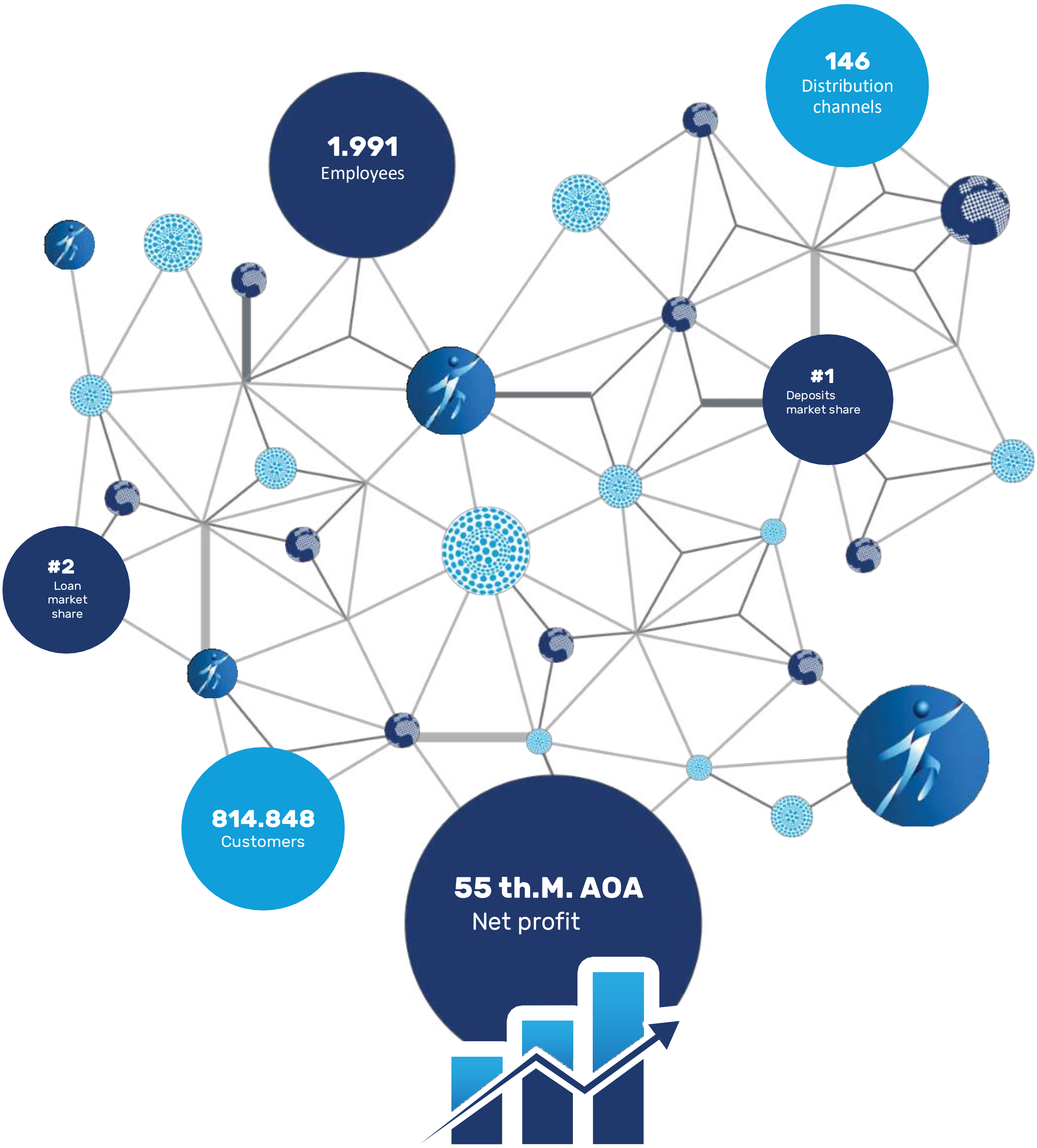
ANNUAL REPORT 2017



BAI

ANNUAL REPORT **2017**

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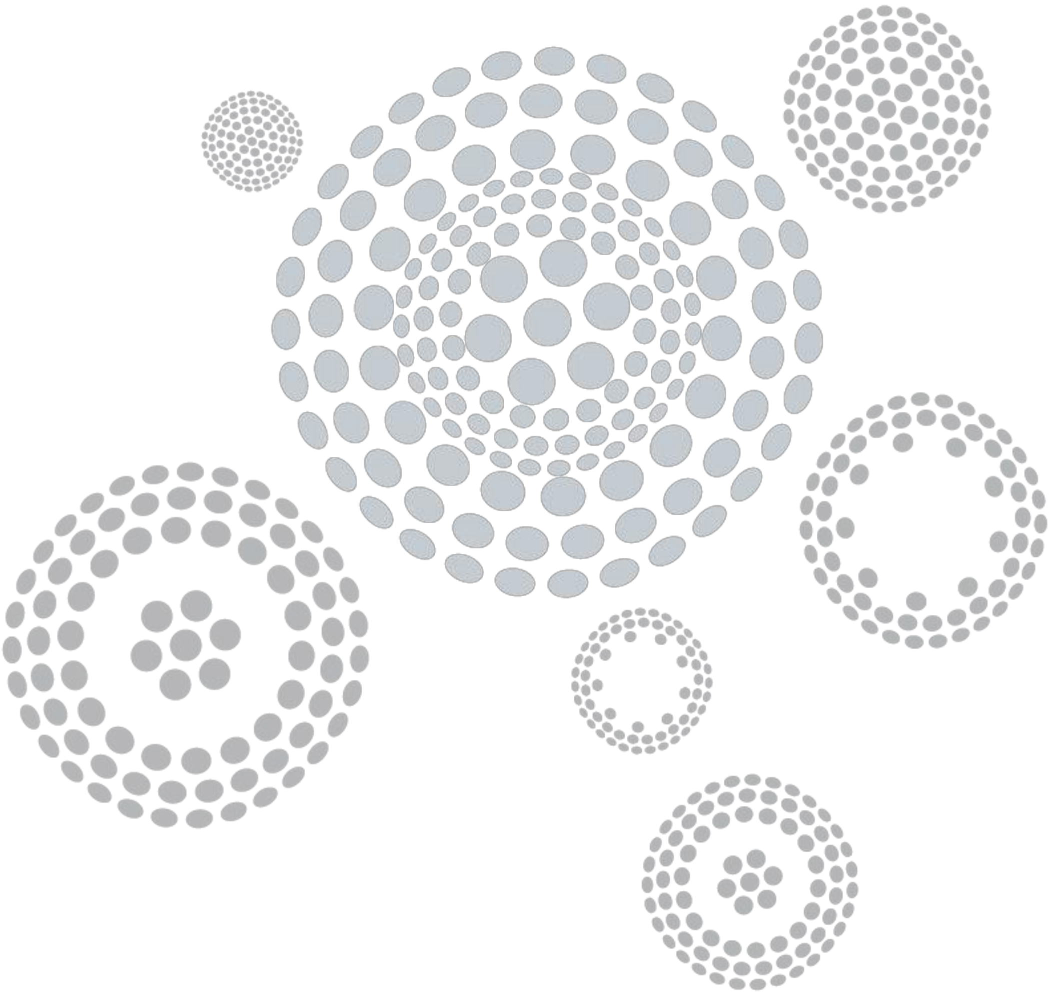


BAI REINFORCES ITS COMMITMENT WITH ANGOLA, REMAINING AS AN IMPORTANT PARTNER FOR THE PROSSECUTION OF THE COUNTRY ECONOMIC DIVERSIFICATION GOALS.

JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

01

JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

José Carlos Castro Paiva
Chairman of the Board of Directors

Luís Filipe Rodrigues Lélis
Chief Executive Officer (interim)

2017 economic year will be remembered as a year of challenges and changes in the most diverse sectors of the Angolan economy and society.

The organized and peaceful way in which the elections of August 2017 took place promoted a political transition with no major tumors, generating an environment of strengthened confidence in the future.

This renewed context had a positive impact on the economic index climate, which after a long downtrend period, has started an upward trend. Notwithstanding there is still some skepticism regarding the capacity of the economy to regain growth momentum becouse of the financial difficulties, the heavy bureaucracy and the lack of qualified human resources.

The marked and longstanding decline of oil prices jeopardized the economic performance and highlighted the need to diversify the economy and reduce its vulnerabilities.

The government took measures to mitigate the consequences of the decline on oil prices in the economy. In any case, the subsequent economic challenges have been defining the economic context and influencing the economic policy.

In this socioeconomic environment, the banking industry faced challenges, which led to the reassessment of its business approach. The decline in the net international reserves and in the liquidity in foreign currency, the increase in regulatory requirements and the increase of non-performing loans were the main drivers for the banking industry in 2017.

The banking industry reported a significant increase in the non-performing loans ratio, which increased to 28.5% in November 2017 from 13.1% in 2016. The concerns regarding the increasing default levels led to a slowdown of credit concession, which has created more challenges to the economic recovery.
Moreover, a reduction on the profitability level of the industry was visible with a decrease of ROE to 12.3% in November 2017 from 15.6% in 2016. The increase in cost to income, which grew to 50.9% in November 2017, a 4.2 percentage point increase, has contributed to that ROE reduction.

BAI, following its strategy as defined on “BAI Generation” has kept the focus in the reinforcement of its service quality standards, aiming at a distinctive banking experience to its customers.

The customers segmentation led to a greater dynamism of the commercial areas with the creation of a specific office to serve the affluent customers. This fact, combined with the initiatives to consolidate the other segments, namely the large companies and premium business segments, is focused on the offer of personalized, differentiated and quality services.

In addition, the innovation and renewal of non-presencial banking solutions allow a distinctive banking experience, a fact recognized through the “Best innovative product” award at FILDA 2017 to our remote banking platform known as BAIDirecto.

BAI's commitment to provide a comprehensive range of products and services has enabled the Bank to remain in the market leadership in what refers to the volume of deposits and to reaffirm the second position in terms of loans to the economy.

The need for State indebtedness generated a context of regular public debt issuance with high interest rates. This contributed to a 15% increase in BAI's net interest income, which stood at AOA 81 thousand million.

Administrative costs increased 29%, slightly above inflation, which resulted in a cost to income of 35%, but still lower than the banking industry.

BAI had a good financial performance with net results reaching AOA 55 thousand million, a year-on-year increase of 11%, and with own funds growing by 17% to AOA 196 thousand million.

The regulatory solvency ratio, calculated in accordance with Notice No. 2/2016, was 19% above the minimum required by law (10%), which testifies the BAI's solidity.

The results achieved in 2017 reflected high operational standards, the exploitation of the macroeconomic context and the recognition of our brand.

The year 2018 seems uncertain in economic terms given the need to implement economic and institutional reforms that will lead to fast onset of recovery of the national economy and ensure the conditions for a much-needed macroeconomic stabilization.

BAI reinforces its commitment to Angola, as an important partner for the pursuit of the objectives of economic diversification.

On behalf of the Board of Directors and the Executive Committee, we would like to thank all 1,991 BAIns[1] who have contributed tirelessly to providing the best banking experience to our clients and to continue to be a strong and solid Bank.

We are also grateful to our shareholders, customers, suppliers and all other stakeholders, with a guarantee that BAI will always be a Bank committed to serve society and participate in Angola sustained economic growth.

José Carlos Castro Paiva
Chairman of the Board of Directors

Luís Filipe Rodrigues Lélis
Chief Executive Officer (interim)

[1] As our employees are affectionately known.

IN THE 7TH EDITION OF THE SIRIUS 2017 PRIZE,
THE AWARD ASSIGNED BY DELOITTE, BAI WAS
DISTINGUISHED AS A COMPANY OF THE YEAR
IN THE FINANCIAL INDUSTRY.

RELEVANT ASPECTS

- KEY PERFOMANCE INDICATORS
- GRAPHICAL ANALYSIS
- MAIN ACHIEVEMENTS AND RECOGNITIONS

02

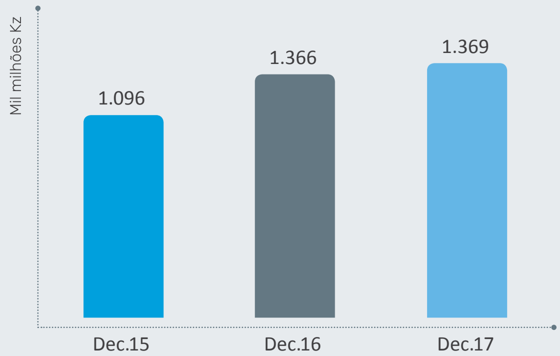
2.1. KEY PERFORMANCE INDICATORS

Amounts in thousand million of AOA	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
BALANCE SHEET AND INCOME STATEMENT				
Net assets	1,096	1,366	1,369	0%
Loans to customers[1]	347	380	369	(3%)
Customers' resources	939	1,137	1,093	(4%)
Own funds	123	167	196	17%
Operating income from banking activity	73	96	112	17%
Administrative expenses	26	31	39	29%
Net Profit	16	50	55	11%
OPERATIONAL				
Number of employees	2,053	1,997	1,991	(0%)
Distribution channels	144	143	146	2%
Active Customers [2]	587,444	681,346	814,848	20%
No. of BAI Direct users	245,181	36,683	343,451	836%
Active ATMs	334	341	354	4%
Active POS terminals	2,806	4,616	10,265	122%
Active Debit Cards	205,133	223,638	461,309	106%
PRODUCTIVITY/EFFICIENCY				
Number of customers per employee	286	341	409	20%
Number of customers per branch	4,079	4,765	5,581	17%
Number of employees per branch	14	14	14	(2%)
(%) Cost-to-income ratio	35.9%	32.0%	35.3%	10%
PROFITABILITY				
(%) Return on Average Equity	13.4%	34.2%	30.1%	(12%)
(%) Return on Average Assets	1.4%	4.0%	4.0%	-1%
LIQUIDITY AND FUND MANAGEMENT				
(%) Loan-to-deposit ratio	37.0%	33.4%	33.8%	1%
(%) Top 20 Concentration of Deposits	37.0%	38.7%	35.5%	(8%)
(%) Top 20 Concentration of Loans	57.1%	59.6%	58.8%	(1%)
QUALITY OF ASSETS				
(%) Non-performing loans (more than 90 days) ratio	5.2%	4.3%	16.5%	281%
(%) Overdue loans (more than 30 days) ratio	7.6%	7.4%	21.0%	185%
(%) Credit to impairment coverage ratio	12.5%	15.3%	19.3%	26%
(%) Non-performing loans to impairment coverage ratio	238.1%	363.2%	117.3%	(68%)
(%) Net loss on credit[3]	6.1%	3.6%	3.7%	2%
(%) Total Loans / Total Assets	31.6%	32.9%	27.0%	(18%)
CAPITAL ADEQUACY				
Fixed Assets Ratio	49.4%	43.6%	33.9%	(22%)
Regulatory Own Funds (Notice No. 2/2016)	-	115	154	33%
Regulatory Solvency Ratio (Notice No. 2/2016)	-	19.2%	19.0%	(1%)

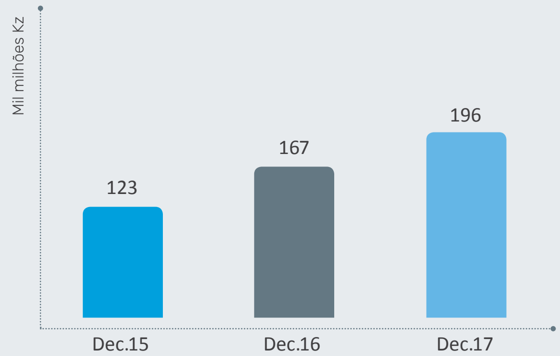
1) Customers loans net of impairment losses.
2) The number of active customers, in accordance with the methodology set by BNA and does not include closed accounts.
3) Impairment losses net of reversals and loan recoveries (profit and loss)/loans.

