Annual Report and Accounts 2018

By your side every step of the way

Contents

BCH Banco Comercial do Huambo

Message from the Chairman

Another year has gone by and now it´s time to look back at 2018 which was marked by the National Bank of Angola taking measures to ensure a programmed offer of foreign exchange, thus allowing commercial banks to manage their customers´ foreign exchange needs.

Taking into account the results as a whole, we can conclude that throughout 2018 the banks presented considerable profits. However, it is necessary to carry out a more rigorous analysis. It is important to note that about 50% of the banking profits did not translate entirely into financial cashflows, that is, liquidity. We can say that the profits obtained by the banks are essentially book-keeping, resulting from revaluation of government bond indexed to the US dollar, given the significant depreciation of the Kwanza against the US dollar.

With regard to the year 2018, the country`s economic situation is very worrying. After two years of recession, it will be necessary to maintain the financial system healthy in order to be able to respond to the financing needs of the economy. However, in our view, the measures that are being taken do not seem to be the most prudent. The Central Bank has taken measures aimed at lowering banks´ profitability, such as reducing commissions, which is not going to have a positive effect from a macroeconomic point of view. The Central Bank has just issued a legislation by which it requires the commercial banks to grant loans so as to recover the economy. This measure is a cause for concern as it may increase the high level of bad debt as we believe that the authorities have not yet put in place adequate reforms to streamline the judicial system and put through the Property Law so that banks bear less risk when lending and are reimbursed of the amounts lent to so many people who abusively considered those loans donations.

In the light of such scenario which weakens the financial system, we fear that 2019 may be worse than 2018.

In 2018, in our opinion the bank faced numerous setbacks but nevertheless it was able to surpass them. In the case of BCH and taking into account its results reflected in the key financial and economic indicators, we agree that we continue to be a solid institution.

Net profit reached 6,630 million kwanzas which compared to 2017 is an increase of 65%; net interest income grew by about 105%, and own funds by about 63%. The solvency ratio reached 105%, when the minimum required is 10%.

Throughout 2018, BCH implemented several projects, namely the development of the new website and online banking, extension of the module to permit payment of services through online banking, upgrading the front office software, implementation of the collection of state revenues at BCH branches and upgrade of the core system with high availability solution (system shutdown without interruption of business).

Expectations for 2019 are not encouraging, as real GDP is to remain negative and the financial system more fragile.

Nevertheless, in the light of such discouraging scenario BCH will continue to support the economy as it has always done, by growing in sustainable manner and striving to keep its ratios to acceptable levels.

Thus, BCH wants to express its deep appreciation and gratitude to its employees for their dedication and commitment. It is our employees and their exceptional professionalism who manage to keep BCH at the top of the country´s financial system. We are very appreciative of their work.

We cannot but express our special thanks to our customers for continually choosing us, whom we assure that we are committed to constantly improve our service quality.

We also thank our shareholders for their vote of confidence regarding the implementation of the outlined management policies.

To all we express our sincere gratitude.

Natalino Bastos Lavrador

Macroeconomic Background

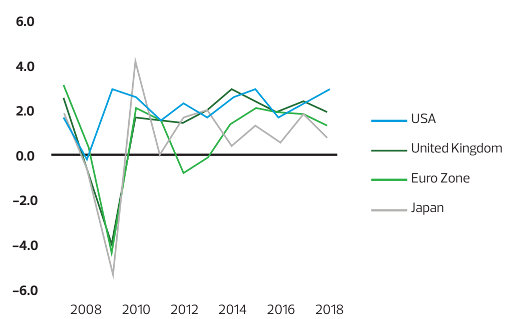
Macroeconomic Background

International Economy

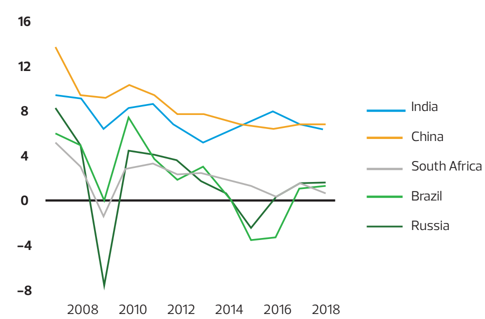
After two years of strong economic growth, 2018 proved to be a challenging one, especially towards the end of the year.

The year 2018 saw the US leading trade wars against several of its economic partners (Europe, China, Canada and Mexico), uncertainty as to the pace of growth of the Chinese economy, political instability in Europe, pursuit of monetary policy normalization by the US Federal Reserve and the ongoing uncertainty about the Brexit.

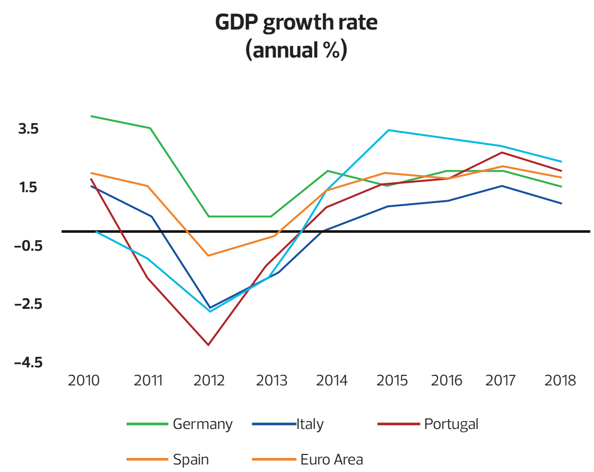
GDP growth rate in advanced economies



GDP growth rate in emerging markets and developing countries

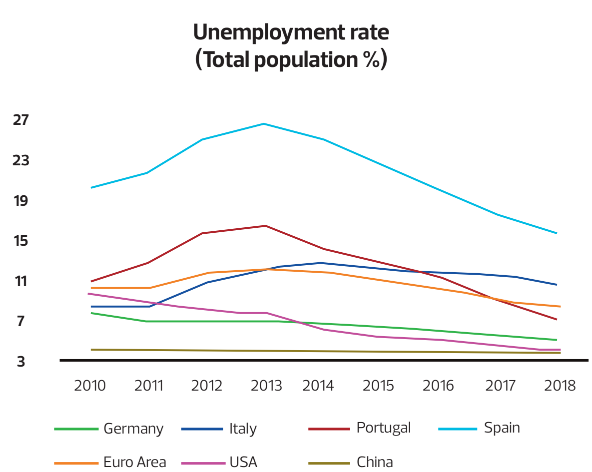


In terms of monetary policy, the US Federal Reserve raised its interest rate four times throughout 2018, ending the year with fed funds rate in the range of 2.25% and 2.5%. At the end of the year it became clear that the FED could bring the federal funds rate to a neutral level by raising it two more times in 2019, instead of the three initially predicted.
Still, US GDP is expected to have grown at a faster pace, reaching in 2018 a growth of 2.9%.



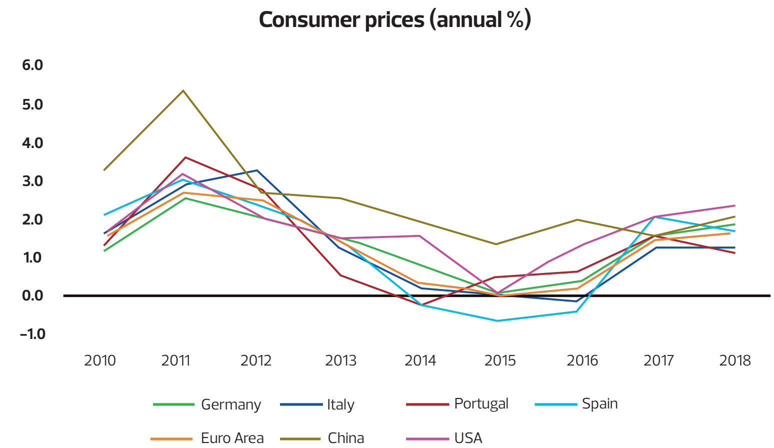
However, in other economic zones, growth slowed down and global economic growth became less synchronized.

In the Euro Zone, the economic slowdown hit many countries. The Central European Bank remained cautiously optimistic and announced its decision to end its asset purchase program. Throughout the year, the Central Bank kept its rates unchanged and warned that there won´t be hypothetical interest rate increase before the end of summer 2019.



Still in Europe, the political and economic situation in France also deteriorated. At the end of the year protests of the "Yellow Jacket" movement following the announcement of new tax hikes blocked roads and disrupted current economic activity, significantly harming economic growth.

Macroeconomic Background



In the United Kingdom, throughout 2018 the Brexit continued to be defined by high degree of uncertainty, clearly showing the difficulties of the British government in managing the process.

The difficulties in the negotiations with the EU reflect to a great extent the major divisions within the UK. The main points of contention have to do with the Irish border, subjection to European legislation (European Court of Justice), the Brexit bill, and the capacity to enter into free trade agreements without the interference of the European Union.

In this context, the Euro Zone is estimated to have grown by 1.9%, down from 2.4% in 2017. The unemployment rate continued to decline, falling to 8.2%. Inflation remains below ECB´s 2% target and at the end of the year stood at 1.7%.

In China, the economy is expected to have grown by 6.5% in 2018, the lowest pace since 1990. China faces high levels of debt, a slowdown in construction, a poor demographics and trade war with the US, already mentioned. In the last slowdowns in 2009 and 2015, China responded with massive fiscal and credit stimulus. These efforts came at a price: the debt-to-GDP ratio rose from 140% in 2008 to over 250% at the end of 2017, raising concerns about financial stability. New economic stimulus is envisaged , but it is unlikely to be as significant and effective as in the past. However, it should be sufficient to maintain growth close to 6% in 2019.

Angolan Economy

In the first 9 months of 2018, GDP declined by 2.7%, mainly due to 8.7% drop in oil activity. For the year as a whole, IMF projections point to a decline of 1.7% of GDP due to the above reasons. For the non-oil sector, the IMF also estimates stagnation. Thus, 2018 is the third consecutive year of economic recession after 2016(2.6%) and 2017 (0,2%).

According to the State Budget, the economic downturn is due to a reduction in oil production from 1.64 (mbd) in 2016 to 1.52 (mbd) in 2017. This reduction is a result of natural declines of mature fields and lack of new projects. Although the price of a barrel increased in relation to 2017, this did not lead to a growth of the non-oil economy because the State strategically decided to use the extraordinary revenues for domestic debt amortization.

According to the IMF projection, in 2019 the Angolan economy is expected to grow by 2.5% if it manages to achieve higher oil output through exploration of current fields and new investments in Vandumbu and Kaombo which will depend on the duration and compliance with oil-cuts agreement entered into by OPEC and non-OPEC member countries. Although at a gradual pace, it is expected that the improved conditions in the economic environment will lead to a resumption of investment.

In the external sector, the country is steadily moving towards an external position in accordance with fundamentals and desirable policies. The current account balance is expected to show a surplus of 2% of GDP in 2018, reflecting an increase in oil exports due to favorable oil price.

Higher oil exports took the pressure off International Net Reserves (less USD 2.97 billion as compared to 2017) and permitted an increase in the allocation of foreign currencies.

After a change in the exchange rate regime, which is no longer fixed, the country´s economy has been transitioning towards a position of external equilibrium, consistent with desired policies. It was possible to reduce the difference between the official and parallel exchange rate from 168% in January to 33% in December.

As a result of the fiscal consolidation carried out by the State, according to the IMF there was a surplus of 0,4% of GDP, a turn from a deficit of more than 3%; in 2017 overall fiscal deficit was 6.3%. The IMF expects the economy to grow by 2.5% in 2019.

With regard to public debt, it underwent a significant adjustment as a consequence of the transition to a flexible exchange rate regime, from 68.5% to 91% of GDP at the end of the year.

Inflation stood at 18.6% at the end of the year. The average rate during the year was 19.6%, well below 29.8% recorded in 2017.

The monetary policy has remained restrictive in practice, as a consequence of the significant reduction of the national currency in circulation. However measures towards less restrictive policy were taken, by reducing the policy rate from 20% to 16.5% and the mandatory reserves requirement for national currency from 21% to 17%.

Legal Framework

Regulations approved by BNA in 2018

Year	Subject	Topic	Published on	In force since	Notice/Regulation /Instructions
2018	Foreign Exchange Position Limit	FX Policy	22/01/2018	22/01/2018	Notice nº 01/2018 of 22 January
2018	Adequacy of Minimum capital and Regulatory Capital for Banking Institutions		09/03/2018	02/03/2018	Notice nº 02/2018 of 2 March
2018	Commission exemption for Minimum Banking Services		09/03/2018	02/03/2018	Notice nº 03/2018 of 2 March
2018	Alteration of the wording of Article 12 of Notice no. 09/17 of 12 September, on Infringements		22/03/2018	07/03/2018	Notice nº 04/2018 of 7 March
2018	Rules and Procedures for FX Operations in the Import and Export of Goods	Foreign Exchange Policy	17/07/2018	17/09/2018	Notice nº 05/2018 of 17 July
2018	Adequacy of Minimum capital and Regulatory Capital for non-Banking Institutions	FINANCIAL SYSTEM	30/11/2018	30/11/2018	Notice nº 08/2018
2018	Operational Rules	Foreign Exchange Bureaus	30/11/2018	30/11/2018	Notice nº 09/2018
2018	FINANCIAL SYSTEM Delay of Submission of Periodic Information	FINANCIAL SYSTEM	30/11/2018	30/11/2018	Notice nº 10/2018
2018	PROVISION OF PAYMENT SERVICES Operational Rules for the Remittance Service Providers	PROVISION OF PAYMENT SERVICES	30/11/2018	30/11/2018	Notice nº 11/2018
2018	Limit of Exchange Position	Foreign Exchange Policy	27/12/2018	27/12/2018	Notice nº 12/2018
2018	Limit of Exchange Position	FOREIGN EXCHANGE POLICY	15/08/2018	15/08/2018	Notice nº 06/2018
2018	FINANCIAL SYSTEM Requirements and Procedures for the Authorization of Establishment of Non-Banking Financial Institutions	FINANCIAL SYSTEM	30/11/2018	30/11/2018	Notice nº 07/2018
2018	Submission of Information regarding Maps of Needs	Foreign Exchange Monetary Policy	09/04/2018	09/04/2018	Directive nº 01/DCC/2018
2018	Limit of Foreign Exchange Position -Daily Information -Commercial Banks	Foreign Exchange Policy	31/01/2018	31/01/2018	Directive nº 01/DSI/DRO/DMA/2018
2018	Daily Information Commercial Banks	Limit of Foreign Exchange Position	22/08/2018	22/08/2018	Directive nº 05/DSB/DRO/DMA/2018
2018	Alteration of the interest rate of the product "Bankita a Crescer"[savings account]		04/12/2018	04/12/2018	Directive nº 06/DEF/DRO/2018
2018	Submission of Information regarding the Map of Needs	Foreign Exchange Policy	06/11/2018	06/11/2018	Directive nº 03/DRO/2018
2018	Implementation Guide for Stress Test Program	Implementation Guide for Stress Test Program	31/07/2018	31/07/2018	Directive nº 03/DCC/2018

Source: Banco Nacional de Angola - http://www.bna.ao/

Legal framework (cont.)

Regulations approved by BNA in 2018

Year	Subject	Topic	Published on	In force since	Notice/Regulation /Instruction
2018	BNA RATE – NOTICE N° 10/2011 of 20 OCTOBER	Markets	17/07/2018	17/07/2018	Directive n° 04/DMA/2018
2018	Requirements for the Calculation and Compliance with Mandatory Reserves	Payment System	19/07/2018	19/07/2018	Directive n° 04/DSP/DRO/2018
2018	Requirements for Access to the Marginal Lending Facility	Market	18/07/2018	18/07/2018	Directive n° 05/DMA/DRO/2018
2018	Foreign Currency Purchase and Sale Auctions - Participation Procedures	Foreign Exchange Policy	19/01/2018	22/01/2018	Instruction n° 01/2018 of 19 January
2018	Procedures to be observed in the execution of foreign exchange operations	Foreign Exchange Policy	19/01/2018	01/02/2018	Instruction n° 02/2018 of 19 January
2018	Foreign exchange rate regime	Foreign Exchange Policy	19/01/2018	24/01/2018	Instruction n° 03/2018 of 19 January
2018	Development Bank Liquidity Providing Operations	Foreign Exchange Monetary Policy	22/01/2018	19/01/2018	Instruction n° 04/2018 of 19 January
2018	Limits of Foreign Exchange Operations involving Goods	Foreign Exchange Policy	19/07/2018	17/09/2018	Instruction n° 09/2018
2018	Mandatory Reserves	Monetary Policy	19/07/2018	23/07/2018	Instruction n° 10/2018
2018	Mandatory Reserves	Foreign Exchange Monetary Policy	25/01/2018	28/05/2018	Instruction n° 05/2018 of 25 May
2018	Limits of Foreign Exchange Operations on Family Assistance	Foreign Exchange Policy	21/06/2018	21/06/2018	Instruction n° 06/2018
2018	Creation of an Independent Function of Exchange Control in the Financial Banking Institutions	Foreign Exchange Policy	21/06/2018	21/06/2018	Instruction n° 07/2018
2018	Temporary Suspension of Licensing of Exchange Operations in the Import of Goods	Foreign Exchange Policy	21/06/2018	21/06/2018	Instruction n° 08/2018
2018	Liquidity-providing Operations of the Development Banks	Interbank Money Market – IMM	14/09/2018	14/09/2018	Instruction n° 11/2018
2018	Payment of Hospital and School Expenses	FOREIGN EXCHANGE POLICY	14/09/2018	14/09/2018	Instruction n° 12/2018
2018	Prevention of Money Laundering and Terrorist Financing in International Trade Operations	Foreign Exchange Policy	21/09/2018	22/10/2018	Instruction n° 13/2018
2018	Remuneration of Collateral Deposits Associated to Letters of Credit	Foreign Exchange Policy	19/11/2018	21/11/2018	Instruction n° 14/2018 of 19 November
2018	Sale of Foreign Currency to Payment Service Providers and Foreign Exchange Bureaus	Foreign exchange Policy	19/11/2018	21/11/2018	Instruction n° 15/2018 of 19 November
2018	Foreign Currency Sale Limits applicable to Payment Service Providers and Foreign Exchange Bureaus	FOREIGN EXCHANGE SALE LIMITS	30/11/2018	30/11/2018	Instruction n° 16/2018
2018	Operational rules	REPATRIATION OF FINANCIAL RESOURCES	30/11/2018	30/11/2018	Instruction n° 17/2018

Source: Banco Nacional de Angola - http://www.bna.ao/

Legal framework (cont.)

Regulations approved by BNA in 2018

Year	Subject	Topic	Published on	In force since	Notice/Regulation /Instruction
2018	Conversion of Credits Granted in Foreign Currency to Individuals	FINANCIAL SYSTEM	30/11/2018	30/11/2018	Instruction n° 18/2018
2018	Foreign Currency Purchase and Sale Auctions Operation and Organization Procedures	Foreign Exchange Policy	03/12/2018	03/12/2018	Instruction n° 19/2018 of 3 December
2018	Reference Exchange Rate Calculation Methodology Exchange Rates of the Banking Institutions	Foreign Exchange Policy	03/12/2018	03/12/2018	Instruction n° 20/2018 of 3 December
2018	Extension of the Temporary Suspension of Licensing of Exchange Operations in the Import of Goods	Foreign Exchange Policy	11/12/2018	11/12/2018	Instruction n° 21/2018 of 11 December
2019	Pricing of Transactions in Foreign Currency –Maximum limits of Commission Fees and Expenses – Maximum currency exchange margin rate applicable to certain operations – Currency of the commission charges	Financial Conduct	31/03/2019	31/03/2019	Notice n° 03/2019
2019	Lending to the Real Sector of the Economy –Terms and conditions		08/04/2019	08/04/2019	Notice n° 04/2019
2019	Obligation to provide information to customers on the Deposit Guarantee Fund	FINANCIAL SYSTEM	18/01/2019	18/01/2019	Instruction n° 02/2019 of 3 January
2019	Payment System – Automated Clearing House of Angola – Guarantees for Settlement of balances	Payment System	08/04/2019	08/04/2019	Instruction n° 03/2019 of 3 April
2019	Financial System – Lending	Monetary Policy	26/04/2019	26/04/2019	Instruction n° 04/2019 of 26 April
2019	Automated Clearing House of Angola Guarantees for Settlement of balances	Payment System	04/01/2019	04/01/2019	Instruction n° 01/2019 of 3 January

Source: Banco Nacional de Angola – http://www.bna.ao/

Macroeconomic Background

Future Perspectives

The exchange rate depreciation and current inflationary pressures might have negative impact on the private consumption, which could, according to The Economist Intelligence Unit, affect the expected economic growth of 1.6% in 2019. However, as the country continues to adjust to low oil prices, real GDP growth by an average of 2.5% is expected in the 2019-2020 period, in light of slightly increased public consumption and despite the expected US business cycle downturn in 2020. The forecast for 2021-2022 is that average GDP growth could reach 2.9%, provided that the increase of oil price is confirmed throughout that period (4.7% / year).

If the inflationary pressure already mentioned persists, the depreciation of the kwanza is likely to continue. There is however a package of measures that has been implemented to combat inflation, such as price limits for basic goods and a new tax and customs regime to come into force in the first half of 2018 which will reduce taxes on imported goods thus impacting positively and restrictively the growing inflation from previous years. Nevertheless, the continuous depreciation of the kwanza against the US dollar will increase the cost of many imported goods, which could reduce the impact of the above mentioned measures. Also according to The Economist Intelligence Unit the average inflation rate for 2018 is projected at 25.9 %.

