Note 1. INTRODUCTION

Banco Millennium Atlântico, S.A., which also uses the brand ATLANTICO (hereinafter referred to as "Bank" or "ATLANTICO"), was incorporated by Public Deed on 31 August 2006. Through communication of Banco Nacional de Angola (hereinafter also referred to as "BNA") dated 6 November 2006, ATLANTICO was authorized and definitively registered as ATLANTICO, and started its business activity on 17 November 2006. ATLANTICO operates and has its head office in Angola, at Rua do Centro de Convenções de Talatona, Via S8, GU05B, Edifício ATLANTICO, Bloco 7/8, Bairro Talatona, Distrito Urbano da Samba, Luanda.

The Bank is dedicated to obtaining resources from third-parties in the form of deposits or other, which applies, together with its own resources, in the granting of loans, in deposits at BNA, in investments in credit institutions, in the acquisition of securities and other assets, for which it is duly authorised. The Bank also provides other bank services and performs various types of transactions in foreign currency through a network, as at 31 December 2020, of 101 branches and 25 Customer service points (31 December 2019: 103 branches and 27 Customer service points).

Regarding the shareholder structure, as detailed in Note 20, the Bank is owned mainly by private Angolan shareholders.

In May 2016, the former Banco Privado Atlântico entered into a merger by incorporation with Banco Millennium Angola, creating Banco Millennium Atlântico. For accounting purposes, the merger produces effects on 1 January 2016.

Note 2. ACCOUNTING POLICIES

2.1. BASIS OF PRESENTATION

In accordance with the provisions of Notice No. 5/2019 of 30 August, from Banco Nacional de Angola, the individual financial statements of Banco Millennium Atlântico, S.A., (Bank or ATLANTICO) are prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IAS/IFRS).

IAS/IFRS include accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and their predecessor bodies.

The individual financial statements of Banco Millennium Atlântico, S.A, presented herein relate to the period ended 31 December 2020. In accordance with the legislation in force, the Bank prepares and presents separate consolidated financial statements.

The accounting policies presented in this Note were applied consistently with those used in the financial statements as at 31 December 2019.

The financial statements are expressed in thousands of Kwanzas (thousands of AOA) rounded to the nearest thousand. These were prepared in accordance with the historical cost principle, with the exception of assets and liabilities recorded at fair value, namely financial assets at fair value through other comprehensive income and financial assets at fair value through profit and loss.

The preparation of financial statements in accordance with IAS/IFRS requires the Bank to make judgements and estimates and to use assumptions that affect the application of accounting policies and the amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences between them and reality may have an impact on current estimates and judgements. Areas that involve a higher level of judgement or complexity, or where assumptions and significant estimates are used in the preparation of the financial statements are analysed in Note 3.

For the periods ended 2017 and 2018, the Associação Angolana dos Bancos (ABANC) and Banco Nacional de Angola (BNA) issued their interpretation that the full requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies (IAS 29) for the Angolan economy to be considered as hyperinflationary were not met. Accordingly, the Bank's Board of Directors decided not to apply the provisions in IAS 29 in its financial statements at those dates or at 31 December 2019 and 2020, in respect of the opening balances and adjustments that result from the application of the provisions in IAS 29 when an economy ceases to be hyperinflationary. In the period ended 31 December 2019, considering that the cumulative inflation indicator for the years 2017, 2018 and 2019 is less than 100%, and given that no other significant adverse effects have occurred, it is possible to consider that Angola ceases to be considered a hyperinflationary economy in 2019. Therefore, IAS 29 ceases to be applied, prospectively, for periods beginning on 1 January 2019.

The Bank's financial statements for the period ended 31 December 2020 were approved by the Board of Directors on 27 April 2021.

2.2. COMPARABILITY OF THE INFORMATION

The Bank adopted the standards whose application is mandatory for periods beginning on or after 1 January 2020. The accounting policies were applied consistently and are consistent with those used in the prior year financial statements.

The requirements presented by IAS/IFRS are generally applied retrospectively, by adjusting the opening balance sheet to the date of initial application.

2.3. TRANSACTIONS IN FOREIGN CURRENCY

Transactions in foreign currency are translated into the functional currency (Kwanza) at the exchange rate published on the date of the transaction.

Monetary assets and liabilities expressed in foreign currency are converted into the functional currency at the exchange rate published by the BNA at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement under Net gains/(losses) arising from foreign exchange differences (Note 26).

Non-monetary assets and liabilities expressed in foreign currency and recorded at historical cost are converted to the functional currency at the exchange rate published on the date of the transaction. Non-monetary assets and liabilities recorded at fair value are translated into the functional currency at the exchange rate published on the date the fair value is determined and recognised against the income statement, except for those recognised in financial assets at fair value though other comprehensive income, whose difference is recorded against equity.

The reference exchange rates of the Kwanza against United States Dollar (USD) and Euro (EUR) were as follows:

Currency	31-12-2019	31-12-2020
AOA/USD	482.227	649.604
AOA/EUR	540.817	798.429

2.4. LOANS AND ADVANCES TO CUSTOMERS AND ACCOUNT RECEIVABLES

Loans and advances to Customers and account receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market and are not intended to be sold in the short term. These categories include loans granted to Customers, cash and cash equivalents, other loans and advances to credit institutions and other receivables that are not traded in an active market. These are recorded by the contracted amounts, when originated by the Bank, or by amounts paid, when purchased from other entities.

Loans and advances to Customers and account receivables are initially accounted for at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method and are presented in the balance sheet net of impairment losses. Interest calculated at the effective interest rate is recognised in Net interest income on a straight-line basis.

Loans and advances to Customers and account receivables are derecognised from the balance sheet (write-offs) when (i) the contractual rights of the Bank to their respective cash flows have expired, (ii) the Bank transferred substantially all associated risks and rewards of ownership, or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred.

2.5. FINANCIAL INSTRUMENTS

Classification, initial recognition and subsequent measurement

In accordance with IFRS 9 – Financial instruments, financial assets can be classified into three categories with different measurement criteria:

- Financial assets measured at amortised cost;
- Financial assets measured at fair value through profit and loss; and
- Financial assets measured at fair value through other comprehensive income.

The classification of assets depends on the characteristics of the contractual cash flows and the business model related to them.

With regards to the characteristics of contractual cash flows, the criterion is to assess whether these reflect Solely Payments of Principal and Interest (SPPI).

Business model

The standard identifies two relevant business models for the Bank's activity:

- Business model whose purpose is to hold the asset to collect its contractual cash flows "Hold to collect"; and,
- Business model whose purpose is both to collect contractual cash flows and to sell the financial assets "Hold to collect and sell".

— A debt financial instrument that (i) is managed under a business model whose purpose is to held financial assets in the portfolio and receive all of its contractual cash flows and (ii) has contractual cash flows on specific dates corresponding to solely payments of principal and interest on the outstanding principal – should be measured at amortised cost, unless it is designated at fair value through profit and loss under the fair value option – "Hold to collect".

— A debt financial instrument that (i) is managed under a business model whose purpose is both to collect its contractual cash flows and the sale of financial assets and (ii) contains contractual clauses that give rise to cash flows corresponding to solely payments of principal and interest on the outstanding capital – should be measured at fair value through other comprehensive income (FVOCI), unless it is designated at fair value through profit and loss under the fair value option – "Hold to collect and sale".

— All other debt financial instruments should be measured at fair value through profit and loss (FVTPL).

The Bank assessed its business models based on a wide set of indicators, including its business plan and current risk management policies.

The Bank conducted an assessment of the business model in which the financial instrument is held, at a portfolio level, as this approach reflects the best way in which assets are managed and how the information is made available to management bodies. The information considered in this assessment includes:

- Policies and goals established for the portfolio and the practical operability of these policies. In particular, how the management strategy focuses on receiving contractual interest, keeping a certain interest rate profile, adjusting the lifetime of financial assets to the lifetime of liabilities that sponsor these assets or generating cash flows through the sale of the assets;
- How the portfolio's performance is assessed and reported to the Bank's management bodies;
- Assessing the risks that affect the performance of the business model (and of the financial assets held under this business model) and how these risks are managed;
- The remuneration of business managers – e.g. the extent to which the compensation depends on the fair value of assets under management or contractual cash flows received; and
- Frequency, volume and periodicity of sales in previous periods, the reasons for such sales and the expectations about future sales. However, sales information should not be considered separately, but as part of an overall assessment of how the Bank sets goals for managing financial assets and how cash flows are obtained.