2.2. GRAPHICAL ANALYSIS

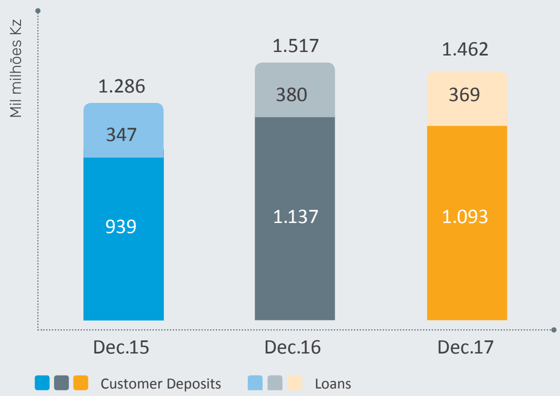
NET ASSETS



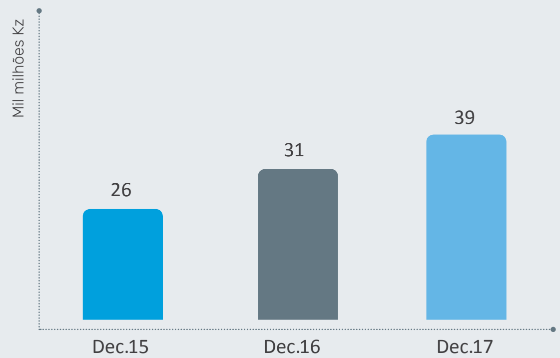
OWN FUNDS



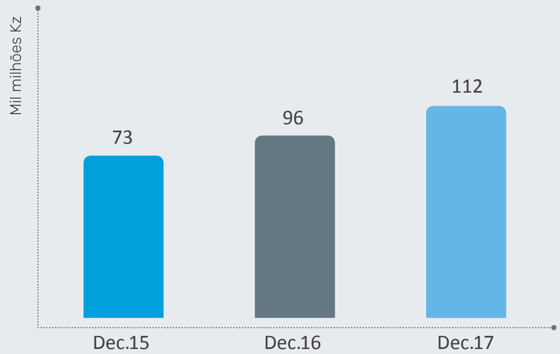
TURNOVER



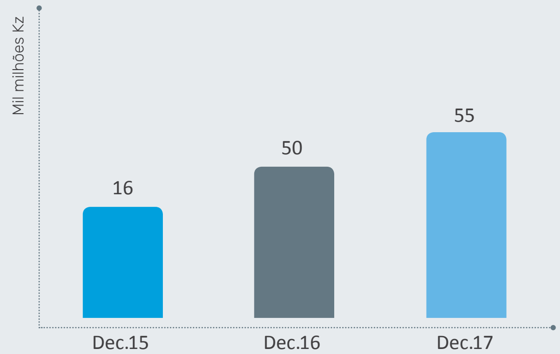
ADMINISTRATIVE EXPENSES



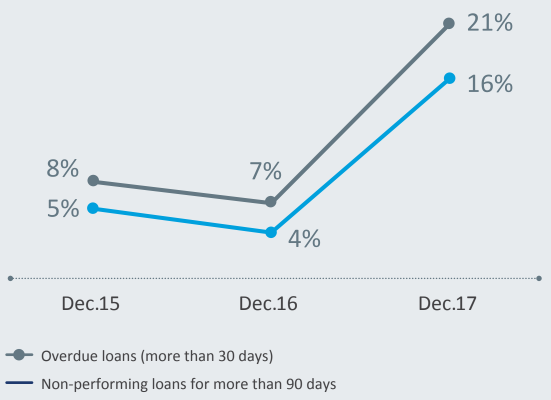
OPERATING INCOME FROM BANKING ACTIVITY



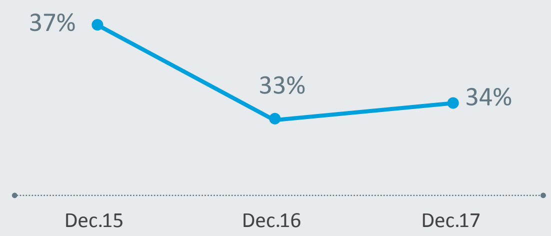
NET PROFIT



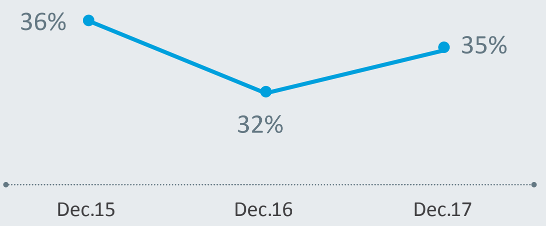
NON-PERFORMING LOANS



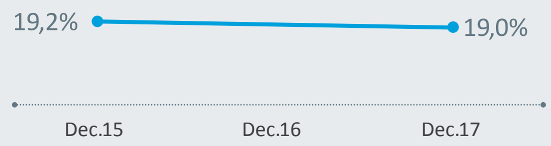
(%) LOAN-TO-DEPOSIT RATIO



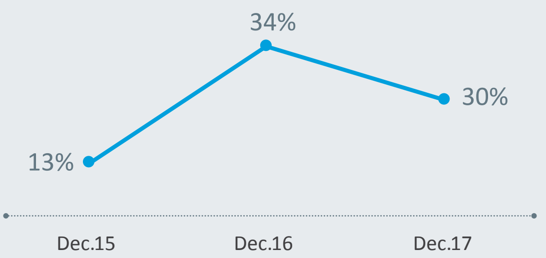
(%) COST-TO-INCOME RATIO



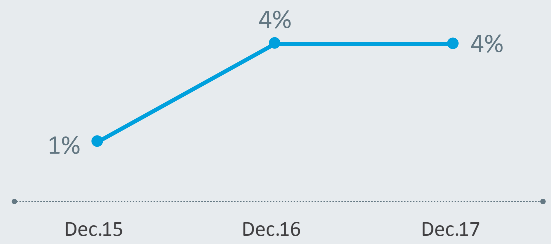
(%) REGULATORY SOLVENCY RATIO
(Notice No. 2/2016)



(%) ROAE



(%) ROAA



2.3. MAIN ACHIEVEMENTS AND RECOGNITIONS

GLOBAL FINANCE

BAI was appointed by the international magazine "Global Finance" one of the 106 most solid banks in the world and the most solid in Angola

THE BANKER

Awarded as Bank No. 1 in Angola based on own funds

EUROMONEY AWARDS FOR EXCELLENCE 2017

"Euromoney", the prestigious banking industry magazine, has chosen BAI as the Best Bank in Angola for the year 2017

BANKING AWARDS 2017

Best Commercial Bank and Best Innovation in Banking Retail, by the "International Banker" magazine

SIRIUS AWARD

At the 7th edition of the SIRIUS 2017 award, by Deloitte, BAI was distinguished as the company of the year in the financial industry

FILDA AWARD BAI DIRECT WITH GOLDEN LION

Best innovative product awarded to BAI Directo at the 33rd edition of Luanda International Fair

Participation in the **OFFSHORE TECHONOLGIC CONFERENCE** in Houston, to inform and clarify the participants about the Angolan financial system and about the products and services that BAI offers to the oil industry

MEETING WITHCAMERA OF COMMERCE ANGOLA-CHINA

A networking meeting between the BAI Group and the Angola-China Chamber of Commerce (CAC)

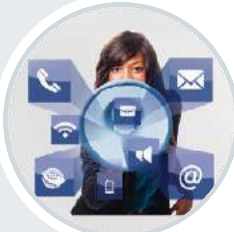
2nd BAI COMMERCIAL FORUM
Customer Experience Improvement

"SMILE YOU ARE ON CAMERA"
Customer service quality improvement

EXPO MATALA 2017 IN LUBANGO to AAPCIL present the potential of the Huíla province attended by companies related to Agriculture, Livestock farming and Industry

EXPANSION OF THE COMMERCIAL NETWORK ON COMMERCIAL SURFACES
Inauguration of agencies with extended schedule includind Saturday at Xyami Kilamba, Xyami Nova Vida and Xyami Lubango

Campaign of **CLIENT AQUISITION** at university poles



DENOUNCES CHANNEL
Launching of BAI complaints channel, a way to communicate illegal practices related to the Institution

BANKA 3G IMPLEMENTION
New banking management platform in all areas of business and support

FORUM ICOST - RATIONALIZATION OF COSTS AND WASTE
Promotion of a more efficient management of the resources available to employees on their activities

BAI ARENA INAUGURATION

A multi-sport space was opened on Cape Island, which aims to promote and develop beach sports

BAI GYM OPENING FOR EMPLOYEES

At the BAI Headquarters Building, an innovative concept, providing a relaxed and healthy environment. BAI always attentive to health and well-being of employees

CARNIVAL BAI SONG AWARD

To value the songs of carnival groups and motivate musicians and composers

PARTICIPATION IN THE 5th EDITION OF IMAGINE CUP 2017 that promotes technological innovation in the academic universe with the sponsorship of Microsoft

THE BANK'S BUSINESS STRATEGY FOR THE 2016-2021 PERIOD, STANDS ON THE VISION, DEFINED BY THE BOARD OF DIRECTORS, TO BE A BANK THAT OFFERS THE BEST BANK EXPERIENCE TO ITS CUSTOMERS THROUGH EXCELLENCE ON PRODUCTS AND SERVICES.

STRATEGY AND GOVERNANCE MODEL

- CORPORATE GOVERNANCE MODEL
- STRATEGY AND BUSINESS MODEL

03

3.1. CORPORATE GOVERNANCE MODEL

BAI is committed to adopting a corporate governance model aligned with the best international and national standards to ensure the interests of shareholders, customers, employees, suppliers and other stakeholders.

The Bank complies strictly with the laws and regulations of the country applicable to banking industry, and observes the rules and other regulations issued by regulatory authorities, such as the National Bank of Angola (hereinafter referred to as "BNA"), the Capital Market Commission (hereinafter referred to as "CMC"), the General Tax Authority (hereinafter referred to as "AGT"), among others.

Mechanisms of corporate governance

i The rules governing the participation of shareholders in the Bank, being of special relevance those related to the exercise of their rights and set out in the Articles of Incorporation;

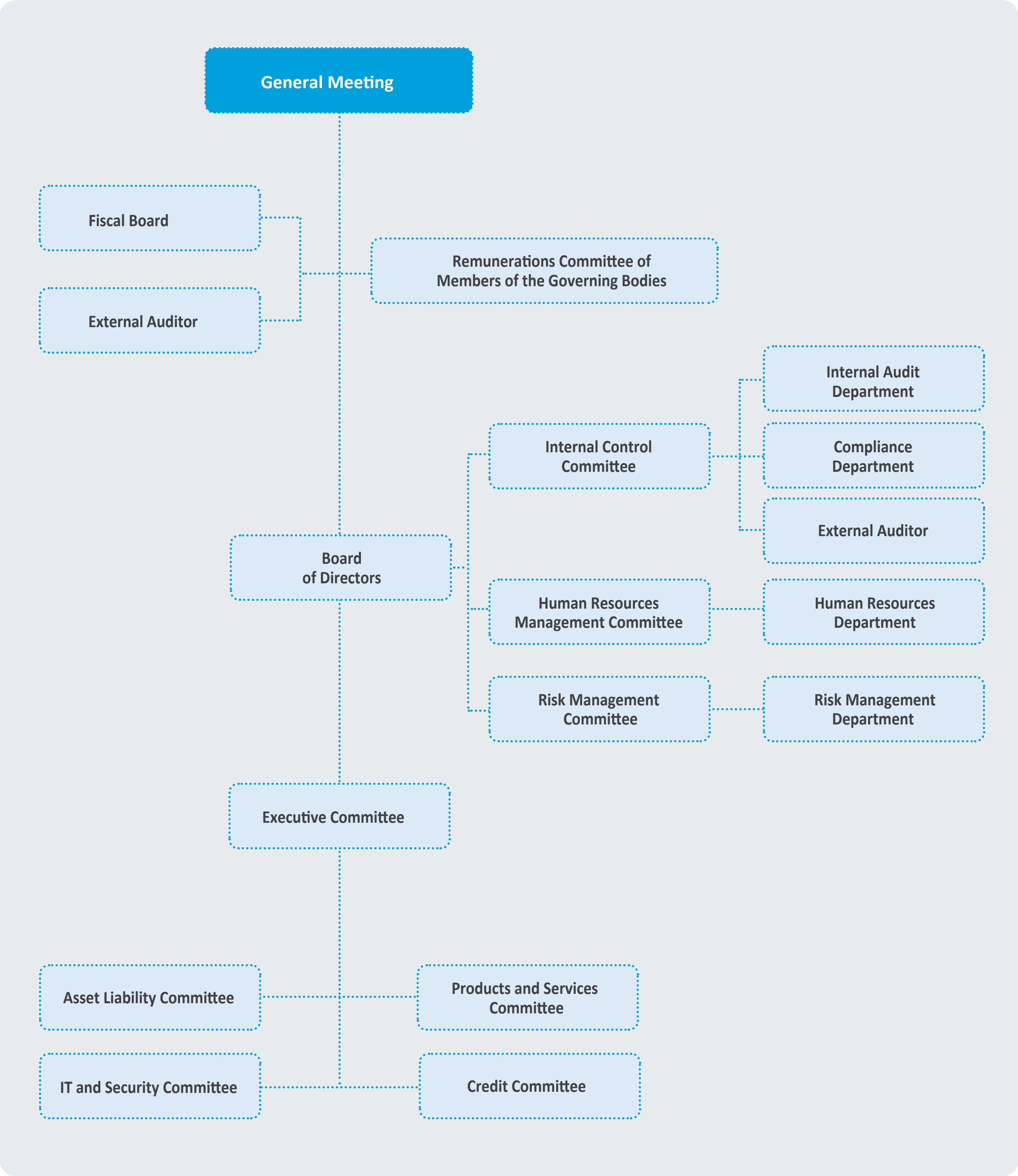
ii The rules governing the Board of Directors, both in its functional aspects as well as in the determination of the directors' duties and obligations. These rules are set out in the Articles of Incorporation and in the Rules of Procedure of the Board of Directors, its Committees and the Executive Committee;

iii The internal rules that contain a series of principles and concrete rules of action, which are contained in the code of conduct;

iv The organization chart is underpinned on a functional structure, which allows a clear segregation of duties and responsibilities of different bodies. The distribution of responsibilities, under the authority of each executive director, is made in a way that seeks to ensure segregation between the business, support and control functions;

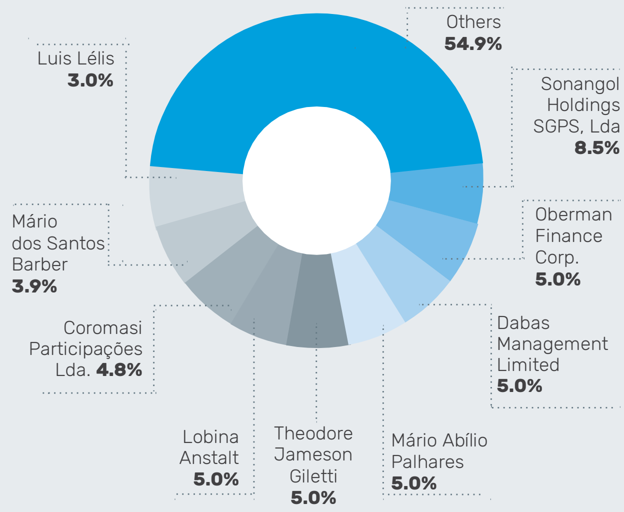
v The instruments used to improve the information provided to shareholders (in particular the Annual Report and Accounts and the Bank's website) and the processes aimed at making this information accurate, complete and timely, including everything linked to the relationship with the Fiscal Board and the external auditor.