As for the foreign exchange policy, the BNA announced that in 2018 it will adopt a more flexible strategy, by promoting more auctions with the commercial banks. On the other hand, the decision to put an end to the old peg to the U.S. dollar may help to take some pressure off international reserves, although those remain well above minimum prudent levels.

In terms of exports and following the abrupt fall between 2014 and 2016 due to the decline of oil prices, a recovery is expected in 2019, reflecting somewhat stronger prices, although still below the peak in 2012-2013. The imports may also reverse the trend, reflecting a slight increase in government-led capital investment on the basis of more favourable oil prices, despite of the strong depreciation of the Kwanza which will most probably continue to limit consumer demand.

The Commercial Bank of Huambo

The Commercial Bank of Huambo

Vision, Mission and Values

Vision

The BCH´s vision is to be a reference bank in terms of provision of services to the Customer and prudent management of the Institution.

Mission

Our mission is to offer banking and financial products and services of enhanced quality to our Customers in order to create and distribute value to Customers, Employees, Partners and Shareholders.

Values

The six fundamental values at the core of the BCH´s culture are:

1. Integrity, by acting with honesty, loyalty and commitment;
2. Confidence and transparency, by acting with truthfulness and clarity;
3. Team work – we believe that collective effort is the best way to achieve our goals;
4. Rigour, by acting with professionalism, technical competence and diligence so as to achieve higher levels of quality and efficiency;
5. Equality, by acting with courtesy and complying with the principles of non-discrimination, tolerance and equal opportunities.
6. Soundness, by acting prudently in managing the risks, stability and soundness of the Institution.

BCH Banco Comercial do Huambo

The Commercial Bank of Huambo

Corporate Bodies and Shareholder Structure

Corporate Bodies

The Board of Directors comprises a Chairman and two Directors

General Meeting of Shareholders-Board

Chairman	Alexandra Teodora da Conceição Cruz Martins
Deputy-charman	Maria Helena Miguel
Secretary	Regina Luísa Lagos Fernandes dos Santos Nulli

Board of Directors

Chairman	Natalino Bastos Lavrador
Director	Salim Abdul Valimamade
Director	Cristiana de Azevedo Neto Lavrador

Audit Committee

Chairman	UHY - A. Paredes & Associados - Angola
Deputy-chairman	Mário Silva Castelo Branco
Deputy-chairman	Francisco Miguel Paulo

Shareholder Structure

As at 31 December 2018, the capital of Banco Comercial do Huambo was owned by 5 shareholders, as follows:

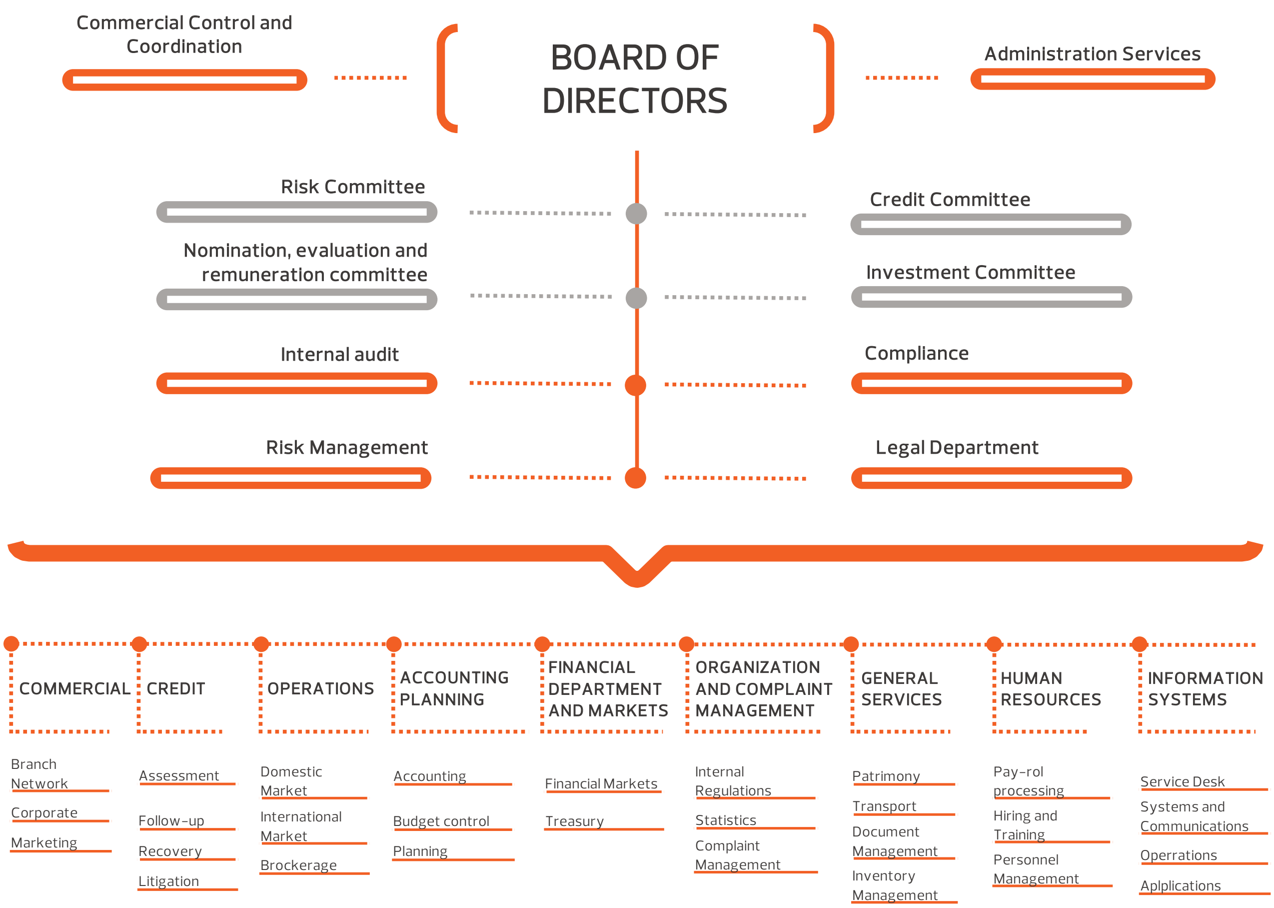
Shareholders	Interest
Natalino Bastos Lavrador	51.5%
Valdomiro Minoru Dondo	20%
António Mosquito	20%
Sebastião Bastos Lavrador	5.5%
Carlos Saturnino Guerra Sousa e Oliveira	3%

We point out that the bank increased its share capital through incorporation of reserves from Akz 7 billion to Akz10 billion, showing the solidity of BCH and its capitalization policy it has pursued over the years.

The Commercial Bank of Huambo

Corporate Bodies and Shareholder Structure

The Board of Directors comprises a Chairman and two Directors.



Activity in 2018

Activity in 2018

Key indicators

Amounts in thousands of AKZ

INDICATORS	2015	2016	2017	2018	Var 15 - 16	Var. 16 - 17	Var. 17 - 18
Total Assets	12 477 532	19 885 756	29 366 616	37 796 794	59,37%	47,68%	28,71%
Credit to the Economy	**2 834 465**	**9 861 980**	**22 284 214**	**19 234 267**	**247,93%**	**125,96%**	**-13,69%**
Loans and advances to customers	419 468	231 697	112 283	1 316 865	-44,76%	-51,54%	1072,81%
Loans and advances to the Government	2 414 997	9 630 283	22 171 931	17 917 402	298,77%	130,23%	-19,19%
Customer Deposits	6 882 588	11 776 185	15 728 826	14 448 356	71,10%	33,56%	-8,14%
Regulatory Capital	4 542 302	6 523 678	10 557 116	17 204 408	43,62%	61,83%	62,97%
Net operating Income	3 956 735	4 158 369	5 982 573	9 653 346	5,10%	43,87%	61,36%
Net Interest Income	536 304	1 037 571	1 804 585	3 724 449	93,47%	73,92%	106,39%
Net Profit	2 211 227	2 660 572	4 004 677	6 630 044	20,32%	50,52%	65,56%

Financial Ratios	2015	2016	2017	2018	Var 15 - 16	Var. 16 - 17	Var. 17 - 18
Cost to Income ratio	21.84%	17.74%	21.39%	14.93%	-18.77%	20.57%	-30.22%
Loan/deposit ratio	6.25%	2.14%	0.80%	9.11%	-65.76%	-62.62%	1039.29%
Solvency ratio	133.97%	154.22%	142.32%	107.52%	15.12%	-7.72%	-24.45%
Return on total Assets (ROA)	17.72%	13.34%	13.64%	17.54%	-24.72%	2.25%	28.60%
Return on Equity (ROE)	48.19%	37.77%	36.32%	37.57%	-21.62%	-3.84%	3.44%
Overdue loans/Total loans	1.22%	2.84%	4.12%	0.29%	132.79%	45.07%	-93.04%
Provisions/overdue loans	31.25%	215.19%	80.34%	40.47%	588.61%	-62.67%	-49.62%

Business Development	2015	2016	2017	2018	Var 15 - 16	Var. 16 - 17	Var. 17 - 18
No of Brances	4	5	5	6	25,00%	0,00%	20,00%
No of Employees	40	45	55	57	12,50%	22,22%	3,64%
Customers	7 773	10 556	14 172	14 893	35,80%	34,26%	5,09%

BCH has been stabilizing its commercial network and its team, as well as its customer base, as the statistics show below. However, the Bank significantly increased its profitability, being one of the most profitable and efficient banks of the Angolan banking system.

+1

New Branches

In 2018, the opening of a new branch took place. BCH intends to continue to expand its commercial network with the opening of new agencies.

+3.63%

Team reinforcement

At the end of 2018, the Bank´s staff includes 57 employees, 2 more than in 2017.

+5.10%

Customer Growth

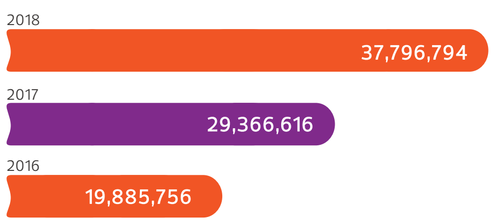
The number of customers in 2018 increased by 721 and reached a total of 14,893 as at 31 December 2018.

Activity in 2018

Business Development

Total Assets

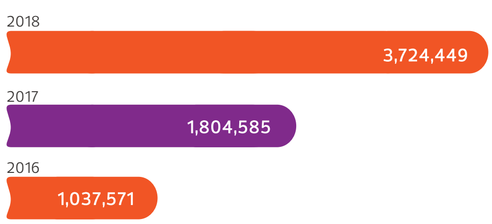
In 2018, BCH accounted for an increase of about 29 in Total Assets, which reflects the growth in activity.



Amounts in thousands of Akz

Net Interest Income

In 2018 the Bank doubled its net interest income, which at balance-sheet date stood at Akz 3,724,449 thousand.



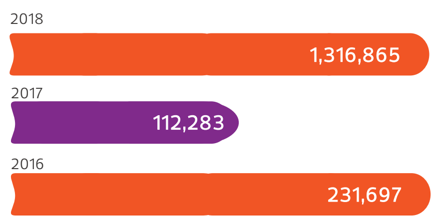
Amounts in thousands of Akz

ROE and ROA

Return on equity increased by 1.25% from 36.32% in 2017 to 37.57% in 2018. On the other hand, return on assets rose by 3.9%. from 13.64% in 2017 to 17.54% in 2018.

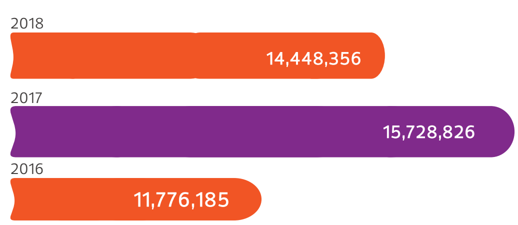
Loans and Advances to Customers

Contrary to 2017, the loans and advances to customers increased significantly from Akz 112,283 thousand to Akz1,316,86 thousand. Impairment levels of the loan portfolio remain residual, which reveals the quality of the Bank´s portfolio and its conservative risk policy.



Customer Deposits

In 2018, the amount in customer deposits declined slightly from AKZ 15,728,826 thousand in 2017 to AKZ 14,448,356 thousand in 2018.



Amounts in thousands of Akz

Solvency Ratio

The Bank maintains high financial soundness, on the basis of the formula defined in art. 1 of Notice No. 05/07 of 15 of July, this ratio at the end of 2018 stood at 107.52% (142.32%, in 2017) a percentage well above the minimum requirement of 10% set by the National Bank of Angola.

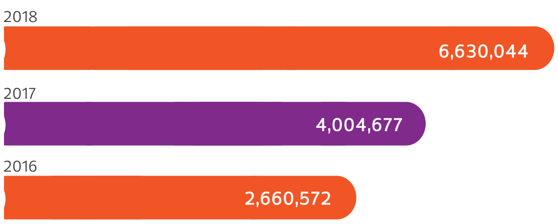
BCH Banco Comercial do Huambo

Activity in 2018

Business Development

Net Profit

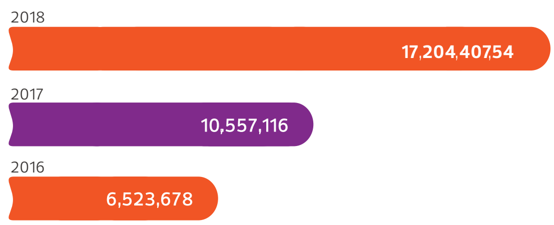
The Bank´s net profit amounted to AKZ 6,630,044 thousand, an increase of AKZ 2,625,367 thousand compared to the amount recorded in the financial year of 2017.



Amounts in thousands of Akz

Regulatory Capital

In 2018, Regulatory Capital stood at AKZ 18,839,810 thousand, up by AKZ 8,282,694 thousand, which is a significant increase of 43.96% on 2017.



Amounts in thousands of Akz

Administrative Costs

In 2018, the Bank´s cost structure accounted for a 33.1% increase in comparison to 2017. The main administrative cost items are personnel costs up by about 22.14% and utilities costs which rose 36.01%.

Administrative costs 2015 - 2018

	2015	2016	2017	2018	Var 15 - 16	Var. 16 - 17	Var. 17 - 18
Administrative costs	548 291	861 351	1 037 759	1 381 963	57,10%	20,48%	33,17%
Staff costs	215 810	302 204	386 422	471 978	40,03%	27,87%	22,14%
Third-party costs	266 291	449 966	560 961	787 063	68,98%	24,67%	40,31%
Amortisations and depreciations	31 588	33 483	90 376	122 922	6,00%	169,92%	36,01%
Other	34 602	75 698	-	-	118,77%	-100,00%	0,00%

Amounts in thousands of Akz

175 POS operating as at 31 December 2018

10 ATMs between Luanda and Huambo

4,722 Cards in circulation

POS

At the end of 2018, the Bank had a total of 175 POS.

ATMs

BCH has 10 ATMs available to the public, five of which strategically placed in different locations in Luanda and three in the province of Huambo.

Debit Cards

In 2018, the Bank recorded an average of 1 card for every 3 customers.

Activity in 2018

Risk Management

The Bank having already implemented its Risk Management System on the basis of the 3 Lines of defence model consolidated in 2017 the processes associated with its control functions- Risk, Compliance and Internal Audit, as well as the interaction and coordination between these areas in order to ensure adequacy, strengthening and operation of the Bank´s internal control system, seeking to mitigate the risks according to the complexity of the business.

In this way, the Risk Management Function is responsible for developing practices which permit the identification, quantification, control, monitoring and reporting of the different types of risks of relevance and inherent to the BCH´s activity, namely operational risk, credit risk and financial risks with the purpose of protecting the Bank´s capital and maintaining its solvability. It is also responsible for the design, development, monitoring and update of the risk management models which allow for the correct identification, evaluation and control of risks associated with the Bank´s activity, in order to ensure that they remain at levels consistent with the profile and degree of risk tolerance (Risk Appetite) defined by the Board of Directors.

The years 2017 and 2018 consolidated the activities carried out by this function, formally created in 2016. Currently, in addition to the regulatory reports required by the BNA, the Risk Management function has been broadening its vision on risk management by using not only the tools required by the BNA but also complementary internal maps, important for the decision-making by the Board of Directors. In this way, during 2017 the following internally developed maps were submitted to the Board of Directors :

- Credit Risk Indicators – analyses credit exposure and its breakdown by branch and segment, as well as credit concentration;

- ALM tool – analyses a set of indicators of liquidity risk, foreign exchange risks and interest rate risk and assigns a level of risk associated with each indicator value.

Activity in 2018

As to the Compliance function, likewise officially independent as of 2016, it also consolidated in 2017 the efficiency and effectiveness of the tasks it was assigned with. The following tasks are part of the scope of activities carried out by the Compliance function:

- Monitor the commercial network as to the acceptance of customers, performance of certain operations or sale of products and services.

- Ensure the compliance of produced and reported information with applicable laws and legislation, mainly from the BNA.

- Ensure compliance with the Bank´s code of ethics/conduct in a comprehensive manner.

- Evaluate the impact of regulations on the business in order to better understand the involved risks against the cost effectiveness of necessary alterations to processes/systems/products.

- Participate proactively and preventively in the approval of risks for new products/processes and respective alterations.

- Define mechanisms to detect evidence of unauthorised financial intermediation or fraud.

- Establish measures to prevent and combat market abuse, money laundering and fraud.

In 2018, the Risk Management function implemented the process of sensitivity analysis for the various risks to which the Bank is exposed, such as exchange rate, interest rate and market risk.

Given the importance of topics related to Prevention of Money laundering (PBC) and Counter Terrorist Financing (CFT), the Compliance function performs the following important tasks:

- Monitoring of internal and external customer lists;

- Analysis of Anti-Money Laundering (AML) forms.

Activity in 2018

- Analysis and approval of account opening;
- Ensure the adequacy of internal rules and procedures for the prevention of money-laundering and counter-terrorist financing (PBC/CFT);
- Follow-up of domestic operations and abroad;
- Monitor the commercial network as to the acceptance of customers, performance of certain operations or sale of products and services.
- Serve as a liaison between the Bank and the PBC/FT authorities, for the resolution of any internal or external issues related to BC/FT.
- Contribute to knowledge sharing in PBC/CFT matters.

Lastly, with regard to the Audit function, fully-functioning since 2014, it continued to carry out its activity in accordance with the Internal Audit Strategic Plan defined for the triennium 2016 to 2018 and aligned with the BCH´s global strategy.

The Internal Audit Function carried out the envisaged Business Plan which was prepared on the basis of risk assessment criteria. The activities carried out included audit actions performed on the commercial network, business processes, back-up processes and IT.

Finally, the Internal Audit function also ensured the follow-up of the implementation of the recommendations and other risk exposure matters identified in its reports. Without prejudice to other means of follow-up, an Activity Report is submitted annually to the Board of Directors and periodically follow-up reports on the recommendations of the audit actions which have been approved by management.

Perspectives for 2019

Perspectives for 2019

Considering the global economic environment, the perspectives for growth of the African economy and in particular the Angolan economy, the Bank´s strategy continues to be one of focus on sustained growth, ensuring a flexible structure which allows a fast and efficient response to the demanding business and regulatory challenges in the financial sector. In that way, in 2019, BCH is committed to:

- Continue to offer a structure of differentiated financial products which can continue to meet the needs of our customers;

- Maintain the commitment to the Bank´s sustained growth while preserving the profit margin;

- Continue to focus on strengthening its Control functions (Risk Management, Compliance and Internal Audit) by continuing the implementation of good practices in this area and improving the efficiency and effectiveness of internal processes, so at to comply with regulatory requirements in force;

- Monitor and implement in a rigorous and effective manner all regulatory changes applicable to the financial sector and the Bank;

- Further commit to the definition and execution of training plans that reinforce the qualification of our employees and maintain the high levels of motivation of our teams.

Proposed Appropriation of Profit

Key Indicators

The profit after tax in 2018 of AKZ 6,630,044 thousand will be appropriated as follows:

10% to Legal Reserves;
The remainder, to increase Retained Earnings.

The Board of Directors

Financial Statements

BCH Banco Comercial do Huambo

Financial Statements

Income Statement as at 31 December 2018 and 2017

Banco Comercial do Huambo, S.A.

Income Statement
for the years ended 31 December 2018 and 2017

(thousands of kwanzas)

	Notes	31.12.2018	31.12.2017
Interest and similar income	4	4 568 162	2 084 188
Interest expense and similar charges	4	(843 713)	(279 603)
Net Interest Income		**3 724 449**	**1 804 585**
Dividend income	5	-	-
Fee and commission income	5	4 690 634	2 600 644
Fee and commission expense	5	(273 624)	(158 799)
Income from foreign currency transactions	6	1 747 675	1 636 146
Other operating income (expense)	7	(235 788)	99 997
Net operating income		**9 653 346**	**5 982 573**
Staff costs	8	(471 978)	(386 422)
Utilities and contracted services	9	(787 063)	(560 961)
Depreciations and amortizations for the year	17 e 18	(122 922)	(90 376)
Provisions net of write-offs	23	-	-
Impairment losses on loans, net of reversals and recoveries	15	(8 082)	(9 466)
Profit before tax		**8 259 526**	**4 935 348**
Corporate income tax			
Current	19	(1 629 482)	(932 405)
Deferred	19	-	1 734
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		**6 630 044**	**4 004 677**
Profit (loss) from discountinued operations		-	-
Net profit for the year		**6 630 044**	**4 004 677**
Average number of issued ordinary shares		10 000 000	10 000 000
Basic earnings per share (in kwanzas)	25	663	400
Diluted earnings per share (in kwanzas)	25	663	400

The accompanying notes are na integral part of these financial statements

BCH Banco Comercial do Huambo

Financial Statements

Balance Sheet as at 31 December 2018 and 2017

Banco Comercial do Huambo, S.A.