Other business models

This model includes all portfolios managed in ways other than "Hold to collect" or "Hold to collect and sale" and includes particularly portfolios that:

- Are managed with the objective of generating cash flows through sale;
- Are managed, and whose performance is evaluated, on a fair value basis; or
- Meet the definition of held for negotiation.

The performance of financial assets that fall within these models is assessed on a fair value basis, and are measured at fair value through profit and loss as they are neither held to collect contractual cash flows nor held to sell such financial assets.

Assess if contractual cash flows correspond solely to payments of principal and interest (SPPI)

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the compensation for the time value of money, the credit risk associated with the outstanding amount over a given period of time and for other risks and costs associated to the activity (e.g. liquidity risk and administrative costs), as well as a mark-up rate.

In the assessment of financial instruments in which contractual cash flows relate exclusively to the payments of principal and interest, the Bank considered the original contractual terms of the instrument. This assessment included the analysis of existing situations in which the contractual terms can change the periodicity and the amount of cash flows which fail to comply with the SPPI condition. In the assessment process, the Bank considered:

- Contingent events that may change the periodicity and amount of cash flows;
- Leverage characteristics;
- Prepayment and maturity extension terms;
- Provisions that may restrict the Bank's right to claim cash flows relating to specific assets (e.g. non-recourse loans); and
- Characteristics that may change time-value compensation of money (e.g. periodic resetting of interest rates).

As previously mentioned, the "Hold to collect" business model establishes quantitative thresholds based on past experience in order to evaluate the frequency and materiality of sales.

The threshold for frequency is defined according to the number of transactions in a given period. The threshold for materiality is defined according to the weight of the book value of the asset to be disposed over the total portfolio.

The standard provides that sales may occur without it being necessary to change the business model, as long as the thresholds defined by the Bank of frequent and significant sales, close to maturity or due to deterioration of credit risk are not exceeded.

For the period ended 31 December 2020, the sales of financial assets classified in this business model exceed the thresholds defined by the Bank. The number of sales is related to the need for the Bank to adjust its short foreign exchange position within regulatory limits, in compliance with the provisions imposed by BNA under Notice no. 14/2019, of 29 November and joint Directive no. 07/DSB/DRO/DMA/2018, of 02 January (Notice no. 06/2018 of 15 August / Notice no. 12/2018 of 03 December and Directive no. 05/DSB/BRO/DMA/2018, both until January 2019). For this purpose, the Bank submitted to the BNA an exchange rate reset plan, mainly providing for the gradual disposal of the portfolio of treasury bonds indexed to the US dollar and non-indexed.

Accordingly, although the transactions have exceeded the thresholds of the "Hold to Collect" business model, due to the fact that they were carried out under the currency reset plan agreed between the Bank and the BNA, in order to reduce the Bank's short foreign exchange position and comply with the regulatory foreign exchange position requirements, the Bank considers that these sales are within the framework and infrequent and therefore do not represent sufficient grounds to consider changing the business model originally defined for these assets at their origination.

With regards to the other financial instruments, namely equity instruments and derivatives, these are by definition classified at fair value through profit and loss. For equity instruments, there is an irrevocable option to designate that all fair value changes are recognised in other comprehensive income, in which case only dividends are recognised in profit and loss as long as they do not clearly represent a recovery of part of the investment cost as the gains and losses are not reclassified to profit and loss even when they are derecognised.

Reclassification

Financial assets are not reclassified after their initial recognition, except for the period after the Bank changes its business model to the management of financial assets. Financial assets are reclassified to other categories only if the business model used in their management changes. In such case, all affected financial assets are reclassified. The reclassification is applied prospectively from the date of reclassification, and no gains, losses (including impairment losses) or previously recognised interest are restated. Financial assets, at the date of their reclassification, are measured at fair value.

Reclassification of investments in equity instruments measured at fair value through other comprehensive income or financial instruments designated at fair value through profit and loss, is not allowed.

Reclassification of financial liabilities are not allowed.

Derecognition

i. The Bank derecognises a financial asset when, and only when:

- The contractual rights to the cash flows from the financial asset expire; or
- It transfers the financial asset as set out in (ii) and (iii) and the transfer qualifies for derecognition in accordance with (iv).

ii. The Bank transfers a financial asset if, and only if, one of the following situations occurs:

- It transfers the contractual rights to receive the cash flows of the financial asset; or
- Retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in (iii).

iii. When the Bank retains the contractual rights to receive the cash flows of a financial asset (the original asset), but assumes a contractual obligation to pay those cash flows to one or more entities (the eventual recipients), the Bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition;

- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and

- The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, it is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

iv. When the Bank transfers a financial asset (see ii above), it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

- If the Bank transfers substantially all the risks and rewards of ownership of the financial asset, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

- If the Bank retains substantially all the risks and rewards of ownership of the financial asset, it shall continue to recognise the financial asset;

- If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it shall determine whether it has retained control of the financial asset. In this case:

  a) If the Bank has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; and

  b) If the Bank has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

v. The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset.

vi. Whether the Bank has retained control (see iv above) of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.

Assets pledged as collateral by the Bank through repurchase agreements and other transactions are not derecognised because the Bank holds substantially all the risks and rewards based on the pre-specified repurchase price and therefore the derecognition criteria are not met.

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

Modification of loans

In some circumstances, the Bank renegotiates or modifies the contractual cash flows of loans and advances to Customers. In such cases, the Bank assesses whether the new terms of the contract are substantially different from the original terms. The Bank performs this analysis considering, among others, the following factors:

- Whether the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to an amount the borrower is expected to be able to pay;

- Whether any significant new terms have been introduced, such as profit-sharing or equity-based returns, that substantially affect the risk profile of the loan;

- Significant extension of the loan term when the borrower is not in financial difficulty;

- Significant change in the interest rate;

- Change in the currency in which the loan was contracted; and

- Inclusion of collateral, securities or other credit enhancement which significantly affects the credit risk associated with the loan.

If the terms of the contract are substantially different, the Bank derecognises the original financial asset and recognises a new asset at fair value and calculates its new effective interest rate. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining 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 where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognised in profit and loss, as a derecognition gain or loss.

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

After the modification, the Bank may determine that the credit risk has improved significantly and that the assets have moved from Stage 3 to Stage 2 (lifetime ECL) or from Stage 2 to Stage 1 (12-month ECL). This situation can only occur when the performance of the modified asset is in line with the new terms of the agreement during a period of twelve consecutive months. Additionally, the Bank continues to monitor whether there has been a significant increase in credit risk on these assets, applying specific models for modified assets.

Impaired financial assets

A financial asset is impaired when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred. Financial assets impaired are referred to as Stage 3 assets. The Bank has adopted the internal definition of non-performing loans as a criterion for identifying credits under Stage 3. The internal definition of non-performing loans is governed by objective and subjective criteria and is used for the Bank's credit risk management.

Purchased or originated credit impaired (POCI)

Purchased or originated credit-impaired financial assets (POCI) are treated differently as these are "impaired". For these assets, the Bank, upon its initial recognition under Stage 3, records the asset at the net amount of the expected loss.

In subsequent measurement, an ECL with a lifetime PD is always calculated and its changes are recorded in the income statement. The associated interest is calculated by applying the effective interest rate to the net book value of the asset.

Asset write-off policy
The Bank recognises a loan written off from assets when it has no reasonable expectations of recovering the full amount. This recording occurs after all actions undertaken by the Bank have proved unsuccessful.

Loans written off from assets must be subject to periodic reconciliation to control the amount included in off-balance sheet accounts, where, in accordance with legal requirements, they must remain recorded for a minimum of 10 years and as long as all collection procedures have not been exhausted.

Guarantees provided and irrevocable commitments

Liabilities for guarantees and irrevocable commitments are recorded under off-balance-sheet items at their fair value, with interest, commissions or other income being recorded in the income statement over their maturity period.

Performance guarantees are initially recognised at fair value, which is usually evidenced by the amount of commissions received over the contract period. Upon the breach of contract, the Bank has the right to revert the guarantee, and the amounts are recognised in Loans and advances to Customers after the loss compensation is transferred to the collateral taker.