3.1.1. CORPORATE BODIES AND COMMITTEES



3.1.2. SHAREHOLDER STRUCTURE

BAI share capital is AOA 14,787 million, fully subscribed and paid in cash, and is divided into 19,450,000 ordinary shares represented by securities, with a nominal value of AOA 760.24 each. The shareholder structure comprises 52 shareholders and no shareholder holds any qualifying holdings pursuant to Article 6 of Notice No. 1/13 of 19 April. The shareholdings of members of governing bodies are set forth in Note 20 of the financial statements.



3.1.3. GENERAL MEETING

The General Meeting is made up by all shareholders holding voting rights, and shall deliberate on all matters granted to it under the law and the articles of incorporation.

It is incumbent upon the General Meeting to:

i. Elect and dismiss the members of the Governing Bodies, including their chairpersons;
ii. Deliberate on capital increases;
iii. Approve the annual report and accounts, and the Fiscal Board;
iv. Deliberate on the appropriation of profits.

The General Meeting is held annually in ordinary session until the end of the first quarter of each year and may be convened extraordinarily by resolution of the Board of Directors or the Fiscal Board, or when requested in writing by one or more shareholders holding at least, 5% of the share capital.

The resolutions of the General Meeting are taken by absolute majority of the votes present, except when decisions require a qualified majority of votes.

The term in office of the current Governing Bodies ended in December 2017, so the General Meeting of 28 March 2018 will appoint the Corporate Bodies for the period 2018-2021.

Members of the Board of the General Meeting

Member	Function
Domingos Lima Viegas	Chairman
Josina Baião Magalhães	Deputy-chairman
Alice Trindade Escórcio	Secretary

3.1.4. REMUNERATIONS COMMITTEE OF MEMBERS OF THE GOVERNING BODIES

The purpose of the Governing Bodies Remunerations Committee is to determine, implement and review the remuneration policy of members of governing bodies pursuant to Article 17, Notice No. 1/13 of 19 April. The Commission is composed by three shareholders who are not part of the Governing Bodies, which its duration is the same as that of those bodies. The Committee shall meet at least once a year and the minutes shall be recorded in minutes.

3.1.5. FISCAL BOARD

The Fiscal Board consists of a chairman, two effective members, being one an expert accountant, and one alternate.

The ordinary meetings of this body shall be held quarterly and whenever convened by its chairman or requested by a majority of its members, and special meetings whenever necessary. The resolutions are recorded in minutes and signed by all members.

[2] Shares are represented by securities of 1, 5, 10, 50, 100, 500, 1,000, 5,000, 10,000 and multiples of 10,000 shares.

FISCAL BOARD COMPOSITION

Member	Function
Júlio Ferreira Sampaio	Chairman
Moisés António Joaquim	Member
Alberto Severino Pereira	Member
Isabel Lopes	Alternate member

3.1.6. EXTERNAL AUDITOR

The external auditor appointment is made every four years by the Board of Directors, and its activity and independence is supervised by the Internal Control Committee.

The external audit is carried out by KPMG Angola, appointed in 2014, under the conditions set forth in Notice No. 4/13 of 22 April, in particular with regard to capacity and independence requirements.

3.1.7. BOARD OF DIRECTORS

The Board of Directors is composed of an odd number of members, a minimum of five and a maximum of thirteen, with competence to exercise the Bank's broadest management and representation powers, undertake all acts necessary or convenient for the pursuit of its business. The term of office of the members of the Board of Directors is four years, with the present mandate started in 2014 and ended on 31 December 2017.

In 2017, the composition of the Board of Directors has changed its structure, due to the resignation of the directors Francisco Maria and Paula Gray, and subsequently the resignation of the Chairman of the Executive Committee, José Massano, and the executive director Pedro Castro e Silva. Thus, the current Board of Directors is composed by nine directors, five executives and four non-executives, of whom, among the latter, one is independent.

BAI adopts the concept of independent director in line with the criteria set forth in Notice No. 1/13 of 19 April (paragraph 9 of Article 3).

The resumes of the members of the Board of Directors are available in the Bank's institutional webpage (at www.bancobai.ao).

The competences and rules of operation of the Board of Directors are described in a separate regulation drawn up in accordance with the Statutes. The Board of Directors shall meet quarterly and whenever convened by its chairman or by a majority of its members.

3.1.8. COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors has the following specialized committees: internal control committee, human resources management committee and risk management committee. None of the above have decision-making powers, but exclusively of supervision powers (information, assurance and proposal).

The operating rules for these commissions are set out in the relevant regulations and they foresee, inter alia, that they should meet at least once per quarter or whenever the chairpersons convene them.

3.1.9. ORGANISATION OF THE BOARD OF DIRECTORS AND COMMITTEES

Member	Non executive	Executive	Internal Control Comittee	Risk Management Committee	
José Carlos de Castro Paiva	● Chairman				● Chairman
Mário Alberto Barber	● Deputy-chairman		●		
Theodore Jameson Giletti			●	● Chairman	
Jaime de Carvalho Bastos	● Independent		● Chairman	●	●
Luís Filipe Lélis		● CEO			●
Inokcelina Ben' África Santos		●		●	
Simão Francisco Fonseca		●			●
João Cândido Fonseca		●		●	
Helder Miguel Jasse Aguiar		●			

The roles of the Board of Directors Commissions are presented below.

3.1.9.1. INTERNAL CONTROL COMMITTEE

i. Ensure the formalization and operationalization of a system for the provision of effective information and properly documented, including the process of preparation and disclosure of financial statements;
ii. Supervise the formalization and operationalization of the institution's accounting policies and practices;
iii. Review all financial information for internal publication or disclosure, namely the management's annual accounts;
iv. Monitor the independence and effectiveness of the internal audit, approve and review the scope and frequency of its actions and oversee the implementation of the proposed corrective measures;
v. Supervise the performance of the compliance function;
vi. Supervise the business and independence of the external auditors by putting in place a communication channel aimed at becoming aware of the conclusions of the reviews carried out and reports issued.

3.1.9.2. HUMAN RESOURCES MANAGEMENT COMMITTEE

i. Design the policy for hiring new employees;
ii. Design the employees compensation policies and processes, ensuring that the culture and long-term strategy are adequate considering the business and risks aspects;
iii. Recommend to the Board of Directors concerning the appointment of new employees for management duties, for which a detailed job description should be drawn up, taking into account existing internal skill set;
iv. Support and supervising the design and conduct of the employees' assessment process.

3.1.9.3. RISK MANAGEMENT COMMITTEE

i. Recommend to the Board of Directors concerning the risk strategy to be pursued by taking into consideration:
   a. The Bank's financial situation, the nature, size and complexity of the business;
   b. Its ability to identify, assess, monitor and control risks;
   c. The work carried out by the external auditor and the delegation of powers to monitor the internal control system
   d. All relevant risk categories in the institution, in particular credit, market, liquidity, operational, reputational and strategy taken within the meaning of Notice No. 2/13 of 19 April, on the internal control system;

ii. Supervising the implementation of the risk strategy by the Bank;

iii. Supervising the performance of the risk management function as provided by Notice No. 2/13 of 19 April.

3.1.10. EXECUTIVE COMMITTEE

The Executive Commission of the Board of Directors comprises three to seven members, appointed by the Board of Directors, among its members. The powers and rules of operation are laid down in a stand-alone regulation. The Committee meets at least once a month or whenever convened by its Chairman or by at least two executive directors.

3.1.10.1. EXECUTIVE COMMITTEE COMPETENCES

i. Management of the Bank's daily business by ensuring the compliance with all applicable laws and regulations;
ii. Preparation of plans and annual and multi-annual budgets, as well as their possible amendments for approval by the Board of Directors;
iii. Preparation of the accounting documents for approval by the Board of Directors;
iv. Approval of internal operating standards;
v. Acquisition, disposal and encumbrance of movable property and intangible assets required for the Bank's business;
vi. Acquisition, disposal and encumbrance of real estate for the Bank's business;
vii. Procurement of the services required for the Bank's business;
viii. Implementation of the human resources policy;
ix. Exercise of disciplinary authority;
x. Opening or closure of branches;
xi. Appointment of officials to conduct certain acts or categories of acts;
xii. Representing the Bank in court or outside it, actively and passively, initiating and challenging judicial or arbitration proceedings, confessing, waiving or accepting any actions.

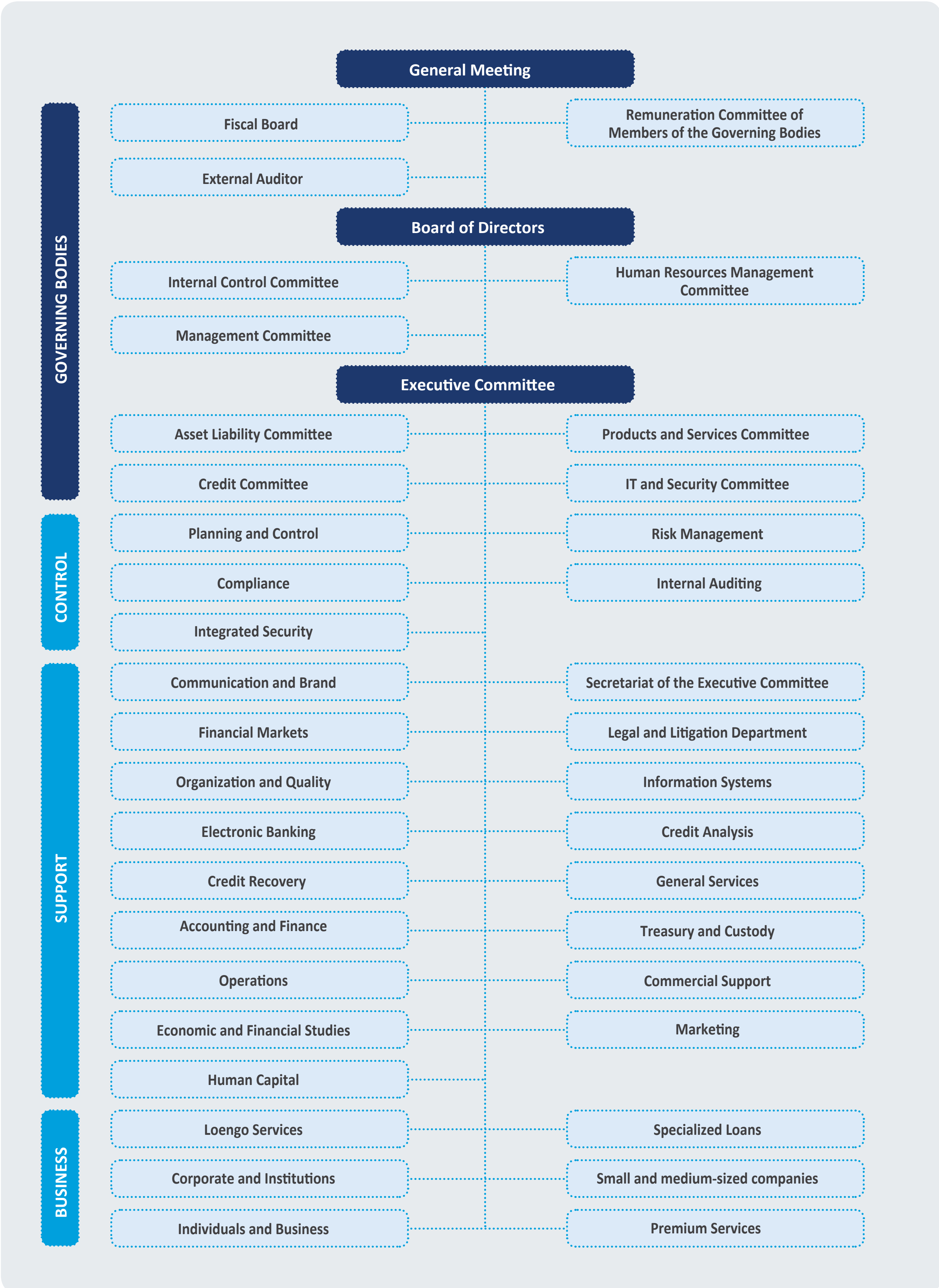
Within the scope of its roles, the Executive Commission is assisted by four specialized committees including the Asset-Liability Committee (hereinafter referred to as "ALCO"), the Credit Committee (hereinafter referred to as "CCR"), the IT and Security Committee (hereinafter referred to as "CIS") and the Product and Services Committee (hereinafter referred to as "CPS"). The handling, management and decision making in specific matters are delegated to these committees.

Member	ALCO	CCR (4th level)	CIS	CPS
Luis Filipe Lélis	Chairman	Chairman	Chairman	Chairman
Inokcelina Santos	Member	Member		
Simão Fonseca	Member	Member	Member	Member
João Fonseca	Member	Member		

3.1.10.2 DISTRIBUTION OF RESPONSIBILITIES

Member	Abbreviation	Business	Support	Control
Luís Lélis *President of Executive Committee Interim*				
Human Capital Department	DCH		●	
Compliance Department	DCL			●
Financial Market Department	DMF		●	
Marketing Department	DMR		●	
Information Systems Department	DSI		●	
Electronic Banking Department	DBE		●	
Commercial Support Department	DSC		●	
Communication and Brand Management Office	GCM		●	
Simão Fonseca *Executive Director*				
Integrated Security Office	GSI			●
Corporate and Institutions Department	DEI	●		
Small and Medium-sized Companies Department	DPME	●		
General Services Department	DSG		●	
Premium Services Office	GSP	●		
Loengo Services Office	GSL	●		
Individuals and Business Banking Department	DPN	●		
Inokcelina Santos *Executive Director*				
Legal Affairs and Litigation Department	DJC		●	
Credit Analysis Department	DAC		●	
Credit Recovery Department	DRC		●	
Treasury and Custody Department	DTC		●	
Risk Management Department	DGR			●
Specialized Credit Department	DCE	●		
João Fonseca *Executive Director*				
Accounting and Finance Department	DCF		●	
Planning and Control Department	DPC			●
Internal Audit Department	DAI			●
Operations Department	DOP		●	
Quality and Organization Department	DOQ		●	
Economic and Financial Studies Office	GEEF		●	
Helder Aguiar *Executive Director*				
BancoBAIMicrofinanças	BMF			

3.1.11. ORGANIZATIONAL CHART



3.1.12. INTERNAL CONTROL SYSTEM

The internal control system is defined as the integrated set of policies and processes, permanent and transversal to the whole institution, conducted by the Board of Directors and other employees with a view to ensuring:

i. Business continuity through the efficient allocation of resources, implementation of operations and control of the risks (performance objectives);
ii. The reliability and timeliness of the accounting and management support information (information objectives);
iii. Compliance with legal regulations and internal regulations (compliance objectives).

Considering these objectives, BAI seeks to ensure an adequate environment and control, a solid risk management system[3], an efficient information and communication system and a continuous monitoring process, aimed at ensuring quality and effectiveness of the system itself throughout the time.