Balance Sheet

as at 31 December 2018 and 2017

(thousands of kwanzas)

	Notes	31.12.2018	31.12.2017
Assets			
Cash and deposits with central banks	10	7 500 150	3 919 267
Deposits with other banks	11	3 848 256	779 821
Loans and advances to central and other banks	12	5 976 911	1 382 778
Financial assets at fair value through other comprehensive income	13	43 656	-
Available-for-sale financial assets	13	-	43 656
Financial assets at amortised cost	14	17 917 402	-
Investments held to maturity	14	-	22 171 931
Loans and advances to customers	15	1 316 865	112 283
Non-current assets held for sale	16	6 221	6 221
Other tangible assets	17	824 248	732 213
Intangible assets	18	122 547	110 616
Current tax assets	19	58 243	-
Deferred tax assets	19	1 253	1 253
Other assets	20	181 042	114 975
Total Assets		**37 796 794**	**29 375 014**
Liabilities			
Deposits from central and other banks		-	-
Customer accounts and other borrowing	21	14 448 356	15 728 826
Provisions	22	21 917	21 917
Current tax liabilities	19	1 629 482	883 557
Deferred tax liabilities	19	-	-
Other liabilities	23	4 049 893	1 714 201
Total Liabilities		**20 149 648**	**18 348 501**
Equity			
Share Capital	24	10 000 000	3 000 000
Other reserves and retained earnings	25	1 017 102	4 021 836
Net profit		6 630 044	4 004 677
Total Equity		**17 647 146**	**11 026 513**
Total Liabilities and Equity		**37 796 794**	**29 375 014**

The accompaning notes are an integral part of these financial statements

BCH Banco Comercial do Huambo

Financial Statements

Statement of Comprehensive Income as at 31 December 2018 and 2017

Banco Comercial do Huambo, S.A.

Statements of income and other comprehensive income
for the years ended 31 December 2018 and 2017

(thousands of kwanzas)

	Notes	31.12.2018	31.12.2017
Net profit for the year		6 630 044	4 004 677
Other comprehensive income		–	–
Rendimento integral individual do exercício		**6 630 044**	**4 004 677**

The accompaning notes are an integral part of these financial statements

Statement of changes in equity as at 31 December 2018 and 2017

Banco Comercial do Huambo, S.A.

Statements of changes in equity
for the years ended 31 December 2018 and 2017

(milhares de Kwanzas)

	Notes	Share Capital	Other Reserves and Retained earnings				Net Profit (loss)	Total Equity
			Legal Reserve	Effect of changes in accounting policies	Other Reserves and Retained Earnings	Total Other Reserves and Retained Earnings		
Balance as at 1 January 2017		**3 000 000**	**221 122**	**1 121**	**1 139 021**	**1 361 264**	**2 660 572**	**7 021 836**
Constitution of legal reserve	25 and 26	–	265 196	–	–	265 196	(265 196)	–
Transfer to retained earnings	25 and 26	–	–	–	2 395 376	2 395 376	(2 395 376)	–
Effect of change in accounting policies	25 and 26		–	–	–	–		–
Resultado líquido	25 and 26	–	–	–	–	–	4 004 677	4 004 677
Balance as at 31 December 2017		**3 000 000**	**486 318**	**1 121**	**3 534 397**	**4 021 836**	**4 004 677**	**11 026 513**
Effect of change in accounting policies - IFRS 9		–	–	(9 411)	–	(9 411)	–	(9 411)
Balance as at 1 January 2018		**3 000 000**	**486 318**	**(8 290)**	**3 534 397**	**4 012 425**	**4 004 677**	**11 017 102**
Appropriation of net profit	25 e 26	–	400 468	–	3 604 209	4 004 677	(4 004 677)	–
Increase of capital	25 e 26	7 000 000	–	–	(7 000 000)	(7 000 000)	–	–
Effect of change in accounting policies	25 e 26	–	–	–	–	–	–	–
Net Profit	25 e 26	–	–	–	–	–	6 630 044	6 630 044
Balance at 31 December 2018		**10 000 000**	**886 786**	**(8 290)**	**138 606**	**1 017 102**	**6 630 044**	**17 647 146**

The accompaning notes are an integral part of these financial statements

Financial Statements

Cash Flow Statement as at 31 December 2018 and 2017

Banco Comercial do Huambo, S.A.

Cash Flow Statement
for the years ended 31 December 2018 e 2017 (pro forma)

(thousands of kwanzas)

	Notes	31.12.2018	31.12.2017
Cash flows from operating activities			
Interest and similar income received		4 591 767	1 727 025
Interest expense and similar charges paid		(854 565)	(273 036)
Fees and commissions received		4 690 634	2 600 644
Fees and commissions paid		(273 624)	(158 799)
Credit Recoveries		–	–
Cash payments to staff and suppliers		(1 259 039)	(947 384)
		6 895 173	2 948 450
Changes in operating assets and liabilities			
Deposits with and from Central Banks		–	–
Financial assets at fair value through profit or loss		1 747 675	1 636 146
Loans and advances to banks		(4 594 132)	(1 382 778)
Deposits from banks		(36 189)	15 281
Loans and advances to customers		(1 213 718)	103 002
Customer deposits and other borrowings		(1 280 142)	3 953 507
Other operating assets and liabilities		2 431 345	1 588 382
Net cash from operating activities before corporate income tax		**3 950 012**	**8 861 990**
Corporate income tax paid		(941 800)	(968 702)
Net cash from operating activities		**3 008 212**	**7 893 288**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associates		–	–
Sale of investments in subsidiaries and associates		–	–
Dividend received		–	–
Purchase/sale of available for sale financial assets		–	(87)
Sale of available for sale financial assets		–	–
Investments held to maturity		3 867 995	(12 177 539)
Sale of property, plant and equipment		–	–
Purchase/sale of property, plant and equipment		(226 889)	(191 470)
Net cash from investing activities		**3 641 106**	**(12 369 096)**
Cash from financing activities			
Purchase of treasury shares		–	–
Charges related to capital increase		–	–
Issue of bonds and other debt securities		–	–
Reimbursement of bonds and other debt securities		–	–
Issue of subordinated debt		–	–
Reimbursement of subordinated debt		–	–
Dividends paid on ordinary shares		–	–
Net cash from financing activities		**–**	**–**
Net increase (decrease) in cash and cash equivalents		**6 649 318**	**(4 475 808)**
Cash and cash equivalents at beginning of year		**4 699 088**	**9 174 896**
Effects of changes in exchange rates on cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents		6 649 318	(4 475 808)
Cash and cash equivalents at end of year		**11 348 406**	**4 699 088**
Cash and cash equivalents comprise:			
Cash and deposits with central banks	10	7 500 150	3 919 921
Deposits with other banks	11	3 848 256	779 167
Total		**11 348 406**	**4 699 088**

The accompaning notes are an integral part of these financial statements

Notes to the Financial Statements

1 – Introductory Note

The Banco Comercial do Huambo (Commercial Bank of Huambo) was incorporated by a public deed on 17 June 2009, hereinafter referred to as "Bank" or "BCH".

BCH is a regional bank, with head office in Huambo and its object is banking activity, supporting small and medium-sized companies, contributing strongly for the social and economic development of the region. The bank started its commercial activity on 16 July 2010.

BCH also supports its customers through a consultancy service, from setting up a company right through studies of financial and economic feasibility. This is an innovative service in the Angolan financial system, available at the branches in Huambo and Luanda.

Concerning the ownership structure and as mentioned in Note 28, the Bank is owned by Angolan shareholders, further details on which are provided in the same note.

2 – Accounting Policies

2.1 Basis of presentation

Under the provisions of Notice n.º 6/2016 of June 22 of the BNA (National Bank of Angola), the Bank´s financial statements are prepared on a going concern basis by using the Bank´s accounting books and records and in compliance with the International Accounting Standards/ International Financial Reporting Standards (IAS / IFRS). These financial statements refer to the Bank´s separate activity as at 31 December 2018 and were prepared in order to comply with the requirements for the presentation of separate accounts defined by the BNA.

The IAS / IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and by the respective predecessor bodies.

The National Bank of Angola ("BNA") expressed an interpretation that the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies (IAS "29") are not satisfied in order for the Angolan economy to be considered hyperinflationary for the year ended 31 December 2017 and 31 December 2018 and, consequently, the Board of Directors ruled not to apply the provisions of the standard to its financial statements for the year then ended.

The financial statements hereby presented refer to the year ended 31 December 2018.

The accounting policies presented in this note were applied consistently wit those used in the financial statements as of 31 December 2017, except for the changes arising from the adoption of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. IFRS 9 replaces IAS 39 "Financial instruments– Recognition and Measurement" and establishes new rules for the recognition of financial instruments presenting significant changes with regard to impairment requirements. The requirements of IFRS 9 are generally applied retrospectively through adjustment of the opening balance to the date of initial application.

BCH chose not to restate comparative information for prior periods in respect of changes in classification and measurement (including impairment). Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognised in Changes in Accounting Policies as of 1 January 2018, as described in note 30.

The financial statements are stated in thousands of Kwanzas, rounding to the nearest thousand and were prepared on historical cost basis, except for the assets accounted for at fair value, namely financial assets held for trading, at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The preparation of financial statements in accordance with IAS/IFRS requires the Bank to make judgments and estimates and use assumptions that affect the application of the accounting policies and the stated amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences when compared to reality may impact the current estimates and judgments. The areas involving a higher level of judgment or complexity or areas where assumptions and estimates are significant to the preparation of the financial statements are analysed in Note 3.

The financial statements for the year ended 31 December 2018 were approved at the annual meeting of the Board of Directors on 29 April 2019.

2.2 Foreign currency transactions

Assets and liabilities in foreign currency are recorded pursuant to the multi-currency system, that is, in the respective currency of denomination.

Foreign currency transactions are translated into Kwanzas (functional currency) at the rate ruling on the date of the transaction.

Monetary assets and liabilities in foreign currency are translated into Kwanzas (functional currency) at the period end exchange rate. Exchange gains and losses are taken to the income statement.

Non-monetary assets and liabilities in foreign currency are translated into Kwanzas according to the following method:

Recorded at historical cost – at the rate ruling on the date of the transaction.
Recorded at fair value– at the exchange rate ruling at the date the fair value is determined with fair value changes in profit or loss, except for financial assets at fair value through other comprehensive income, which difference is reported in equity.

The Bank´s financial statements for the years ended 31 December 2018 and 2017 are expressed in Angolan kwanzas, and the assets and liabilities denominated in other currencies are translated into the national currency on the basis of the average indicative exchange rate published by the National Bank of Angola on those dates. At 31 December 2018 and 2017, the average exchange rates of the Angolan kwanza (AOA) against the U.S. dollar (USD) and the Euro (EUR) were as follows:

	2017	2018
USD	165,924	308,607
EUR	185,400	353,015

2.3 Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short-term, and which are recognised on the date cash is advanced to the customer.

Loans and advances to customers are initially recorded at fair value and subsequently measured at amortised cost less impairment losses. The associated transaction costs are part of the effective interest rate of these financial instruments. Interests recognised by using the effective interest method are recognised in net interest income.

For the calculation of the effective interest rate the future cash flows are estimated considering all the contractual terms of the financial instrument. The calculation includes fees and commissions which are an integral part of the effective tax rate, such as opening fee, management fee, renewal fee, transaction costs and all discounts directly related to the transaction.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, by using the effective interest rate method, and are presented in the balance sheet less impairment losses.

Loans and advance to customers are derecognised from the balance sheet when (i) the Bank´s contractual rights to the cash flows have expired (ii) the Bank has transferred substantially all risks and rewards of ownership or (iii) although the Bank has retained some but not substantially all risks and rewards of ownerships, the control over the assets has been transferred.

The classification and measurement of the Bank´s financial assets under IFRS 9 results from the combination between the business model chosen for the management of these assets and the result from the tests carried out to assess compliance with SPPI criterion.

In that sense, the business model defined for the BCH´s credit portfolio is Hold-to-Collect ("HTC") and accordingly all loans and advances to customers will be classified as HTC and measured at amortised cost, except for when there is non-compliance with the SPPI criteria, in which case they must be classified into Fair Value through Profit or Loss ("FVTPL").

Impairment

The Bank´s policy is to regularly assess whether there is objective evidence of impairment in its loan portfolio. Identified impairment losses are recognised in the income statement and are subsequently reversed through profit or loss if the amount of the impairment losses decreases in a subsequent period.

After initial recognition, a customer loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when there is objective evidence of impairment as a result of one or more events that has(have) an impact on the recoverable amount of the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated. The loan portfolio is subject to impairment tests on a monthly basis under the requirements of IFRS 9 - Financial Instruments. This standard establishes that a financial asset is impaired when one or more events that have a negative impact on the estimated future cash flows of the financial assets occur.

Identified impairment losses are recognised in the income statement and are subsequently reversed through profit or loss if the amount of the impairment losses decreases in a subsequent period.

IFRS 9 replaces the incurred loss model of IAS 39 with expected credit loss model – ECL, which considers expected losses over the life of the financial instruments. Thus in the determination of the expected credit losses macroeconomic factors are taken into account, changes in which impact the expected losses.

The Bank calculates impairment of financial instruments, mainly with regard to loans and advances to customers on the basis of the expected credit loss model (ECL). Under the ECL model, assets subject to impairment calculation must be classified in one of the following stages, according to changes in credit risk since initial recognition of the asset:

Stage 1 – Includes assets for which there had not been a significant increase of credit risk since initial recognition. For these assets 12-month expected credit losses are recognised, as from the reporting date;

Stage 2 – In case there has been a significant increase in risk since initial recognition, the assets are classified in stage 2. In this stage, lifetime ECL are recognised for these assets.

Stage 3 – assets that are impaired must be classified in this stage, with lifetime ECL recognised. In relation to stage 2, the difference is that interest revenue is calculated on the net carrying amount whereas in stage 2 it is on the gross carrying amount.

Depending on the classification of operation´s stage, credit losses are estimated according to the following criteria:

12-month expected credit losses: expected loss that results from a default event occurring within 12 months after the calculation date, applied for operations in stage 1; and,

Lifetime expected credit losses: expected loss that results from the difference between contractual cash flows and the cash flows the entity expects to receive until the maturity of the contract. That is, the expected loss is a result of all possible default events until maturity, applied to operations in stage 2 and 3.

IFRS 9 - "Financial Instruments" does not define a concept of default, however the Bank applies the criterion of more than 90 days past due.

The impairment calculation of IFRS 9 is complex and requires management decisions, estimates and assumptions, particularly in the following area:

Assessment of the existence of significantly increased credit risk since initial recognition.

Pursuant to IAS 39 there are two methods for the calculation of impairment losses : (i) individual assessment and (ii) collective assessment

(i) Individual Assessment

The assessment of an impaired loan on an individual basis is determined through case by case analysis of total credit exposure. For each loan considered individually significant, the Bank assesses at balance-sheet date whether there is objective evidence of impairment. The criteria defined by the Bank as to the identification of individually significant customers or economic groups were as follows

Segment	Criterion
Customers/economic groups for which there are objective evidence ofi mpairment.	0.1% of the institution´s own funds
Customers/economic groups for which there are not objective evidence ofi mpairment	0.5% of the institution´s owns funds

The overall amount of exposure of each customer/economic group does not take into account conversion factors for off-balance sheet exposures [CCF]

The amount of the loss is calculated as the difference between the present value of estimated cash flows, discounted at the original effective interest rate of each contract and the carrying amount of each loan, and losses are recognised in profit or loss. The carrying amount of the impaired loans is presented in the balance sheet net of impairment losses. If a loan has a variable interest rate, the used discount rate is the annual effective interest rate, applicable for the year in which the impairment was determined.
Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past-due event;
- The lenders for economic or contractual reasons relating to the borrower´s financial difficulty granting the borrower a concession that would not otherwise be considered;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for the financial asset because of financial difficulties; or;
- The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

(ii) Collective Assessment

Loans for which no objective evidence of impairment exists are grouped with other loans with similar credit risk characteristics in order to be collectively assessed for impairment. This analysis allows the Bank to recognise losses which in individual assessment would only have been identified in future periods.

Impairment losses based on the collective assessment are calculated through homogeneous groups of loans that are considered individually insignificant; Impairment losses in collective terms are determined considering the following aspects :

- Historical credit loss experience in similar credit risk portfolio;

- Knowledge of the current economic and credit environment and its influence on the level of historical losses; and

- Estimated period between the occurrence of the loss and its identification.

The methods and assumptions used to estimate future cash flows are regularly reviewed by the Bank in order to monitor the differences between loss estimates and actual losses.

Segmentation of portfolio of loans for collective assessment

Pursuant to IFRS 9, the loans individually considered are included in segments with similar credit risk, by taking into account the Bank´s management model and subject to collective assessment of impairment. In that way, it is intended to ensure that for the purposes of assessing these exposures and setting credit risk parameters, the same present similar credit risk characteristics.

Regarding segmentation of exposures for the purposes of calculating credit risk parameters, the Bank decided that the same should be carried out on the basis of two vectors, which are, segmentation per type of customer and product (sub-populations) and risk buckets. Customers/operations are classified at each point time according to these two vectors, which are the basis for subsequent estimation of credit risk parameters by segment.

In order to define sub-populations within the credit risk parameters estimation, some characteristics of the credit operations, such as the type of customer and the type of product were considered to be relevant segmentation factors.

In order to ensure the existence of a portfolio segmentation consistent with the regulatory requirements and with the necessary statistical relevance for the determination of robust credit risk parameters, the following segmentation was determined:

Type of customer	Segmentation
Individual customers	Overdrafts – Individuals
	Consumer credit
	Home loans
	Personal loans
	Employee
Corporate customers	Current accounts
	Overdrafts - Corporate
	Corporate loans
	Guarantees given and LCs

Collateral Valuation Process

Collateral valuation is ensured on a regular basis so that the Bank has up-to-date information on the value of these instruments and, consequently, its capacity to mitigate credit risks.

In the context of the conditions for loan approval whenever the need to obtain a guarantee from the customer is defined, if the identified type of collateral or guarantee implies a certified valuation, a request for collateral valuation should be made to the Credit Division so that it can contact and initiate the process with the external valuation companies, with which the Bank has an agreement.

Regarding the process of periodic revaluation of collaterals, based on the requirements of Notice 10/2014, namely with regard to the set criteria for new valuation of mortgage collaterals, it was stipulated that the Credit Division will be responsible for identifying collaterals that should be subject to revaluation and initiate the respective process with external appraisers.

Within the scope of the impairment model, the Bank defined a set of guarantees that can back up the credit operations, meanwhile, contracted.

Whenever relevant within the process of loan recovery and in order to determine the recoverable amount of the loan through execution of existing guarantees or to support a credit restructuring operation, the Credit Division or Legal Department requests the revaluation of the guarantees associated with the operations under its management.

Reversal of impairment

The analysis and subsequent determination of the amount of an existing impairment loss in prior years, may only result in a reversal if it is related to an event occurring after the impairment was recognised (ex. improvement of the client´s credibility or additional collateral). The amount of the reversal can not exceed the accumulated impairment amounts previously recorded.

Written-off loans

The writing-off of loans is performed when there are no real perspective to recover the loans financially, and for collateralised loans, when the funds from the execution of the collaterals have already been received through the use of impairment losses when they correspond to 100% of the value of loans considered non-recoverable.

Modification of loans and advances to customers

Restructuring of a loan is any modification to the initial terms of a customer loan due to financial difficulties of the borrower, which results in modification of the rights and obligations of the parties.
The majority of loans undergoing restructuring due to financial difficulties of the borrower is subject to a minimum cure period of 12 months. In case of successive modifications, the cure period restarts at the date of the last restructuring.

If a new financial assets is recognised as a result of contractual modification of a financial asset, previously designated as restructured, it will keep this designation and the cure period is also restarted after at the date of the last restructuring.

2.4 Financial Instruments

The financial instruments are presented, classified and measured pursuant to the principles established in IAS 32 – Financial Instruments: presentation and IFRS 9 – Financial instruments.

According to IFRS 9 - ''Financial Instruments'' can be classified into three measurement categories (amortised cost, fair value through profit or loss and fair value through other comprehensive income).
The classification of the assets depends on the contractual cash flows and the associated business model for their management.

As to the characteristics of the contractual cash flows, the criterion is to assess whether they represent solely payments of principal and interest.

As to the associated business model, the standard identifies two models of relevance to the Bank´s activity:

Business model the objective of which is achieved by holding the asset in order to collect contractual cash flows (Hold-to-Collect); and,

Business model the objective of which is achieved by both collecting contractual cash flows and selling the asset. (Hold-to-Collect and Sell).

Financial assets and liabilities are recognised in the balance sheets at their trading or contractual date, unless it is established in the contract or imposed by legal or regulatory regime that rights and obligations inherent to the transacted values are transferred at a different date, in which case this latter date becomes the relevant date.