Financial assets measured at amortised cost
The Bank measures a financial asset at amortised cost if it meets, simultaneously, the following requirements and is not recorded at FVTPL (use of the Fair Value Option):

- The financial asset is held in a business model whose main purpose is to hold the asset to collect its contractual cash flows (HTC – Held to collect); and

- Its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI – Solely Payments of Principal and Interest).

These instruments are initially recorded at fair value and subsequently valued at amortised cost, based on the effective interest rate method and are subject to impairment tests.

Included in this category are debt securities, loans and advances to Customers and other loans and advances to credit institutions and other account receivables.

Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income include equity and debt instruments that are recorded at fair value at the time of their initial recognition. Gains and losses on subsequent fair value variation are recorded in a specific equity caption referred to as Accumulated comprehensive income reserve until its sale where they are reclassified to profit and loss for the period, except for equity instruments that are reclassified to retained earnings.

Interest is calculated using the effective interest rate method and recorded in the income statement under Interest and similar income.

Income from variable-income securities is recognised in the income statement under Income from equity instruments (Dividends) at the date these are allocated. According to this criteria, prepaid dividends are recorded as income for the period in which its distribution is approved.

Financial assets and liabilities at fair value through profit and loss
All financial assets that are not measured in accordance with the methods described above are measured at fair value through profit and loss. In addition, at initial recognition, the Bank may irrevocably classify a financial asset, which otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income and at fair value through profit and loss, if the classification significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

Debt instruments whose contractual cash flow characteristics do not comply with the SPPI criteria, and that would otherwise be measured at amortised cost or at fair value through other comprehensive income, are mandatorily measured at fair value through profit and loss.

Financial assets and liabilities at fair value through profit and loss and other financial assets at fair value through profit and loss are initially recognised at fair value. Gains and losses arising from the subsequent fair value variation are recognised in the income statement.

The Bank uses the fair value hierarchy, with three levels in the valuation of financial instruments (assets or liabilities), which reflects the level of judgement, the observability of the data used and the importance of the parameters applied in determining the fair value of the instrument, in accordance with the provisions of IFRS 13 (Note 38).

Gains and losses generated by the subsequent valuation recorded in the income statement, under Gains/(losses) arising from financial assets and liabilities measured at fair value through profit and loss. Interest is reflected under the caption Interest and similar income.

Financial assets at fair value through profit and loss include variable-income securities acquired with the aim of generating gains from short-term fluctuations in market prices. Trading derivatives with net value receivable (positive fair value) and options purchased are included in the financial assets at fair value through profit and loss. Trading derivatives with a net value payable (negative fair value) and options sold are included in the financial liabilities at fair value through profit and loss.

Shares
The Bank classifies under Financial assets and liabilities at fair value through profit and loss the shares held in collective investment undertakings (Investment Funds) managed by management companies of collective investment undertakings (Management Company) certified by the Capital Market Commission (CMC) of Angola, when applicable.

i. Classification and measurement

When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

a) At cost;

b) At fair value, in accordance with IFRS 9, where applicable; or

c) Using the equity method as described in IAS 28.

The Bank has elected the second option and has applied the same accounting method consistently to all investments in the same category.

On acquisition, the Bank records these assets at their purchase price, determined by the Management Company, based on accepted financial techniques for determining the fair value of the assets in portfolio, in accordance with the type of investment fund.

ii. Subsequent measurement

The Bank determines the fair value of the shares by multiplying the number of shares held in each Fund by the share price/quotation and the closing price/quotation is updated and made available on a daily and monthly basis by the Management Company.

In order to assess and validate the fair value, the Bank uses valuation techniques that consider the specificity and type of each Investment Fund (Property, Real Estate or other), namely:

- Analysis of the accounting policies and valuation models (determining the fair value) of the investment portfolios held by these investment funds;
- Analysis of the opinions issued by independent auditors on the financial statements of investment funds, checking relevant matters with a potential impact on the price of shares, and
- Analysis of the suitability of the criteria and methodologies used by the Management Company to value the investment portfolio in accordance with the market's regulatory requirements.

The gains and losses arising from changes in the market value or fair value of shares are recorded in the income statement under Net gains/(losses) arising from financial assets and liabilities at fair value through profit and loss (Note 24).

Other credit-risk assets

The impairment of assets that relate to advances, promissory contracts of purchase and sale and other amounts due is determined based on a similar methodology to that used for Loans and advances to Customers. The impairment established for these assets is determined by the credit risk of the counterparty resulting from its financial capacity, the exposure at risk and the contractual features binding the balances, including the term in which they are expected to be received and the applicability of interest rate during the collection period.

When the same borrower has balances simultaneously under loan agreements and under this type of asset, impairment is calculated considering the total exposure, both on an individual or collective basis.

Notwithstanding the discount applicable to those assets through calculation of the current contract value, the balances related to real estate promissory contracts follow a specific impairment calculation methodology based on the following elements:

- Contract seniority;
- Date of the last payment; and
- Percentage of the contract value paid, resulting in a maximum 25% impairment rate on the contract value after discounting the adjustment of the present value and the valuation value of the real estate asset underlying the contract after haircuts (the haircuts defined for non-current assets held for sale, in Directive No. 13/DSB/DRO/2019, are applied).

If the rate resulting from this determination process is lower than the impairment rate determined in the loan agreements (should this exposure be applicable to the borrower) the impairment rate of the loan is applied.

Promissory Contracts for Purchase and Sale (CPCV in the Portuguese version)

i. Recognition of promissory contracts of purchase and sale (CPCV)

For the recognition of real estate CPCV, the Bank has defined and consistently applies an accounting policy in line with the relevant regulatory and legal framework, based on the following principles:

- CPCV comply with the requirements for recognition of contracts with borrowers; and
- The transfer of control of the property to the promissory purchaser is fulfilled upon completion of the CPCV, which establishes the immediate taking of ownership of the asset by the promissory purchaser, transferring to him/her all the risks and rewards inherent to the asset.

Accordingly, the property is derecognised for recognition of the related contract with the borrower – account receivable – and corresponding capital gains resulting from the sale of the property (when applicable).

The capital gains are calculated as the difference between the historical cost and the sale value agreed upon the conclusion of the CPCV.

Considering the principles established by the accounting policy, the Bank only recognises the value of the contract after the requirements previously mentioned have been fulfilled, therefore recording the gains in accordance with IFRS 15.

ii. Impairment losses on CPCV

In accordance with the real estate assets profitability policy approved by the Bank, it is not expected that in the moment subsequent to a CPCV cancellation event the underlying asset would remain on the Bank's balance sheet as a non-current asset held for sale. However, the policy conservatively assumes that this will occur for the purposes of defining the applicable haircut, using that defined by Banco Nacional de Angola to determine what would be a maximum loss associated with a failure to perform the contract in accordance with its terms.

Sale transactions with repurchase agreement

Securities sold under repurchase agreements are held in the portfolio where they were originally recorded. The funds received are recorded as liabilities, on the settlement date, and the interest payable is accrued.

Impairment losses

IFRS 9 defines that the concept of impairment based on expected losses be applied to all financial assets other than financial assets measured at fair value through profit and loss and equity instruments measured at fair value through equity. Thus, when determining the ECL, macroeconomic factors are considered, whose changes impact the expected losses.

The Bank applies the concept of expected credit losses of IFRS 9 to financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, off-balance sheet exposures, finance leases, other account receivables, financial guarantees and loan commitments not recorded at fair value.

There are two methods for calculating impairment losses: i) individual analysis and ii) collective analysis.

The Bank measures the expected loss on an individual or collective basis for portfolios of financial instruments that share similar risk characteristics. The measurement of impairment 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 objective of individual analysis is to ensure a more careful analysis of the status of Customers with exposures considered individually significant in the Bank. The materiality of the exposures is determined by reference to qualitative and quantitative criteria reflecting the size, complexity and risk associated with the portfolio.

The assessment of impairment losses on an individual loans is determined through an analysis of the total credit exposure on a case-by-case basis. For each loan considered individually significant, the Bank assesses, at each balance sheet date, whether there is objective evidence of impairment.

The analysis of each Customer/economic group, as well as the existence of impairment losses, should consider, among others, the following factors:

- Contractual aspects, by assessing potential non-compliance with contractual terms, or the existence of loans restructured due to Customers' financial difficulties
- Financial aspects, by assessing the potential reduction in gross revenues, or net income;
- The evaluation of guarantees received, including their nature, effective formalisation, valuation and degree of coverage;
- Other aspects, by assessing potential instability in the management/shareholder structure, or the existence of insolvency proceedings.