SUMMARY DESCRIPTION OF THE KEY FUNCTIONS OF THE INTERNAL CONTROL SYSTEM

Board of Directors	Regularly review and approve the internal control and risk management strategy and policies as well as the progressive alignment of the financial group's institutions.
Executive Committee	Propose the review of the internal control and risk management policies and ensure its implementation within the Bank.
Planning and Control Department (DPC)	Implement and monitor the Bank's planning and management control process through the budget and management indicators, and monitor the performance of the subsidiaries.
Risk Management Department (DGR)	Identify, evaluate, monitor, control and report on all relevant risks of the Bank's business, as provided for in the laws and regulations. This department is also responsible for reports due to ALCO Committee.
Compliance Department (DCL)	Implement and monitor processes for the prevention of money laundering and terrorist financing. Supervise compliance with correct application of legal, regulatory, statutory and ethical framework and the recommendations issued by the competent supervisory authorities.
Internal Audit Department (DAI)	Ensure audit and inspection functions of the Bank's structure units and investigate irregularities and fraud to jointly assess and conclude on the effectiveness of governance and risk management processes and the effectiveness and efficiency of the internal control system, in responding to risks that may jeopardize the achievement of the Bank's objectives, the effectiveness and efficiency of operations, the safeguarding of assets, the reliability of financial reporting, and compliance with law and regulation.
Integrated Security Office (GSI)	Set policies, rules and controls that ensure the proper management and monitoring of the security systems and electronic and computer equipment, as well as ensure their implementation.

3.1.13. EMPLOYEE REMUNERATION POLICY

The Bank has an identified employee remuneration policy consistent with the objectives, values, interests and solvency in the long term, which guiding principles are as follows:

i. The definition of rules must be clear, simple, transparent and aligned with the bank's culture and values considering the nature of its business;
ii. The definition of principles of proportionality that ensure external competitiveness enough to attract and retain employees, as well as internal equality to promote a sense of justice and cohesion of the teams;

[3] Risk management is the subject of a stand-alone chapter in this report and a specific disclosure on financial statements.

iii. The policy design must consider the constant needs of risk mitigation and avoid situations that give rise to conflicts of interest;

iv. The policy design should consider all the forms of compensation (fixed, variable, and benefits) and be aligned with the strategy and the Bank's business objectives;

v. The determination of fixed and variable individual compensation as well as other benefits must take the relevant performance evaluation into consideration (objectives and skills), according to the duties performed and the Bank's economic and financial situation.

3.1.13.1. REMUNERATION PER TYPE

Fixed Compensation	Variable compensation		Other benefits
Basic salary	Cah shortages subsidy	Overtime	Wage credit
Holiday allowance (100%)	Risk allowance	Work travel allowance	Personal credit
Christmas allowance (100%)	Performance bonus	Fuel allowance	Car loan
Meal allowance	Acting allowance	Technical allowance	Mortgage loans
Family allowance	Special duty allowance	Attendance allowance	Health insurance
	Transportation allowance	Cost allowance	Pension fund
	Shift allowance	ATM allowance	Incentive to self-training
			Communications allowance (Voice, Data)

3.1.13.2. GOVERNING BODIES MEMBERS

The members of the Governing Bodies have a distinctive remuneration policy, which consists of attribution of fixed and variable remuneration, the latter being decided annually, associated with the Bank's overall performance. The remuneration of the Governing Bodies is disclosed in the notes to the financial statements.

3.1.13.3. EMPLOYEES

The employee's remuneration policy is based on the following human resources management policies and instruments:

i. Job descriptions;

ii. Role qualifier;

iii. Salary scale (with levels and brackets);

iv. Performance Evaluation and Management System (SAGD);

v. Careers Management Policy;

vi. Individual development policy for employees.

3.1.14. CODE OF CONDUCT

The Bank has a Code of Conduct that establishes the principles of operation and standards of professional conduct observed in the course of employment applicable to all employees and members of the board, namely:

i. Ethical duties: principle of equality of treatment towards all customers, professionalism duties, honesty, competence, diligence, loyalty, neutrality and integrity, the principle of the prevalence of customers ' interests over the interests of staff, duty of confidentiality, of collaboration with all supervisory authorities, duties of internal conduct and special duties to protect the market and its transparency;

ii. General principles relating to the prevention of money laundering and financing terrorism;

iii. General principles on reporting fraud and irregularities and dealing with customer complaints.

The Code of Conduct is handed over to all new Bank employees and is available on the intranet.

3.1.15. RELATED PARTIES' TRANSACTIONS POLICY

BAI follows the following principles in order to ensure a stringent control over transactions with related parties:

i. In the exercise of their duties, administrators must act with accuracy, diligence, efficiency and responsibility (Code of Conduct);

ii. Transactions with related parties must be carried out with normal market conditions, taking into account their level of risk and the BAI price (Interest Conflict Policy);

iii. When considering each transaction with related parties, attention should be directed to the substance of the respective transaction and not merely to its legal form (Accounting policies - principle of substance over form);

iv. In order to ensure the transparency of the process, the Bank discloses to its shareholders and market information on transactions with related parties through its individual financial statements and the financial group (Transparency Policy and Information Disclosure).

BAI considers the following definition of related parties, pursuant to Notice No. 2/13 of April 19 and Notice No. 9/16 of 22 June, both of the BNA, Industrial Tax Code and Presidential Decree No. 147/13 of 1 October, as well as IAS 24 – Related Party Disclosures:

i. Shareholders owning a qualified holding;

ii. An associate or joint venture of the Bank (or an associate or joint venture of a member of a group of which the Bank is a member);

iii. Members of the management body, the over demand bodies and to shareholders owning a qualified holding, as well as to their families and to entities which the law deems to be related to any one of them;

iv. Members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). Associate or joint venture of the other entities (or an associate or joint venture of a member of a group of which the other entity is a member);

v. Any member of a group of which provides key management personnel services to the entity.

The Bank also carries out an annual evaluation of transactions with related parties under the Transfer Pricing Dossier, prepared pursuant to Presidential Decree No. 147/13 of 1 October.

3.1.16. CONFLICT OF INTEREST POLICY

The conflict of interest policy principles are set as the following table:

GENERAL PRINCIPLES OF CONFLICT OF INTEREST POLICY

1.	Priority of customer's interest	BAI recognizes the priority of its customer's interests, which is a duty of loyalty to them, a fundamental principle of conduct in all the standards that guide the Bank's actions.
2.	Provision of transparent information	BAI provides its customers with clear clarifications and accurate information on the benefits or remunerations the Bank offers for deposits received and on the prices or charges inherent to the products and services it makes available.
3.	Prohibition of holding potentially conflicting positions in other companies	The job demands exclusivity due to both ethical motivation and performance requirements.
4.	Use of information	Except in cases expressly provided in the law, disclosure and the use of information on BAI's business or its relations with customers are prohibited.
5.	Procurement of services or goods	The direct or indirect involvement of employees in the procurement of goods or services in which they have a financial stake is prohibited.
6.	Lending decisions concerning related persons	In accordance with provisions of Article 84 of Law 12/05 on Financial Institutions, "Loans to related parties".
7.	Prohibition on granting loans	In accordance with provisions of Article 83 of Law 12/05 on Financial Institutions, "Loans to members of the governing bodies".
8.	Loan pricing	Loans granted to shareholders and stakeholders and persons related thereof will be under normal market conditions in accordance with the their level of risk and BAI pricing except those loans for permanent home ownership and for payment of health expenses, which fall under the policy set by the Human Resources Management Committee.

The above policy provides, in particular, for the existence of a pre-decision process in the Executive Commission and Board of Directors, ensuring that these decisions do not foster conflicts of interest, which are identified and the purpose of assessing transactions with related parties in the terms of Notice No. 1/13 of April 19.

Other situations of conflict of interest are analysed by the Compliance Department, being the decision taken by the Executive Commission.

3.1.17. TRANSPARENCY AND INFORMATION DISCLOSURE POLICY

The transparency and information disclosure policy aims at ensuring the transparency and easy understanding of the BAI corporate governance model pursuant to the requirements of the Notice 1/13 of 19 April. It is based on the following general principles:

i. The information of mandatory publication should be disclosed in a complete, correct and timely manner;

ii. Any institutional disclosure that de bank may decide to make to market, should be based on complete, correct, timely and adequate information;

iii. The provision of information should always observe the rules of banking secrecy.

It is incumbent on the Board of Directors to review and update the policy annually, or whenever necessary, in particular when there is a change in the mandatory reporting information.

COMPLIANCE WITH TRANSPARENCY REQUIREMENTS (ARTICLE 21 OF NOTICE NO. 1/13)

	DISCLOSURE			COMMENT
	Yes	No	Not applicable	
CONTENT				
Composition of the management and supervisory bodies and the appointment of executive and non-executive directors	✓			Annual report Institutional website
Appointment of the external auditors, including ascertaining their credentials and compliance with the independence requirements pursuant to Order No. 4/13 of 22April.	✓			Annual report
Identification of the unit structures, the powers assigned to them and their responsible officials, particularly in the case of the key roles of the internal control system (internal audit, compliance and risk management).	✓			Annual report
Distribution of responsibilities and segregation between the business, support and monitoring roles.	✓			Annual report Institutional website
Identification of policies and communication channels concerning relations of authority, delegation of powers, communication and reporting, in particular with regard to irregularities under the framework of **corporate governance.**	✓			Annual report

COMPLIANCE WITH DUTY OF INFORMATION DISCLOSURE (ARTICLE 22 OF NOTICE NO. 1/13)

	DISCLOSURE			COMMENT
	Yes	No	Not applicable	
CONTENT				
The institution's capital structure identifying the holders of qualified shareholdings				Annual Report Institutional Website
Corporate deeds related to major changes in the institution's overall strategic objectives and the financial groups organizational and business structures				Annual Report
Financial Information				Annual Report Quarterly Trial Balance
Information on members of the Governing Bodies, including: *i.* compensation policy outlining the overall amounts paid by the institution to each body; *ii.* qualifications and professional experience; *iii.* disclosure of the institutions shareholdings; *iv.* disclosure of positions held by officials in Governing Bodies of other concerns which are part or otherwise of the financial group; *v.* categorization of board members as executive and non-executive directors and the latter both as independent and non-independent				Annual Report Institutional Website Annual Report Website of each subsidiary Annual Report
Description of the materially relevant risks for the institution arising from the existing processes for the management thereof and forecasting the evolution of the risk-associated factors.				Annual Report
Corporate governance policies, including the institution's code of conduct as well as the policies aimed at identifying and mitigating conflicts of interest.				Annual Report
Training policy, specifying the number of annual training hours, broken down into the nature of the training, identifying in particular that training geared at the personnel working in risk subject areas and control positions.				Annual Report
Dissemination of the aforementioned information with regard to the consolidated scope of the financial group.				Published annually in the financial information website

3.2. STRATEGY AND BUSINESS MODEL

The business strategy for the period 2016-2021 is based on the Board of Director of the Bank, which vision is being a bank that offers the best banking experience to its customers by offering products and services of excellence. This vision is a reflection of the mission of consolidating its competitive position as a universal bank, aiming at sustainable growth, profitable, innovative and value-creating for both its shareholders and customers.

Thus, the BAI 2016 - 2021 strategic plan (called the "BAI Generation Program") focuses on the quality of customer service. On this matter, it is why two out of three strategic pillars are dedicated to the business component and the last one to improvement of support and control platforms.

These strategic pillars are distributed into ten strategic initiatives.

STRATEGIC PILLARS	STRATEGIC INITIATIVES
1 Sustain core segments 2 Develop high potential segments and explore new frontiers	I Review of BAI Targeting Model II Capturing value in pricing and billing effectivenesss III Implementation and consolidation of a distinctive value proposition for Affluent IV Implementation of a proposal of distinctive value and dynamism for the Companies V Implementation of a distinctive and profitable value proposition for Mass Market
3 Improve critical platforms	VI Transformation of Information Systems and Technologies VII Strengthening key risk management processes and internal control processes VIII Strengthening and cultural transformation of human resources IX Simplification and automation of customer service processes X Reinforcement of management information and employee accountability

Among the several goals of the strategic plan that were reached in 2017, the implementation of the new customer segmentation model and its accompanying models are highlighted. Additionally, the new version of the core bank system came into production.

With the new segmentation model, BAI aims to be closer and to serve better its customers, while the new banking system introduces a set of tools and features that allow obtaining more and better information about transactions.

The business model consists of offering innovative and excellent products and financial services to meet customer needs. The BAI positions itself as a universal bank, so it is present in all market segments.

In order to better monitor and satisfy customer needs, BAI has adopted a policy of customer segmentation based on a set of specific criteria, such as the size of the company or the level of income for individuals, among others.

Segment	Department	Individual	Business
Premium	GSP	●	
Loengo	GSL	●	
Mass Market	DPN	●	
Large Companies	DEI		●
Small and medium-sized companies	DPME		●
Very small companies	DPN		●

Distribution channels are divided into branches, dependencies, business centres and premium service centres. In addition to its physical presence, BAI has a multi-channel strategy in its relationship with customers, covering (i) BAI Direct, a service that aggregates internet banking, mobile banking, phone banking and (ii) banking correspondents.

On banking industry, BAI is also present in the microcredit segment through BAI Microfinance (hereinafter referred to as "BMF"), which aims to be a leader in microfinance banking segment, targeting micro and small businesses and entrepreneurs, not neglecting the private banking segment.

BAI adopted an international expansion strategy focused on the financial market of the lusophone space:

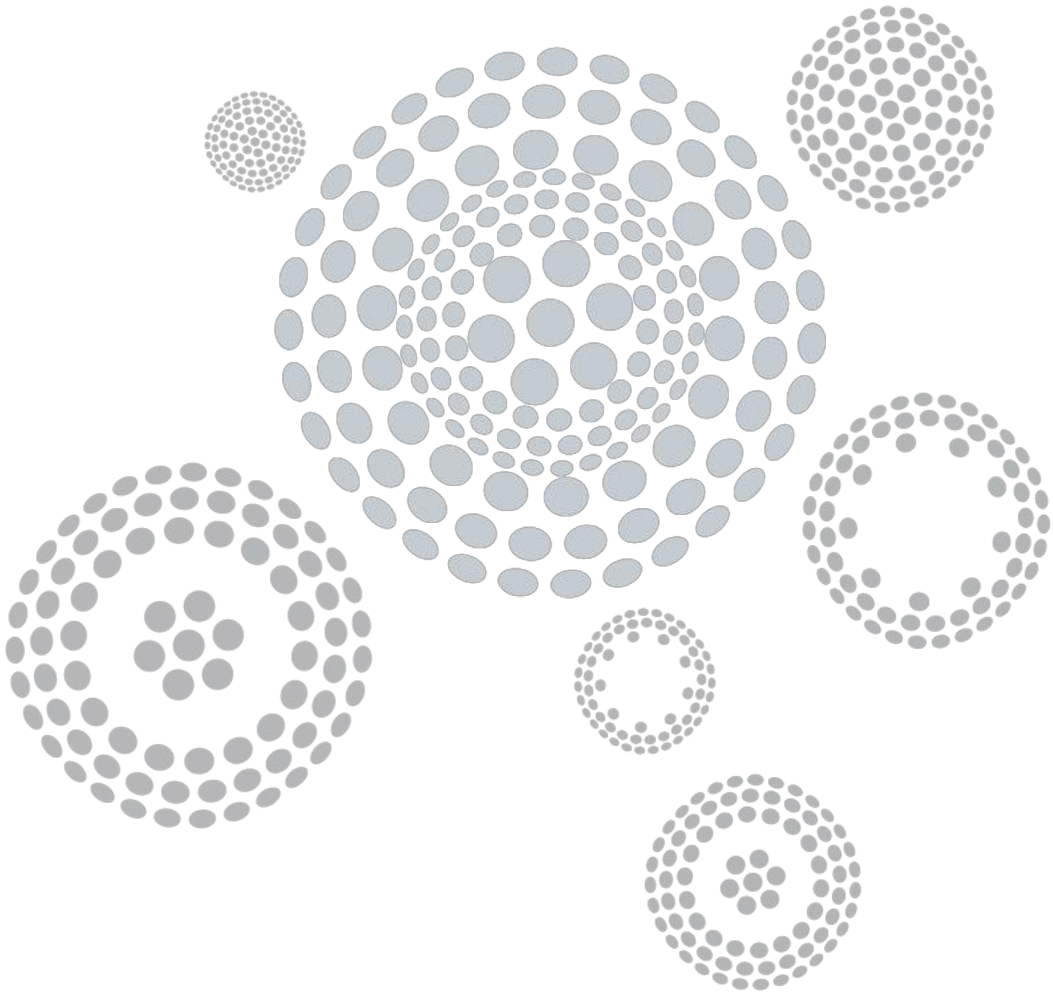
- BAI Europa (hereinafter referred to as "BAIE"), in Portugal;
- BAI Cabo Verde (hereinafter referred to as "BAICV"), in Cape Verde; and
- Banco Internacional de São Tomé e Príncipe (hereinafter referred to as "BISTP"), in São Tomé and Príncipe.