A financial asset or a financial liability is initially recognised at fair value plus transaction costs directly arising from its acquisition or issuance, except for items designated at fair value trough profit or loss in which case the transaction costs are immediately recognised as expense in the income statement.

Financial assets are included for valuation purposes in one of the following categories:

- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income;
- Financial assets at fair value through profit or loss.
- The classification in the above categories is carried out by considering both of the following elements:
- The characteristics of the contractual cash flows of the financial assets; and
- The Bank´s business model for the management of the financial assets.

Financial assets at amortised cost

The portfolio of financial instruments at amortised cost contains financial assets which meet both of the following conditions :

- The asset is held within a business model whose objective is to hold the instrument in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank´s business model is based on the acquisition of treasury bills and government bonds with the objective to collect the contractual cash flows, i.e., principal and interest (and revaluations in the case of indexed instruments). In this way, the Bank set the following limits for holding instruments under this category:

- Sale of 10% of the portfolio value is sold during the period;
- Existence of more than one monthly sale.

If the limits defined and approved by the Bank are exceeded, according to the regulation, the entire portfolio should be measured at fair value.

Income and expense of financial instruments at amortised cost are recognised according to the following criteria:

Interest is recognised in profit or loss, by using the effective interest rate of the transaction on the gross carrying amount of the transaction (except for impaired assets in which the interest rate is applied on the carrying amount net of impairment);

Other changes in value will be recognised as income or expense when the financial instrument is derecognised from the balance sheet when it is reclassified and in the case of financial assets, when there are impairment losses or recovery gains.

Government bonds issued in national currency indexed to the US dollar and those indexed to the Consumer Price Index are subject to revaluation of the nominal value of the security according to the variation of the respective indexes. Thus the result of the referred revaluation of the security is reflected in the income statement of the year in which it takes place under the item "foreign exchange results".

When there is objective evidence that an investment at amortised cost is impaired, the potential impairment loss corresponds to the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows (excluding the effect of future events), discounted at the original effective interest rate, calculated at initial recognition, and it must be recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the allowance is adjusted and the amount of the reversal is recognised in the income statement.

Financial assets at fair value through other comprehensive income

The portfolio of financial instruments at fair value through other comprehensive income contains financial assets that meet both of the following conditions:

- The asset is held within a business model whose objective is both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Income and expense of financial instruments at fair value through other comprehensive income are recognised according to the following criteria :

- Interest, or where applicable dividends are recognised in profit or loss, for the interest on the same basis as for Amortised Cost assets;
- Foreign exchange differences are recognised in profit or loss, for monetary financial assets, and in other comprehensive income for non-monetary financial assets;
- For debt instruments, credit impairment losses/reversals are recognised under the heading "Results in financial assets at fair value through other comprehensive income" or "impairment of other financial assets" in the income statement;
- Other changes in value are recognised in other comprehensive income.

All financial assets not measured according to the criteria previously defined as at amortised cost or at fair value through other comprehensive income , are measured at fair value through profit or loss.

Financial assets mandatorily accounted for at fair value through profit or loss

The portfolio of financial instruments mandatorily accounted for at fair value through profit or loss contains all instruments for which at least one of the following requirements is met :

- Assets originated or acquired with the purpose of selling in the short term;
- Assets held as an integral part of an asset portfolio, normally securities, for which there is a recent pattern of short-term profit taking;
- Derivative instruments that do not comply with the definition of a financial collateral agreement and have not been designated as a hedging instrument.

Income and expense of financial instruments at fair value through profit or loss are recognised according to the following criteria:

- Changes in fair value are directly recognised in profit or loss, separating between the part attributable to the income from the instrument which is recognized as interest or dividends according to its nature and the rest which is recognised as results from financial operations in the corresponding heading;
- Interest on debt instruments is calculated by applying the effective interest method.
- As at 31 December 2018 and 2017, the Bank does not hold any financial asset at fair value through profit or loss.

Financial Liability

A financial instrument is classified as financial liability when there is a contractual obligation to deliver cash or another financial asset , regardless of its legal form.

Non-derivative financial liabilities include deposits from banks and from customers, loans and debt securities.

These financial liabilities are initially recognised at fair value and subsequently at amortised cost. The associated transaction costs are part of the effective interest rate. The interest recognised by effective interest method is taken to net interest income.

Gains and losses arising from repurchase of other financial liabilities are recognised in the income statement when they occur.

The Bank classifies its financial liabilities, except guarantees and commitments, measured at amortised cost, on the basis of the effective interest method..

Identification and measurement of impairment

In addition to the impairment analysis on loans and advances to customers, at each balance sheet date an assessment is made as to the existence of objective evidence of impairment for all other financial assets that are not recorded at fair value through profit or loss. A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events occurring after its initial recognition that have an impact on the future cash flows of the asset that can be reliably estimated.

In accordance with IFRS, the Bank regularly assesses whether there is objective evidence that a financial asset or group of financial assets shows signs of impairment.

A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events occurring after its initial recognition, such as: (i) for shares and other equity instruments, a continuing or significant decline in their market value below acquisition cost, and (ii) for debt securities, when such event (or events) has (have) an impact on the estimated value of the future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

For financial assets at amortised cost, impairment losses correspond to the difference between the carrying amount of the asset and the present value of estimated future cash flows (considering the recovery period) discounted at the original effective interest rate of the financial asset and are recognised in the income statement. These assets are presented on the balance-sheet net of impairment. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, determined on the basis of each contract. Regarding financial assets at amortised cost, if in a subsequent period the amount of the impairment loss decreases and such decrease can be objectively related to an event occurring after the impairment loss was recognised, the previously recognised impairment is reversed through profit or loss.

If there is evidence that a financial asset through other comprehensive income is impaired, the potential cumulative loss recognised in reserves, measured as the difference between the acquisition cost and the current fair value, net of any impairment loss on the financial asset previously recognised in the income statement, is taken to the income statement. If in a subsequent period the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through profit or loss up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except for shares and other equity instruments for which gains are recognised in reserves.

In the portfolio of financial instruments, impairment is calculated by attributing:

- Probability of Default (PD) which derives from the credit rating of the issuer or the counterparty, respectively,
- Loss Given Default(LGD) which results from market parameters.

Offseting of financial instruments

The Bank undertakes to offset financial assets and financial liabilities, presenting a net amount on the balance sheet when, and only when, the Bank has legally enforceable right to setoff the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously

Income and expenses are offset only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or, in its absence the most advantageous market to which the bank has access to make the transaction at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value is determined according to evidence of fair value on the market, namely:
Level 1 – Fair value is determined on the basis of prices, quoted in active markets;
Level 2 – Fair value is determined on the basis of inputs observable in active markets;
Level 3 – Fair value is determined on the basis of data, unobservable in active markets.

2.5 Equity instruments

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

Transaction costs directly arising from the issuance of equity instruments are recognised in equity as a deduction from the value of issuance. The amounts paid and received from the purchase and sale of equity instruments are recognised in equity, net of transaction costs.

Income from equity instruments (dividends) are recognised when the shareholder´s right to receive payment is established and deducted from equity.

2.6 Other tangible assets

Recognition and measurement

The tangible assets are carried at cost less accumulated depreciation and impairment losses. The cost includes expenses arising from the acquisition of the assets.

Subsequent costs

Subsequent costs are recognised as a separate asset when it is probable that the future economic benefits associated with the asset will flow to the Bank. Costs with maintenance and repair are recognised as cost as they are incurred according to the accrual basis of accounting, under "General Administrative Expenses"

Depreciation

Land is not depreciated. Depreciation is calculated using the straight-line method over the useful life of the item of property and equipment, which corresponds to the period that the asset is expected to be available for use, according to the following expected useful life periods :

	Number of years
Property for own use	50
Works on leased property	10
Vehicles	3
Office equipment	10
Machinery and tools	6 to 7
Computers and similar equipment	3
Fixtures and fittings	10

Depreciation of the remaining assets is recorded in costs for the year.

When there is an indication that an asset may be impaired, IAS 36 Impairment of assets requires that its recoverable amount is calculated and an impairment loss should be recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the higher of an asset´s net selling price and its value in use, and the latter is calculated on the basis of the present value of future cash flows expected to be derived from the ongoing use of the asset or from its disposal at the end of its useful life.

2.7 Intangible assets

Software

Costs incurred in acquiring software from third parties are capitalised, as well as the additional expenses incurred by the Bank necessary for its implementation. These costs are amortised on a straight-line basis over the estimated useful life, which is normally 5 years.

Expenditure on internally developed software, which is expected to generate future economic benefits beyond one financial year, is recognised and recorded as intangible assets.

All other expenses related to computer services are recognised as costs when incurred.

2.8 Non-current assets held for sale

Non-current assets or disposal group (group of assets with associated liabilities, which include at least one non-current asset) are classified as held for sale when there is an intention to dispose of the referred assets and liabilities and the assets or group of assets are available for immediate sale and the sale is highly probable.

The Bank also classifies as non-current assets held for sale all non-current assets or a group of assets acquired exclusively with a view to their subsequent disposal, which are available for immediate sale and the sale is highly probable. In order for an asset (or a group of assets and liabilities) to be classified under this heading, the following requirements must be met:

- The sale is highly probable;
- The asset is available available for immediate sale; and,
- It should be expected that the sale will take place up to 12 months after the asset´s classification in under this heading. The assets in this item are not amortised and are measured at the lower of carrying amount and fair value less costs to sell. The fair value of these assets is determined on the basis of expert assessments. If the carrying amount is greater than the fair value less costs to sell, impairment losses are recognised under "Impairment of other assets net of reversals and recoveries".

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

The Bank also classifies in non-current assets held for sale real estate property acquired through foreclosure, which is initially measured at the lower of its fair value less costs to sell and the carrying amount of the outstanding loan on the date of the judicial or non-judicial foreclosure.

The fair value is based on the market value which in turn is determined on the basis of the expected selling price estimated through periodical evaluation carried out by the Bank.

Subsequently these assets are measured at the lower of their carrying value and the corresponding fair value less costs to sell and are not depreciated. In case of unrealised losses , these are recognised as impairment losses in the income statement.

An extension of the period during which the sale is required to be completed does not exclude an asset from being classified as held for sale, if the delay is caused by events and circumstances beyond the control of the Bank and there is sufficient evidence that the Bank continues committed to its plan to sell the asset. Furthermore, under the current legislation of the National Bank of Angola, BCH after 12 months from recognising the asset as "Non-current asset held for sale" asks the BNA for a permission to continue recognition under this item and reports on the efforts made towards its sale. If consequently the BNA does not Grant permission, the BCH will transfer the asset from "Non-current assets held for sale" to "Other Assets" at the same carrying amount, continuing the efforts towards its sale.

2.9 Leases

The Bank classifies leases as operating or finance according to their substance and not their legal form. Leases in which the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases. All other leases are classified as operating.

Finance leases:

From a lessee perspective, finance lease contracts are recognised on their commencement date as an asset and liability at the fair value of the leased property, which is equivalent to the present value of the future lease instalments. Instalments comprise an interest charge and repayment of principal . Financial charges are recognised as costs over the lease term, in order to give a constant periodic rate of interest on the outstanding balance of the liability for each period. From a lessor perspective, assets held under a finance lease are recognised in the balance sheet as loans granted to an amount equal to the net investment made in the leased assets. Instalments comprise interest income and repayments of principal. The recognition of the interest reflects a constant periodic rate of return on the outstanding net investment of the lessor.

Operating leases:

Payments made by the Bank in the light of operating lease contracts are charged to the income statement in the periods to which they relate

2.10 Corporate income tax

The Bank is subject to the tax regime set forth in the Industrial Tax Code in force in Angola.
The corporate income tax for the year is determined by applying a 30% rate on total pre-tax profit which is adjusted according to specific additions and deductions contained in the tax legislation in force. In fiscal terms, the Bank is considered a Group A taxpayer.

With the publication of Law 19/14 which came into force on 1 January 2015, the corporation tax is subject to provisional advance payment by a single instalment made in August and calculated by applying a rate of 2% on net operating income for the first six months of the previous fiscal year, excluding income subject to capital income tax, regardless of the existence of taxable income in the year.

Tax returns are subject to review and correction by the tax authorities for a period of 10 years, which may result in possible corrections to the taxable income for the years 2014 to 2018.

The Bank is still subject to the payment of Urban Property Tax (UPT) at a 0.5% rate on the value of the properties destined for its normal operation, as defined in Law No. 18/11 of April 21.

The Bank is also subject to indirect taxes, such as customs duties, Stamp Duty, Consumption Tax, as well as other taxes.

Capital Income Tax (CIT)

Presidential Legislative Decree No. 5/11, of 30 December, introduced several legislative changes to the CIT Code, following the Tax Reform currently under way.

Capital Income Tax is levied on income from financial investments of the Bank, namely income from interbank investments, liquidity-providing operations and interest on central bank securities.

The general rate is 10% but a reduced rate of 5% (in the case of income from public debt securities with a maturity of three years or more) or a rate of 15% may be applied. Pursuant to para 1(a) of article 47, the income subject to CIT will be deducted from the taxable corporate income.

Notwithstanding the foregoing, with regard to income derived from public debt securities, according to the last understanding of the Tax Authority addressed to ABANC (letter with reference number 196/DGC/AGT/2016 of 17 May 2016), only income from securities issued on or after 1 January 2012 is subject to this tax.

We also notice that according to the position of the Tax Authority, the revaluation of the public debt securities issued in national currency but indexed to foreign currency, and issued since 1 January 2012, should be subject to corporate income tax until the National Bank of Angola is in a position to deduct at source the CIT.

Deferred taxes

Deferred taxes are calculated according to the comprehensive balance sheet method, on temporary differences between the carrying amount of the assets and liabilities and their tax base, using the rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the temporary differences are reversed.

Deferred tax liabilities are recognised for all taxable temporary differences, except for: goodwill, not deductible for tax purposes; differences resulting from the initial recognition of assets and liabilities that do not affect neither the accounting nor the taxable profit, and differences related to investments in subsidiaries to the extent that they are not likely to reverse in the future.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised (including unused tax losses).

As provided for in IAS 12 – Income taxes, paragraph 74, the Bank can offset deferred assets and liabilities whenever: (i) it has the legal right to settle current tax assets and current tax liabilities; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxing authority on either the same taxable entity or different taxable entities intend to settle current tax liabilities and assets on a net basis or realise the assets and settle the liabilities at the same time, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered

2.11 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 for the year 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 paid 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 such liability can be estimated reliably.

2.12 Provisions

Provisions are recognised when (i) the Bank has a present obligation (legal or constructive), arising as a result of past practices or published policies which imply the acknowledgement of certain responsibilities, (ii) it is probable that its settlement will be required in the future, and (iii) a reliable estimate of the obligation can be made.

Provisions are measured, pursuant to the principles defined in IAS 37, at the most likely amount, at a probability-weighted expected value, and taking into account the risks and uncertainties inherent to the process.

If the effect of discounting is material, provisions correspond to the net present value of the expected future payments, discounted at a rate which takes into account the risk associated with the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate, and are reversed in profit or loss in proportion to the outflow of resources which are no longer probable.

Provisions are derecognised when they are used to settle the obligations for which were initially set up or in cases where the obligations extinguish.

2.13 Recognition of interest income and expense

Interest income and interest expense for all financial instruments (assets and liabilities) measured at amortised cost are recognised under the heading "Interest income and similar interest" or "Interest expense and similar charges" (net interest income), using the effective interest method. Interest calculated at the effective interest rate on financial assets at fair value through other comprehensive income is also recognised in net interest income as is interest on financial assets and liabilities at fair value through profit or loss.

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

When calculating the effective interest rate, the Bank estimates future cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions paid or received that are an integral part of the effective interest rate, transaction costs and all transaction-related premiums and discounts.
Regarding financial assets or a groups of similar financial assets for which impairment losses have been recognised, the interest recorded in the income statement is determined on the basis of the interest rate that was used in the measurement of the impairment loss.

2.14 Recognition of dividends

Dividends (income on equity instruments) are recognised in the income statement when the shareholder´s right to receive payment is established. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other income, depending on the classification of the underlying instrument.

2.15 Recognition of fee and commission income

Fees and commissions are recognised according to the following criteria :

- when fees and commissions are earned over the period during which the services are provided , they are recognised in the income statement in the period to which they refer;
- when fees and commissions result from a single provision of services, their recognition takes place upon completion of the referred service.

When fees and commissions are an integral part of the effective interest rate of a financial instrument, income is recognised in net interest income.

2.16 Net trading income

Net trading income include gains and losses on financial assets and financial liabilities at fair value through profit or loss, namely trading portfolios.

2.17 Cash and cash equivalents

In terms of cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three months from the balance sheet date, including deposits with other credit institutions.

Cash and cash equivalents exclude the obligatory deposits with Central Banks.

2.18 Financial guarantees and Loan Commitments

Financial guarantees are contracts which oblige 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 aim of providing credit under predetermined conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially recognised at fair value, which initial fair value is later amortised over the useful life of the guarantee or commitment. Subsequently , the liability is recognised at the higher of the amortised value and the present value of any expected payment to settle.

2.19 Earnings per share

Basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares outstanding, excluding the average number of treasury shares.

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

If earnings per share change as a result of a share issuance at a premium or a discount or any other event that may alter the potential number of ordinary shares or changes in accounting policies, the calculation of earnings per share for all the presented periods is adjusted retrospectively.

3 – Key estimates and judgements used in the preparation of the financial statements

The IAS/IFRS set a series of accounting treatments and require the Board of Directors to make the necessary judgments and estimates as to decide which accounting treatment is most appropriate. The main accounting estimates and judgments used by the Bank in applying the accounting policies are presented in this Note, and aim to improve the understanding of how their application affects the Bank´s reported results and their disclosure. A broader description of the main accounting policies used by the Bank is presented in Note 2 to the financial statements.

Considering that in many situations there are alternatives to the accounting treatment adopted by the Board, the results reported by the Bank could be different had a different treatment been chosen. The Board of Directors considers that the choices made are appropriate and that the financial statements present fairly and appropriately the Bank's financial position and the results of its operations in all material respects.

3.1 Impairment losses on loans and advances to customers

The Bank carries out a periodic review of its loan portfolio in order to assess the existence of impairment losses, as referred to in the accounting policy described in Note 2.

The assessment process applied to the loan portfolio to determine whether an impairment loss should be recognised is subject to various estimates and judgments. The probability of default, risk ratings, collateral value associated with each transaction, recovery rates and estimation of both the amount and timing of future cash flows are considered in this assessment.

Alternative methods and the use of different assumptions and estimates could result in different amounts of impairment losses being recognised thus affecting the Bank´s results for the year.

3.2 Corporate Income Tax

Certain interpretations and estimates are required in determining the overall amount of tax on profits. There are several transactions and calculations for which the determination of taxes payable is uncertain during the normal business cycle.

Different interpretations and estimates could result in different amounts of corporate income tax , current and deferred, than those recognised in the financial statements for the year.

The Tax Authorities can review the calculation of the taxable income made by the Bank during a period of 10 years. Therefore, it is possible that corrections to the taxable income take place mainly resulting from differences in the interpretation of tax legislation but given that it is rather unlikely, the Board of Directors considers that they will not have material effect on the amounts recognised in the financial statements.

4 – Net Interest Income

The amount of this item is comprised of the following:

	31.12.2018			31.12.2017		
	From assets/ liabilities at amortised cost and available-for-sale assets	From assets/ liabilities at fair value through profit or loss	Total	From assets/ liabilities at amortised cost and available-for-sale assets	From assets/ liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances to customers	151 784	-	151 784	60 624	-	60 624
Interests from deposits with and loans and advances to banks	9 927	-	9 927	2 686	-	2 686
Interest from financial assets at amortised cost	4 406 451	-	4 406 451	2 020 878	-	2 020 878
Interest from derivatives held for risk management purposes			-	-	-	-
Other interest and similar income			-	-	-	-
	4 568 162	**-**	**4 568 162**	**2 084 188**	**-**	**2 084 188**
Interest expense and similar charges						
Interest on customer deposits and deposits from Central banks	843 713	-	843 713	279 603	-	279 603
Interest on debt securities			-	-	-	-
Interest on subordinated debt			-	-	-	-
Interest on derivatives held for risk management purposes			-	-	-	-
	843 713	**-**	**843 713**	**279 603**	**-**	**279 603**
Net Interest Income	**3 724 449**	**-**	**3 724 449**	**1 804 585**	**-**	**1 804 585**

The amount in Loans and advances to customers accounts for interest on loans and advances granted to customers.

The heading "investments at amortised cost" refers to interest on public debt securities, namely Government Bonds and Treasury Bills.

Income from public debt securities, such as Government Bonds and Treasury Bills issued by the Angolan State are subject to CIT and are deducted from the taxable income amount.

The heading "deposits from banks and customer accounts" refers to mainly interest paid to customers on the funds deposited with the Bank.

The significant increase in the amount of this item is due mainly to interest generated by government bonds during 2018.

