Note 3.
CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

IAS/IFRS set out a range of accounting treatments and require the Board of Directors to apply judgement and make estimates in deciding which treatment is most appropriate. The main accounting estimates and judgements used in the application of the accounting principles by the Bank are presented in this Note, with the objective of improving the understanding of how their application affects the results reported by the Bank and their disclosure. A broad description of the main accounting policies used by the Bank is presented in Note 2 to the financial statements.

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

3.1. IMPAIRMENT OF FINANCIAL ASSETS AT AMORTISED COST OR FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

• Evaluation of the business model: the classification and measurement of financial assets depends on the SPPI test results and on the business model definition. The Bank determines the business model based on how it wants to manage financial assets and business objectives. The Bank monitors whether the classification of the business model is appropriate based on the analysis of the early derecognition of assets at amortised cost or at fair value through equity, considering whether a prospective change of the asset is required;

• Significant increase in credit risk: as described in policy 2.5 – Financial instruments, the determination of the transfer of an asset from stage 1 to stage 2 for impairment purposes is carried out based on a significant increase in its credit risk, and IFRS 9 does not objectively define what represents a significant increase in credit risk;

• With specific regard to the significant increase in credit risk for sovereign risks, supranational entities and financial institutions with ratings assigned by international agencies, it is the Board of Directors' understanding that a downgrade of more than two notches by at least two rating agencies in the period since the origination date of the asset is reasonable and in compliance with the requirements of IFRS 9;

• Banks' definition for assets with similar credit risk characteristics: when expected credit losses are measured within a collective model, financial instruments are bundled based on the same risk characteristics. The Bank monitors the suitability of the credit risk characteristics to ensure that appropriate reclassification of assets is carried out in the event of a change in the credit risk characteristics;

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

These aspects have special emphasis on the impairment of debt securities issued by the Republic of Angola (Note 8), and consequently on the analysis of their recoverability.

Impairment losses on loans and advances to Customers and account receivables

The Bank reviews its loan portfolio regularly in order to assess the existence of impairment losses, as described in the accounting policy in Note 2.5.

The process of evaluating the loan portfolio and account receivables to determine whether an impairment loss should be recognised is subject to several estimates and judgements. This process includes factors such as probability of default, credit ratings, the value of the collaterals associated to each operation, recovery rates and cash flow estimates, either from future cash flows or the time of their receipt.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses recognised with a consequent impact in the income statement of the Bank.

The calculation of impairment associated to loans and account receivables is based, among other factors and when applicable, on the evaluation of collaterals of loan operations, such as mortgages of real estate. These evaluations were performed under the assumption that all conditions of the real estate market will be maintained, during the lifetime of the operations, and reflected the best estimate of the fair value of those collaterals at the balance sheet date.

The property valuations are prepared by independent experts registered with the Capital Market Commission of Angola (Comissão do Mercado de Capitais), which have implied a set of assumptions whose verification is subject to uncertainty in view of the current circumstances of the real estate market. Additionally, the Bank also uses estimates as to the date of recovery and sale of the real estate collateral.

Furthermore, the recovery of loans and advances granted to Customers and other account receivables (Notes 9 and 15), which has underlying business plans of the borrowers and evaluation of collateral, may be significantly impacted by the development of macroeconomic indicators in Angola.

3.2. FAIR VALUE OF OTHER FINANCIAL ASSETS AND LIABILITIES VALUED AT FAIR VALUE

The fair value of a financial instrument is the price at which an orderly sale transaction of an asset or transfer of a liability would be completed between market players at the balance sheet date.

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which considers the market conditions, time value, yield curve and volatility factors. These methodologies may require the use of assumptions or judgements in estimating fair value.

With particular emphasis on the measurement of real estate assets, held directly and indirectly (Notes 6 and 13), whose impairment tests are based on valuations made by independent experts registered with the Capital Market Commission of Angola and which have implied a set of assumptions whose verification is subject to uncertainty in view of the current circumstances of the real estate market.

Consequently, the use of different methodologies or of different assumptions or judgements in applying a particular model may have produced financial results that differ from those reported.

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3.3. INCOME TAXES

The Bank is subject to Industrial Tax and is considered a Group A taxpayer.

Income taxes (current or deferred) are recognised in profit and loss for the year, except where transactions giving rise to it have been carried in other equity items. In such situations, the corresponding tax is also carried against equity, and does not affect profit and loss for the year.

The calculation of the estimated current tax for the period ended 31 December 2020 was calculated in accordance with Law no. 26/20 of 20 July, and the applicable tax rate is 35%, whereas for the period ended 31 December 2019 it was calculated in accordance with Law no. 19/14 of 22 October and the applicable tax rate is 30%.

Tax returns are subject to review and correction by tax authorities for a 5-year period, which may extend to 10 years. This may result, due to different interpretations of tax law, in possible corrections to the taxable profit for the years 2015 to 2019. However, no significant correction is to be expected in respect to those years and, if it occurs, no significant impacts on the financial statements are expected.

Taxes losses generated in each year, as provided for in the Industrial Tax Code, may be deducted from taxable profit in the following five years.

In order to determine the overall amount of income tax payable, certain interpretations and estimates were required. There are several transactions and calculations for which the assessment of taxes payable is uncertain during the normal course of business, with emphasis on the aspects set out in Note 2.12, resulting from the new wording of Law no. 26/20, of 20 July, namely, (i) unrealised or potential foreign exchange gains, (ii) impairment losses on collateralised loans and (iii) property tax, as well as assumptions made by the Bank in determining income tax and deferred taxes, which are still subject to ratification by the Angolan Tax Authorities (AGT).