In addition to banking activity, BAI has a shareholding in NOSSA Seguros, which operates in the life and non-life insurance industry, as well as in the management of pension funds.

The Financial Group's main business areas are as follows:

- Commercial Banking – It is essentially concerned with raising of funds and lending towards the corporations and institutions segment, including foreign trade;
- Retail Banking – It is essentially concerned with raising of funds and lending operations towards private customers, serviced by the network of branches and internet banking and, in the case of Angola, mobile and SMS banking;
- Private Banking – Brings together all activity with private customers;
- Investment Banking – Provides financial advice services and integrated financing solutions for business conduct and development, including solutions of business combination such as re-lending, subscription and purchase of securities, mergers, acquisitions and privatizations;
- Correspondent Banking Services – These services are provided by BAI Europa and BAICV to Angolan banks, thereby ensuring easier access to payments in foreign currency and other international instruments; and
- Insurance Activity and Pension Fund Management – life and non-life insurance as well as pension fund management services provided by Nossa Seguros.

MAIN BUSINESS AREAS OF THE FINANCIAL BANKING GROUP	Retail Banking	Private Banking	Commercial Banking	Investment Banking	Correspondent Banking Services	Micro Finance	Insurance Industry and Pension Fund
BAI	●	●	●				
BAI Europa			●	●	●		
BAI Cabo Verde	●		●		●		
BISTP	●		●				
BMF	●		●			●	
NOSSA Seguros							●



THE LIQUIDITY OF THE FOREIGN CURRENCY BANKING SYSTEM AND THE CREDIT RISK OF THE ECONOMIC AGENTS CONTINUE TO EVIDENCE THE IMPACT OF THE MACROECONOMIC CONJUNCTURE LESS FAVORABLE. THE BNA DATA, REPORTING TO NOVEMBER 2017, HAS SHOWN THAT THE RISK ASSOCIATED WITH THE SYSTEM CREDIT PORTFOLIO HAS INCREASED, WITH THE OVERDUE LOANS REPRESENTING 28.5% OF THE TOTAL LOANS, ABOVE THE RATIO RECORDED 13.1% YEAR-ON-YEAR.

MACROECONOMIC AND FINANCIAL CONTEXT

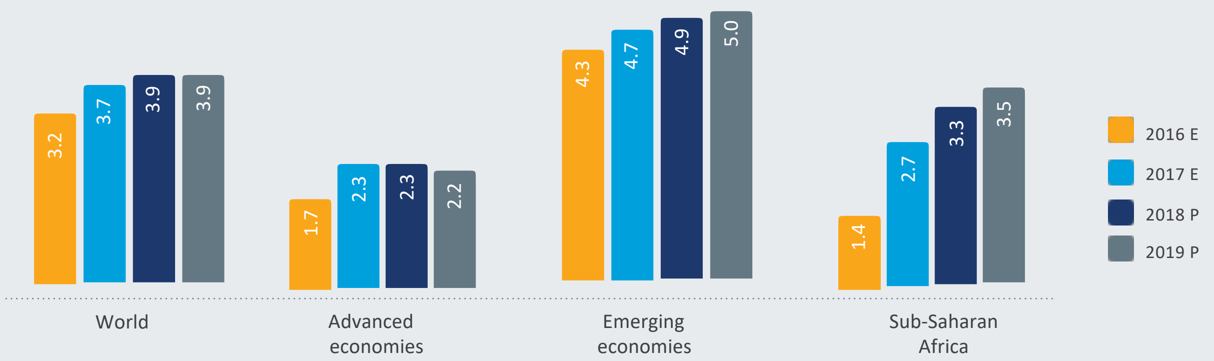
- INTERNATIONAL CONTEXT
- NATIONAL CONTEXT

04

4.1. INTERNATIONAL CONTEXT

The performance of the world economy in 2017 was characterized by an improvement in the various economic indicators on the advanced, emerging and developing economies. There has been a rise in the level of consumer confidence worldwide, a rise in commodity prices, an improvement in financing conditions and the use of expansionary monetary policies. Global Economic Prospects estimates a growth by 3% for the global economy in 2017 and anticipates a new growth by 3.1% by 2018. The World Economic Outlook (hereinafter referred to as "WEO") estimates growth by 3.7% to 2017 and forecasts a growth by 3.9% to 2018.

GDP GROWTH RATE (%)



Source: FMI/WEO, January 2018

4.1.1. EVOLUTION OF ECONOMIC ACTIVITY

Accordingly with WEO, the American economy has been raised from 2.3% in 2017 to 2.7% in 2018. The world largest economy was marked by the rising private investment, declining unemployment rate, strong external demand and good equity prices. On the other side was the fall in oil production and the decline in US dollar over their counterparts.

To Euro Area, the International Monetary Fund (hereinafter referred to as "IMF") outlooks a real growth of 2.4% in 2017 and forecasts a growth of 2.2% for this year. Strong world demand positively influenced the Euro Area, which experienced the lowest level of unemployment since 2009. Notwithstanding the good performance of employment, wage growth remained moderate. The Euro currency also received a noteworthy appreciation, but could weigh on the desired rise in inflation to the 2% target over the medium to long term.

Increases in global investment and demand have been reflected in the production and export levels of Asian countries. Growth in China economy accelerated for the first time since 2010, from 6.7% in 2016 to 6.8% in 2017.

The emerging economies, Brazil also deserves to be highlighted, due to his past recession in 2016 to a 1.1% growth in 2017, influenced by better macroeconomic stability, demonstrated by, for example, foreign investment inflows[4], substantial improvement in the trade balance and reduction of inflation.

Rising commodity prices, together with the recovery of the agricultural industry, boosted the economies of Sub-Saharan Africa, with the region ending the year 2017 with growth of 2.7%. For 2018, growth is expected to reach 3.3%, but the risk factor is the decrease in commodity prices.

[4] Of note is the USD 20.9 thousand million inflow from China, which corresponds to the largest Chinese investment in Brazil since 2010.

4.1.2. MONETARY AND FOREIGN MARKETS

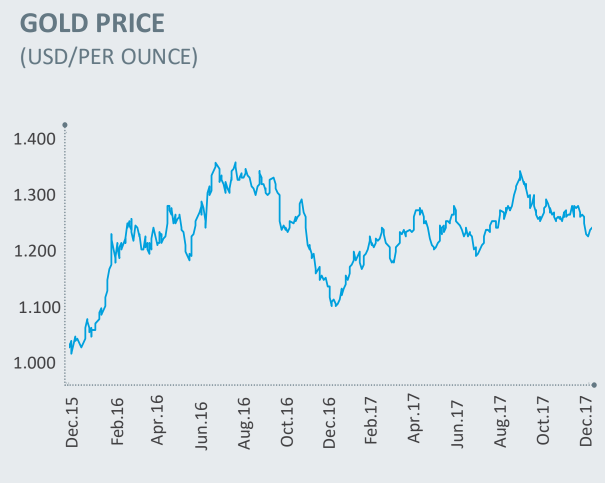
United States of America economic conditions led the Federal Reserve (hereinafter referred to as “FED”) to gradually reduce its expansionist monetary policy, raising its benchmark interest rate to the range between 1.25% and 1.5%. Also in Europe, the strong growth of the British economy in the third quarter, coupled with positive signs of inflation, meant that the Bank of England rose for the first time in 10 years its main interest rate of 0.25% to 0.50%. The same has not been the case with the European Central Bank (hereinafter referred to as “ECB”), which maintained its reference rate. However, as far as Quantitative Easing is concerned, the ECB has announced a reduction of the stimulus to 2018, thus reducing the purchase of public debt and consequently the liquidity in the Euro Area.

In the exchange market was verified a depreciation of the U.S. dollar against its main counterparts. At the end of the year, the depreciation reached out 13% against the Euro and 9% against the Pound sterling. The U.S. currency also lost strength against the Japanese Yen and the Chinese Yuan, -4.1% and -6.6%, respectively. As for the South African Rand, the depreciation was 8.1%.

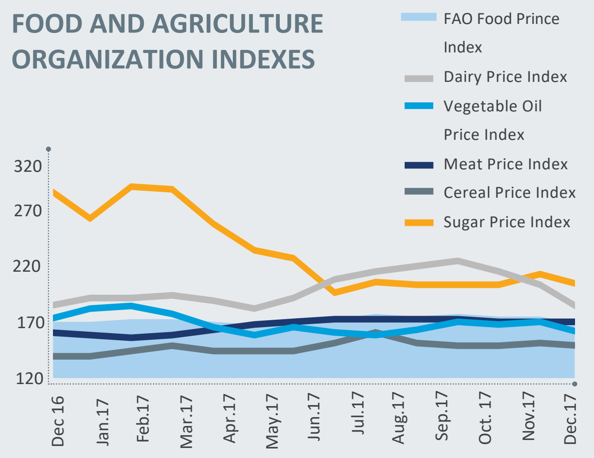
With regard to the evolution of some of Angola main trading partners such as Brazil, South Africa and China experienced annual slowdowns of 2.9%, 4.6% and 1.8%, respectively, representing a reduction of 3.3 percentage points (hereinafter referred to as “p.p.”), 0.3 p.p. and 2 p.p.. In the Euro Area, inflation rose from 1.1% at the end of 2016 to 1.4% in 2017.

4.1.3. COMMODITIES MARKET

The good economic indicators recorded at the global level have contributed to an increase in the demand for raw materials. As a result, commodity prices changed positively throughout the year. There were sharp variations in copper, aluminium and zinc in the order of 27.3%, 22.9% and 37.5%, respectively. On the other hand, gold, which acts as a safe haven asset, experienced an average change of 0.70%, at USD 1,302.8 per ounce in December.



Source: Bloomberg



Source: Food and Agriculture Organization

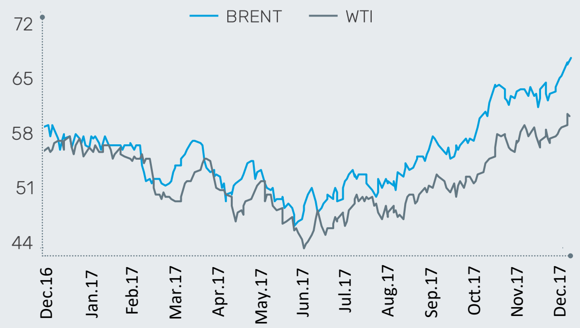
The period under review was also good for agricultural commodities. Their average price increased 8.1% over the year 2016, according to the Food and Agriculture Organization food price index (hereinafter referred to as “FFPI”). FFPI averaged 174.7 points, representing the highest annual average since 2014. Although the price of sugar dropped by 11.2% in 2017, prices of dairy products, meat and cereals offset by increasing 31.5% %, 8.8% and 3.2% respectively.

OIL MARKET

MB/D	2014 Annual	2015 Annual	2016 Annual	2017 Annual
OCDE countries	45.8	46.2	46.6	47.4
Non-OCDE countries	46.2	47.8	48.8	49.6
Overall demand	**92**	**94**	**95.4**	**97**
OPEP countries	30.5	31.8	32.7	32.4
Non-OPEP countries	55.6	57.1	57	57.8
OPEP Natural Gas	6	6.1	5.9	6.3
Overall supply	**92.6**	**95.5**	**95.8**	**96.5**
Oversupply	0.6	1.5	0.4	-0.5

Source: World Oil Outlook 2017, OPEC

CRUDE PRICE (USD/PER BARREL)



Source: Bloomberg

As for the oil market, the commitment of OPEC countries and non-member countries to cut production in order to reduce excess supply and rebalance the international market[5], has allowed demand to exceed supply in the 2017 review. Demand exceeded supply over 500 thousand barrels/day. The average daily production of oil in 2017 reached out to 96.5 million barrels per day to meet demand in the order of 97 million barrels per day.

Crude prices, on average, have risen in the international market. Brent, which serves as a benchmark for our country's oil exports, rose 7.84% to USD 55.27 per barrel, and the WTI rose 4.85% to USD 52.14. Among the several factors that influenced the price of the raw material were as the following: (i) the satisfactory execution of cuts by OPEC and other countries not members of the cartel; (ii) problems encountered in some large oil pipelines; (iii) political tensions in the Middle East; and (iv) a few consecutive weeks of declines in U.S. reserves.

[5] In November 2017, OPEC and its non-member countries agreed to extend the agreement that ended March 2018 to another nine months until the end of 2018.

4.2. NATIONAL CONTEXT

4.2.1. EXTERNAL ACCOUNTS AND EXCHANGE MARKET

The latest data from the country foreign trade, released by the National Statistical Institute (hereinafter referred to as "INE"), show that the accumulated amount of the trade balance registered a surplus of AOA 2,559.5 thousand million by the third quarter of 2017, representing an increase of 27% over the first three quarters of 2016.

Exports reached out AOA 4,096.1 thousand million, an increase of 16% over the same period of the previous year, and imports reached AOA 1,536.6 thousand million, which reflect a 2% increase over 2016[7].

Despite the improvement in the country trade balance, Net International Reserves (hereinafter referred to as "RIL") deteriorated by 36% during the year, reaching USD 13,300 million in December 2017.

By decomposing RIL, can be verified that the only item that has varied in a positive way was the one referring to the mandatory reserves for commercial banks. On the other hand, the BNA component in RIL decreased by 31%, indicating that the inflows of foreign currency into the BNA by purchases from the Treasury and oil companies were not sufficient for the amount of foreign exchange sold by the central bank.

The Foreign Treasury Single Account (hereinafter referred to as "CUT") in foreign currency fell by 45%, demonstrating the need for the Treasury to use its cash in foreign currency to cover expenses.