5 – Net fee and commission income

The breakdown of this item is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Fee and commission income		
Banking Services rendered	4 690 634	2 600 644
	4 690 634	2 600 644
Fee and commission expense		
Commissions charged to customers	273 624	158 799
	4 417 010	**2 441 845**

(thousands of kwanzas)

	31.12.2018	31.12.2017
Fee and commission income		
Commisions for sale of banknotes	102 729	-
Commissions on Bank transfers	2 486 737	1 068 197
Commissions on Loan Approval	1 424 677	1 129 308
Money Transfers – Moneygram	15 205	126 696
Granting of guarantees and collaterral	505 461	180 548
Comissions for credit facility arrangement	7 129	3 017
Commissions for standard services (cards, clearing)	19 721	12 749
Other commissions	128 975	80 129
	4 690 634	2 600 644
Fee and commission expense		
Costs of importing banknotes	17 480	12 815
Fees for automated clearing	26 659	19 337
Charges for other services provided by third-parties	229 485	126 647
	273 624	158 799
	4 417 010	**2 441 845**

The significant variation in this item relates to commissions charged to customers for money transfers (mainly abroad).

6 – Income from foreign currency transactions

This item is comprised of the following:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Income from foreign currency transactions		
Foreign Currency Operations	1 123 941	1 733 514
Foreign Currency Revaluation	623 734	(97 368)
	1 747 675	1 636 146

The heading "Foreign Currency Transactions" translates the results from purchase and sale of foreign currency, according to the accounting policy in Note 2.2.

The heading "Currency Revaluation" includes net gain(loss) arising from the revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.2.

7 – Other income(expense)

This item is broken down as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Other operating income (expense)		
Provision of different services	-	-
Fines applied by other regulatory entities	(661)	(1 818)
Direct and indirect taxes	(449 611)	(51 114)
Other operating expenses	(14 282)	(12 058)
Other operating income	228 766	164 987
	(235 788)	99 997

8 – Staff costs

The total amount in this item is made up of the following :

(thousands of kwanzas)

	31.12.2018	31.12.2017
Members of management and supervisory boards		
Remunerations	123 220	106 842
Holliday allowances and Benefits for Christmas	25 460	17 404
Other allowances	36 392	31 351
Other remunerations and costs	3 597	29 652
Employees		
Remunerations	192 940	154 386
Holliday allowances and Christmas allowances	29 686	16 912
Other allowances	14 829	9 893
Other staff costs		
Social security costs	21 226	17 334
Insurance against accidents at work	24 627	2 647
	471 978	**386 422**

As at 31 December 2018 and 2017, the heading "Other Allowances" includes various allowances granted to the employees such as child benefit, representation allowance, housing benefit and allowance for errors.

Salary costs and other benefits attributed to the members of the management and supervisory bodies for the years 2018 and 2017 refer in their total to remunerations and other short-term benefits.

Remunerations of the members of the management and supervisory bodies are as follows:

(thousands of kwanzas)

	31.12.2018			31.12.2017		
	Board of Directors	Audit Committee	Total	Board of Directors	Audit Committee	Total
Remunerations and short-term benefits	13 967	930	14 897	11 576	500	12 076
Variable remunerations	-	-	-	-	-	-
Total	13 967	930	14 897	11 576	500	12 076

The number of Banks´ employees, considering permanent employees and those under fixed-term contracts, presents the following breakdown by professional category:

	31.12.2018		31.12.2017	
	Average for the year	End of the year	Average for the year	End of the year
Administration	3	3	3	3
Management	1	1	1	1
Head of Department	1	1	1	1
Administrative area	27	27	27	27
Commercial area	25	27	25	25
	57	**59**	**57**	**57**

9 – Utilities and contracted services

This item is comprised of the following:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Consulting	370 054	253 542
Leasing and rentals	170 682	130 082
Security, conservation and repair	115 343	78 113
Communications	43 923	31 549
Materials	67 947	44 041
Transports, travel and accommodation	6 991	5 462
Water, energy and fuel	3 520	4 379
Insurances	1 482	12 083
Publications, advertising and publicity	1 970	1 710
Donations	-	-
Other utilities	5 150	-
	787 062	560 961

The heading "Consulting, auditing and other specialised technical services" includes audits of the annual accounts, fiscal consulting and provision of IT services.

The heading "leasing and rentals" includes costs related to buildings rented by BCH.

10 — Cash and deposits with Central Banks

The total amount of this item is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Cash		
Banknotes in agencies	1 101 811	231 161
Banknotes in ATM	109 110	83 566
	1 210 921	314 727
Deposits with central Banks		
National Bank of Angola	6 289 228	3 604 539
	6 289 228	3 604 539
	7 500 150	3 919 267

The heading "Deposits with Central Banks" includes deposits of a mandatory nature at the National Bank of Angola, whose purpose is to satisfy the legal requirements regarding the constitution of minimum liquid requirements. They are non-interest bearing. at 31 December 2018 and 2017, here below is a breakdown of the deposits with the Central bank of Angola:

	31.12.2018			31.12.2017		
	USD	EUR	AOA	USD	EUR	AOA
Required reservs						
Kwanzas			1 875 799			2 914 488
American dollars	797 198		246 021	-	250 000	46 350
Euros		250 000	88 253	804 698	-	133 519
	797 198	250 000	2 210 073			3 094 357
Free reserves			4 079 155			510 182
			6 289 228			3 604 539

The balance in "Deposits with Central Banks" comprises non-interest bearing current accounts in national and foreign currencies, which purpose is to fulfil the requirements of minimum reserves set by the BNA as well as other liabilities.

On 4 June 2010, Regulation nº 3/2010 of BNA came into force, and determined that the mandatory reserves must be made in two currencies – AKZ for the accounts in AKZ which comprise the reserve base and USD for the accounts in foreign currency which comprise the reserve base.

In 2016, the BNA issued Instruction nº 2/2016 which establishes that the reserves in national currency must be 30%, except Local Government deposits which are subject to 50% and Central Government deposits subject to 75%. The coefficient of mandatory reserves in foreign currency is 15% for customer deposit balances and 100% for Local & Central Government deposit balances, as well as for Town Halls.

In addition, Instruction No. 04/2016 of May 13 defines that the reserve base, excluding Central Government, Local Government and Municipal Administration accounts is 30%, and banks can meet up to 20% with Government Bonds belonging to the banks' own portfolio, provided that those are issued as of January 2015 and to the amount of the financing agreements signed with the Ministry of Finance, according to the weights defined in the referred Instruction.

11 – Deposits with other banks

The balance of the item "Deposits with other banks" is broken down per type as follows:

(thousands of wanzas)

	31.12.2018	31.12.2017
Cash and deposits with other banks abroad	3 819 867	757 591
Pending operations and settlement	28 389	22 230
	3 848 256	779 821

As at 31 December 2018 and 2017, the item "Deposits with other banks abroad" includes the account balances at the respective banks and those amounts are part of the management of the Bank´s current operations without there being any associated remuneration.

12 – Loans and advances to central banks and other banks

This item, as at 31 December 2018 and 2017 is analysed as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Loans and advances to banks abroad		
Short-term loans and advances	5 968 048	1 382 778
Operations with resale agreement	–	–
Borrowings	–	–
Interest receivable	8 863	–
	5 976 911	1 382 778
Impairment losses	–	–
	5 976 911	1 382 778

These loans and advances were constituted as collateral for the issuance of documentary credits at the correspondent banks, and the significant increase in this balance was due to the increase in letters of credit in progress in 2018, amounting to Akz 2,434,390 thousand (Note 26).

The grading of Loans and advances to central banks and other banks by maturity as at 31 December 2018 and 2017 is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Up to 3 months	–	–
From 3 months to one year	5 976 911	1 382 778
From 1 year to 5 years	–	–
Over 5 years	–	–
Unlimited	–	–
	5 976 911	1 382 778

13 – Financial assets at fair value through other comprehensive income

As at 31 December 2018 and 2017 this item is as follows:

(thousands of kwanzas)

	Cost	Fair value reserve		Impairment losses	Carrying amount
		Positive	Negative		
Shares	43 656	–	–	–	43 656
Balance as at 31 December 2017	43 656	–	–	–	43 656
Shares	43 656	–	–	–	43 656
Balance as at 31 December 2018	43 656	–	–	–	43 656

As at 31 December 2018 and 2017, this item only includes the interest in the entity EMIS - Empresa Interbancária de Serviços, S.A.R.L. (interbank service company), with head office in Luanda, which is valued at acquisition cost since the Bank holds less than 10% of the capital.

EMIS was incorporated in Angola with the purpose to manage the electronic means of payment and complementary services.

In addition, as of this reporting date the accounts for 2018 of this company were not yet available.

During the years of 2017, 2016, 2015 and 2014 this entity did not distribute dividends.

The last available financial information on this company is as follows (amounts in thousands of AKZ):

				Financial Statements					
				31.12.2017			31.12.2016		
Affiliate	Head Office	Activity	Share Capital	Net Assets	Equity	Profit for the year	Net Assets	Equity	Profit for the year
EMIS - Empresa Interbancária de Serviços, Lda	Luanda	Banking Services	4 059 714	6 868 261	4 133 633	584 945	5 805 745	364 476	(912 344)

In accordance with the accounting policy described in Note 2.4, the Bank regularly assesses whether there is objective evidence of impairment in its portfolio of assets at fair value through other comprehensive income following the judgment criteria described in Note 29 As at 31 December 2018 and 2017, there was no evidence of impairment of the Bank's shareholding in EMIS.

The analysis of the financial assets at fair value through other comprehensive income, net of impairment losses, per levels of valorisation, as at 31 December 2018 and 2017, is presented as follows:

(thousands of kwanzas)

	Level 1	Level 2	Level 3	At cost	Total
Shares	43 656	-	-	43 656	43 656
Balance as at 31 December 2018	**43 656**	**-**	**-**	**43 656**	**43 656**
Shares	43 656	-	-	43 656	43 656
Balance as at 31 December 2017	**43 656**	**-**	**-**	**43 656**	**43 656**

Pursuant to the provisions of IFRS 13, the financial instruments are measured according to the valorisation levels described in Note 29.

14 – Financial assets at amortised cost

This item as at 31 December 2018 and 2017 is analysed as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Bonds and other fixed income securities		
From public issuers		
Treasury Bills	13 926 312	19 089 253
Government Bonds in national currency	3 632 879	2 883 008
Government Bonds in foreign currency	371 394	199 670
Impairment		
Government Bonds in national currency	(8 584)	–
Government Bonds in foreign currency	(4 599)	–
	17 917 402	22 171 931

The fair value of the portfolio of financial assets at amortised cost is presented in Note 29, under the disclosure requirements defined in IFRS 13.

The grading of investments at amortised cost as per maturity, is as follows:

(thousands of kwanzas)

	Less than three months	From three months to one year	From one to five years	Over five years	Total
From public issuers					
Treasury Bills	13 926 312				13 926 312
Government Bonds in national currency		3 624 295			3 624 295
Government Bonds in national foreign currency			366 795		366 795
Balance as at 31 December 2018	13 926 312	3 624 295	366 795	–	17 917 402
From public issuers					
Treasury Bills	5 906 182	13 183 071	–	–	19 089 253
Government Bonds in national currency	1 398 569	1 484 439	–	–	2 883 008
Government Bonds in national foreign currency	–	–	199 670	–	199 670
Balance as at 31 December 2017	7 304 751	14 667 510	199 670	–	22 171 931

BCH Banco Comercial do Huambo

15 – Loans and advances to customers

As at 31 December 2018 and 2017 this item has the following structure:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Internal Loans		
To companies		
Loans	–	50 195
Short-term loans	1 268 404	9 000
Overdrafts	78	192
	1 268 482	59 387
To individuals		
Loans	46 107	52 405
Overdrafts	8	5
Other	–	–
Other loans and advances	–	–
	46 115	52 410
	1 314 597	111 797
Past-due loans		
Up to 3 months	761	2 166
From 3 months to 1 year	2 957	2 114
From 1 to 3 years	92	48
Over 3 years	–	–
	3 810	4 328
	1 318 407	116 125
Accumulated impairment losses	(1 542)	(3 842)
	1 316 865	112 283

As at 31 December 2018 and 2017, the composition of the loan portfolio by residual maturity terms is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Up to 3 months	–	312
From three months to one year	1 276 083	54 850
From one to five years	16 457	38 367
Over five years	25 867	18 268
Undetermined	–	4 328
	1 318 407	116 125

The Bank classifies past-due instalments of principal or interest on the due date as past-due loans.

The movements occurred in impairment losses shown in assets as a correction of the loan amounts were as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Opening balance	3 842	7 735
Additions	11 293	12 697
Write-backs	(3 211)	(3 231)
Utilazation	(10 382)	(13 359)
Closing balance	**1 542**	**3 842**

Distribution of past-due customer loans by type of rate is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Fixed rate	1 279 150	14 672
Floating rate	35 447	97 125
	1 314 597	111 797

As at 31 December 2018 and 2017, total loans and impairment per segment and per type is as follows:

(thousands of kwanzas)

	Exposure 2018			Impairment 2018		
Segment	Total exposure	Performing loans	Non-performing loans	Total impairment	Performing loans	Non-performing loans
Companies	**1 268 648**	**1 268 482**	**166**	**72**	**72**	**-**
Current accounts	1 268 404	1 268 404	-	72	72	-
Overdrafts	244	78	166	-	-	-
Loans	-	-	-	-	-	-
Individuals	**49 759**	**46 115**	**3 644**	**1 470**	**1 256**	**214**
Overdrafts	3 537	8	3 529	-	-	-
Loans	8 416	8 302	114	372	158	214
Empployee	37 806	37 805	1	1 098	1 098	-
Other	-	-	-	-	-	-
Total	1 318 407	1 314 597	3 810	1 542	1 328	214

(thousands of kwanzas)

Segment	Exposure 2017			Impairment 2017		
	Total exposure	Performing loans	Non-performing loans	Total impairment	Performing loans	Non-performing loans
Companies	61 323	59 387	1 936	788	690	98
Current Acounts	9 000	9 000	–	381	381	–
Overdrafts	2 128	192	1 936	107	9	98
Loans	50 195	50 195		300	300	–
Individuals	54 802	52 410	2 392	3 054	981	2 073
Overdrafts	1 015	5	1 010	324	3	321
Loans	24 136	22 754	1 382	2 172	420	1 752
Employee	29 651	29 651	–	558	558	–
Total	116 125	111 797	4 328	3 842	1 671	2 171

The Bank´s loan portfolio is divided in three stages, as of 31 December 2018, in the following way:

(milhares de Kwanzas)

Segmento	Exposição em 31-12-2018				Imparidade 31-12-2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Empresas	1 268 404	244	–	1 268 648	72	–	–	72
Contas Correntes	1 268 404	–	–	1 268 404	72	–	–	72
Descobertos	–	244	–	244	–	–	–	–
Empréstimos	–	–	–	–	–	–	–	–
Particulares	46 107	3 652	–	49 759	1 470	–	–	1 470
Descobertos	–	3 537	–	3 537	–	–	–	–
Empréstimos	8 302	114	–	8 416	372	–	–	372
Colaborador	37 805	1	–	37 806	1 098	–	–	1 098
Outros	–	–	–	–	–	–	–	–
Total	1 314 511	3 896	–	1 318 407	1 542	–	–	1 542

As at 31 December 2018, total loans and impairment per year of lending to Companies is the following:

(thousands of kwanzas)

Segment	2015 and previous years			2016			2017			2018			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
Companies															
Accounts	–	–	–	–	–	–	–	–	–	3	1 268 404	–	3	1 268 404	–
Overdrafts	12	186	–	3	23	–	1	5	–	18	6	–	34	220	–
Loans	–	–	–	–	–	–	–	–	–	–	–	71	–	–	71
Individuals															
Overdrafts	293	751	–	153	409	–	888	2 313	–	1 303	87	–	2 637	3 560	–
Loans	8	8 939	104	1	621	–	–	–	–	4	8 935	268	13	18 495	372
Employee	7	12 842	932	–	–	–	4	9 650	10	4	5 236	157	15	27 728	1 099
Total	320	22 718	1 036	157	1 053	–	893	11 968	10	1 332	1 282 668	496	2 702	1 318 407	1 542

As at 31 December 2017, total loan and impairment per year of lending to Individuals is the following:

(thousands of kwanzas)

Segment	2014 and previous years			2015			2016			2017			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
Companies															
Accounts	–	–	–	–	–	–	–	–	–	2	9 000	381	2	9 000	381
Overdrafts	9	35	18	3	52	14	3	1	–	2	2 040	75	17	2 128	107
Loans	–	–	–	–	–	–	2	50 195	300	–	–	–	2	50 195	300
Individuals															
Overdrafts	145	198	67	231	297	108	447	502	149	12	18	–	835	1 015	324
Loans	5	14 860	313	4	4 999	105	3	4 277	1 754	–	–	–	12	24 136	2 172
Employee	3	13 427	305	2	3 788	80	–	–	–	2	12 436	173	7	29 651	558
Total	**162**	**28 520**	**703**	**240**	**9 136**	**307**	**455**	**54 975**	**2 203**	**18**	**23 494**	**629**	**875**	**116 125**	**3 842**

16 – Non-current assets held for sale

This item is comprised of:

(thousand of kwanzas)

	31.12.2018	31.12.2017
Non-current assets held for sale		
Property	6 221	6 221
Accumulated Impairment Losses	–	–
	6 221	6 221

Movements in this item for the years ended 31 December 2018 and 2017 are hereby presented:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Opening balance	6 221	6 221
Additions	–	–
Other movements	–	–
Closing balance	6 221	6 221

This amount refers to the transfer of property in lieu of payment.

17 — Other fixed assets

This item at 31 December 2018 and 2017 is presented as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Property		
For own use	206 819	206 819
Works on property	425 086	413 262
	631 905	620 081
Equipment		
Office	80 076	74 802
Banking	44 932	47 101
Security	10 456	7 175
Vehicles	2 722	2 722
Basic	1 544	1 544
Computer	735	735
Other	44 316	1 764
	184 781	135 843
Work in progress		
Other	229 131	115 314
	229 131	115 314
Gross Tangible Assets	1 045 817	871 238
Accumulated depreciation	221 569	139 025
Impairment	-	-
	824 248	732 213

Movements in "Other Fixed Assets" for the years ended 31 December 2018 and 2017 are presented below:

(thousands of kwanzas)

	Balance as at 31.12.2017	Aquisitions/ Additions	Disposals/ Write-offs	Transfers	Balance as at 31.12.2018
Property					
For own use	206 819	–	–	–	206 819
Works on property	413 262	11 824			425 086
	620 082	**11 824**	**–**	**–**	**631 905**
Equipment					
Office	74 802	5 275	–	–	80 077
Banking	47 101	–	(2 169)	–	44 932
Security	7 175	3 281	–	–	10 456
Vehicles	2 722	–	–	–	2 722
Basic	1 544	–	–	–	1 544
Computer	735	–	–	–	735
Other	1 764	42 552	–	–	44 316
	135 843	**51 107**	**(2 169)**	**–**	**184 781**
Work in progress					
Other	115 314	113 817	–	–	229 131
	115 314	**113 817**	**–**	**–**	**229 131**
	871 238	**176 748**	**(2 169)**	**–**	**1 045 817**
Accumulated depreciation					
Property					
For own use	(25 539)	(4 136)	–	–	(29 675)
Works on property	(55 632)	(51 326)			(106 958)
	(81 171)	**(55 462)**	**–**	**–**	**(136 633)**
Equipment					
Office	(31 608)	(9 914)	–	–	(41 522)
Banking	(19 754)	(5 351)	–	–	(25 105)
Security	(3 273)	(1 198)	–	–	(4 471)
Vehicles	(2 395)	(99)	–	–	(2 494)
Basic	(198)	–	–	–	(198)
Computer	–	(316)		–	(316)
Other	(626)	(10 205)		–	(10 831)
	(57 854)	**(27 083)**	**–**	**–**	**(84 937)**
Work in progress					
Other	–	–	–	–	–
	–	**–**	**–**	**–**	**–**
	(139 025)	**(82 545)**	**–**	**–**	**(221 570)**
	732 213	94 204	(2 169)	–	824 248

(thousands of kwanzas)

	Opening balance 01.01.2017	Aquisitions/ Additions	Disposals/ Write-offs	Transfers	Closing balance 31.12.2017
Property					
For own use	617 423	–	410 604	–	206 819
Works on property	50 499	362 763	–	–	413 262
	667 923	362 763	410 604	–	620 082
Equipment					
Office	55 439	19 363	–	–	74 802
Banking	34 805	12 296	–	–	47 101
Security	7 018	157	–	–	7 175
Vehicles	2 352	370	–	–	2 722
Basic	1 544	–	–	–	1 544
Computer	1 830	–	1 095	–	735
Other	99	1 665	–	–	1 764
	103 087	33 851	1 095	–	135 843
Work in progress					
Other	38 164	77 150	–		115 314
	38 164	77 150	–	–	115 314
	809 173	473 764	411 699	–	871 238
Accumulated depreciation					
Property					
For own use	(21 512)	(3 242)	785	–	(25 539)
Works on property	–	(55 632)	–	–	(55 632)
	(21 512)	(58 874)	785	–	(81 171)
Equipment					
Office	(26 616)	(4 992)	–	–	(31 608)
Banking	(14 542)	(5 212)	–	–	(19 754)
Security	(1 917)	(1 356)	–	–	(3 273)
Vehicles	(2 358)	(37)	–	–	(2 395)
Basic	(198)	–	–	–	(198)
Computer	–	(533)	(533)	–	–
Other	(296)	(330)	–	–	(626)
	(45 927)	(12 460)	(533)	–	(57 854)
	(67 439)	(71 334)	252	–	(139 025)
	741 734	402 430	411 951	–	732 213

18 – Intangible assets

This item as at 31 December 2018 and 2017 is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Software	153 271	153 271
Studies, projects and consultancy	96 029	–
Other	133 026	81 915
Accumulated amortisations	(259 778)	(124 570)
	122 548	110 616

Movements in Intangible Assets for the years ended 31 December 2018 and 2017 are as shown below:

(thousands of kwanzas)

	Balance as at 01.01.2018	Aquisitions/ Additions	Disposals/ Write-offs	Transfers and other settlements	Balance as at 31.12.2018
Intangible assets	**330 015**	**52 310**	**–**	**–**	**382 325**
Software	153 270	–		–	153 270
Studies, projects and consultancy	94 829	1 200	–	–	96 029
Outros	81 916	51 110	–	–	133 026
Accumulated amortisation	**(219 399)**	**(40 379)**	**–**	**–**	**(259 778)**
Software	(106 352)	(9 640)		–	(115 992)
Studies, projects and consultancy	(94 829)	(277)	–	–	(95 106)
Outros	(18 218)	(30 463)		–	(48 681)
Net balance	**110 616**	**11 931**	**–**	**–**	**122 547**

(thousands of kwanzas)

	Balance as at 01.01.2017	Aquisitions/ Additions	Disposals/ Write-offs	Transfers and other settlements	Balance as at 31.12.2017
Intangible assets	**119 218**	**140 338**	**(24 370)**	**–**	**235 186**
Software	111 087	65 641	(23 458)	–	153 270
Other	8 131	74 697	(912)	–	81 916
Accumulated amortisation	**(119 218)**	**(19 042)**	**13 690**	**–**	**(124 570)**
Software	(108 101)	(11 162)	12 911	–	(106 352)
Other	(11 117)	(7 880)	779	–	(18 218)
Net balance	**–**	**121 296**	**(10 680)**	**–**	**110 616**

19 – Taxes

Income tax (current or deferred) is recognised in profit or loss, except to the extent that it relates to transactions recognised in other equity items. In this case the corresponding tax is also recognised in equity, without affecting the result of the year.