In order to identify individually significant exposures, the Bank defined the amount of the institution's own funds as the benchmark for the identification of significant exposures. The criteria defined by the Bank for identifying individually significant customers or economic groups comply with the following assumptions:

- Customers/economic groups for which there is evidence of a significant increase in credit risk or objective evidence of impairment: 0.5% of the amount of the institution's own funds;
- Customers/economic groups for which there is no evidence of a significant increase in credit risk or objective evidence of impairment: 2% of the amount of the institution's own funds.

The materiality criteria adopted by the Bank ensure that portfolio coverage by individual analysis is above 70% of the value of credit exposure recorded in the Bank's assets, for a group of approximately 100 different Customers.

The adoption of the materiality criteria recommended in Instruction no. 8/2019 of 27 August would define the need for individual analysis for an additional set of approximately 50 Customers obtaining only a 10-p.p. increase in coverage. ATL considered that the operational effort involved in the analysis of these Customers is disproportionate to the estimated additional impact on the quality of the impairment calculation process and the calculated impairment amount.

The global exposure amount of each customer/economic group does not consider the application of translation factors for off-balance sheet exposures.

For the remaining segments of the loan portfolio, and for the individually significant exposures that do not show signs of impairment, the Bank carries out a collective analysis to determine impairment losses.

The ECL determination to be applied depends on the allocation of the contract to one of three stages. At the initial recognition stage, each contract is allocated to Stage 1 (with the exception of Contracts Purchased or Originated with Objective Evidence of Loss: Purchased or Originated Credit-Impaired – POCI).

For each of the subsequent reporting dates, it is necessary to perform an analysis to the variation in the default risk from that date to the expected maturity of the contract.

The expected loss for credit risk is an estimate weighted by the probability of the present value of the credit losses. This estimate results from the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of several future macroeconomic scenarios discounted at the interest rate of the financial instruments.

Instruments subject to impairment calculation are divided into three stages considering their 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, impairment losses will correspond to 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, the amount of impairment will reflect expected credit losses over the expected residual life of the instrument.

With the exception of purchased or originated with credit-impaired financial assets (POCI), impairment losses must be estimated in accordance with the following criteria and by an amount equal to:

- Expected loss on a 12-month credit risk, i.e. estimated total loss resulting from events of default of the financial instrument that may occur within 12 months after the reporting date (referred to as Stage 1); or
- Expected loss for credit risk to maturity, i.e. expected loss that is obtained through the difference between the contractual cash flows and the cash flows the entity expects to receive by the maturity of the contract, resulting from all possible default events over the life of the financial

instrument (referred to as Stage 2 and Stage 3). A provision for an expected credit loss to maturity is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition or if the financial instrument is impaired.

IFRS 9 – Financial instruments fails to define a concept of default. However, the Bank has chosen to update its internal default definition by introducing a set of criteria to reflect a more forward-looking model for the recognition of expected losses on financial assets. For an operation to be classified in default, it is only necessary that one of the criteria is met. A given transaction/customer will cease to be flagged as default if it no longer meets the relevant entry criteria and upon completion of the relevant quarantine period, which varies in accordance with the criteria for flagging the transaction as being at risk of default:

- Transactions overdue for more than 30 days – 12 months (if the materiality criterion is not checked, there is no quarantine period);
- Transactions restructured due to financial difficulties that do not fall within Stage 3 criteria – 24 months (if the transaction has not been delayed by more than 30 days and, the capital exposure after 24 months from the origination date is less than 80% of the initial exposure; otherwise, a further 24-month quarantine is applied);
- Principal and/or interest written off from assets – 12 months.

Impairment requirements of IFRS 9 are complex and require management decisions, estimates and assumptions, particularly in the following areas:

- Assessment of an increase in significant risk since the moment of initial recognition; and
- Incorporation of forward-looking information in the calculation of Expected Credit Loss (ECL).

ECL Calculation
ECLs are weighted estimates of credit losses that will be determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference of all cash shortfalls (i.e. the difference between the cash flows due to the Bank under the contract and the cash flows the Bank expects to receive);
- Financial assets with impairment signs at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- Unused loan commitments: the present value of the difference between the resulting contractual cash flows that are due to the Bank if the commitment is fulfilled and the cash flows that the Bank expects to receive;
- Financial guarantees: the present value of expected repayments less the amounts that the Bank expects to recover.

The concept supporting the Bank's approach for the determination of impairment losses on loans subject to collective analysis is the definition of homogeneous segments that consider the quality of its assets and the characteristics of credit/Customer risk. The Bank's impairment model considers firstly,non-significant Customers or, individually significant Customers classified in Stage 1 (after individual analysis), which are included in homogeneous segments with similar credit risk, considering the Bank's management model, and subject to the determination of impairment on a collective basis.

For the purpose of determining impairment losses for loans assessed on a collective basis, as mentioned above, and in accordance with the regulatory requirements set out in number 11 of Instruction no. 08/2019 of 27 August, on impairment losses for the loan portfolio, exposures must be grouped by homogeneous groups considering the quality of their assets/credit risk characteristics. The Bank's impairment model divides corporate customers by sector of economic activity and private Customers by credit product.

Accordingly, the Bank ensures that for the purposes of analysing these exposures and determining the risk parameters (PD and LGD), these have similar risk characteristics. Each segment is set up based on assumptions of statistical materiality (in order to estimate its risk profile) and relevance or adequacy to the various processes related to the Bank's credit risk management.

Based on the segmentation defined, the risk parameters that enable the expected loss to be quantified were determined, namely, the probability of the transaction/Customer going into default (PD) and the estimated losses for that transaction/Customer after default (LGD).

In accordance with IFRS 9, the Bank has developed ECL lifetime for financial assets as the present value of the difference between (1) the cash flows to which the entity is entitled under the agreement, and (2) the cash flows that the entity expects to receive. For assets that are not in default, the same principle applies.

The Bank defined the 12-month ECL as the portion of ECL lifetime that represents the expected credit losses that result from default events that may occur within 12 months after the reporting date. Accordingly, this principle applies to assets that are not in default.

The current methodology in the Bank defines that, for assets in default, the lifetime ECL is obtained through the loss value given the default, depending on the elapsed time since the asset entered in default.

With regard to the balances recorded under Cash and deposits at central banks (Note 4), Loans and advances to credit institutions repayable on demand (Note 5), Financial assets at amortised cost (Note 8) and Other loans and advances to central banks and credit institutions (Note 10), an analysis of expected losses is made in accordance with the following assumptions:

- For the balances recorded under Cash and deposits at central banks (Note 4) the Loss Given Default (LGD) is considered to be null since there are no risks of recovery, and no impairment is estimated, in accordance with Directive No. 13/DSB/DRO/2019, of 27 December 2019, of the BNA – Guidelines on the Recommendations for Implementation of the Asset Quality Review (AQA) Methodologies for the 2019 financial year;
- For the balances recorded under Loans and advances to credit institutions repayable on demand (Note 5), the entity's rating is verified, or, if not available, the rating of the country where it is headquartered. In accordance with Directive no. 13/DSB/DRO/2019, a Probability of Default (PD)

equivalent to 1/12 (one twelfth) of the twelve-month PD is considered taking into account the counterparty's rating (or the country where the counterparty is headquartered if it has no rating) and an LGD of 60% for all counterparties that have not significantly increased their credit risk;

- For the balances recorded under Financial assets at amortised cost (Note 8) relating to Angolan public debt securities in national and foreign currency, the PD for sovereign debt of the rating associated with the Angolan State obtained through Moody's study "Sovereign default and recovery rates, 1983-2019" and the LGD associated with the sovereign default events occurred, indicated in the same study, in accordance with Directive no. 13/DSB/DRO/2019, is considered;

- For the balances recorded under Other loans and advances to central banks and credit institutions (Note 10), the entity's rating is verified, or, if not available, the rating of the country where it is headquartered. In accordance with Directive no. 13/DSB/DRO/2019, a 12-month PD is considered taking into account the counterparty's rating (or the country where the counterparty is headquartered if it has no rating) and an LGD of 60% for all counterparties that have not significantly increased their credit risk;

In addition, and notwithstanding the above, a 0% LGD is considered for the portfolio of cash and cash equivalents and investments made with the Banco Nacional de Angola, in accordance with Directive no. 13/DSB/DRO/2019.

