action associated with the processes of filtering and monitoring Customers and transactions against international sanctions lists (UN, OFAC, HMT, EU and PEP);

24. Perform the diligence and validation of Customer transactions (OPE – Foreign operation; CRDI – Import Letter of Credit and CRDE – Export Letter of Credit), ensuring compliance with the legislation in force;

25. Due diligence and daily monitoring of interbank operations in foreign currency.

Within AML Unit's duties, **1,080 high-risk Customers** were analysed. After completion of the due diligence, they were all considered false positives.

For the purposes of Customer analysis and assessment, ATLANTICO ensures the daily screening of its Customer database against lists of sanctions and PEP, namely OFAC, BOE (Boletin Oficial Del Estado – Spain), EU, PEP, UN and HMT, as well as internal lists of “bad guys” and others that the Angolan State may consider.

Regarding the obligation to report to the Financial Intelligence Unit, in 2020, **3,360 cash operations** were reported, **26 suspicious operations** of crimes underlying money laundering practices, **1 report** from a designated entity and **2 spontaneous reports** were made.

Compliance: responsible for ensuring legal compliance of banks' processes and procedures. Its main functions are:

1. Issue opinions requested by the several Bank departments, on general matters related to the account opening, maintenance and closing process;

2. Assess and ensure the On-boarding process, proposing measures to mitigate risks;

3. Identify internal and external factors with operational and reputational impact on the Bank;

4. Issue the institutional letters attesting the suitability of Customers;

5. Issue specialized opinions on compliance matters requested by the several Bank departments;

6. Track and monitor compliance with the reporting obligations of the Bank's departments to BNA, CMC, FIU, GTA and Western Union;

7. Monitor financial losses resulting from non-compliance of processes, within the Internal Control Team (ICT);

8. Management of the licensing process for products and services with regulators;

9. Identify training needs and prepare the annual training program in AML and TF (Terrorist Financing) compliance and keep it updated;

10. Prepare the Global Compliance, Corporate Governance and Internal Control report;

11. Identify, monitor, assess and manage Compliance risks in the Bank's different processes, suggesting measures to mitigate compliance risks;

12. Participation in the process of preparing, defining and updating the Bank's internal policies, rules and procedures, as well as their compliance;

13. Ensure the compliance of the processes related to products, banking services and advertising;

14. Identify and prepare the normative summaries and define action plans for their implementation;

15. Detect any risk of non-compliance with legal obligations and duties;

16. Issue opinions on transactions with Related Parties, proposing recommendations in line with the Related Parties Policy and monitoring compliance with the cycle of transactions approval;

17. Ensure the updating of the list of Related Parties and their identification in the system.

In 2020, as part of its responsibility to align processes and ensure full compliance with standards, Compliance participated in the updating, preparation and approval of **77 processes** across the Bank. It also disseminated and ensured the implementation of the necessary measures in relation to the publication of regulatory and legislative bodies' regulations.

As part of the licensing of banking products and services, in 2020, Compliance participated in the **preparation and licensing of 15 products** with the Regulator. It also monitored compliance with regulatory reports and took actions to mitigate the risk of non-compliance with regulatory deadlines.

TRAININGS

Given Covid-19's worldwide pandemic situation, the training program, scheduled for 2020, moved to 2021.

Notwithstanding the above, the 2-year FSVC/ABANC Technical Assistance program consisting of 12 modules delivered every two months, remains in place. These training actions have the double objective of raising the level of training of managers/senior managers and technicians of the associated banks regarding Compliance and combating money laundering and for greater appreciation of the Angolan financial system before financial institutions and authorities at international level.

In addition to the first five modules received, through the program mentioned in the previous point, the Compliance Department received training on the following subjects, scheduled for 2021:

- **Module 6 –** Strengthen banking correspondence relationships;
- **Module 7 –** Risks Associated with Trade Finance Products;
- **Module 8 –** Risks Associated with Electronic Banking Products;
- **Module 9 –** Compliance Risk and Compliance Function in Banks;
- **Module 10 –** Money Laundering Risk Assessments for Commercial Banks;
- **Module 11 –** Best practices in anti-corruption measures for the banking sector;
- **Module 12 –** Consultations to develop.

The annual training program on Prevention of Money Laundering and Combating the Financing of Terrorism and Proliferation of Weapons of Mass Destruction and Sanctions was revised and updated in accordance with the publication of the new Law 5/2020, Prevention and Combating of Money Laundering, Financing of Terrorism and the Proliferation of Weapons of Mass Destruction, of 27 January, with the Bank undergoing an e-learning training with knowledge tests.