The current tax estimate for the years ended 2018 and 2017 was calculated pursuant to paragraphs 1 and 2 of article 64, of Law no. 19/14, of October 22, with applicable tax rate of 30%.

Tax returns are subject to review and correction by the taxation authorities for a period of ten years, due to differences in the interpretation of tax legislation, which may result in possible corrections to the taxable income for the years 2014 and 2018.

However, it is not likely that any correction relating to these years will occur and, if it occurs, no significant impact is expected on the financial statements.

The tax losses for a given year, as provided for in para 1 of article 48 of the Industrial Tax Code, can be deducted from the taxable profits of the three subsequent years.

The item Current Tax includes taxes payable or recoverable through tax credits from previous years.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date. Thus for the year ended 2018 and 2017, deferred tax was calculated, in general, on the basis of a 30% rate.

The deferred tax assets recognised in the balance sheet at 31 December 2018 and 2017 can be analysed as follows:

(thousands of kwanzas)

	Assets		Liabilities		Net	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Impairment of loans to customers	-	-	-	-	-	-
Effective rate comissions loans	76	76	-	-	76	76
Effective rate for securities	-	-	-	-	-	-
Other fixed assets	1 177	1 177	-	-	1 177	1 177
Deferred tax asset (liabilities)	**1 253**	**1 253**	**-**	**-**	**1 253**	**1 253**

The Bank assessed the recoverability of its deferred taxes on the balance sheet based on the expectation of future taxable profit.

The movements in the deferred tax items on the balance sheet were recognised as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Opening balance	1 253	(481)
Recognised in profit or loss	-	1 734
Closing balance(Asset/(Liability)	1 253	1 253

The reconciliation of the corporate income tax rate to the amount recognised in the income statement, can be analysed in the following manner :

(thousands of kwanzas)

	31.12.2018		31.12.2017	
	%	Valor	%	Valor
Profit before tax		8 259 526		4 935 348
Tax rate		30%		30%
Income tax calculated based on the tax rate		(2 477 858)		(1 480 604)
Fiscal benefits on income from public debt securities - Art 47°	10,23%	844 800	12,28%	606 185
Investment Income Tax	-0,60%	(49 781)	-1,13%	(55 548)
Other	0,65%	53 357	-0,01%	(704)
Tax for the year	-19,73%	(1 629 482)	-18,86%	(930 671)

Notwithstanding the foregoing, with regards to income derived from public debt securities, according to the last understanding of the Tax Authority addressed to ABANC (letter with reference number 196/DGC/AGT/2016 of 17 May 2016), only income from securities issued on or after 1 January 2012 is subject to this tax.

It should also be noted that according to the position of the Tax Authority, the revaluation of the public debt securities issued in national currency but indexed to foreign currency, and issued since 1 January 2012, should be subject to corporate income tax until the National Bank of Angola is in a position to deduct at source the CIT.

In addition, by Presidential Legislative Decree No. 5/11, of December 30 (revised and republished through Presidential Legislative Decree No. 2/14, of October 20) capital income tax (CIT) was introduced for income derived from public debt securities(Government Bonds and Treasury Bills) issued by the Angolan State.

Nevertheless, in accordance with the provisions of article 47 of the Industrial Tax Code (Law no. 19/14 of October 22), in force since 1 January 2015, in determining the taxable amount, income subject to CIT will be deducted up to the amount of the net profit.

Therefore, in determining taxable income for the years ended 31 December 2018 and 2017, such income was deducted from the taxable profit.

Likewise, the expense arising from CIT payment is not fiscally accepted for the determination of the taxable income, as provided in para 1(a) of article 18 of the Industrial Tax Code.

Notwithstanding the foregoing, with regard to income derived from public debt securities, according to the last understanding of the Tax Authority addressed to ABANC (letter with reference number 196/DGC/AGT/2016 of 17 May 2016), only income from securities issued on or after 1 January 2012 is subject to this tax.

It should also be noted that according to the position of the Tax Authority, the revaluation of the public debt securities issued in national currency but indexed to foreign currency, and issued since 1 January 2012, should be subject to corporate income tax until the National Bank of Angola is in a position to deduct at source the CIT.

20 — Other assets

The item "Other Assets" as at 31 December 2018 and 2017 is analysed as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Art collections	-	-
Salary advances	2 977	1 650
Prepayments	42 755	61 316
Sundry debtors	62 353	41 823
Office Material	8 442	8 176
Other advance payments	64 514	2 009
	181 042	**114 975**

21 – Deposits from customers and other borrowings

The balance of "Deposits from customers and other borrowings", in terms of their nature, comprises the following :

(thousands of kwanzas)

	31.12.2018	31.12.2017
Demand deposits		
In national currency	7 566 586	8 290 742
In foreign currency	2 109 832	1 059 081
	9 676 418	9 349 823
Time deposits		
In national currency	4 714 520	6 321 257
In foreign currency	57 418	57 746
	4 771 938	6 379 003
	14 448 356	**15 728 826**

The grading of Deposits from customers and other borrowings per maturity as at 31 December 2018 and 2017, is as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Sight deposits	9 676 418	9 349 823
Time deposits		
Up to 3 months	2 131 814	5 519 065
From 3 months to 1 year	2 640 124	859 938
	4 771 938	6 379 003
	14 448 356	15 728 826

As at 31 December 2018 and 2017, time deposits in local and foreign currency bear interest at an annual average rates of 6% and 3.25% (2017: 11.92% and 8.95%), respectively. Demand deposits in local and foreign currency were not remunerated during the years of 2017 and 2016.

22 – Provisions

The main provisions are detailed below:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Provisions		
Liabilites of tax nature	21 917	21 917
	21 917	21 917

In 2016, the Bank made a provision for contingent liabilities to cover tax contingencies classified as probable. The Bank did not change the value of this provision, as there is no evidence to suggest that it is increased, reduced or annulled.

23 – Other liabilities

This item is comprised of the following:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Tax charges payable – own	10 616	3 690
Suppliers	33 354	60 211
Staff Costs	46 880	32 590
Tax charges payable – retained from third parties	30 285	20 003
Other creditors	3 924 218	1 593 705
Social Security contribution	4 540	4 002
Total	**4 049 893**	**1 714 201**

The account "Other creditors" refers to the following balances:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Letters of credit	3 765 554	1 552 609
Commissions on letters of credit	142 363	–
Other	16 301	41 096
Total	**3 924 218**	**1 593 705**

The balance "Letters of credit" concerns deposits that are delivered as collateral on 31 December 2018 and 2018, not yet settled on those dates.

24 – Share capital, Share premium and Treasury shares

Ordinary shares

The Commercial Bank of Huambo was incorporated in 2009 with share capital of AKZ 300 million. In 2011 the Bank increased its share capital to AKZ 1 billion and in 2012 there was a paid-up increase of capital to AKZ 1.5 billion, divided into 1,500,000 shares, issued at par, with a nominal value of AKZ 1,000 each. And in 2014, the Bank increased its share capital to AKZ 2,265,249,000, fully subscribed and paid up.

Despite the capital increase carried out, as at 31 December 2014 the Bank did not yet fulfil the minimum regulatory requirement for share capital and equity of 2.5 billion Kwanzas, imposed by BNA through Notice No. 14/2013 of November 15th. On 31 March 2016, the bank asked for BNA´s authorization to increase capital through incorporation of reserves during 2016 for which BNA granted authorization by imposing as deadline for the operation September 2016. In July 2016 the BCH recorded in its financial statements the increase of capital by 734,751 thousand Kwanzas.

On 8 May 2018, the BCH´s shareholders decided to approve the Bank´s annual report and accounts for 2017, further deciding in order to comply with the minimum capital requirement defined in notice 2/2018, of 21 February , issued by the National Bank of Angola Banco Nacional de Angola, to increase the capital of 7 billion kwanza by incorporation of reserves.

As at 31 December 2018, after the increase of capital, and in 2017 the share distribution among the Bank´s shareholders is as follows:

	31.12.2018				31.12.2017			
	Nominal Value	N°Shares	Total	% Capital	Nominal Value	N°Shares	Total	% Capital
Natalino Lavrador	1 000	5 150	5 150 000	51.5%	1 000	1 545	1 545 000	51.5%
Minoru Dondo	1 000	2 000	2 000 000	20%	1 000	600	600 000	20%
António Mosquito	1 000	2 000	2 000 000	20%	1 000	600	600 000	20%
Sebastião Lavrador	1 000	550	550 000	5.5%	1 000	165	165 000	5.5%
Carlos Oliveira	1 000	300	300 000	3%	1 000	90	90 000	3%
	5 000	10 000	10 000 000	100 %	5 000	3 000	3 000 000	100 %

Earnings and dividends per share

In 2018 and 2017, the earnings per share and the dividend attributed in each year, with respect to the previous year's profit, were as follows:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Net Profit for the year	6 630 044	4 004 677
Weighted average number of ordinary shares issues (thousands)	10 000 000	10 000 000
Average number of shares outstanding (thousands)	10 000 000	10 000 000
Basic earnings per share (in kwanzas)	663	400

25 – Other reserves and retained earnings

Movements in equity items, during the years ended 31 December 2018 and 2017, are hereby described:

(thousands of kwanzas)

	Share Capital	Other Reserves and Retained Earnings				Net profit (loss)
		Legal Reserve	Effect of changes in accounting policies	Other reserves and retained earnings	Total other reserves and retained earnings	
Opening balance 1 January 2017	3 000 000	221 122	1 121	1 139 021	1 361 264	2 660 572
Constitution of legal reserve	–	265 196	–	–	265 196	(265 196)
Transfer to retained earnings	–	–	–	2 395 376	2 395 376	(2 395 376)
Effect of changes in accounting policies		–	–	–	–	
Net profit	–	–	–	–	–	4 004 677
Closing balance 31 December 2017	3 000 000	486 318	1 121	3 534 397	4 021 836	4 004 677
Effect of changes in accounting policies - IFRS 9			(9 411)		(9 411)	–
Opening balance 1 January 2018	3 000 000	486 318	(8 290)	3 534 397	4 012 425	4 004 677
Distribution of profit	–	400 468	–	3 604 209	4 004 677	(4 004 677)
Increase of capital	7 000 000	–	–	(7 000 000)	(7 000 000)	–
Effect of changes in accounting policies	–	–	–	–	–	–
Net profit	–	–	–	–	–	6 630 044
Closing balance 31 December 2018	10 000 000	886 786	(8 290)	138 606	1 017 102	6 630 044

The applicable Angolan legislation requires that the Legal Reserve is credited annually with at least 10% of the annual net profit, up to the amount of the share capital.

The net profit from 2017 was applied towards the building up of the legal reserves, in accordance with the commercial law and the remaining amount was transferred to retained earnings.

26 – Off-balance sheet accounts

Off-balance sheet liabilities and respective balances are as detailed in the table below:

(thousands of kwanzas)

	31.12.2018	31.12.2017
Documentary credits	2 833 890	399 500
Guarantees and collaterals received	140 000	2 094 580
Committments to third parties - Revocable credit lines	4 750 476	327 002
Custody of customers securities	79 706	19 907

The documentary credits are irrevocable commitments made by the Bank on behalf of its customers, to pay / arrange to pay a determined amount to the supplier of goods or services, within a stipulated period, against the presentation of documents referring to the dispatch of the goods or provision of the service. The irrevocable condition is that its cancellation or alteration is not possible without the express consent of all parties involved. The documentary credits as at 31 December 2018 and 2017 are guaranteed by time deposits.

Revocable and irrevocable commitments are contractual arrangements for the provision of credit to customers (for example, unused lines of credit), which are generally contracted on fixed terms or with other term requirements and usually require the payment of a commission. Substantially all existing credit granting commitments require customers to maintain certain requirements met when contracting the credit.

Notwithstanding the particular nature of these commitments, the assessment of these transactions is based on the same basic principles as any other commercial transaction, namely the solvency of the customer and the business underlying it, and the Bank requires that these transactions are duly collateralised when necessary. Since most of them are expected to expire without being used, the amounts indicated do not necessarily represent future cash requirements.

Financial instruments accounted for as Guarantees and other commitments are subject to the same approval and control procedures applied to the loan portfolio, especially in regard to the assessment of the adequacy of the created provisions as described in the accounting policy described in Note 2.17, the maximum credit exposure is represented by nominal value that could be lost on contingent liabilities and other commitments assumed by the Bank in the event of default by the respective counterparties, without taking into account potential loan or collateral recovery.

The Bank provides custody, asset management, investment management and advisory services involving decision-making as to the purchase and sale of various types of financial instruments. For certain services provided, targets and profitability levels are established for assets under management.

27 – Related party transactions

According to IAS 24, entities related to the Bank are considered to be :

- Holders of qualifying participations- Shareholders who own 10% or more of the share capital;
- Entities which are directly or indirectly controlled or are members of the same group – subsidiaries, associates and jointly controlled entities;
- Members of the Board of Directors and the Audit Committee and their spouses, descendants or first and second-degree relatives in the direct descending or ascending line, considered ultimate beneficiary owners of the transactions or the assets.

The balances of BCH with its related parties are detailed in the table below:

2018

(thousands of kwanzas)

Related Party	Demand deposits	Time deposits	Interests	Loans
Shareholders	266 661 007	22 500 000	6 842	–
Members of the Board of Directors	25 681 268	15 000 000	403	–
Entities where Shareholders have significant influence	63 938 031	90 000 000	8 450	–
Entities where members of the Board of Directorsa have significant infl	–	–	–	–
	356 280 306	**127 500 000**	**15 695**	–

2017

(thousands of kwanzas)

Related Party	Demand deposits	Time deposits	Loans
Shareholders	368 866 043	205 000 000	–
Members of the Board of Directors	69 551 096	50 000 000	–
Entities where Shareholders have significant influence	393 326 118	650 000 000	–
Entities where members of the Board of Directorsa have significant infl	–	–	–
	831 743 257	**905 000 000**	–

Below is a list of the bank´s related parties:

Shareholders, Member of the Board of Directors and Next to Kin
Natalino Lavrador
Sebastião Lavrador
Valdomiro Minoru Dondo
Carlos Saturnino
Salim Valimamade
Cristiana Lavrador
Agda Dondo
Eduarda Nassandjuka M`bakassy
Paulo Sérgio Lavrador
Djavana Saturnino Oliveira
Fauzia Valimamade
Ana Maria Lavrador

Companies, related parties
Amosmid Lda
António Mosquito
Auto Zuid
Bacatral, sociedade de transp. LDA
Bobs Comércio geral Lda
Consorcio Mayaca/Sol Mayor
Esplanada Grill Lda
Exacta Engenharia LDA
M´bakassy & Filhos
Parige Lda
Sol Maior Emp. Part. Lda
Taiping Lda

28 – Fair value of financial assets and liabilities

Fair value is based on quoted market prices, whenever these are available. If these do not exist, fair value is estimated through internal models based on cash flow discounting techniques. Generation of cash flow from different instruments is based on the respective financial characteristics, and the discount rates used incorporate both the market interest rate curve and the current levels of risk of the respective issuer.

Fair value of the financial assets and liabilities held by the Bank at 31 December 2018 and 2017 is presented as follows:

31.12.2018	Amortised cost	Valued at fair value			Fair Value
		Level 1	Level 2	Level 3	
Assets					
Cash and balances at central banks	7 500 150	–	–	–	7 500 150
Deposits with other banks	3 848 256	–	–	–	3 848 256
Loans and advances to Central Banks and other banks	5 976 911	–	–	–	5 976 911
Financial assets at fair value through other comprehensive income	43 656	43 656	–	–	43 656
Financial assets at amortised cost	17 917 402	–	–	–	17 663 469
Loans and advances to customers	1 316 865	–	–	–	1 316 865
Total assets	36 603 240	43 656	–	–	36 349 307
Liabilities					
Deposits from central and other banks	–	–	–	–	–
Customer deposits and other borrowing	14 448 356	–	–	–	14 448 356
Total Liabilities	14 448 356	–	–	–	14 448 356

31.12.2017	Amortised cost	Valued at fair value			Justo Valor
		Level 1	Level 2	Level 3	
Assets					
Cash and balances at central banks	3 919 267	–	–	–	3 919 267
Deposits with other banks	779 821	–	–	–	779 821
Loans and advances to Central Banks and other banks	1 382 778	–	–	–	1 382 778
Financial assets at fair value through other comprehensive income	43 656	43 656	–	–	43 656
Financial assets at amortised cost	22 171 931	–	–	–	22 171 931
Loans and advances to customers	112 283	–	–	–	112 283
Total Assets	28 409 736	43 656	–	–	28 409 736
Liabilities					
Deposits from central and other banks	–	–	–	–	–
Customer deposits and other borrowing	15 728 826	–	–	–	15 728 826
Total do Passivo	15 728 826	–	–	–	15 728 826

The Bank uses the following three-level hierarchy in the valuation of financial instruments (assets or liabilities) which reflects the level of judgment, observable inputs and their prioritization in determining the fair value of the instrument, in accordance with the provisions of IFRS 13:

Level 1: Fair value is determined on the basis of unadjusted quoted prices in active markets for identical financial instruments to those that are being valued. If there is more than one active market for the same financial instrument, the relevant price is the one that prevails in the principal market for the instrument or prices in the most advantageous market that can be accessed;

Level 2: Fair value is determined through valuation techniques based on inputs observable in active markets, either directly (prices, rates, spreads, etc.) or indirectly (derivatives) and valuation assumptions similar to those that an unrelated party would use in measuring the fair value of the same financial instrument. It also includes instruments which valuation is obtained through quoted prices disclosed by independent entities but whose markets have lower liquidity; and,

Level 3: Fair value is determined on the basis of data, unobservable in active markets, using techniques and assumptions that market participants would use when pricing the same instruments, including assumptions about the inherent risks, the valuation technique used and the inputs used and the involved procedures for reviewing the precision of the values thus obtained.

The Bank considers that the market for a given financial instrument is active, at the measurement date, depending on the volume of transactions carried out and their liquidity, relative volatility of quoted prices and readiness and availability of the information, by observing the following preconditions :

- Existence of frequent daily trading price quotes in the last year;
- The above mentioned price quotes change regularly;
- There are executable quotes from more than one entity.

An input used in a valuation technique is considered to be observable if the following conditions are met:

- If its value is determined in an active market;

- If there is an OTC market and it is reasonable to assume that active market conditions exist, with the exception of the trading volume condition; and,

- The value of the input can be obtained by the inverse calculation of the prices of the financial instruments and / or derivatives where the other necessary inputs for the initial valuation are observable in a liquid market or in an OTC market that comply with the previous paragraphs.

The main methods and assumptions used in estimating the fair value of the financial assets and liabilities accounted for in the balance sheet at amortised cost are hereby analysed:

Cash and balances at Central Banks, Deposits with other banks and Loans and advances to Central Banks and other banks.

These are extremely short-term assets and therefore their carrying amount ia a reasonable estimate of their fair value.

Investments at amortised cost

The fair value of these financial instruments is based on quoted market prices, when available. If they do not exist, the fair value is estimated based on the discounted expected future cash flows of principal and interest from these instruments.

For the purposes of this disclosure, it was assumed that Treasury Bills have short-term residual maturities and that Government Bonds in foreign currency bear interest rates in line with comparable legal market rates, and therefore their carrying amount represents substantially the fair value of these assets.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates fixed in the agreements.

The bank understands that given the fact that the Bank´s loan portfolio is comprised mainly of loans not exceeding one year, current rates did not differ significantly from the rates initially contracted, thus the carrying amount will not be substantially different from their fair value.