Deferred taxes are calculated using the tax rates expected to be in force when the temporary differences are reversed, which correspond to the rates enacted or substantively enacted at the balance sheet date. Accordingly, for the years ended 31 December 2020 and 2019, deferred tax was broadly determined based on a rate of 35% and 30%, respectively.

In accordance with the Board of Directors' understanding of the requirements of IAS 12, deferred tax liabilities should be recognised in their entirety, whereas a deferred tax asset should only be recognised if it is certain that future taxable profit will be sufficient to allow the benefit of the loss to be realised. Accordingly, the Bank, calculated deferred tax assets up to the limit of the deferred tax liabilities, and these amounts have been offset in the financial statements.

Other interpretations and estimates could result in a different level of current and deferred income taxes recognised in the period or in an analysis of their recoverability (Note 14).

3.4. RECOVERABILITY OF GOODWILL

For the purposes of assessing goodwill, the Bank uses estimated data for the coming periods, based on the budget and future prospects to which it applies a discount rate, which includes a risk premium appropriate to the estimated future cash flows. Based on these assumptions the recoverable amount is higher than the book value, which supports the non-recognition of impairment on this asset.

In this context, the recoverability of goodwill arising from the merger process of Banco Privado Atlântico, S.A. with Banco Millennium Angola, S.A. (Note 12), depends on a set of assumptions and macroeconomic projections prepared by the Bank whose verification is uncertain, with emphasis on the development of the Angolan economy and the success of the Bank's future operations (Note 2.8).

3.5. MEASUREMENT OF PROMISSORY CONTRACTS OF PURCHASE AND SALE

The Bank recognises at the initial moment, when the requirements for derecognition of the asset are met, the value of the contract with a borrower and related capital gains, including exchange rate revaluation, in the case of indexed CPCV.

In contracts with payment plans with a term longer than one year and no agreed interest rate, the Bank records the discount effect associated to the contracted payment plan, adjusting the fair value of the financial asset to its present value.

The calculation of impairment is based on a maximum loss associated with a failure to perform the contract according to its terms. The Bank defined a maximum rate of 25% as a threshold for the classification in Stage 3 of the individually significant exposures (as a result of the credit impairment model), applying this concept in the CPCV, according to the verification of the defined risk criteria (Note 2.5).

In addition to the evaluation factors described above, the Bank monitors the financial capacity of the borrower and its continuing interest in keeping the promise contracted on a regular basis, reflecting the results of this monitoring in the assessment of impairment.

Alternative methodologies and the use of different assumptions and risk criteria could result in a different level of impairment losses recognised with a consequent impact in the income statement of the Bank.

Additionally, the measurements and impairment tests on the CPCV (Notes 15) are based, among other factors, on valuations made by independent experts registered with the Capital Market Commission of Angola, which have implied a set of assumptions whose verification is subject to uncertainty in view of the current circumstances of the real estate market.

Note 4.
CASH AND DEPOSITS AT CENTRAL BANKS

This caption is analysed as follows:

(Thousands of AOA)

	31-12-2019	31-12-2020
Cash		
In national currency	12,582,075	18,255,642
In foreign currency	3,534,939	5,313,044
	16,117,014	**23,568,686**
Demand deposits at the Banco Nacional de Angola		
In national currency	85,712,294	79,334,412
In foreign currency	89,159,140	119,208,215
	174,871,434	**198,542,627**
	190,988,448	**222,111,313**

The caption Demand deposits at the Banco Nacional de Angola (BNA) includes mandatory deposits whose purpose is to satisfy legal reserve requirements. These deposits do not bear interest.

As at 31 December 2020, the reserve requirements were determined in accordance with the provisions of Instruction no. 16/2020 of 2 October and Directive no. 04/DMA/2020 of 6 October. As at 31 December 2019 they were determined in accordance with Instruction no. 17/2019 of 24 October and Directive no. 08/DMA/DRO/2019 of 24 October.

Reserve requirements are established in national and foreign currency according to the respective denomination of the liabilities that form their reserve base.

As at 31 December 2020, the minimum reserve requirements for demand deposits with the BNA were calculated by applying the ratios summarised in the following table:

		National currency	Foreign currency
Rates on Reserve Base			
Central Government, Local Governments and Local Administration	**Daily calculation**	22%	100%
Other sectors	**Weekly calculation**	22%	17%

The amount of up to 80% of the assets representing the value of disbursements of loans in national currency granted to projects in the agriculture, livestock, forestry and fisheries sectors may be deducted from the requirement in national currency, provided they have a residual maturity greater than or equal to 24 months. The same applies to the total amount of loans granted for the production of essential goods that show a deficit in national production supply, raw materials and the investment required for their production, including in investment for the acquisition of technology, machinery and equipment under the terms of Notice no. No. 10/2020 of 01 April, on granting credit to the real sector of the economy, whatever the residual maturity.

During 2015, Banco Nacional de Angola converted part of ATLANTICO's reserve requirements in USD, into securities denominated in the same currency, whose amount at 31 December 2020 and 2019, amounted to AOA 126,432,308 thousand and AOA 93,585,794 thousand, respectively (Note 8). These debt securities were accounted at their acquisition cost and subsequently measured as described in accounting policy 2.5.

According to Instruction no. 16/2020 of 02 October (which revoked Instruction no. 17/2019 of 24 October), in force since 02 October 2020, combined with Directive no. 04/DMA/2020 of 06 October, the minimum reserve requirements may be established at 20% with the amounts deposited with the Banco Nacional de Angola and 80% in treasury bonds in foreign currency, and the securities identified in the previous paragraph are eligible for this purpose.

As at 31 December 2020, the total amount of liabilities (Central Government, Local Governments, Local Administrations and Other Sectors) amounts to AOA 213,858,895 thousand. On that same date, 59% of the total amount due was covered by treasury bonds in foreign currency.