Despite the requirements set out in Directive No. 13/DSB/DRO/2019 regarding the use of PDs per rating contained in Moody's publication, the Bank considers a minimum PD of 0.03% in line with best practices.

Significant increase in credit risk
The stage 2 rating is based on the observation of a significant increase in the credit risk level. Since the standard does not determine how to measure this significant increase, the Bank estimates it by comparing the residual Lifetime Forward-Looking PDs at the reporting date with those estimated in the agreement, for the same residual maturity.

The Bank's impairment model provides for a significant increase in the level of credit risk for sovereign risks, supranational entities and financial institutions with ratings assigned by international agencies, and it occurs when the following triggers are met:

- When a downgrade of more than two notches is observed in at least two rating houses in the period elapsed since the origination date of the asset; or

- When there is a default of credit obligations by that counterparty in a period longer than 30 days (activation of the internal rating scale, T1).

Once the significant increase in risk has been determined, the minimum monitoring period is 12 months, irrespective of any rating upgrade during that period, and the impairment rate cannot be reduced during that period.

The remaining borrowers, although classified with internal rating, are not yet considered to have sufficient maturity and amplitude of application of the internal rating models to consider that variable (defined as T1) in determining the significant increase in credit risk, and therefore the objective criteria established for the attribution of stage are applied.

The rating and scoring model defined by the Bank objectively describes the input, materiality and contamination criteria for a given exposure to be classified as having a significant increase in credit risk from the time of its initial recognition, as well as the monitoring period.

The methodology for calculating impairment defined by the Bank provides for an exception in the significant increase in credit risk for the Angolan State, applicable to the security AOTNME710D15, for which the origination of the full nominal amount resulted from the BNA's decision in December 2015, framed by Executive Decree no. 547/15, of 6 October, Order no. 406/15, of 7 December, of the Ministry of Finance, of Instruction no. 19/2015, of 2 December, and of Directive no. 7/DMA/DSP/2015 of 10 December, to translate 80% of the amount that the commercial banks had deposited with the BNA for compliance with the reserve requirements in foreign currency, into Angolan public debt securities issued in United States Dollars. The Bank defined that, by equivalence with the methodology applicable to cash and cash equivalents deposited with the BNA, the impairment to be established for the exposure represented by this security is null, as an LGD of 0% is considered. On this exception, it is also noted that in February 2021 the Associação Angolana dos Bancos (ABANC) sent a letter to the BNA informing that, in view of the fact that the securities concerned continue to be managed by Banks as a financial instrument aimed at safeguarding the obligations established in terms of reserve requirements and the relevant protection of deposits in foreign currency, save for the best opinion of the BNA, it is the understanding of the Bank and of the sector that this debt issue, resulting from the securitisation of reserve requirements, which is temporarily on the balance sheets of the Banks until its maturity scheduled for December 2022, has an LGD of 0%, and no pronouncement contrary to the treatment indicated in such letter is known.

Inputs in ECL measurement
The main inputs used to measure ECLs on a collective basis should include the following variables:

- Probability of Default (PD);

- Loss Given Default (LGD);

- Exposure at Default (EAD);

- Discount rate of cash flows (effective interest rate) (Discount Rate – DR); and

- These parameters will be achieved through internal statistical models and other relevant historical data, tailored to reflect forward-looking information.

PDs will be estimated based on a certain historical period and will be calculated based on statistical models. These models will be based on internal data comprising both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also change.

The risk levels will be a highly relevant input for determining PDs associated with each exposure. The Bank will collect performance and default indicators on its credit risk exposures with analysis by types of Customers and products.

LGD is the extent of the loss that is expected to occur if the exposure goes into default. The Bank estimates LGD parameters based on the historical recovery rates after counterparty defaults. LGD models consider the associated collaterals and the default time.

EAD represents the expected exposure if the exposure and/or the Customer enter into default. The Bank will obtain EAD amounts from the counterparty's current exposure and potential changes to the current allowable amount under contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD amount considers the credit conversion factor (CCF), which measures the proportion of the off-balance sheet exposure that is converted into equity exposure until the effective date, that is, the prospective potential amount that may be used in accordance with the agreement.

The discount rate to use according to the standard would be the effective interest rate of the contract.

As described above, with the exception of financial assets that consider a 12-month PD once they do not present a significant increase in credit risk, the Bank will calculate the ECL amount considering the risk of default during the maximum contractual period of the contract or, in some specific situations, based on behavioural maturity.

The analysis is updated on a monthly basis. Impairment losses identified are recognised against the income statement. If, in future periods, there is a reduction of the estimated loss, the impairment initially recorded is also reversed against the income statement.

Forward-looking information
According to this new model recommended by IFRS 9, the measurement of expected losses will also require the provision of forward-looking information, including trends and future scenarios, including macroeconomic data. In this context, estimates of expected credit impairment losses will include several macroeconomic scenarios whose probability will be assessed considering past events, the current status and future macroeconomic trends. In addition, IFRS 9 also proposes the identification of alternative scenarios for impairment calculation.

Under IFRS 9, the Bank conducted several correlation tests to incorporate forward-looking information both in its assessment of the significant risk increase and in the measurement of ECL.

A detailed analysis of available macroeconomic data was conducted to determine statistically significant relationships between them and portfolio default rates. Based on this analysis, prospective scenarios were assumed that include, besides the central scenario, best-case and worst-case scenarios. This analysis and consequent incorporation into the impairment model are carried out regularly by the Bank, including identification and testing of other macroeconomic data.

In this context, the Bank used a linear regression model to capture the impact of macroeconomic factors with a significant influence on the probability of default. This model considered three different scenarios: (i) an economic development best-case scenario; (ii) an economic growth best-case scenario; and (iii) a worst-case scenario that included an increase in inflation rates.

Back-testing
Considering the complexity involved in calculating the risk parameters and determining the estimates of impairment loss, so as to ensure the robustness of these elements, the Bank has defined a back-testing process with the aim of ensuring consistency between the estimated parameters (resulting from the calculation process based on historical information) and the observed parameters. This back-testing process must be carried out at least on an annual basis, in line with the regulatory requirements set out in Instruction no. 08/2019 of 27 August.

The back-testing defined, aims to assess the performance of the different risk factors, namely, the base parameters and the calculation assumptions. The proposed methodology consists of the following assumptions:

- Analysis of a sample of transactions comprising the portfolio analysed collectively, on a given reference date;
- The development of the selected sample is monitored for a period of 12 months;
- Subsequently, the evidence resulting from this development is compared with the assumptions used in the model for calculating impairment losses, namely with regard to risk factors.

The PD back-testing methodology aims to assess the difference between the observed PD and the estimated PD (resulting from the calculation process). As the parameter to be applied in the impairment calculation process was estimated based on historical data, it is fundamental to ensure that the difference between them is not significant, therefore the observed PD is calculated for each time period and based on the estimated PD.

The LGD back-testing methodology aims to assess the difference between the recovery value observed in the last 12 months and the estimated LGD (resulting from the calculation process which used the Chain Ladder algorithm). This comparison is made on an aggregate basis and confidence intervals are used for each estimated value.

With respect to the validation of the model/action plan, it may be required, depending on the back-testing results, to carry out corrective measures such as model redevelopment or calibration.

The Bank has set the frequency for monitoring the model and ensuring the improvement and implementation of corrective measures for the inconsistencies that are identified in the validation process.

Financial liabilities
Financial liabilities are mainly composed of deposits from central banks, other credit institutions and Customers' deposits. These liabilities are initially measured at fair value, which normally refers to the consideration received, net of transaction costs, and are subsequently stated at amortised cost, in accordance with the effective interest rate method on a straight-line basis.

Changes in the fair value of financial liabilities arising from changes in the entity's own credit risk are recognised in equity unless this accounting treatment results in an accounting mismatch. Subsequent reclassifications of these changes to profit and loss are not permitted, including on the repurchase of these liabilities.

2.6. EQUITY INSTRUMENTS

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, regardless from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Income from equity instruments (dividends) are recognised when the right to receive this income is established and are deducted to equity.

2.7. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Property, plant and equipment are recorded at acquisition cost less accumulated depreciation and impairment losses. Costs includes expenses which are directly attributable to the acquisition of goods.

Subsequent costs

Subsequent costs are recognised as a separate asset only when it is likely that future economic benefits will result for the Bank. All other repairs and maintenance expenses are recognised as costs as they are incurred following the accrual principle.