For the purposes of this disclosure, it was assumed that loan agreements with variable interest rate present regular adjustments to the interest rate and no relevant changes are made to the associated spreads, which is why it is assumed that the carrying amount substantially represents the fair value of these assets.

Deposits from central banks and other banks

As these are short-term liabilities, the book value is a reasonable estimate of their fair value.

Customer deposits and other borrowings

Fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used is the one that reflects the rates charged on deposits with similar characteristics at the balance sheet date. Considering that, for the vast majority of the customer deposits and other borrowings portfolio held by the Bank, the applicable interest rates are renewed for periods of less than one year, there are no material differences in their fair value.

29 – Risk management

The Bank is subject to different types of risks in the course of its operations. Risk management is centralised in relation to the specific risks of each business.

The risk management policy aims to define the profile for each risk identified as material for the Bank, aiming to protect the Bank's solidity, as well as to establish guidelines for the implementation of a risk management system that allows the identification, evaluation , monitoring, control and reporting of all material risks inherent in the Bank's activity.

In this context, major importance is attributed to the monitoring and control of the principal financial risks - credit, market and liquidity - and non-financial risks- operational - to which the Bank's activity is exposed :

Principal Risk Categories

Credit – Reflects the likelihood of negative impacts on results or capital due to the inability of a counterparty to meet its contractual obligations to the institution, including possible restrictions on the transfer of payments from abroad.

Market – The concept of market risk reflects the likelihood of negative impacts on results or capital due to adverse movements in interest and foreign currency exchange rates and/or prices of the different financial instruments that comprise it, considering both the correlations between them and the respective volatilities. Thus, the Market Risk encompasses interest and foreign currency exchange rate risks and other price-related risks.

Liquidity – This risk reflects the likelihood of negative impacts on results or capital arising from the institution's inability to have sufficient liquid resources available to meet its financial obligations as they fall due.

Operational – Operational risk means the probability of negative impacts on results or capital arising from failures in the analysis, processing or settlement of operations; internal and external fraud; the use of resources under a subcontracting regime; inefficient decision-making processes; insufficient or inadequate human resources; or the inoperability of the infrastructures.

Risk assessment

Credit risk

The Risk Management Office is responsible to define and monitor the credit lines and exposure limits applied to Customers and/or Economic Groups, by taking into account the maximum regulatory exposure limits; the internal risk limits defined by the Bank, according to the profile and risk appetite, as well as the risk analysis carried out; and the identification of global exposure limits and specific limits by type of product or operation.

Credit risk analysis models play a key role in the credit decision process. In order to identify if a Customer is eligible for a credit line, and if it falls within the overall credit exposure limits defined by the Bank, the Risk Management Office issues an opinion on the risk quality of the Customer and evaluates the Bank's global exposure and the possibility that the use of the credit line may cause non-compliance with defined internal limits and regulatory limits.

For the purposes of the above, a monitoring and control chart is elaborated on a monthly basis according to Notice No. 03/2016.

Credit risk models play a key role in the credit decision process. Thus, the decision-making process for credit allocation is based on a set of policies and parameters that are embodied in internal models.

Bank´s exposure to credit risk is shown in the following table:

(thousands of kwanzas)

	31.12.2018		
	Gross carrying amount	Impairment	Net carrying amount
Cash and balances at central banks	7 500 150	-	7 500 150
Deposits with other banks	3 848 256	-	3 848 256
Investments held to maturity	17 930 585	(13 183)	17 917 402
Loans and advances to customers	1 318 407	(1 542)	1 316 865
	30 597 398	(14 725)	30 582 673

(milhares de kwanzas)

	31.12.2017		
	Gross carrying amount	Impairment	Net carrying amount
Cash and balances at central banks	3 919 267	-	3 919 267
Deposits with other banks	779 821	-	779 821
Investments held to maturity	22 171 931	-	22 171 931
Loans and advances to customers	116 125	(3 842)	112 283
	26 987 144	(3 842)	26 983 302

Market risk

The Risk Management Office is responsible for the control of the market risks to which the Bank is exposed, and must ensure the functions of identification, quantification, monitoring, evaluation, control, reporting and mitigation of these risks.

Foreign exchange risk management is based on the identification of the impact that changes in the exchange rates relevant to the Bank may have on the value of the exposures and their respective cash inflows and outflows.

In order to identify the impact that movements in exchange rates may have on these cash flows and in this way estimate the possibility of financial losses, the Bank periodically prepares an analysis of possible scenarios and simulations of movements in exchange rates, arising from an internal analysis and expectations that the Bank has about their evolution.

With regard to exchange risk information and analysis, regular reporting on net foreign currency exposures is ensured on a monthly basis in accordance with Notice No. 4/2016.

The control of the interest rate risk is ensured by the Risk Management Office. This type of risk occurs in the Bank's activity whenever it enters into transactions with financial cash flows sensitive to changes in the interest rate. There is therefore a real interest rate risk, arising from changes in market interest rates, associated with mismatches in the timings of assets and liabilities´ interest rate repricing, decreasing their expected profitability (net interest income) or increasing their financial cost.

The Bank's exposure to interest rate risk is monitored on the basis of the analysis of the level of compliance with the limits and maximum tolerable limits set for exposure to this risk. In this risk aspect, assessment is made as to what is the impact of shocks applied to interest rates on total exposure.

The quantification of the interest rate risk is based on the calculation of the total exposure to interest rate risk, i.e. the total amount of assets and liabilities sensitive to changes in interest rates.

The table below shows sensitivity analysis on foreign exchange risk, where the impacts on the bank´s results are calculated at a positive and negative change of 5%, 10% and 20% in the exchane rates:

(thousands of kwanzas)

Currency	CHF	EUR	GBR	JPY	NAD	USD	ZAR	Effect
Total currency on 31.12.2018	148 906	6 854 460.33(-)	246.89	71 596 160	80	5 205 673.24	2 370 034.71	
Exchange on 31.12.2018	313.209	353.015	390.079	2.784	21.233	308.607	21.344	
Positive change of 5%	2 332	120 986 (-)	5	9 964	-	80 325	2 529	216 131
Positive change of 10%	4 664	241 973 (-)	10	19 929	-	160 651	5 059	432 266
Positive change of 20%	9 328	483 946 (-)	19	39 858	-	321 301	10 117	864 531
Negative change of 5% (-)	2 332 (-)	120 986	5 (-)	9 964	- -	80 325(-)	2 529(-)	216 131
Negative change of 10% (-)	4 664 (-)	241 973	10(-)	19 929	- -	160 651(-)	5 059(-)	432 266
Negative change of 20% (-)	9 328 (-)	483 946	19(-)	39 858	- -	321 301(-)	10 117(-)	864 531

Thus any future losses in the worse case scenario (20% change in the exchange rate), would only represent negative impact on own funds of about 4.6%.

As to the foreign exchange risk, the following table contains sensitivity analysis of the Bank´s exposure to the foreign exchange rates with reference to 31 December 2018:

	Rate		
(thousands of kwanzas)	LUIBOR 12 months	LUIBOR 6 months	Total
Balance on 31.12.2018			
Due loans	30 346	4 986	35 332
Overdue loans	–	115	115
	30 346	5 101	35 447
Positive change of 1%	63	8	71
Positive change of 2%	127	15	142
Positive change of 5%	316	38	354
Negative change of 1%	-63	-8	– 71
Negative change of 2%	-127	-15	– 142
Negative change of 5%	-316	-38	– 354

The assets and liabilities of the Bank are presented by type of rate as of 31 December 2018 and 2017 as follows:

	31.12.2017			
	Exposure to		Not subject to	Total
	Fixed rate	Floating rate	interest rate risk	
Assets				
Cash and deposits with Central Banks	–	–	3 919 921	3 919 921
Deposits with other banks	–	–	779 167	779 167
Loans and advances to central and other banks	1 382 778	–	–	1 382 778
Financial assets at fair value through other comprehensive income	–	–	43 656	43 656
Financial assets at amortised cost	22 171 931	–	–	22 171 931
Loans and advances to customers	22 372	89 911	–	112 283
	23 577 081	89 911	4 742 744	28 409 736
Liabilities				
Deposits from central and other banks	30 948	–	–	30 948
Customer deposits and other borrowings	15 728 826	–	–	15 728 826
	15 759 774	–	–	15 759 774
Total	7 817 307	89 911	4 742 744	12 649 962

(thousands of kwanzas)

	31.12.2018			
	Exposure to		Not subject to	Total
	Fixed rate	Floating rate	Interest rate risk	
Assets				
Cash and deposits with Central Banks	-	-	7 564 615	7 564 615
Deposits with other banks	-	-	3 848 256	3 848 256
Loans and advances to central and other banks	5 976 911	-	-	5 976 911
Financial assets at fair value through other comprehensive income	-	-	43 568	43 568
Financial assets at amortised cost	17 917 402	-	-	17 917 402
Loans and advances to customers	1 282 505	35 447	-	1 317 952
	25 176 818	35 447	11 456 439	36 668 704
Liabilities				
Deposits from central and other banks	(15 765)	-	-	(15 765)
Customer deposits and other borrowings	14 448 356	-	-	14 448 356
	14 432 591	-	-	14 432 591
Total	10 744 227	35 447	11 456 439	22 236 113

The following table shows the average interest rates for the major categories of financial assets and liabilities of the Bank for the years ended 31 December 2018 and 2017, as well as the respective average balances and income and expenses for the year:

(thousands of kwanzas)

	31.12.2018			31.12.2017		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Loans and advances						
Loans and advances to customers	5 709 709	151 784	2,7%	5 631 188	60 624	1,1%
Deposits with and loans to	11 012 203	9 927	0,09%	6 980 490	2 686	0,0%
Portfolio of securities	8 980 529	4 406 451	49,1%	1 229 283	2 020 878	164,4%
Total loans	25 702 440	4 568 162	17,8%	13 840 961	2 084 188	15,1%
Deposits						
Customer deposits and deposits from Central Bank	30 177 182	843 713	2,8%	11 319 665	279 603	2,5%
Financial Liabilities	30 177 182	843 713	2,8%	11 319 665	279 603	2,5%
Net Interest Income	(4 474 742)	3 724 449		2 521 296	1 804 585	

Pursuant to article 6 of Notice no. 08/2016 of June 22, the Bank must inform the BNA whenever the banking book´s economic value is potentially reduced by more than 20% of regulatory capital or of net interest income as a result of a 2% change in the interest rate. During the years 2018 and 2017, the Bank complied with this requirement.

The breakdown of assets and liabilities as at 31 December 2018 and 2017, by currency, is hereby presented:

(thousands of kwanzas)

	31.12.2018				
	Kwanzas	US dollars	Euros	Other currencies	Total
Assets					
Cash and deposits with Central Banks	6 934 988	304 268	260 764	130	7 500 150
Deposits with other banks	28 389	2 144 515	1 369 757	305 595	3 848 256
Loans and advance to central and other banks	-	-	4 406 952	1 569 959	5 976 911
Financial assets at fair value through other comprehensive income	43 568	-	-	-	43 568
Financial assets at amortised cost	17 546 079	371 323	-	-	17 917 402
Loans and advances to customers	1 316 804	86	5	-	1 316 865
Non-current assets held for sale	6 221	-	-	-	6 221
Other tangible assets	824 248	-	-	-	824 248
Intangible assets	122 547	-	-	-	122 547
Current Tax assets	58 243	-	-	-	58 243
Other assets	181 042	-	-	-	181 042
	27 062 129	**2 820 192**	**6 037 478**	**1 875 684**	**37 795 453**
Liabilities					
Deposits from Central banks and other banks	-	-	-	-	-
Customer deposits and other borrowings	11 898 620	2 327 583	212 946	9 207	14 448 356
Provisions	21 917	-	-	-	21 917
Current tax liabilities	1 629 482	-	-	-	1 629 482
Deferred tax liabilities	-	-	-	-	-
Other liabilities	127 349	456 006	3 465 392	1 145	4 049 893
	13 677 368	**2 783 589**	**3 678 338**	**10 352**	**20 149 648**
	13 384 760	**36 603**	**2 359 140**	**1 865 332**	**17 645 805**

(thousands of kwanzas)

	31.12.2017				
	Kwanzas	US dollars	Euros	Other currencies	Total
Assets					
Cash and deposits with Central Banks	3 657 412	173 888	88 621	-	3 919 921
Deposits with other banks	55 005	143 358	563 059	17 745	779 167
Loans and advance to central and other banks	-	-	1 382 778	-	1 382 778
Financial assets at fair value through other comprehensive income	43 656	-	-	-	43 656
Financial assets at amortised cost	21 972 324	199 607	-	-	22 171 931
Loans and advances to customers	112 283	-	-	-	112 283
Non-current assets held for sale	6 221	-	-	-	6 221
Other tangible assets	732 213	-	-	-	732 213
Intangible assets	110 616	-	-	-	110 616
Current Tax assets	-	-	-	-	-
Deferred tax assets	1 253	-	-	-	1 253
Other assets	98 234	-	8 343	-	106 577
	26 789 217	**516 853**	**2 042 801**	**17 745**	**29 366 616**
Liabilities					
Deposits from Central banks and other banks	30 948	-	-	-	30 948
Customer deposits and other borrowings	14 281 379	1 339 173	108 274	-	15 728 826
Provisions	21 917	-	-	-	21 917
Current tax liabilities	883 557	-	-	-	883 557
Deferred tax liabilities	-	-	-	-	-
Other liabilities	93 578	-	1 581 277	-	1 674 855
	15 311 379	**1 339 173**	**1 689 551**	**-**	**18 340 103**
	11 477 838	**(822 320)**	**353 250**	**17 745**	**11 026 513**

Liquidity risk

The Risk Management Office monitors the mismatches arising from the use of short-term liabilities to hedge medium and long-term assets in order to avoid impacts and liquidity shortages and to ensure that the institution's reserves are sufficient to meet daily cash needs, both cyclical and non-cyclical, as well as the long-term needs.

Incorporated in the process of quantification and evaluation of the liquidity risk, the BCH periodically evaluates the resources in national currency and foreign currency, aiming to maintain a satisfactory level of available funds to meet the financial needs in the short, medium and long both in a normal scenario and in a crisis scenario.

Following Instruction 19/2016, the bank draws up biweekly and monthly charts to control possible liquidity outflows and inflows in various time buckets and currencies in order to prevent future shortages and better approach and manage capital.

As at 31 December 2018 and 2017, the liquidity gap of the Bank's balance sheet presented the following structure:

(thousands of kwanzas)

	31.12.2018						
	Sight	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Undetermined	Total
Assets							
Cash and balances at central banks	7 500 150	–	–	–	–	–	7 500 150
Deposits with other banks	3 848 256	–	–	–	–	–	3 848 256
Loans and advances to central banks and other banks	–	–	5 976 911	–	–	–	5 976 911
Financial assets at fair value through other comprehensive income	–	–	–	–	–	43 656	43 656
Financial assets at amortised cost	–	13 926 312	3 624 295	366 795	–	–	17 917 402
Loans and advances to customers	–	–	1 276 083	14 915	25 867	–	1 316 865
	11 348 406	**13 926 312**	**10 877 289**	**381 710**	**25 867**	**43 656**	**36 603 240**
Liabilities							
Deposits from central banks and other banks	–	(15 765)	–	–	–	–	(15 765)
Customer deposits and other borrowings	9 676 418	2 131 814	2 640 124	–	–	–	14 448 356
	9 676 418	**2 116 049**	**2 640 124**	**–**	**–**	**–**	**14 432 591**
	1 671 988	**11 810 263**	**8 237 165**	**381 710**	**25 867**	**43 656**	**22 170 649**

(thousands of kwanzas)

	31.12.2017						
	Sight	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Undetermined	Total
Assets							
Cash and balances at central banks	3 919 267	–	–	–	–	–	3 919 267
Deposits with other banks	779 821	–	–	–	–	–	779 821
Loans and advances to central banks and other banks	–	–	–	–	–	–	–
Financial assets at fair value through other comprehensive income	–	7 304 751	14 667 510	199 670	–	–	22 171 931
Financial assets at amortised cost		312	54 850	38 367	18 268	4 328	116 125
	4 699 088	**7 305 063**	**14 722 360**	**238 037**	**18 268**	**4 328**	**26 987 144**
Liabilities							
Deposits from central banks and other banks	–	–	–	–	–	–	–
Customer deposits and other borrowings	9 349 823	5 519 065	859 938	–	–	–	15 728 826
	9 349 823	**5 519 065**	**859 938**	**–**	**–**	**–**	**15 728 826**
	(4 650 735)	**1 785 998**	**13 862 422**	**238 037**	**18 268**	**4 328**	**11 258 318**

Operational Risk

The operational risk management covers the whole of the bank's activities, making the various business units responsible for identifying and managing the risks associated with their activities. The risk management office identifies and evaluates specific instances of the principal risks that may jeopardise the achievement of the bank's objectives, and performs ongoing monitoring and development of risk mitigation measures.

The quantification of operational risk is determined in accordance with Instructions No. 16/2016 and No. 17/2016, corresponding to 15% of the average of the last three years of the annual exposure indicator if positive and calculated by the basic indicator approach, which considers the sum of several items on the income statement, such as net interest income, net investment income, net trading income of securities held for trading, net income from foreign currency transactions and net income from provision of financial services, which in turn is constant until the end of the period, suffering change only in December.

The amounts in these accounts have to do with the good functioning and commitment of all the areas of the institution and a periodic monitoring is performed with monthly reporting to the regulatory body.

Capital Management and Solvency Ratio

The Bank's own funds are calculated in accordance with the following applicable regulations: Notice no. 05/2007 of 12 September, Instruction no. 03/2011 of 08 June, Notice no. 2/2015 of 26 January and Notice nº 10/2014 of 5 December.

Financial institutions must maintain a level of own funds compatible with the nature and scale of operations that are properly weighted by the risks inherent in the operations, and must meet the minimum required Core Tier 1 ratio of 10%. The regulatory capital consists of:

- Tier 1 capital includes (i) Paid-up capital; (ii) Reserve to record the adjusted value of the paid up capital; (iii) retained earnings from previous years; (iv)legal, statutory and other reserves from undistributed profits, or created to increase capital, and (v) net profit for the year.

- Tier 2 capital includes: (i) redeemable preference shares; (ii) generic funds and provisions; (iii) reserves from capital gains from sale of own-use properties; (iv) subordinated debt and hybrid securities; (v) other authorised value by the BNA.

- Deductions – include: (i) treasury shares subject to repurchase; (ii) redeemable preference shares and with fixed and cumulative dividends; (iii) loans granted with capital nature (iv) loans granted with capital nature; value of the participations; (v) tax credits resulting from tax losses; (vi) goodwill; (vii) other intangible assets net of amortizations; and (viii) other values, by determination of the BNA.

The BNA´s Notice No. 09/2016 establishes that for the purpose of calculating the Core Tier 1 Ratio the excess verified in the risk exposure limit per customer should be deducted from the regulatory capital.

(thousands of kwanzas)

	31.12.2018	31.12.2017
Regulatory Capital	17 204 408	10 557 116
Risk-weigthed assets	2 524 922	1 477 473
Regulatory capital requirements	1 600 092	741 776
Own Funds Requirements for Credit Risk	256 027	88 595
Own Funds Requirements for Market Risk	346 566	196 770
Own Funds Requirements for Operational Risk	997 499	456 410
Core Tier 1 ratio - Base	107,52%	142,32%
Core Tier 1 ratio- Adjusted	107,52%	142,32%

30 – Application of IFRS 9 – Financial instruments

In July 2014, the IASB (International Accounting Standards Board) published IFRS 9 "Financial Instruments". This standard which is mandatorily effective as of January 1, 2018, and after its adoption by the National Bank of Angola, replaces IAS 39 "Financial Instruments: Recognition and Measurement".

IFRS 9 introduced amendments to the way financial institutions calculate impairment of financial instruments, mainly with regard to loans and advances to customers. IFRS 9 uses "expected credit loss" – ECL model which replaces the "incurred loss" model used by IAS 39. Under this new model, entities are required to recognise expected loss before the occurrence of a default event. It is also necessary to incorporate forward-looking information in the estimates of expected credit losses, by including potential future macroeconomic trends and scenarios.

Under the ECL model, assets are classified in one of the following stages according to changes in credit risk since initial recognition of the asset and not according to credit risk at the reporting date.

Stage 1 – Assets for which there is no significant deterioration of credit risk since initial recognition are classified in stage 1. For these assets 12 month expected credit losses are recognised, as from the reporting date;

Stage 2 – If there is a significant deterioration of credit risk since initial recognition, the assets are classified in stage 2. In this stage, lifetime ECLs are recognised for these assets. The concept of significant deterioration of credit risk, suggested by IFRS introduces a higher level of subjectivity in establishing loss allowance, and calls for greater connection with the entity´s credit risk management policies. The forward-looking approach and lifetime perspectives introduce challenges for financial institutions in the shaping of credit risk parameters.

Stage 3 – assets that are impaired must be classified in this stage, with lifetime ECL recognised. In relation to stage, the difference is that interest revenue is calculated on the net carrying amount whereas in stage 2 it is on the gross carrying amount

The summary of IFRS 9 subjects is as follows:

Classification and measurement of financial assets

- All financial assets are measured at fair value on the date of initial recognition, adjusted for transaction costs if the instruments are not accounted for at fair value through profit or loss (FVTPL). However, customer accounts without a significant financing component are initially measured at their transaction price, as defined in IFRS – 15 Revenues from contracts with customers.

