

Note 8. FINANCIAL ASSETS AT AMORTISED COST — DEBT SECURITIES

This caption is analysed as follows:

(Thousands of AOA)

	31-12-2019	31-12-2020
Investments at amortised cost		
Bonds and other fixed income securities		
Issued by public entities		
Bonds indexed to the exchange rate of the United States Dollar	279,117,189	99,936,283
Foreign currency bonds	236,409,487	318,470,851
Non-readjustable bonds	22,054,224	11,663,341
	537,580,900	430,070,475
Impairment losses	(8,278,494)	(19,989,777)
Total	529,302,406	410,080,698

The fair value of the investment portfolio at amortised cost is disclosed in Note 38, within the scope of the disclosure requirements set out in IFRS 7 and IFRS 9.

In accordance with the accounting policy described in Note 2.5, debt securities measured at amortised cost are impaired as a result of the adoption of IFRS 9, as set out in the defined model (Note 2.5).

In September 2020 the international rating agencies Moody's and Fitch Ratings downgraded the credit risk rating of the sovereign debt of the Republic of Angola, thus reflecting the deterioration of the international market's perception of the Angolan economy. The ratings published by the rating agencies refer to the negative impacts of the sharp drop in the price of oil, the COVID-19 pandemic, the progressive devaluation of the Kwanza, as well as the high level of public debt, factors that, according to these entities, place the Angolan economy in a vulnerable situation, increasing the risk of a default.

Directive no. 13/DSB/DRO/2019, which includes the recommendations for implementation of the methodologies for Asset Quality Review (AQA), states that "In the specific case of impairment losses for national public debt in national and foreign currency (measured at amortised cost), the following criteria should be considered: (i) 12-month probability of default (PD) for Angola's rating published in Moody's study "Sovereign default and recovery rates" applicable to the period concerned; and (ii) loss given default (LGD) associated with the sovereign default events verified, as indicated in the same study. Such methodology has been adopted by the Bank as its accounting policy for this matter.

In accordance with the accounting policy described in Note 2.5, and considering that the assessment of the significant increase in credit risk for the determination of the impairment stage should be based on the date of origination of the assets, in view of the information available at the approval of the financial statements as at 31 December 2020, the Bank concluded that:

- The background and analysis of the development of the Angolan economy over the last decade, namely the development of macroeconomic indicators, shows that the most pronounced deterioration of the economy took place during 2016;
- Significant increase in credit risk is considered to exist for securities with an issue date prior to 23 September 2016, corresponding to the date when, until 31 December 2020, there is a downgrade of 3 notches in at least two rating agencies (Moody's and Fitch), which implies the transfers of these assets from Stage 1 to Stage 2 impairment, and the application of PD in accordance with the residual maturity of the security and the LGD of 60%;
- No significant increase in credit risk is considered to exist for securities originated after 23 September 2016, which implies maintaining the operations in Stage 1, and applying 12-month PD of 11.325% and loss given default (LGD) of 60% according to the study, i.e. an impairment rate of 6.795% (12-month expected loss).

Since the origination date of the securities held in the portfolio on the reporting date is after 23 September 2016, with the exception of the security described in Note 2.5, the Bank decided to maintain the operations in Stage 1, considering an implicit impairment rate of 6.795% (PD of 11.325% and LGD of 60%), observing an increase in credit risk compared to the implicit impairment rate previously considered of 1.545% (PD of 2.619% and LGD of 59%). The impact arising from this event resulted in a net increase of impairment losses in the period in the amount of AOA 11,711,284 thousand, recorded under Impairment for financial assets at amortised cost in the income statement.

At 31 December 2020, the caption Financial assets at amortised cost - Debt securities includes the amount of AOA 126,432,308 thousand relating to an issue of Treasury Bonds of the Republic of Angola denominated in United States Dollars which, according to information obtained from the Bank, was originated in December 2015 as a result of a conversion process of the balance of deposit accounts in foreign currency held by the Bank with Banco Nacional de Angola (BNA), for the purposes of compliance with reserve requirements, under Executive Decree no. 547/15, of 6 October, Order no. 406/15, of 7 December, of the Ministry of Finance, Instruction no. 19/2015, of 2 December, and BNA Directive no. 7/DMA/DSP/2015 of 10 December. 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. In this context, it is the understanding of the Bank's Board of Directors that given the way in which these securities were originated, without a decision by the Bank, they should be treated similarly to other assets used to fulfil the reserve requirements, without credit risk, and therefore it has not recorded any impairment loss for these securities in its individual financial statements as at 31 December 2020.