Depreciation

Land is not depreciated. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premisses:	25 to 50
Equipment	
Furniture and material	8 to 10
Machinery and tools	4 to 10
IT equipment	3 to 6
Interior facilities	4 to 10
Transport equipment	3 to 4
Security equipment	6 to 15

Whenever there is an indication that an asset may be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount (IAS 36). Impairment losses are recognised in the income statement.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

As mentioned in Note 2.11, this caption includes right-of-use assets arising from lease agreements.

2.8. INTANGIBLE ASSETS

Software

The costs incurred with the acquisition of software to third entities are capitalized as well as additional expenses incurred by the Bank necessary for their implementation. These costs are amortised on a straight-line basis over the estimated useful life, which normally corresponds to five years.

Research and development expenditure

Costs directly related to the development of computer applications, whose use can be expected to generate future economic benefits extending beyond one year, are recognised and recorded as intangible assets.

All other charges related to IT services are recognised as costs when incurred.

Goodwill

Goodwill recorded in the financial statements results from the difference between the value defined in the merger of Banco Millennium Angola and the value at which the assets and liabilities of that entity were recorded in the accounts. Goodwill is recognised as an asset and recorded at acquisition cost and is not subject to amortisation.

According to IAS 36, the recoverable amount of goodwill shall be the highest between its value in use (i.e., the present value of the future cash flows expected from its use) and its fair value less costs of sale. Based on these criteria, the Bank performed an evaluation that considers, among others, the following factors:

- An estimate of the future cash flows generated;
- Time value of money;
- A risk premium related with uncertainty; and
- Other factors related with the markets' financial current situation, in particular inflation and exchange rate development and interest rates growth.

The assumptions used for this assessment may change with the change in economic and market conditions.

The review of the assumptions used and the development of macroeconomic and market conditions may result in changes in these assumptions and, consequently, in the recoverable amount of goodwill.

2.9. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

Subsidiaries 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 resulting from its involvement with that entity and might set hold of them through the power it holds over its relevant activities (de facto control).

Associates are entities over which the Bank has significant influence, but not control over their financial and operating policies. It is assumed that the Bank has significant influence when it holds 20% or more of the voting rights of the investee. If the Bank holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Bank does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Bank is normally demonstrated in one or more of the following ways:

- Representation on the Board of Directors or equivalent governing body;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Bank and the investee;

• Interchange of the management team; and

• Provision of essential technical information.

Dividends are recorded as income in the period in which the decision to distribute them among subsidiaries and associates is taken.

Impairment losses

The recoverable amount of investments in subsidiaries and associates is reviewed whenever there is evidence of impairment. Impairment losses are determined based on the difference between the recoverable value of investments in subsidiaries or associates and their book value. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period. The recoverable amount is determined as the highest between the value in use of the assets and the fair value less selling costs, and is calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, time value of money and business risks.

2.10. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets are available for immediate sale and its sale is highly probable.

The Bank also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

The Bank also classifies as non-current assets held for sale, the investments held for credit recovery, which are initially measured at the lower of their fair value net of selling costs and the book value of the loan at the date when the recovery occurs or the judicial decision is formalised.

Assets recorded under this caption are not amortised and are measured at the lower of their carrying amount and fair value less costs to sell (at least 5% of the fair value less costs to sell). The fair value of these assets is determined based on periodic valuations performed by independent valuers. Additionally, and in accordance with Directive no. 13/DSB/DRO/2019, this valuation is adjusted based on specific discount rates according to the seniority of the valuation. Whenever the value resulting from these valuations (net of costs to sell) is lower than the book value, impairment losses are recorded under Impairment of other assets net of reversals.

The valuations of this real estate are carried out according to one of the following approaches, applied according to the specific situation of the property:

i. Market Approach

The Market Approach has as reference transaction values of similar and comparable real estate properties to the one studied through market research conducted in the area.

ii. Income Approach

The purpose of this method is to estimate the value of the property from the capitalization of its net income, updated to the present moment, using the discounted cash flow method.

iii. Cost Approach

The Cost Approach is intended to reflect the amount that would be currently required to replace the asset under current conditions, decomposing the value of the property into its fundamental components: Urban Land Value and Urbanity Value; Construction Value; and Indirect Cost Value.

The valuations carried out are conducted by independent valuers. The valuation reports are analysed internally, to assess the adequacy of assumptions, comparing the historical sales values with the revalued values of the properties, in order to keep updated the parameters and valuation processes to the market evolution.

In addition, as these are assets whose fair value level in the IFRS 13 hierarchy corresponds mainly to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Bank carries out internal analyses on the assumptions used, which may imply additional adjustments to their fair value.

Given that circumstances considered unlikely and beyond the Bank's control may occur, the sale of these assets may not be completed until one year after the date of classification. In such circumstances, the Bank remains committed to the plan to dispose of the assets by making efforts, inter alia, such as the engagement of an expert and intermediary agent, active advertising, review of the sale price according to the context so that it is reasonable compared to its current fair value.

When the legal term of 2 years has elapsed without the assets being sold (extendable with the authorisation of the BNA), a new valuation is carried out, aimed at determining the updated market value, with a view to the possible establishment of the corresponding impairment.

2.11. LEASES

In accordance with IFRS 16:

• As lessee, the standard defines a single accounting model, with the recognition of right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make lease payments;

• As lessor, the accounting depends on the financial or operational classification.

The Bank has adopted IFRS 16 using the Modified Retrospective approach, which has no impact on equity as, with the exception of prior or accrued lease payments related to that lease recognised in the Balance Sheet immediately before the date of initial application, there are no differences between the right to use the asset and the lease liability at the time of initial recognition (1 January 2019).

Lease definition

The Bank evaluates whether an agreement is or contains a lease on the basis of the lease

definition. In accordance with IFRS 16, an agreement is, or contains, a lease if it transfers the right to use an identified asset (the underlying asset) for a specified period of time in return for consideration.

On the commencement date or at the revaluation of an agreement containing a leasing component, the Bank allocates the consideration in the agreement for each leasing component and not the leasing on the basis of its individual relative price. However, for leases in which the entity is a lessee, it has been decided not to separate the non-lease components and to account for the lease and non-lease components as a single lease component.

As lessee

From the lessee's point of view, the Bank leases several real estate properties used for the Bank's branches and central services.

As lessee, the Bank previously classified leases as operating or finance leases on the basis of an overall assessment of whether the lease transfers substantially all the risks and rewards associated with ownership of the underlying assets.

The Bank records right-of-use assets under Property, plant and equipment, that is, in the same caption as the underlying assets of the same nature that are its property.

The Bank records lease liabilities under Other liabilities in the Balance Sheet.

The Bank recognises a right-of-use asset and a lease liability at the inception of the lease.

Right-of-use assets
Right-of-use assets are initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurements of lease liabilities. Right-of-use assets are depreciated from the commencement date to the end of the useful life of the underlying asset, or to the end of the lease term if shorter.

Lease liabilities
Lease liabilities are initially measured at the present value of the lease payments to be paid over the lease term, discounted at the implicit rate of the lease or, if the rate cannot be readily determined, at the Bank's incremental financing rate. The Bank generally uses its incremental financing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the expected amount to be paid under a residual value guarantee, or, if appropriate, changes in the assessment of whether a call or renewal option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Judgement in determining the term of the lease
The Bank has applied judgement to determine the lease term of some agreements in which it is the lessee, which include renewal and termination options. The Bank determines the lease term as the non-cancellable period during which it has the right to use an underlying asset together with the periods covered by an option to renew the lease if there is reasonable certainty of exercising that option and the periods covered by a termination option if there is reasonable certainty of not exercising that option.

The assessment of whether the Bank will exercise such options will have an impact on the lease term, which will significantly affect the amount of lease liabilities and right of use assets recognised.

The Bank has the option, namely in property lease agreements, to lease the assets for additional periods of 1 to 5 years. The Bank applies judgement in assessing whether it is reasonably certain to exercise the renewal option, i.e. it considers all relevant factors that create an economic incentive to exercise it or not.

As lessor

When the Bank acts as lessor, at the beginning of the lease it determines whether it should be classified as an operating lease or a finance lease.

In order to classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all the risks and rewards inherent to ownership of the underlying asset. If the lease transfers substantially all the risks and rewards inherent to ownership of the underlying asset, it is classified as a finance lease, otherwise as an operating lease. As part of this assessment, the Bank considers some indicators such as whether the lease is held for most of the economic life of the asset.