EVOLUTION OF INTERNATIONAL RESERVES

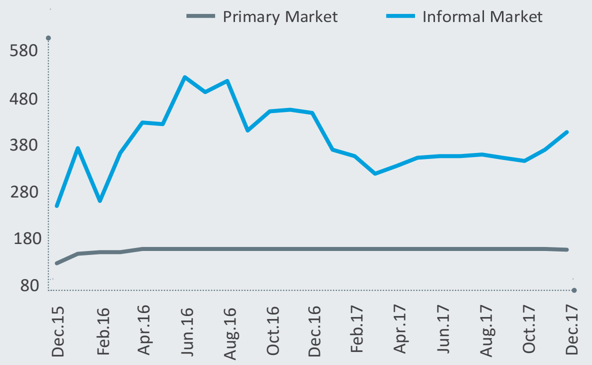
USD MILLION	Dec.16	Dec.17	Var.
RIB	24,353	17,938	- 26%
RIL	20,807	13,300	-36%
BNA	10,303	7,121	-31%
CUT foreign currency	9,969	5,446	-45%
Mandatory reserves	535	733	37%
Shot-term bonds	3,546	4,638	31%

Source: BNA

In 2017, BNA sold USD 12,220 million, which accounted an additional 11% when comparing the sales in 2016. Direct sales to priority segments accounted for the most of BNA intervention in the foreign exchange market. Needs for the oil industry accounted for 17% of primary market sales in the priority segments. Other segments that had a considerable weight were: food and services (16%); industry (10%); and miscellaneous operations (10%).

Banks also raised foreign exchange through purchases from their customers, earning USD 1,636 million over the course of the year. This amount was lower than the previous year, which reached USD 2,314 million.

NOMINAL EXCHANGE RATE (USD/AOA)



Source: BNA / Informal market

In the primary exchange market, the average exchange rate remained practically stable throughout the year, standing at $/AOA 165.92 at the end of the year. In the informal market, the average exchange rate spread was lower in 2017 than in 2016. The average purchase/sale of the dollar traded in this market was always below $/AOA 400, with the exception of December where it has passed this stage. This increase may have resulted from an expectation that the Kwanza would experience depreciation in the primary market, as provided by the Interim Plan approved by the Government at the end of the year.

[6] As a rule, it is convenient to present the results of external accounts in an internationally strong currency, such as the USD. However, we present in Kwanzas for the results not to differ from the source used, the external accounts of the INE.

[7] Our country exported mainly to China (56%) and India (7%). In addition to oil exports, which corresponded up to 95% of total exports, other items that stood out were "Machinery, Equipment and Appliances", "Food Products" and "Agricultural Products", with a weight of 0.54% 0.26% and 0.19% of the total exported value, respectively. In terms of imports, Portugal (17%) and China (15%) were the main trading partners. The largest amount of imported products came from "Machinery and Equipment" (25%), "Agricultural Products" (13%) and "Plastics and Rubber" (9%).

4.2.2. FISCAL ACCOUNTS AND PUBLIC INDEBTEDNESS

4.2.2.1. OIL AND DIAMOND INDUSTRY FISCAL REVENUES

According to data published by the Ministry of Finance (hereinafter referred to as "MINFIN"), the country exported 596 million barrels of oil and collected AOA 1,615.7 thousand million last year, an increase of 23.5% in revenues when compared to 2016, notwithstanding the reduction of 5.7% in the quantities exported. This increase in revenues was due to the increase in the average price per barrel, which was $51[8]. The decrease in the quantity exported, compared to previous years, resulted from the technical constraints that the industry has been facing.

It is worth mentioning that 66% (AOA 1,603 thousand million) corresponds to Sonangol revenues and the remaining 34% (AOA 552.4 thousand million) relates to taxes levied on operating companies. In 2017, Sonangol increased by 26.2% compared to the previous year, and revenues from taxes to operating companies increased 18.6%.

As for diamond mining, fiscal revenues amounted to AOA 10.6 thousand million (growth of 2.2% over the same period in 2016) by September[9]. 68.3% of this result refers to royalty payments (AOA 7.2 thousand million), while the other 31.7% correspond to the Industrial Tax (AOA 3.3 thousand million).

When comparing the first nine months of 2016 and 2017, we can see that the average price per carat reduced from $ 121 to $ 112. There was also a decrease of 7.2% in the quantities exported, which reached 6.3 million carats. It should be noted that, despite the decreases in the quantities exported and the price, the increase in revenue came from the increase in the percentage of royalties.

4.2.2.2. PRIMARY DEBT MARKET

In 2017, domestic debt issuance increased by 7.1% when comparing to the last year, to a total of AOA 3,372 thousand million. Of this total, AOA 1,568 thousand million corresponds to the issuance of Treasury Bills (hereinafter referred to as "TB") (increase of 0.7% in year-on-year terms) and the remaining AOA 1,803 thousand million related to Treasury Bonds (hereinafter referred to as "OT") (+ 22.1%).

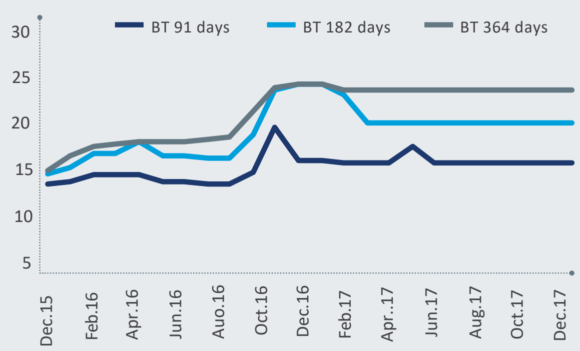
Although the year-on-year increase in emissions was higher in the case of Treasury Bonds (hereinafter referred to as "OT"), there is a deviation from the Annual Debt Plan (hereinafter referred to as "EAP"). The EAP stipulated an OT issue of AOA 1,803 thousand million for the year 2017, but only 49% of this amount was issued. For the BT, the EAP envisaged the issuance of AOA 1,375 thousand million, with the year ending with an issuance of AOA 1,471 thousand million (+ 8% than expected).

PRIMARY MARKET

Thousand million AOA	2016	2017	EAP 2017	Exec.	Year-on-year change
TB Offer	1,919	2,406			25%
TB Issuance	**1,689**	**1,701**	**1,568**	**108%**	**1%**
TB Redemption**	1,176	1,471	1,375	107%	25%
Net placement TB	**513**	**230**			
OT Offer	1,101	1,135			3%
OT Issuance	740	860	1,803	48%	16%
Redemption	431	683	996	69%	58%
Net placement OT	**309**	**177**			

Source: MINFIN
**Execution of OT and BT comparing with EAP

BT INTEREST RATE (%)



Source: BNA/Informal Market

[8] Analysing revenues from oil blocks, it is concluded that most of the revenues came from blocks 15 and 17, representing, together, about 69% of total revenues, higher than the 64% they represented in 2016.
[9] Last information released by MINFIN, until January 30, reported data until September 2017.

With regard to redemptions, these totalled AOA 1,701 thousand million in BT, an increase of 25% over 2016, amounting to AOA 874 thousand million in OT, an increase of more than 100% compared to the previous year. For BT, the redemptions were 7% higher than what was agreed in the EAP. In the case of OT, there was also a significant execution, with redemptions corresponding to 88% of what was planned.

Therefore, it has been seen that the State debt obligations were more concentrated in the short term. Additionally, taking into account that the OT issued were mostly indexed to the exchange rate, it is reasonable to assume that the government debt also was more exposed to exchange rate variations.

Despite this slight increase in debt issuance, interest rates on TB with maturities of 91, 182 and 364 days stood at 16.15%, 20.25% and 23.90% at the end of the year, respectively , representing decreases of 0.23 p.p., 4.2 p.p. and 0.6 p.p., in relation to the previous year. Note that during the last 5 months, theses rates remained practically unchanged.

4.2.2.3. PRELIMINARY ESTIMATES ON EXECUTION OF OGE 2017

According to MINFIN estimates as set out in the OGE 2018[10] proposal, a total of AOA 3,254 thousand million in tax revenues should have been collected in 2017, representing an execution 11% below the revenues that were included in the OGE 2017. This deviation is explained by the collection of only 73% of non-oil revenues predicted for 2017 and estimated to be AOA 1,244 thousand million. Meanwhile, the Executive estimates a slight improvement in revenues from the oil industry, but insufficient to offset the low implementation of non-oil revenues.

The implementation of fiscal expenditure should also have been low, at AOA 4,222 thousand million, or only 88% of budgeted expenditure. The low execution of the expenditure is transversal across all its main lines, except for interest payments on debt, which are AOA 711 thousand million, 47% higher than what was predicted at the 2014 Budget.

Thus in 2017 the underlying budget balance remained in deficit of AOA 968 thousand million (5.6% of GDP), which was financed by internal sources (net of amortisation) and external sources (net of depreciation) in the amount to AOA 494 thousand million and AOA 530 thousand million, respectively.

4.2.2.4. AGENCIES OF RATING AND EVALUATION OF THE SOVEREIGN DEBT

Considering the expected evolution of the public debt and the various factors that affect the evolution of the Angolan economy in 2017, the international rating agencies presented the following notes to the country's debt classification during the year:

i. At the beginning of the year, it maintained debt classification valuation at the junk level, Moody's lowered its rating from B1 to B2 with a stable outlook in October. The clarification of this downgrade set out reasons such as the scarcity of foreign currency, high inflation, a reduction in public spending and an increase in weaknesses in the banking industry. Also contributing to the reduction of the note were the indebtedness and the high risk of liquidity. It was pointed out at the time that the Debt/GDP ratio remained vulnerable due to a possible currency devaluation of Kwanza. The agency did not leave aside the Net International Reserves of the Country, noting the decline, despite the rise in oil prices and the reduction of the current account deficit;

ii. Standard & Poor's, for its part, has cut Angola sovereign rating from B to B-, a level of non-investment, despite raising the evolution outlook from negative to stable. This decision was justified by the rising costs of debt servicing as well as the weak economic forecasts. In addition, the agency said that the banking industry has been showing weaknesses, as some important state-owned banks are under a restructuring process, which poses additional contingent risks to the Government.

[10] As a form of simplification, the abbreviation OGE 2018 will be used to refer to the proposal of the General Budget for 2018.

- Lastly, Fitch which in September 2017 reduced its rating to B- with a negative outlook. Among the factors indicated by the agency as the reasons for this reduction were the volatility of oil prices in the international markets and the high levels of inflation that still recorded in the country.

LATEST EVALUATIONS OF THE SOVEREIGN DEBT RATING AGENCIES

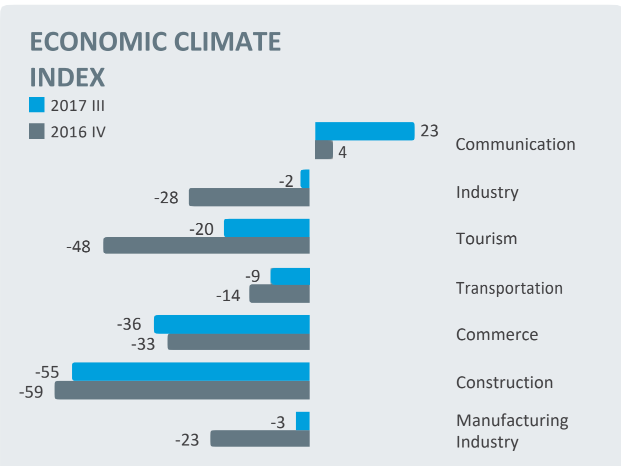
Rating Agency	Long term				Short term			
	Foreign Currency		Domestic currency		Foreign Currency		Domestic currency	
	Date	Rating (Outlook)	Date	Rating	Date	Rating	Date	Rating
Moody's	20-10-2017	B2 (Stable)	20-10-2017	B2	-	-	20-10-2017	NP
	04-07-2017	B1(Negative)	04-07-2017	B1	-	-	29-04-2016	NP
S&P	08-11-2017	B-(Stable)	08-11-2017	B-	19-05-2010	B	19-05-2010	B
	08-12-2016	B (Negative)	02-12-2016	B	19-05-2010	B	19-05-2010	B
Fitch	09-01-2017	B (Negative)	09-01-2017	B	09-01-2017	-	-	-
	17-03-2017	B (Negative)	17-03-2017	B	17-03-2017	B	-	-
	23-09-2016	B (Negative)	23-09-2016	B	23-09-2016	B	-	-

Source: Bloomberg

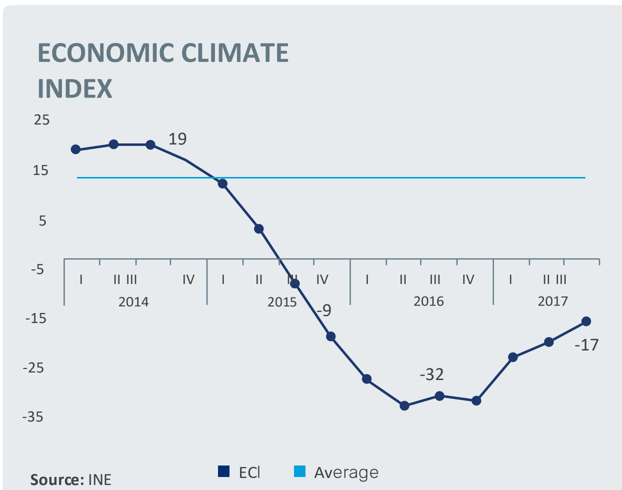
4.2.3. ECONOMIC ACTIVITY AND GROWTH PERSPECTIVES

The confidence of national managers and entrepreneurs improved in 2017 although, in general, entrepreneurs continue to have an unfavourable feeling about the economy. The economic climate index (hereinafter referred to as "ECI") increased by 16 points, from 33 negative points in the last quarter of 2016 to 17 negative points in the third quarter of 2017[11].

It should be noted that financial constraints, weakening demand, stock and raw material disruptions, excessive bureaucracy and regulation, and the lack of qualified human resources are constraints often identified in most sectors and continue to negatively influence the calculation of the general ECI.



Source: INE



Source: INE

[11] During the preparation of this document, the most recent INE information reported until the third quarter of 2017.

This rise is crosscutting to all industries, with the exception of trade, where the trend of feelings was unfavourable, with the index falling 3 points to - 36 points. This decline is justified by financial difficulties, insufficient demand and stock disruption. Entrepreneurs also pointed to excessive bureaucracy and state regulations as factors that limited the activity of the companies within this industry.

Regarding the other industries, notwithstanding the improvements, the construction industry stands out, where the businessmen sentiment is the most unfavourable in relative terms, due to the reduction of the orders and employment perspectives. The lack of materials, weak demand and a consequent deterioration in sales perspectives were the main difficulties experienced by the companies within this industry.

On the other side, the communication industry stands out as the industry with the highest index of confidence, having improved from six points to sixteen points from the last quarter of 2016 until the third quarter of this year. Regarding the extractive industry, although remaining in negative territory has showed the most improvements, going from - 28 at the end of last year to - 6 points in the quarter under analysis.

Finally, the World Bank report, released in October, the Doing Business 2018, where the country improved in terms of business environment, from the 182nd position to the 175th, in a set of 190 economies. The World Bank pointed out improvements in Angola based on three of its analysis criteria: (i) reduction of bureaucracy in the attribution of construction licenses; (ii) easier access to electricity due to the new distribution infrastructures and (iii) conditions of international trade, justified by the creation of new infrastructures in the Port of Luanda. In view of the position reached in the Doing Business index, the country is in a worse position in terms of performance of contracts (186th place), obtaining financing (183th place) and international trade (180th place).

