Note 3

Critical accounting estimates and judgements use 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 and 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 other comprehensive income, considering whether a prospective change of the asset is required;
- Significant increase in credit risk: as described in Note 2.6. – 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 2.6.

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 advances to customers and accounts receivable is based, among other factors and when applicable, on the valuations of collateral from loan operations, such as mortgages of real estate. These valuations 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.

Property valuations are prepared by independent experts registered with the CMC, 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 which takes into account the prospects for the evolution of macroeconomic indicators for Angola and assumptions involving a high degree of subjectivity, and whose verification is subject to uncertainty in view of the current circumstances of the real estate market, as well as the analysis of real estate risk management performed by the Bank (Note 39).

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.

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 or loss, 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 the income statement.

The current tax estimate for the years ended 31 December 2022 and 2021 was calculated in accordance with Law No. 26/20, of 20 July, using the applicable tax rate of 35%.

Tax returns are subject to review and correction by tax authorities for a 5-year period, which may extend to 10 years. This may lead to possible corrections to taxable income for previous years due to different interpretations of tax law. 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 5 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 2.13., resulting from the new wording of Law No. 26/20, of 20 July, namely, (i) income/expenses with potential/realized foreign exchange valuations, (ii) impairment losses on secured 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. Thus, for the year ended 31 December 2022 and 2021, deferred tax was generally calculated based on a 35% rate.

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 realized. 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 income taxes, current or deferred, recognised in the period or in an analysis of their recoverability (Note 14).

3.4. Measurement of promissory contracts

The Bank recognizes 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 2.6.).

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 profit or loss 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 analyzed as follows:

(Thousands of AOA)

	31-12-2022	31-12-2021
Cash		
In national currency	22,866,722	16,333,740
In foreign currency	4,314,340	4,768,772
	27,181,062	**21,102,512**
Demand deposits at Banco Nacional de Angola		
In national currency	55,350,966	112,764,101
In foreign currency	131,698,471	211,104,784
	187,049,438	**323,868,885**
	214,230,500	**344,971,397**

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

As at 31 December 2022, reserve requirements are determined in accordance with the provisions of Instruction No. 02/2021 of 10 February, Instruction No. 08/2021 of 14 May and Directive No. 11/2022 of 12 December.

As at 31 December 2021, reserve requirements were calculated in accordance with the provisions of Instruction No. 02/2021 of 10 February, Instruction No. 08/2021 of 14 May, Directive No. 05/DMA/2021 of 5 May, Directive No. 06/DMA/DSP/2021 of 21 May and Directive No. 07/DMA/2021 of 6 July.