- Debt instruments are subsequently measured based on the contractual cash flows and the business model under which they are held. If a debt instrument has cash flows that are solely payments of principal and interest on the principal amount outstanding and if it is held within a business model which objective is to hold the assets to collect the contractual cash flows, then the instrument is measured at amortised cost. If a debt instrument has cash flows that are solely payments of principal and interest on the principal amount outstanding and if it is held within a business model which objective is achieved by both collecting contractual cash flows and selling financial assets , then the instrument is measured at fair value through other comprehensive income (FVTOCI) with subsequent reclassification to profit or loss.

- All other debt instruments are measured at fair value through profit or loss (FVTPL). In addition, there is an option that allows financial assets to be designated, at initial recognition, as measured at FVTPL if doing so eliminates or significantly reduces significant accounting mismatch in the results for the year.

- Equity instruments are generally measured at FVTPL. However, the entities have an irrevocable option on a case-by-case basis to present value changes of non-commercial instruments in other comprehensive income (without subsequent reclassification to profit or loss).

Classification and measurement of financial liabilities

- For financial liabilities designated as FVTPL using the fair value option, the amount of the change in the fair value of these financial liabilities that is attributable to changes in credit risk must be presented in the statement of comprehensive income. The remaining amount of change in fair value shall be presented in profit or loss unless the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

- All other classification and measurement requirements for financial liabilities of IAS 39 were carried forward to IFRS 9, including the requirement to separate embedded derivatives and the criteria for using the fair value option.

Impairment

- Impairment requirements are based on the Expected Credit Loss (ECL) model, which replaces the incurred loss model of IAS.

- The ECL model applies to: (i) debt instruments measured at amortised cost or at fair value through other comprehensive income, (ii) the majority of loan commitments (iii) contracts of financial guarantees, (iv) contractual assets within the scope of IFRS 15 and (v) lease payments receivable within the scope of IAS 17 – Leases.

- Generally, entities are required to recognise 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since the initial recognition (or when the commitment or guarantee was entered into). For accounts receivable without a significant financing component, and depending on the entity´s choice of accounting policy for other loans and advances to customers and for lease receivables a simplified approach can be applied in which the lifetime ECLs are always recognised.

- ECL measurement should reflect probability-weighted outcome, the effect of time value of money and be based on reasonable and supportable best information available without undue cost or effort.

Hedge accounting

- Hedge effectiveness tests should be prospective and can be qualitative, depending on the complexity of the hedge, without the test of 80% - 125 %.

- A risk component of a financial or non-financial instrument can be designated as a hedged item if the risk item is separately identifiable and measurable in a reliable manner.

- The time value of an option, which is the forward element of forward contracts and any foreign currency spread base may not be designated as hedging instruments but be recognised as hedging costs.

- Larger sets of items can be designated as hedged items, including layer designations and some net positions.

Derecognition and modification of contracts

- IFRS 9 incorporates the requirements of IAS 39 for derecognition of financial assets and liabilities without substantial amendments.

- The standard contains a specific guidance for recognition when the modification of a financial instrument not measured through FVTPL does not result in derecognition of the same.

- The institution shall recalculate the gross carrying amount of the financial asset (or amortised cost of the financial liability) by discounting the contractual cash flows modified at the original effective interest rate and recognizing any resulting adjustment in profit or loss as income or expense.

Gains or losses arising from modifications of financial liabilities and problematic financial assets which do not lead to their recognition will not be recognised in profit or loss.

The Bank applied as of 1 January 2018 IFRS 9 – Financial Instruments, discontinuing the application of the provisions of IAS 39.

The reconciliation between the application of IRFS 9 and IAS 39 and its impact on 1 January 2018 is presented below:

	Amortised cost	Remeasurement			Fair value through OCI equity instruments	Remeasurement		Total	Remeasurement		
	IAS 39	ECL	Other	IFRS 9	IAS 39	Other	IFRS 9	IAS 39	ECL	Other	IFRS 9
Loans and receivables:											
Cash and deposits with Central banks	3 919 921	–	–	3 919 921	–	–	–	3 919 921	–	–	3 919 921
Deposits with other banks	779 167	–	–	779 167	–	–	–	779 167	–	–	779 167
Loans and advances to Central and other banks	1 382 778	–	–	1 382 778	–	–	–	1 382 778	–	–	1 382 778
Loans and advances to customers	112 283	–	–	112 283	–	–	–	112 283	–	–	112 283
	6 194 149	–	–	6 194 149	–	–	–	6 194 149	–	–	6 194 149
Held to maturity:											
Investments at amortised cost	22 171 931	(9 411)	–	22 162 520	–	–	–	22 171 931	(9 411)	–	22 162 520
Available-for-sale assets:											
Financial assets at fair value through OCI	–	–	–	–	43 656	–	43 656	43 656	–	–	43656
Assets at fair value through profit or loss:											
Held for trading (including derivatives)	–	–	–	–	–	–	–	–	–	–	–
Fair value option	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–
Total	28 366 080	(9 411)	–	28 356 669	43 656	–	43 656	**28 409 736**	**(9 411)**	**–**	**28 400 325**

	Amortised cost			Total		
	IAS 39	Remeasurement	IFRS 9	IAS 39	Remeasurement	IFRS 9
Financial liablities at fair value through profit or loss:						
Held for trading (including derivatives)	–	–	–	–	–	–
Fair value option	–	–	–	–	–	–
	–	–	–	–	–	–
Other financial liabilities:						
Deposits from Central banks and other banks	30 948	–	30 948	30 948	–	30 948
Customer deposits	15 728 826	–	15 728 826	15 728 826	–	15 728 826
	15 759 774	–	15 759 774	15 759 774	–	15 759 774
Total	15 759 774	–	15 759 774	**15 759 774**	**–**	**15 759 774**

31 — Recently issued accounting standards and interpretations

IFRS 15 — Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 - Revenue from contracts with customers. IFRS 15 was adopted by Regulation of the European Commission No 1905/2016 of 22 September 2016. With mandatory application for periods beginning on or after 1 January 2018.

Early adoption is permitted. This standard supersedes IAS 11 — Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programs, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 Revenue — Barter Transactions Involving Advertising Services.

IFRS 15 determines a 5-step model of analysis in order to determine when the revenue should be recognised and what is the amount. The model specifies that revenue must be recognised when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of some criteria, revenue is recognised:

- At the exact moment when the control over the goods or services is transferred to the customer; or
- Over time, as performance obligations are satisfied.

The Bank initiated in 2017 a process to evaluate the potential effects of this standard.

Other alterations

IASB has also published the following standards:

- On 19 January 2016 and applicable to periods beginning on or after 1 January 2017, amendments to IAS 12 aimed at clarifying when deferred tax assets should be recognised for unrealised losses to resolve differences of application (adopted by European Commission Regulation No 1989/2017 of 6 November).

- On 29 January 2016 and applicable to periods beginning on or after 1 January 2017, amendments to IAS 7, disclosure initiative, requiring entities to provide information on changes in liabilities arising from financing activities as to enable investors to evaluate corporate indebtedness (adopted by European Commission Regulation 1990/2017 of 6 November).

- Annual improvements of 2014-2016 cycle, issued by the IASB on 8 December 2016, introduce amendments to IFRS 12 (clarification of the scope of the standard), with an effective date on or after 1 January 2017.

None of these modifications had impact on the Bank's financial statements.

IFRIC 22 – Foreign Currency Transactions and Advance Considerations

IFRIC 22 interpretation was issued on 8 December 2016, and is effective for periods beginning on or after 1 January 2018.

The new IFRIC 22 provides that, in the event of advances in foreign currency for purposes of acquisition of assets, expense support or income generation, when applying paragraphs 21 to 22 of IAS 21, the date considered as the date of the transaction for the purpose of determining the exchange rate to be used in the recognition of the asset, and the inherent expense or income(or part of it) is the date on which the entity initially recognises the non-monetary asset or liability resulting from the payment or receipt of advance consideration in the foreign currency (or in case of multiple advances, the rates in force at each advance consideration).

IFRIC 23 – Uncertainty over Income Tax Treatments

An interpretation was issued on 7 June 2017, on how to handle, in accounting terms, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment is made to the authorities in the context of a tax dispute and the entity intends to appeal against the agreement in question which led to such payment.

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criteria of probability defined by the standard as to the favourable outcome in favour of the entity on the matter concerned.

In this context, the entity may use the most probable amount method or, if the decision can dictate ranges of values, use the expected value method.

IFIRC 23 is applied for periods beginning on or after 1 January 2019 and can be adopted in advance.

Standards, amendments and interpretations issued but not yet effective for the Bank

IFRS 16 – Leases

The IASB, issued on 13 January 2016 the standard IFRS 16 – Leases, which must be applied for period beginning on or after 1 January 2019. Early adoption is permitted provided that IFRS 15 is also adopted. This standard replaces IAS 17 – Leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases (for the lessor), and treats all leases as finance leases.

Short-term leases (of less than 12 months) and leases where the underlying assets have a low value (such as personal computers) are exempt from the requirements of the standard.

The process to evaluate the potential effects of this standard is under way.

Prepayment features with Negative Compensation– Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or fair value through other comprehensive income provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and that the instrument is held in a business model which permits such classification.

Amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstances causing early termination of the contract and regardless of which party pays or receives reasonable compensation for early termination of the contract.

The Basis for Conclusions, for this amendment clarifies that the early termination may be a consequence of a contractual clause or an event that is beyond of the control of the contracting parties, such as change of laws or regulations leading to early termination.

Modification or exchange of financial liability not resulting in derecognition of the liability.

In the Basis for Conclusions, the IASB also clarifies that the requirements of IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in its derecognition are consistent with the requirements applied to a modification of a financial asset that does not result in its derecognition.

This means that a gain or loss when a financial liability is modified without this resulting in derecognition, calculated by subtracting the modified cash flows discounted at the original effective interest rate from the contractual cash flows, is immediately recognised in profit or loss.

IASB made this comment in the Basis for Conclusions regarding this amendment as it believes that the current requirements of IFRS 9 provide a good basis for entities to account for modifications or exchanges of financial liabilities and that there is no need for a formal amendment to the IFRS 9 with regard to that matter.

This amendment was endorsed on 22 March 2018 and is effective for periods beginning on or after 1 January 2019. It is to be applied retrospectively. The amendment comes with specific requirements to be adopted in the transition, but only if entities adopt it in 2019 and not in 2018 together with IFRS 9. Early adoption is permitted.

Long-term interests in Associates and Joint Ventures– Amendments to IAS 28

The amendments clarify that an entity should apply IFRS 9 to long-term interests in an associate or joint-venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint-venture (long term interests). This clarification is relevant since it implies that the expected loss model of IFRS should be applied to such investments.

IASB also clarified that in applying IFRS 9 an entity does not take into account any losses of that associate or joint-venture nor impairment losses on the net investment which are recognised as an adjustment to the net investment resulting form the application of IAS 28.

To illustrate how entities should apply the requirements of both IAS 28 and IFRS 9 with regard to long-term interests, IASB published illustrative examples when it issued this amendment.

This amendment is effective for periods beginning on or after 1 January 2019. It is to be applied retrospectively with a few exceptions. Early adoption is permitted and must be disclosed.

Annual Improvements to 2015-2017 Cycle

In the Annual Improvements to the 2015-2017 Cycle, the IASB introduced improvements to four standards which are summarised below:

IFRS 3 Business Combinations – Interest previously held in a joint operation

The amendments clarify that when an entity obtains control of a business that is a joint venture it should apply the requirements for business combination achieved in stages, including remeasurement of previously held interest in assets and liabilities in the joint operation at fair value.

By doing so, the acquirer remeasures its previously held interest in the joint operation.
This amendment is applicable to business combinations for which the acquisition date is on or after the first reporting period beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 11 Joint arrangements- Interest previously held in a joint operation

A party which participates, but does not have joint control in a joint operation can obtain joint control in a joint operation which activity is a business as defined in IFRS 3. This amendment clarifies that the previously held interest must not be remeasured.

This amendment applies to transactions in which the entity obtains joint control and which take place on or after the first reporting period beginning on or after 1 January 2019. Early adoption is permitted.

IAS 12 Income tax – Income Tax Consequences of Payments on Instruments Classified as Equity

These amendments clarify that the income tax consequences of dividends are directly linked to past transaction or event which generated profit distributable to shareholders. Consequently, the entity recognises the tax impacts in the income statement, in other comprehensive income or equity in the same way it accounted for the transactions and events themselves in the past .

These amendments are applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted. When the entity applies these alterations for the first time, it should apply to the tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

The amendment clarified that an entity treats any loan, originally obtained for the development of a qualifying asset, as part of global loans when substantially all the activities necessary to get the asset ready for its intended use or sale are completed.

The amendments are applicable to borrowing costs incurred on or after the beginning of the reporting period in which the entity adopts these amendments.

They are applicable for annual periods beginning on or after 1 January 2019.
Early adoption is permitted.

IFRS 17 Insurance contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entity which issues them, as well as to certain guarantees and financial instruments with discretionary participation features. A few exceptions will apply.

The general objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for issuers.
In contrast to the requirements of IFRS 4, which are based on previously adopted accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model which is supplemented by:

- A specific adaptation for contracts with direct participation features (variable-fee approach); and

- A simplified approach (premium allocation approach), mainly for short-term contracts.

- The main features of the new accounting model for insurance contracts are as follows:
- Measurement of the present value of future cash-flows, incorporating risk adjustment, measured in each reporting period (amount of fulfilment cash flow);

- Contractual Service Margin (CSM), is a component of the asset or liability for the group of insurance contracts, representing the unearned profit in the group of contracts which will be recognised in profit or loss over the term of the service(i.e., coverage period);

- Some changes in the expected present value of future cash flows are adjusted against CSM and thus recognised in profit or loss over the remaining period of the contractual service;

- The effects of changes in the discount rate will be reported as gains or losses or as other comprehensive income, depending on the entity´s accounting policy;

- The presentation of insurance income and expenses in the Statement of Other Comprehensive Income is based on the concept of services provided during the period;

- The amounts that the policyholder will receive, whether or not an insured event occurs (non-discretionary investment components) are not presented in the income statement and are recognised directly in the balance sheet;

- Insurance service result (revenue less service expenses) is presented separately from insurance income and expenses; and

- Extensive disclosures that provide information on recognised amounts of insurance contracts as well as on the nature and extent of risks arising from them.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021 and it is necessary to present comparative information for earlier periods. Earlier application is permitted if the entity also applies IFRS 9 and IFRS 15 on or before the date it applies IFRS 17. IASB decided on retrospective application for the estimate of CSM at the transition date. However, if full retrospective application, as defined in IAS 8, is impracticable for a group of insurance contracts, the entity has to choose one of the two alternatives below:

- Modified retrospective approach – based on reasonable and supportable information which is available without undue cost or effort for the entity, considering some modifications to a full retrospective approach, nevertheless maintaining the objective of achieving the best possible result in the retrospective application;

- Fair value approach – CSM is determined as the difference between the fair value measured according to IFRS 13 Fair Value Measurement and the amount of fulfilment cash flows (any negative difference will be recognised in retained earnings at the transition date).

If an entity is unable to obtain reasonable and supportable information to apply the modified retrospective approach, it is required to apply the fair value approach.

In November 2018, the IASB decided to propose change of the effective date of the standard for annual periods beginning on or after 1 January 2022. IASB is also attempting to amend the standard in order to take into account the concerns and challenges arising from the standard implementation which have been raised by the parties concerned.

External Auditor´s Report

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Independent Auditor´s Report

To the Board of Directors of Banco Comercial do Huambo, S.A

Introduction

1. We have audited the attached financial statements of Banco Comercial do Huambo, S.A, hereby referred to as "Bank", which comprise Balance Sheet as at 31 December 2018 showing a total of 37,796,794 thousand kwanza and equity of 17,647,146 thousand kwanza, including profit after tax of 6,630,044 thousand kwanza; Income Statement; Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, for the year then ended as well as Notes to the Financial Statements.

Responsibility of the Board of Directors for the Financial Statements

2. The Board of Directors is responsible for the adequate preparation and presentation of these financial statements in accordance with accounting principles and policies generally accepted in Angola and for the maintenance of an appropriate internal control system in order to permit that the financial statements are prepared free of material misstatements due to fraud or error.

Responsibility of the Auditor

3. Our responsibility consists in expressing an opinion about these financial statements, on the basis of the audit which we conducted according to the International Standards on Auditing. Those Standards require that we comply with ethic requirements and plan and conduct such examination as to obtain reasonable assurance about whether the financial statements are free from material misstatements.

4. An audit involves procedures as to obtaining evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor´s judgment, including the assessment of risk of material misstatements in the financial statements due to fraud or error. By conducting those risk assessments, the auditor considers the internal control relevant for the adequate preparation and presentation of the financial statements by the Bank

in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the efficiency of the Bank´s internal control. An audit also includes assessment of the adequacy of the applied accounting policies and their disclosure, reasonableness of significant accounting estimates made by the Board of Directors and assessment of the overall presentation of the financial statements.

5. We believe that our audit provides a reasonable basis for our opinion.

Bases for qualified opinion

6. The Angolan Banking Association (ABANC) and the National Bank of Angola (BNA) expressed an interpretation that all requirements of IAS 29 – Financial Reporting in hyperinflationary economies (IAS 29) were not met in order to consider the Angolan economy a hyperinflationary one for the year ended 31 December 2018, and consequently, the Bank´s Board of Directors decided to continue not to apply the provisions of that standard to the financial statement for the year ended 31 December 2018, in line with its position with reference to 31 December 2017. As of 31 December 2018 the cumulative inflation rate for the last three years exceeds 100%, whatever the index used, and it is also expected that it will continue to cumulatively exceed the 100% mark in 2018, which is an objective quantitative condition that makes us consider in addition to other conditions established in the IAS 29, that the functional currency of the Bank´s financial statements as at 31 December 2018 is a currency of a hyperinflationary economy. Given such circumstances, the Bank should have presented its financial statements for the year then ended on that premise and in accordance with the provisions of IAS 29. We did not obtain sufficient information as to be able to quantify rigorously the effects of this situation on the Bank´s financial statements as at 31 December 2018, which we consider significant.

Qualified Opinion

7. In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph (6), the financial statements referred to in p. 1 above give a true and fair view, in all material respects, of the financial position of Banco Comercial do Huambo S.A [Commercial Bank of Huambo] as of 31 December 2018, of its financial performance and cash flows for the year then ended, in conformity with the International Financial Reporting Standards.

Luanda, 09 May 2019

Ernst & Young, Lda
Represented by: Daniel Guerreiro — Partner (Chartered accountant n° 20130107 –signature illegible)
and Silvia Silva – Partner (signature illegible)

BCH Banco Comercial do Huambo

Audit Committee´s Report & Opinion

To the shareholders of
BANCO COMERCIAL DO HUAMBO, S. A.
Luanda

Pursuant to legal and statutory provisions, we hereby present the report on the supervisory activity we developed and submit the Audit Committee´s Report and Opinion on the Report and Accounts for the year ended 31 December 2018 of Banco Comercial do Huambo, S.A. (hereby referred to as Bank), as well as on the proposal for appropriation of profit, which are a responsibility of the Board of Directors. The balance sheet shows a total of 37,796,794 thousand kwanzas and equity of 17,647,146 thousand kwanzas including profit after tax of 6,630,044 thousand kwanzas.

1. Throughout the financial year, we had the chance to periodically monitor the Bank´s activity, the adequacy of the accounting records and compliance with applicable legal and statutory standards. The Bank´s management and several departments provided us with the explanations and information we requested, necessary for the preparation of our opinion.

2. Within the scope of our duties, we carried out analysis and appraised the Financial Statements which comprise the Balance Sheet, the Income Statement, Statement of Cash Flows and the Notes to the Financial Statements, all of which were prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), according to the provision of Notice 6/2016 of May, 16th issued by the National Bank of Angola, with the exception of IAS 29 – Financial Reporting in Hyperinflationary Economies, as mentioned in the independent auditors´ report.

3. We analysed the Management Report which describes with sufficient clarity the Bank´s activity during 2018.

4. The valuation criteria used for the preparation of the accounts correspond to the correct valuation of the assets.

5. We analysed the Independent Auditors' Report, issued by Ernst & Young, Lda. which contains a qualified opinion due to the inobservance of the provisions of IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29").

6. However, the Angolan Banking Association (ABANC) and the National Bank of Angola ("BNA") expressed an interpretation that the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies (IAS "29") are not entirely satisfied in order for the Angolan economy to be considered hyperinflationary for the year ended 31 December 2018 and, consequently, the Bank did not apply the provisions of the standard, thus complying with the mandatory application of legal norms and regulations in force in the country.

7. In the light of the foregoing, and taking into consideration the work done we propose:

a) The approval of the Management Report and the Accounts for the year ended 31 December 2018.

b) The approval of the proposed appropriation of net profit from 2018, as described in the Management Report.

c) The approval of a vote of praise, by strengthening the confidence in the Board of Directors for its dedication, sound performance and results, achieved in 2018 which reflect the soundness and growth of the Bank.

8. We would also like to express our gratitude to the Board of Directors and the Bank´s departments for their collaboration.

Luanda, 9 May 2019

The AUDIT COMMITTEE
Signed: Mr. Armando Nunes Paredes – President
Signed: Mr. Mário Castelo Branco - Deputy-chairman
Signed: Mr. Francisco Miguel Paulo – Deputy-chairman