Lease agreements are recorded in the balance sheet as loans granted for the equivalent of the net investment made in the leased assets, together with any estimated unsecured residual value. Interest included in rents charged to Customers is recorded as income while capital amortisation, also included in rents, is deducted from the value of the loans and advances to Customers. Recognition of interest reflects a constant periodical return rate over the remaining net investment of the lessor

If an agreement contains both lease and non-lease components, the Bank applies IFRS 15 to allocate the contractual amounts.

Payments made by the Bank under operating lease agreements are recorded as expenses in the periods to which they relate, when applicable.

2.12. TAXES

Income taxes

Income tax recognised in profit and loss comprises current and deferred tax effects. Income tax is recognised in profit and loss, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets available for sale and cash flow hedging derivatives are recognised in equity and are recognised in profit and loss in the moment the results were originated.

Current tax
Current tax is the expected tax payable on the taxable profit for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Following the publication of Law no. 19/14 of 22 October, which came into force on 1 January 2015, recently amended by Law no. 26/20 of 20 July, the Industrial Tax is subject to provisional assessment in a single instalment to be carried out in August, calculated by applying a rate of 2% on the amount resulting from financial intermediation, calculated in the first six months of the previous fiscal year, excluding income subject to Capital Gains Tax, unless a loss was established in the previous year.

According to the legislation in force, industrial and other tax returns may be subject to revision and correction by the tax authorities within five years following the year to which they relate.

Law no. 26/20 of 20 July has increased the rate of Industrial Tax for activities in the banking sector from 30% to 35%. Moreover, this Law establishes rules with relevant impacts on the determination of taxable profit, such as:

- Costs/income with potential/realised exchange rate changes – In view of the new wording of Articles 13(c) and 14(c) of the Corporate Income Tax Code, as amended by Law 26/20 of 20 July, only realised favourable and unfavourable exchange rate changes are considered as income and costs for tax purposes. In view of the above, the Bank must exclude from the net profit for the period the amounts of potential favourable and unfavourable exchange rate changes recorded in the year.
- Costs with impairment losses on collateralised loans – In view of the new wording of Article 45 of the Industrial Tax Code, as amended by Law no. 26/20 of 20 July, the provisions set up for collateralised loans are not accepted, except for the part not covered.
- Costs with Property Tax – According to the new wording of Article 18(a) of the Corporate Tax Code, as amended by Law no. 26/20 of 20 July, Property Tax is not accepted as a cost deductible from taxable profit.

The assumptions for applying the above rules for the purpose of determining taxable profit are described in Note 3.3.

Deferred tax

Deferred tax assets and liabilities are the amounts of income taxes recoverable or payable in future periods as a result of deductible or taxable temporary differences between the value of assets and liabilities in the balance sheet and their tax base, using the tax rates approved or substantially approved on the balance sheet date and which are expected to be applied when the temporary differences are reversed (IAS 12).

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

Deferred taxes assets are recognised to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Bank offsets deferred tax assets and liabilities, as established in IAS 12 – Income Taxes, paragraph 74, whenever: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Capital Gains Tax (CGT)

Presidential Legislative Decree no. 2/14 of 20 October, in force since 19 November 2014, reviewed and introduced several legislative changes to the CGT Code, following the Tax Reform project.

CGT is applied generally on income from the Bank's financial investments. The rate varies from 5% (in case of interest, amortization premiums or reimbursement and other forms of remuneration of government securities, bonds, equity securities or other similar securities issued by any company, which are admitted to trading on a regulated market and with a maturity equal or greater than three years) and 15%. Notwithstanding the above, regarding income from government securities, in accordance with the latest understanding of Tax Authorities addressed to ABANC (letter with reference number 196/DGC/AGT/2016 of 17 May 2016), only those arising from securities issued on or after 1 January 2012 are subject to this tax. Furthermore, it should be noted that, according to the position of the Tax Authorities also communicated to ABANC (letter with reference 37/DGC/AGT/2019, dated 15 May 2019), the exchange rate revaluations of public debt securities issued in national currency but indexed to foreign currency, issued since 1 January 2012, should be subject to Industrial Tax.

Furthermore, under the terms of Article 18 of the Industrial Tax Code, the CGT itself is not accepted as a deductible expense for the purposes of determining taxable profit. However, income subject to CGT, as provided for in Article 47 of the Industrial Tax Code, will be deducted from taxable profit.

Special contribution on Foreign Exchange Invisible Current Operations

Special Contribution on Foreign Exchange Transactions of Current Invisibles is levied, at a 10% rate, on transfers made under service agreements of foreign technical or management assistance, governed by the provisions of the respective Regulation, approved by Presidential Decree no. 273/11 of 27 October, as amended by Presidential Decree no. 123/13 of 28 August.

Property tax

Property Tax (IPU/IP)

In 2020, the Property Tax (IPU) was in force until 8 August, as on that date the new Property Tax Code (CIP), approved by Law no. 20/20, of 9 July, came into force.

In this context, until 8 August 2020, the IPU was levied at a rate of 0.5% on the asset value of own property intended for the development of the Bank's normal activity (over AOA 5,000 thousand), and the asset value was deemed to be the greater between the property's assessment value and the acquisition value. With the entry into force of the new CIP, three rate bands are foreseen for urban property (0.1%, AOA 5,000 and 0.5% above AOA 5,000,000, for properties with a property value of up to AOA 5,000,000, between AOA 5,000,000 and AOA 6,000,000 and above AOA 6,000,000, respectively) and specific rates applicable to land for construction (0.6%) and rural property (the sum of hectares).

With regard to properties leased by the Bank, as lessee, until 8 August 2020, the IPU Code was in force, under which the Bank withholds the tax due, at the effective rate of 15%, on the payment or delivery of rents on leased properties. The new IP Code, approved by Law no. 20/20 of 9 July, did not foresee any changes to the rule concerned.

SISA and Real Estate Transfer Tax

Pursuant to Legislative Decree no. 230 of 18 May 1931 and the amendments introduced by Law no. 15/92 of 3 July and Law no. 16/11 of 21 April, SISA (Real Estate Transfer Tax) is levied on all acts involving the perpetual

or temporary transfer of ownership of any value, kind or nature, regardless of the name or form of the ownership title (e.g. acts which involve the transfer of improvements to rural or urban property, real estate transfers through donations with contributions or pensions or the transfer of real estate through donations) at a 2% rate.

SISA remained in force until 8 August 2020, and the part of SISA that relates to the transfer of real estate assets was revoked with the approval of the Property Tax Code (CIP) by Law no. 20/20, of 9 July. Pursuant to the CIP, Property Tax on real estate transfer tax is levied at a rate of 2% on the transfer, whether for valuable consideration or not, of the right of ownership or equivalent rights, namely the usufruct, surface right and easement, including acquisitive prescription (usucaption) on immovable property.

Value Added Tax

The Bank, as a taxable person registered with the Tax Office of Large Taxpayers, is covered by the general VAT system since the entry into force of this tax on 1 October 2019.

As a taxpayer registered at the Tax Office of Large Taxpayers, the Bank, since the entry into force of VAT, has been included in the General VAT System, and is required to comply with all the rules and reporting obligations laid down in this context.

Under the terms of the VAT Code approved by Law no. 7/19 of 24 April and the amendments introduced by Law no. 17/19 of 13 August, they are subject to this tax: (i) the transfer of goods and services carried out within national territory, for consideration, by a taxable person acting as such; and (ii) the import of goods.

Nevertheless, the VAT Code provides for the exemption of certain transactions, namely financial intermediation transactions, including those described in Annex III to this Code, unless they give rise to the payment of a specific and predetermined fee or consideration for their performance. These exemption transactions do not entitle the taxable person to deduct the VAT incurred on the acquisition of goods and services connected with their performance.

Considering the Bank is a taxable person that carries out transactions which grant the right to deduct (i.e. transactions subject to VAT) and transactions which do not grant the right to deduct (i.e. transactions which are exempt from this tax under the aforementioned terms), the VAT incurred by the Bank on its purchases of goods and services is only partially deductible using the pro rata method. In the meantime, AGT, through Instruction no. 3/DNP/DSIVA/AGT/2020 of 10 February, authorised the recovery of VAT through the actual allocation method in certain transactions carried out by financial institutions (e.g. financial leases).