INDEX *DOING BUSINESS* 2018

INDICATORS	2017	2018	EVOLUTION
Ranking Position (190 Countries)	182º	175º	Position
1 Company opening	144	134	10
2 Construction License	111	80	31
3 Access to electricity	171	165	6
4 Property registration	170	172	-2
5 Obtaining / Credit Access	181	183	-2
6 SME protection	81	81	-
7 Tax Burden	157	103	54
8 International trade	183	180	3
9 Execution of contracts	186	186	-
10 Settlement of insolvency	169	168	1

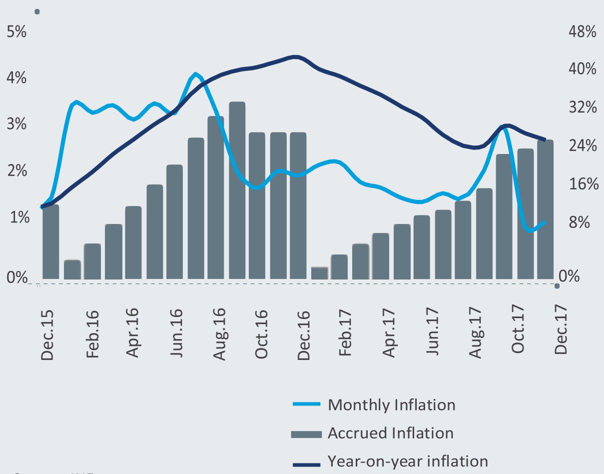
Source: World Bank

Regarding the growth outlook, in the OGE 2018 proposal, it is estimated that in 2017 the real growth of the national economy stood at 1.1%, which differs from the 2.1% presented in OGE 2017. The growth of the oil industry should be negative by 0.5% (including LNG production). The non-oil industry it is estimated that could have growth by 1.9% supported by the energy sectors (40.2%), agriculture (4.4%), construction (2.2%), fishing (2.2%) and merchant services (1.3%).

Based on the province of Luanda, the inflation rate stood at 26.26%. In the same period in 2016, data for inflation reached 41.95%. There is a consensus in the explanation of this disinflation, which is related to: (i) the increase in foreign exchange sold by the BNA for imports of goods, (ii) the stability of the formal exchange rate, which occurred throughout 2017, (iii) and the reduction of the informal exchange rate. About the latter factor is seen as a result of the reduction of monetary aggregates in domestic currency.

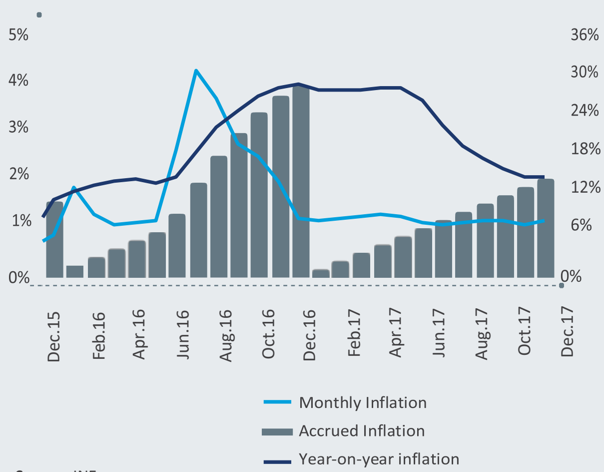
Regarding the Wholesale Price Index (hereinafter referred to as "IPG"), inflation stood at 15.47%, which indicates a reduction of 14.38 p.p. in this indicator compared to 2016.

INFLATION RATE (IPC)



Source: INE

IPG VARIATION



Source: INE

Accumulated variation in domestic products, from January to December, was 15.50%, while in the imported products accumulated inflation was 15.46%.

4.2.4. MONETARY AND FINANCIAL OVERVIEW

4.2.4.1. MONETARY POLICY AND LIQUIDITY

During the year 2017, BNA carried out a set of measures aimed at making its monetary policy more effective. The basic interest rate was increased from 16% to 18%, as well as the marginal lending facility rate, which rose to 20%, indicating the maintenance of the contractionary position initiated in previous periods.

Meanwhile, the reduction of the reserve requirement ratio in domestic currency from 30% to 21% and the removal of the need to set up captives in local currency for the purchase of foreign currency, two measures that, despite appearing to give more liquidity to the market, have been mitigated by the changing in mechanisms for complying with mandatory reserves. Consequently, banks are no longer able to meet the mandatory reserves with public debt securities and financing agreements with MINFIN, unless with deposits in BNA. Moreover, in the calculation of the requirement in domestic currency, will only be deducted credit rights related to agriculture and fisheries, while before the amendment, credit rights covered more business sectors related to the industry.

The deposit facility rate was changed four times and was set at the end of the year at 0%, creating conditions for the adoption of the monetary base in domestic currency as the monetary policy operational variable and BNA to intervene through open market operations for the purpose of liquidity regulation. The Monetary Policy Committee indicated the strict monitoring of the liquidity levels of the economy as the fundamental element for guaranteeing price stability.

In the last 12 months, the monetary base increased 6.8% to AOA 1.618 thousand million, mainly influenced by 8.1% increase in the bank reserve, which was higher than the 4.3% banknotes and coins in circulation.

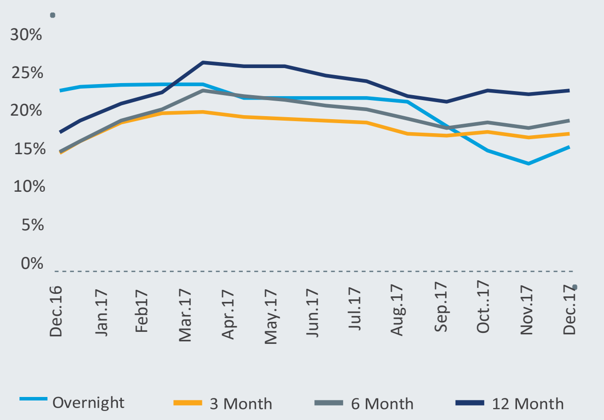
This increase in the bank reserve is explained by the 54.9% increase in mandatory reserves, which occurred mainly in December, as a result of the recent change in the compliance mechanisms. On the other hand, free reserves fell 53.7%.

MONETARY BASE

(THOUSAND MILLION AOA)	Dec.16	Dec.17	Var.
Monetary Base	**1,515.0**	**1,618.0**	**6.8%**
Banknotes and coins in circulation	**506.0**	**527.6**	**4.3%**
Banking reserves	**1,009.0**	**1,090.5**	**8.1%**
Mandatory deposits	**579.0**	**891.5**	**54.0%**
In domestic currency	490.3	769.9	57.0%
In foreign currency	88.7	121.6	37.0%
Free deposits	**429.9**	**199.0**	**-53.7%**
In domestic currency	345.6	155.7	-54.9%
In foreign currency	84.3	43.3	-48.7%
OFIM*	**69.2**	**90.5**	**30.8%**

* Obligations comparing with other monetary institutions. Source: BNA

LUIBOR EVOLUTION



In regard of transactions on the interbank money market (hereinafter referred to as "MMI"), the total amount reached AOA 1,839.9 thousand million, an increase of 83% when comparing with the same period last year. The amount referring to the volume provided by the of deposit facility stood at AOA 3,242.6 thousand million, corresponding to an increase of over 100%.

The MMI interest rates (LUIBOR) has shown variations between 0.69 p.p. and 2.91 p.p., with the exception of the overnight rate which recorded a negative variation of 5.6 p.p (standing at 17.77%). Interest rates on maturities of 1, 3, 6, 9 and 12 months stood at 18.27%, 18.92%, 20.16%, 21.90% and 23.08% respectively[12].

4.2.4.2. MONETARY SUMMARY

The AOA denominated net foreign assets of the banking system fell 32.1% to AOA 2,609 thousand million. On the other hand, net domestic assets increased 36.4% (to AOA 5,697 thousand million), driven by increases in all its components. Net lending to the Central Government increased 145.6% to AOA 2,708 thousand million, as a result of the 24.3% increase in government loans and 26.2% reduction in deposits.

The volume of loans granted to the economy increased 1.2% last year to AOA 3,371 thousand million, with lending to the private sector increasing 0.5% to AOA 3,337 thousand million.

MONETARY SUMMARY AS AT 31 DECEMBER 2017

(THOUSAND MILLION AOA)	Dec.16	Dec.17	Var.
Net Foreign Assets	**3,843**	**2,609**	**-32.1%**
RIL (in USD million)	21	13	-36.1%
Loan to Central Government (Net)	**1,103**	**2,708**	**145.6%**
Loan to the Central Government	3,755	4,666	24.3%
Deposit by the Central Government	2,652	1,958	-26.2%
Loans to OIFNM	**5**	**10**	**98.8%**
Loans to public sector	**85**	**103**	**22.1%**
Loans to private sector	**3,321**	**3,337**	**0.5%**
in domestic currency	2,657	2,756	3.7%
in foreign currency	664	581	-12.5%
M3	**6,529**	**6,522**	**-0.1%**
M2	**6,525**	**6,518**	**-0.1%**
M1	**3,854**	**3,732**	**-3.2%**
NMPP	396	419	5.8%
Demand deposits – Domestic currency	2,575	2,404	-6.6%
Demand deposits – Foreign Currency	883	909	3.0%
Near money	**2,671**	**2,786**	**4.3%**
Term deposits - Domestic currency	1,571	1,696	8.0%
Demand deposits - Foreign currency	1,100	1,090	-0.9%
Other near money instruments	3.8	4.0	5.9%

Source: BNA

[12] Notwithstanding the reduction of Luibor throughout the year, it is important to note that in December the rate has begun to rise.

It should be highlighted, however, regarding the loans granted to private sector in foreign currency, was verified a reduction of 12.5% to AOA 581 thousand million. On the other hand, loans to other non-monetary financial institutions and public sector increased by 98.8% and 22.1%, reaching 10 thousand million and 103 thousand million Kwanzas, respectively.

When analysing the loans to economy, by industry, it can be seen that four industries account for about 64.2% of total loans granted: wholesale and retail trade (23.8%), real estate activities, rentals and business services (14.9%), individuals (13.6%) and construction (12%). The weight of loans granted to these industries remained essentially unchanged in 2016 and 2017, representing 64.6% and 64.2%, respectively.

Regarding monetary aggregates M2[13] and M3[14], they have shrunk 0.1%, while the M1 decreased 3.2%. Deposits in local currency contracted 1.1%, a fact that has been justified by the 6.6% decrease in demand deposits, whose 8% growth in term deposits could not offset. Besides, the notes and coins held by the public has grown 5.8%, leading the M2 domestic currency component contracted 0.5%. The foreign currency component of the economy grew by 0.8%, influenced by 3% growth of demand deposits, while decrease of 0.9% was recorded for term deposits.

4.2.5. BANKING INDUSTRY STABILITY

The liquidity of the banking system in foreign currency and the credit risk of economic agents continued to evidence the impact of the less favourable macroeconomic environment. The BNA data, which reported until November 2017, showed that the risk associated with the system's credit portfolio increased, with overdue loans accounting for 28.5% of total loans, above the year-on-year ratio 13.1%. The analysis of the ratio of overdue loans, net of provisions, stood at 34.3%, higher than the 27.4% recorded in the same period of the previous year, showing a deterioration of this indicator 6.9 percentage points.

ASSETS PORTFOLIO QUALITY

(Percentage at the end of the period)	Nov.16	Nov.17	Year-on-year change (p.p.)
Foreign currency loans / Total loans	29.5	24.8	-4.7
Overdue loans / Total loans	13.1	28.5	15.4
(Overdue loans – provision for overdue loans) / Regulatory Own Funds	27.4	34.3	6.9

Source: BNA

The foreign exchange exposure on own funds declined, from 42.9% in November 2016 to 39.4% in November 2017. In addition, foreign currency loans to total loans also fell from 29.5% in November 2016 to 24.8% in November 2017 (-4.7 p.p.).

SENSITIVITY AND CHANGES IN THE MARKET

(Percentage at the end of the period)	Nov.16	Nov.17	Year-on-year change (p.p.)
Net open exchange exposure / Own funds	42.9	39.4	-3.5
Liabilities in foreign currency / Liabilities total	34.4	34.1	-0.3
Foreign currency loans / Total loans	29.5	24.8	-4.7

Source: BNA

The return on equity, measured as the ratio between net profit and the value in the period of shareholder's equity attributable to BAI shareholders, has decreased 3.3 p.p. year-on-year. On the other side, the return on assets, measured as the ratio between net profit attributable to BAI shareholders and the value in the period of the net total assets, reached the 2% figure in November 2017 (-0.2 p.p. year-on-year).

[13]Monetary aggregates M2: (currency in circulation and overnight deposits + deposits with an agreed maturity of up to two years + deposits redeemable at notice of up to three months)
[14]Monetary aggregates M3: M2 + repurchase agreements, money market fund shares/units + debt securities with a maturity of up to two years.

EARNINGS AND PROBITABILITY INDICATORS

(Percentage at the end of the period)	Nov.16	Nov.17	Year-on-year change (p.p.)
ROA	2.2	2	-0.2
ROE	15.6	12.3	-3.3
Total expenses / Total income	99.7	99.8	0.1
Cost-to-income	45.2	50.9	5.7
Spread – Interest rate of demand deposits	19.3	22.8	3.5
Interest rate of term deposit	4.8	9.5	4.7
Net interest income / Gross intermediation margin	63.1	74.5	11.4

Source: BNA

Another factor that indicates a reduction in profitability was the increase of the cost-to-income ratio (measured as the ratio between the overhead costs and the operating income from banking activity) by 5.7 p.p. to 50.9% in November 2017. Regarding the liquidity ratios of the system, the ratio of net assets to total assets decreased by 5.5 p.p. year-on-year to 40.8% with fluctuations between 39.9% and 42.4% over 2017.

Moreover, during 2017, the coverage of current liabilities by net assets has reduced 6.7 p.p. to 52.5%. Furthermore, the Loan-to-deposit ratio stood at 52% figure, which represents a slightly increase on 0.4 p.p. year-on-year analysis.

LEVELS OF LIQUIDITY

(Percentage at the end of the period)	Nov.16	Nov.17	Year-on-year change (p.p.)
Net assets / Total assets	46.3	40.8	-5.5
Net assets / Current liabilities	59.2	52.5	-6.7
Total loans / Total deposits	51.6	52	0.4

Source: BNA

Eventually, the regulatory solvency ratio of the system suggests the system as a whole has comfortable levels of capitalization compared to the minimum regulatory threshold (10%), with an increase compared to the previous period. This indicator reached a 23.2% figure in November 2017, 4,0 p.p. higher than in November 2016.

CAPITAL ADEQUACY POSITION

(Percentage at the end of the period)	Nov.16	Nov.17	Year-on-year change (p.p.)
Regulatory capital to risk-weighted assets	19.2	23.2	4.0
Capital (net worth) to risk-weighted assets	14.3	17.8	3.5

Source: BNA

Considering the Tier 1 Capital Ratio, which is the ratio of bank's core tier 1 capital – its equity capital and disclosed reserves – to its total risk-weighted assets, standing at 17.8%, higher than the year-on-year ratio 14.3%.

4.2.6. DEBT MARKET

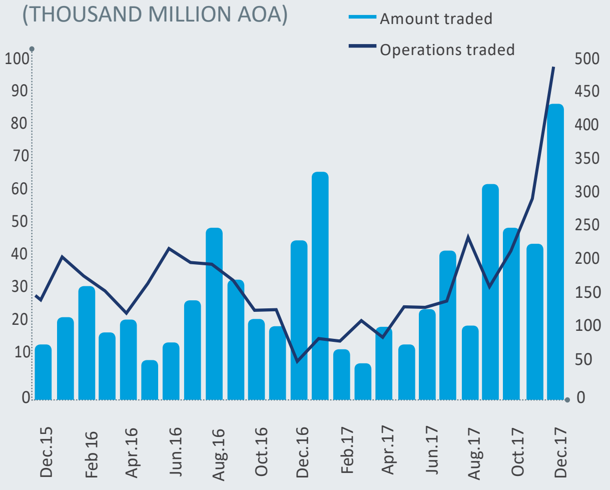
Over 2017, were traded on the secondary market of public debt AOA 527 thousand million in 2,108 operations transacted. The turnover was 12.5% higher than the figure in 2016. It should be noted that in the second half of 2017, the volume traded on the Angola Debt and Securities Exchange (hereinafter referred to as "BODIVA") totalled AOA 397 thousand million (in 1,493 completed operations), corresponding to more than 75% of the figures of the year.