During 2020, Financial instruments at amortised cost present the following changes:

(Thousands of AOA)

	31-12-2019	Acquisitions	Maturities	Disposals	Exchange rate effect for the period (Note 26)	Changes in amortised cost	31-12-2020
Investments at amortised cost							
Bonds and other fixed income securities							
Issued by public entities							
Bonds indexed to the exchange rate of the United States Dollar	279,117,189	-	(103,020,605)	(99,350,637)	22,103,015	1,087,321	99,936,283
Foreign currency bonds	236,409,487	-	-	-	80,155,534	1,905,830	318,470,851
Non-readjustable bonds	22,054,224	326,815	(10,982,675)	(181,500)	-	446,477	11,663,341
	537,580,900	326,815	(114,003,280)	(99,532,137)	102,258,548	3,439,628	430,070,475

The amount of Bonds indexed to the exchange rate of the United States Dollar shows a significant decrease as a result of sales made under the exchange rate resetting plan being implemented by the Bank (Note 2.5).

In the period ending 31 December 2020, sales of financial assets classified in this business model exceed the defined thresholds of significance. However, the Bank considers that since these are infrequent sales, associated to a plan with a regulatory framework that justifies sales above the threshold, this does not jeopardise or changes the business model originally defined/classified for this portfolio of assets.

As at 31 December 2020 and 2019, the breakdown of financial instruments held to maturity, by maturity, is as follows:

(Thousands of AOA)

	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Investments at amortised costs					
Bonds and other fixed income securities					
Issued by public entities					
Bonds indexed to the exchange rate of the United States Dollar	-	16,540,964	50,533,265	32,862,054	99,936,283
Foreign currency bonds	-	-	318,470,851	-	318,470,851
Non-readjustable bonds	3,272,561	1,309,617	7,081,163	-	11,663,341
Impairment losses	(216,135)	(779,244)	(16,843,075)	(2,151,323)	(19,989,777)
Balance as at 31 December 2020	3,056,426	17,071,337	359,242,204	30,710,731	410,080,698
Investments at amortised costs					
Bonds issued by public entities					
Bonds indexed to the exchange rate of the United States Dollar	27,096,207	77,489,138	111,219,155	63,312,689	279,117,189
Foreign currency bonds	-	-	236,409,487	-	236,409,487
Non-readjustable bonds	-	10,662,095	11,392,129	-	22,054,224
Impairment losses	(414,072)	(1,364,566)	(5,541,793)	(958,063)	8,278,494
Balance as at 31 December 2019	26,682,135	86,786,667	353,478,978	62,354,626	529,302,406

As at 31 December 2020 and 2019, investments at amortised cost are as follows:

(Thousands of AOA)

31-12-2020	Issuer	Country	Activity	Index	Average rate	Nominal value	Acquisition cost	Interest incurred	Premiums/ discounts	Impairment losses	Book value
Investments at amortised costs											
Bonds and other fixed income securities											
Issued by public entities											
Bonds indexed to the exchange rate of the United States Dollar	State	Angola	Government	USD	7.78%	98,848,963	24,732,364	1,667,411	(580,091)	(6,275,777)	93,660,506
Foreign currency bonds	State	Angola	Government	n.a	5.30%	316,565,021	316,565,021	1,905,830	-	(12,944,229)	305,526,623
Non-readjustable bonds	State	Angola	Government	n.a	13.46%	11,216,863	11,216,863	365,035	81,442	(769,772)	10,893,569
						426,630,847	352,514,248	3,938,276	(498,648)	(19,989,777)	410,080,698

(Thousands of AOA)

31-12-2019	Issuer	Country	Activity	Index	Average rate	Nominal value	Acquisition cost	Interest incurred	Premiums/ discounts	Impairment losses	Book value
Investments at amortised costs											
Bonds and other fixed income securities											
Issued by public entities											
Bonds indexed to the exchange rate of the United States Dollar	State	Angola	Government	USD	5.30%	274,954,453	102,195,641	4,295,019	(132,289)	(4,293,187)	274,823,995
Foreign currency bonds	State	Angola	Government	n.a	12.43%	20,943,744	21,094,784	921,080	189,406	(333,101)	21,721,129
Non-readjustable bonds	State	Angola	Government	n.a	7.27%	234,998,862	234,998,862	1,410,626	-	(3,652,205)	232,757,282
						530,897,058	358,289,286	6,626,724	57,117	(8,278,494)	529,302,406

Changes occurred in impairment losses of financial assets as an adjustment to the investment amounts at amortised cost were as follows:

(Thousands of AOA)

	31-12-2019	31-12-2020
Opening balance	678,703	8,278,494
Charge for the period/(Reversals) (Note 33)	8,014,653	8,695,223
Exchange rate and other differences (Note 26)	(414,862)	3,016,060
Balance as at 31 December	8,278,494	19,989,777