4.8. Internal audit

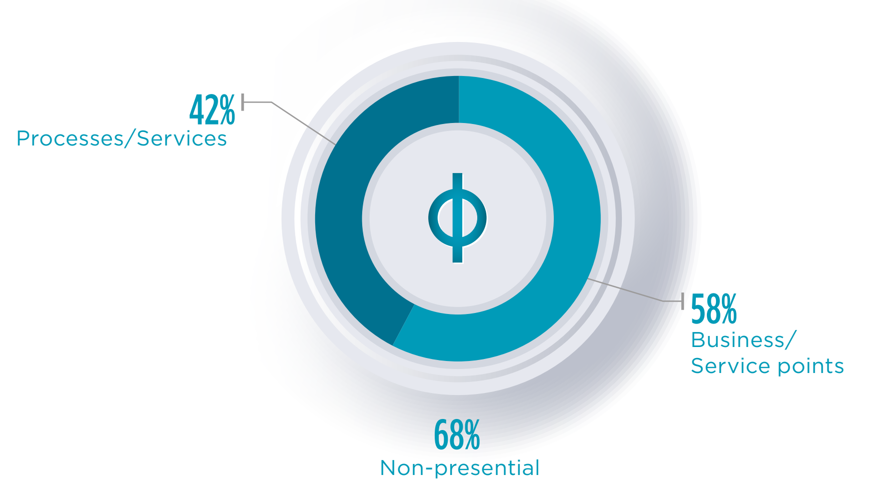
Internal Audit remained focused on providing an independent and objective service, aimed at adding value, improving operations and advising the Bank's Management on the achievement of objectives, as determined by Article 17 of Notice No. 02/2013, of 19 April, and ratified in its Internal Charter, approved by the Board of Directors, which defines its mission, powers and responsibilities.

In 2020, there was a need to adapt the Internal Audit strategy to the pandemic context:

- Reallocation of Employees to activities considered critical (e.g. fraud and complaints and remote control);
- Revision of the Plan defined for 2020, in order to adapt it to this context;
- Partial and remote audits were defined for service points, instead of general and face-to-face audits, keeping the most critical processes;
- Strengthening of management and control of Treasury departments at service points in the non-face-to-face mode (online);
- Continuous monitoring of controls/alerts regarding processes and operations.

ACTIONS CARRIED OUT

DISTRIBUTION OF THE WEIGHT OF THE ACTIONS/AUDITS CONDUCTED BY SEGMENTATION



DESCRIPTION

Audits conducted	307
New preventive/detective controls implemented/created	26
Preventive/detective control actions performed (analysed alerts)	7,096
Other control activities and targeted actions	76
Business areas coverage	1
Recommendations issued	1,867
Improvement opportunities issued	74
Implementation of recommendations/ opportunities for improvements (average)	71%
Processes and/or complaints received	902
Closure of processes and/or complaints	88%
Complaints received and analysed	41
Closure of complaints	100%
Opinions issued (products, processes and projects)	112
External inspections conducted by the BNA	6

OUTSTANDING ACTIVITIES AND ACTIONS PERFORMED

- Implementation of transversal and comprehensive audits, by multidisciplinary teams involving the several internal areas of AU, in order to add greater value in the analysis and results;
- Implementation, design and automation of controls and tasks in order to provide greater efficiency and agility in the activities and daily tasks performed;
- Implementation of routines/controls of operational scope in order to promote solutions for monitoring and preventing negative occurrences, whether reported or not by the other units, mainly the Fraud Unit;
- Execution of remote verification actions (audit by evidence), on a systematic basis, based on selected and treated information, in order to ensure the adequacy of the internal control system, as well as the mitigation of negative events that jeopardize the image or the Bank's reputation;
- Strengthening the close relationship with the other key areas allocated to the internal control system, namely the Risk Office and Compliance, in order to make the monitoring actions in this area more efficient and comprehensive;
- Promotion of D&A, with the definition of dashboards for monitoring the data and alerts generated by the developed platforms, within continuous monitoring;
- Maintenance of (internal) training actions and dynamics oriented to data analysis, involving Microsoft Access and Power Business Intelligence tools;
- Continuity of the dynamics of rotation and mainstreaming of the teams, in order to develop different skills at the level of the Directorate;
- Promotion of awareness sessions (“Sabias Que”/("Did You Know") and training for the business/agencies (e-learnings videos), in order to improve the level of consistency in the business risk prudence, as well as to improve consistency in positive assessments regarding the audits performed;
- Promotion and strengthening of the relationship with those responsible for the auditing departments of branches, as well as the promotion of events for the exchange of experiences, especially for the assessment of fraud, its evolution and trends, as well as the respective impact of internal audits activities in the current context.