According to the legislation in force, periodic VAT returns may be subject to revision and correction by the tax authorities within five years following the year to which they relate.

Other taxes

The Bank is also subject to indirect taxes, such as custom duties, stamp duty, consumption tax, and other taxes.

Tax replacement

In the course of its business, the Bank acts as a substitute taxpayer, withholding tax from third parties, which is subsequently paid to the State.

Capital Gains Tax (IAC)
In accordance with Presidential Legislative Decree no. 2/14, of 20 October, the Bank withholds IAC at the rate of 10% on interest on term deposits paid to Customers.

Stamp Duty
According to Presidential Legislative Decree no. 3/14 of 21 October, the Bank is responsible for the settlement and delivery of Stamp Duty due by its Customers on most banking operations (e.g. financing, interest charges on financing, among others), and the Bank settles the tax in accordance with the rates set out in the Stamp Duty General Chart.

Industrial Tax
In accordance with the provisions of Article 67 of Law no. 19/14 of 22 October, amended by Law no. 26/20 of 20 July, the rendering of services of any nature by taxpayers with effective management or permanent establishment in Angola is subject to taxation by withholding at a rate of 6.5%.

Furthermore, in accordance with the provisions of Articles 71 and following of Law no. 19/14, of 22 October, amended by Law no. 26/20, of 20 July, the rendering of services of any nature by taxpayers without head office, effective management or permanent establishment in Angola, are subject to Industrial Tax by withholding at a rate of 15%.

Where payments for services rendered to entities resident in Portugal and the United Arab Emirates, Double Taxation Agreements (ADT) may apply and, accordingly, a lower rate of withholding tax may be applicable.

2.13. EMPLOYEE BENEFITS

Defined-contribution plans

For defined-contribution plans, the liabilities related to the benefit attributable to the Bank's employees are recognised as an expense of the period when due. Prepaid contributions are recognised as an asset if a refund or reduction of future payments is available.

Short-term employee benefits

Short-term employee benefits are recorded as a cost once the associated service has been provided. A liability is recognised for the amount expected to be settled if the Bank has a present legal or constructive obligation to pay this amount as a result of a service rendered in the past by the employee and that liability can be estimated reliably.

Holiday allowance

General Labour Law, Law no. 7/15, establishes that the amount of holiday allowance payable to employees in a given year is a right they acquired in the immediately preceding year. As a result, the Bank records the amounts relating to holiday payable in the following year at the end of the year.

Long-term employee benefits

The Bank's net liability for long-term employee benefits is the amount of future benefit that employees are expected to benefit in return for their service in the current period and in past periods. This benefit is discounted in order to determine its present value. Re-measurements are recognised in the results for the period.

Benefits associated with the termination of functions

Benefits associated with the termination of functions are recognised as cost, whichever is earlier, between the time where the Bank can no longer withdraw the offer of these benefits or when the group recognizes costs associated with a restructuring. If benefits are not expected to be net benefits within 12 months, these are then discounted.

Pension fund liabilities

Law no. 07/04 of 15 October, which revoked Law no. 18/90, of 27 October, which regulates the Angolan Social Security system, foresees the attribution of retirement pensions to all Angolan workers registered at the Social Security. The value of these pensions is calculated based on a table proportional to the number of service years applied to the average monthly gross wages received in the periods immediately preceding the date on which the worker ceases to work. According to Decree no. 7/99, of 28 May, the contribution rates for this system are 8% for the employer and 3% for the workers.

By resolution of the Bank's Board of Directors, ATLANTICO is making contributions under a defined contribution plan, corresponding to a fixed percentage of 8% of the monthly pensionable salary of each employee (5% by the Bank and 3% by the employee), in order to ensure employees hired locally or their families, the entitlement to cash benefits covering old-age, disability or death pension supplements. The old-age retirement pension is awarded to employees if they are 60 years old and have at least 5 years of continuous service at the Bank. The disability benefit is granted to employees who have five years of continuous service and who have been diagnosed with total and permanent disability equal to 100%. In case of death, employees may appoint beneficiaries and respective percentages of the reimbursement's distribution.

In December 2017, the Bank has set up a Pension Fund, called ATLANTICO Pension Fund, to which the amounts of contributions made to date have been transferred. Since its setting-up, the Fund has been managed by Fortaleza Seguros, S.A.

ATLANTICO started to discount on a monthly basis the amount equivalent to the salary of the employees who joined the Fund, thus maintaining its contribution of 5% on the salary of those employees. This discount is initially kept under the caption Provisions and at the moment immediately afterwards, is transferred to the Pension Fund.

Variable remuneration paid to employees and directors

The Bank assigns variable remuneration to its employees and directors as a result of their performance (performance bonus). The Board of Directors and the Evaluation and Remuneration Committee establish the respective allocation criteria for each employee and director, respectively, whenever this is attributed. The variable remuneration paid to employees and directors is recorded against profit and loss in the period to which they relate, although payable in the following year (See Note 28).

2.14. PROVISIONS

Provisions are recognised when (i) the Bank has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

The measurement of provisions for loan commitments and financial guarantees is made in accordance with the impairment model implemented when adopting IFRS 9 described in note 2.5.

The provisions measurement is based on the defined principles on IAS 37 regarding the best estimate of the expected cost, the most probable result of the actions in progress and considering the risks and uncertainties inherent to the process.

In cases where the discount effect is material, provisions corresponds to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate and are reversed against profit and loss in the proportion of the payments that are not probable.

The provisions are derecognised through their use for the obligations for which they were initially recognised or for the cases that the situations were no longer observed.

2.15. INTEREST INCOME

Interest income and expense for financial instruments measured at amortised cost are recognised under interest and similar income or interest and similar expenses (net interest income), using the effective interest rate method. Interest income from financial assets at fair value through other comprehensive income is also recognised in Net interest income, as well as from financial instruments at fair value through profit and loss.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

If a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

Specifically, with regard to the policy for recording interest on overdue loans, the following aspects are considered in accordance with IFRS 15 and IFRS 9:

- Interest income for overdue loans secured by collaterals up to the limit of prudently evaluated coverage is charged against profit and loss on the assumption that there is a reasonable probability of recoverability; and

- Interest already recognised and unpaid relating to loans past due for more than 90 days, which are not covered

by collateral are written off, and are only recognised when received, as their recovery is considered to be remote, and recognised off balance sheet.

For financial assets classified under stage 3, interest is recognised in the income statement, in Net interest income, based on their carrying amount net of impairment.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains/ (losses) arising from assets and liabilities at fair value through profit and loss.

2.16. DIVIDENDS

Dividends (income from equity instruments) are recognised in the income statement when the right to receive the dividends is attributed. Dividends are recorded under net income from financial operations, net results of other financial instruments at fair value through profit and loss or other income, depending on the classification of the underlying instrument.

2.17. FEE AND COMMISSION INCOME

Fees and commissions are recognised according to performance obligations:

- Fees and commissions which are earned as services are rendered are recognised in profit and loss in the period to which they relate in accordance with IFRS 15;
- Fees and commissions that are earned from a service rendered, are recognised as income when the service is completed in accordance with IFRS 15;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognised in net interest income in accordance with IFRS 9.

2.18. FIDUCIARY ACTIVITIES

Assets held under fiduciary activities are not recognised in the Bank's financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period to which they relate.

2.19. FINANCIAL RESULTS

Financial results includes gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, including embedded derivatives and dividends received associated with these portfolios.

These results also include gains on sales of financial assets at fair value through other comprehensive income and investments at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

2.20. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the balance sheet date, including Cash and deposits at central banks and Loans and advances to credit institutions repayable on demand (Notes 4 and 5), and do not include impairment losses.

2.21. FINANCIAL GUARANTEES AND COMMITMENTS

Financial guarantees are contracts which require the Bank to make specific payments in order to reimburse the holder for a loss incurred as a result of a debtor's failure to comply with a payment. Commitments are firm commitments with the purpose of providing credit under predetermined conditions.

Liabilities arising from financial guarantees or commitments given to provide a loan at an interest rate below market value are initially recognised at fair value and the initial fair value is amortised over the useful life of the guarantee or commitment. Subsequently the liability is recorded at the higher of the amortised amount and the present value of any payment expected to be settled.

2.22. EARNINGS PER SHARE

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

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

If the result per share is changed as a result of a premium or discount issue or other 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.