Since the beginning of the year, the trends of the securities market have shown a tendency to increase both number of trading operations and trading volume. Despite some fluctuations it can be justified, among other reasons, by the investor interest in Treasury Bonds indexed to the U.S. dollar, since it was speculated the entry of a new exchange regime for the beginning of 2018. Of the securities traded, 81.4% correspond to Bonds of Treasury, of which 80% are indexed to the exchange rate.

The Government has undertaken actions in order to improve the domestic capital market and the stock exchange, setting as a target at the Macroeconomic Stability Program, achieving a volume of debt traded on the secondary market on the stock of debt titled by 10%, well above the 1.5% recorded on the fourth quarter of 2017.

TRANSACTIONS AT BODIVA – DOMESTIC CURRENCY

(THOUSAND MILLION AOA)



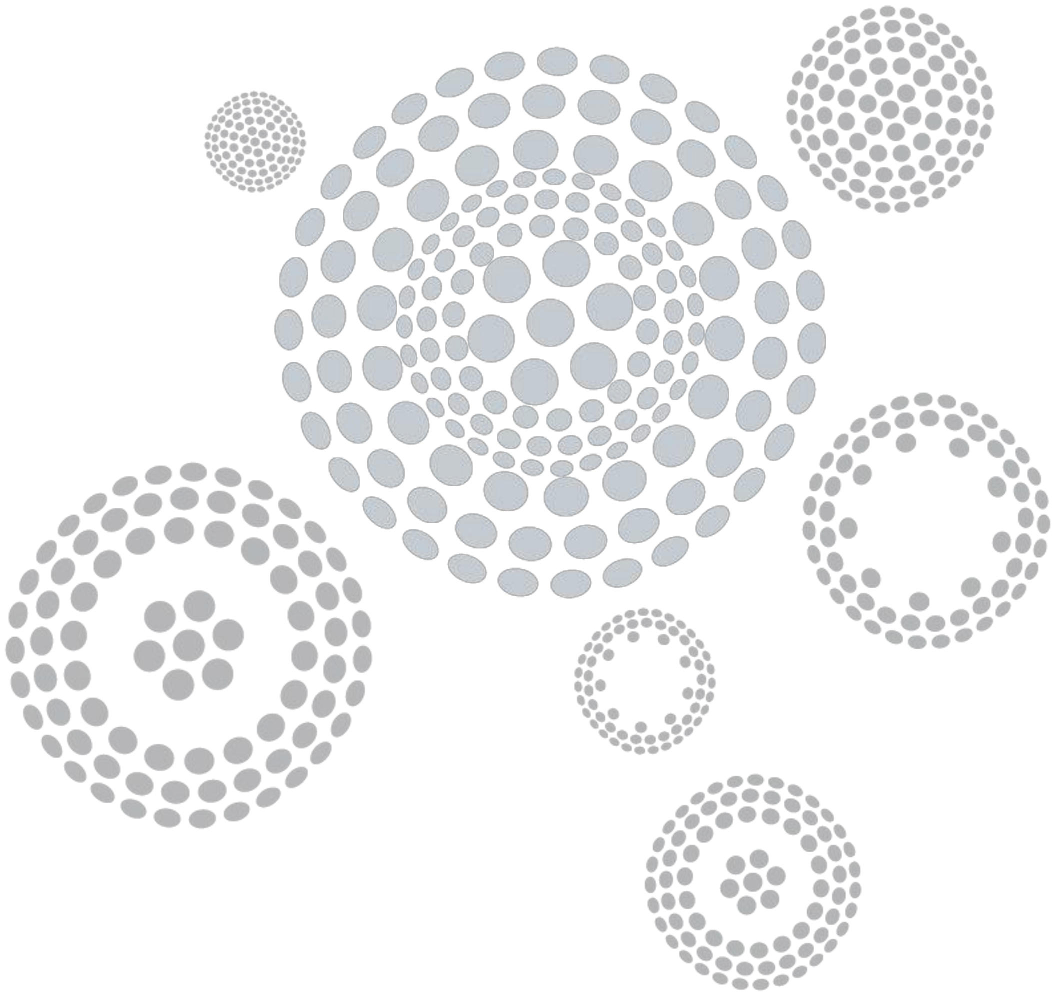
Source: BOVIDA – Trading report

RELEVANT LEGISLATION PUBLISHED DURING THE PERIOD

Instrument	Subject	Topic	Publishing
Directive No. 8/DMA/2017	Monetary Policy	Basic Interest Rate of the BNA / BNA Rates, Marginal lending facilities and deposit facilities	12/12/2017
BNA Instruction No. 6/2017	Monetary Policy	Amendment of the review mechanism to mandatory reserves	01/12/2017
BNA Instruction No. 5/2017	Exchange Policy	Deletion of mandatory domestic currency captives obligation to obtain foreign currency	01/12/2017
BNA Notice No. 9/2017	Transfers and remittances	Sets the deadlines for the execution of transfers and remittances, as well as for the provision of funds to the beneficiary	12/09/2017
BNA Notice No. 8/2017	Payment Systems	Classification of the clearing and settlement subsystems of the Angola Payments System, aiming at the adoption of risk control mechanisms	12/09/2017
BNA Notice No. 7/2017	Payment Systems	Regulates the provision of payments services under the Angolan Payments System	12/09/2017
BNA Notice No. 6/2017	Angola Payment Systems	Regulates the service levels of real-time ATM operations	10/07/2017

Instrument	Subject	Topic	Publishing
BNA Notice No. 5/2017	Payment Systems	Regulates the activities of issuance, acceptance and use of payment cards and the operating principles of the "Multicaixa" subsystem.	10/07/2017
BNA Notice No. 4/2017	Banking Supervision	Exchange Regime on Export of Goods	28/06/2017
Directive No. 2/DMA/2017	Monetary Policy	Basis interest rate – BNA interest rate – Notice No.10/2011, 20 October	30/05/2017
Directive No. 1/DMA/2017	Monetary Policy	Standing facilities (deposit facility and marginal lending facility) – Interest rates of operations	30/05/2017
Ministry of Finance Executive Order No. 273/17	Capital Markets	Regulates the model for registration of securities issuance with the issuer	03/05/2017
Presidential Order No. 78/17	Exchange Market	Regulates the payroll of non-resident workers	24/04/2017
Presidential Order No. 77/2017	Payment Systems	Approves the implementation strategy of the Angola Mobile Payments System	20/04/2017
BNA Notice No. 3/2017	Banking Industry	Exemption from commissions on minimum banking services	30/03/2017
BNA Instruction No. 4/2017	Banking Supervision	Merchandise Transactions - Temporary suspension of the application of numbers 3 and 5 of article 14 of Notice No. 19/12, of April 25	27/03/2017
Ministry of Finance Order No. 99/17	Public Finances	Authorizes the opening of a provincial sub-account of the Single Treasury Account ("CUT") for each Province and closes all bank accounts of the Provincial Governments and Local Administrations.	07/03/2017
BNA Notice No. 2/2017	Banking Supervision	Foreign exchange regulations - Opening and movement of deposit accounts held by foreign exchange residents	03/02/2017
BNA Notice No. 1/2017	Banking Supervision	Realization of investments in the stock market by non-resident entities	03/02/2017
BNA Instruction No. 3/2017	Banking Supervision	Provision of information on prudential limits to large exposures	30/01/2017
BNA Instruction No. 2/2017	Banking Supervision	Obligation to carry out stress tests	30/01/2017
BNA Instruction No. 1/2017	Payment Systems	Establishment of value limits rules, checks issuing, compensation and settlement.	10/01/2017

Source: MINFIN, MINCO, BNA, CMC, IMPRENSA NACIONAL



PRESENT THROUGHOUT THE NATIONAL TERRITORY, BAI PROVIDES THROUGH ITS PRESENCE ON SEVERAL DISTRIBUTION CHANNELS (AGENCIES, DEPENDENCIES, STATIONS, PREMIUM SERVICE CENTERS AND BUSINESS CENTERS) A WIDE RANGE OF PRODUCTS AND SERVICES TAILORED TO THE SPECIFIC NEEDS OF CUSTOMERS.

BRAND, PRODUCTS AND SERVICES

- BRAND
- PRODUCTS
- ERVICES

05

5.1. BRAND

The BAI brand is nationally recognized and internationally as well due to the results that have been presented in recent years and for being a benchmark partner for companies and individuals.

The ongoing efforts in order to improve his products and services, institutional strength and robustness, constant research for innovation, support to the national business sector, to families and to the State are key factors in the recognition and prestige of BAI brand. Regarding the international recognition is translated in several awards which BAI has won in recent years.

On the social side, BAI brand leaves its presence through BAI Foundation, which carries out a range of philanthropic activities /initiatives, from support to hospitals, schools, associations, non-governmental organizations (NGOs), churches or universities.

Present throughout the national territory, BAI offers a range of services (branches, offices, stations, Premium Service Centres and Business Centres) through its on-site distribution channels products and services tailored to the specific needs of customers

5.2. PRODUCTS

BAI has a wide range of solutions available at the most varied levels, including specific products of savings, investment or loans.

With regard to financial investments, BAI offers a range of products covering fixed or variable interest rates and short and medium-term maturities according to the specific needs of each client.

BAI loans solutions encompass products targeted both to corporate or individuals customers.

BAI DIRECTO

BAI Directo is characterized by a range of solutions available to customers. They can access the platform via Internet, mobile phone, designated by Mobile and Internet Banking.

In 2017, the investment in improving the quality of the platform was strengthened, which has enabled the expansion of payment solutions, topping up mobile phones, view account movements and money transfers. Direct BAI, besides his user-friendly use, provides users to sign up long term applications via the platform without having to go to a BAI branch physically or request such operations to the account manager. This innovation in BAI Directo has made the lives of users more comfortable and safe, since the customer can manage his daily bank account anywhere and anytime, as long as he has access to the internet.

To sum up considering the qualities above presented, BAI Directo is a service that has shown great support from customers, which has been increasing in the number of users of this platform.

5.3. SERVICES

Aware about the importance of quality of the services provided, BAI has been developing actions to increase the proximity to the customer, the intensity of the relationship and the quality of the service provided. Among several initiatives, we highlight the "Smile you are on camera" during the year, where the Executive Committee and the Directing Body carried out regular visits to agencies and dependencies of the Bank with the highest rates of complaints or operational problems. In order to enhance the understanding of reality of the agencies and the needs of the clients and to improve the quality of the service provided.

In addition, specialized service offices were created for the Premium and Loengo segments.

These segments are demanding, with considerable financial liquidity and with specific characteristics of well-informed and knowledgeable customers.

Seeking a customized service based on proximity, trustworthiness, promptness and efficiency. Moreover, they seek solutions from financial institutions for the different challenges they face on daily basis. In this sense, these offices seek to offer one-to-one service with a high quality of service.

BAI PREMIUM

The Premium Services Office (hereinafter referred to as "GSP") is a unit structure created to better serve the target-customer in this segment, with a mission to provide a tailored and distinct customer service, to have an in-depth knowledge of the customer, as well as their needs and expectations, looking for solutions that fits to their needs.

This office has a team of specialized professionals, different channels and customized products to the needs of the clients, thus providing a service of excellence. There are currently thirteen managers and two customer service centres in this segment.

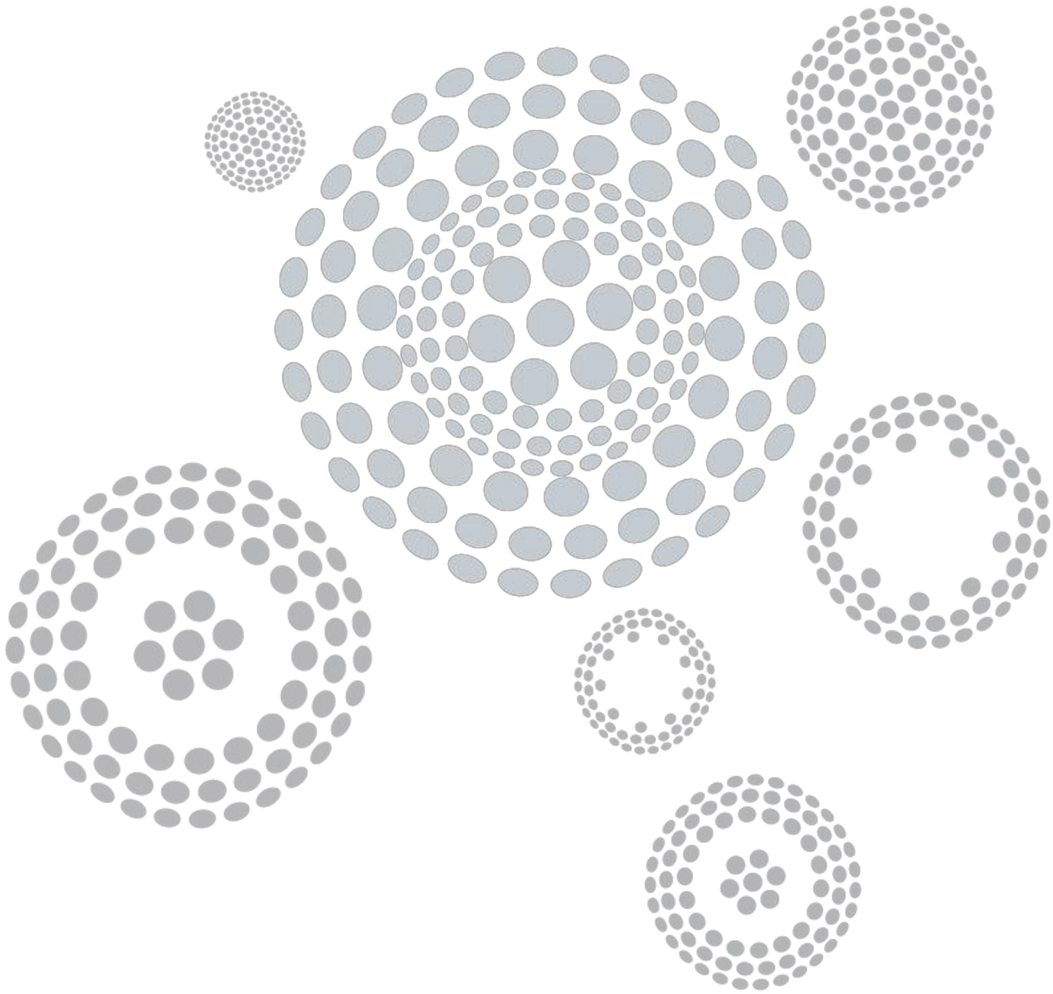
The activity of GSP is based on values such as dedication, loyalty, accuracy, discretion and preservation of its client's patrimony, with the aim of being a national benchmark in providing services and solutions for customers with a Premium profile.

LOENGO

SABE BEM UM SERVIÇO ASSIM

Loengo is a brand for those who like to have a unique treatment and enjoy a space and time dedicated exclusively to clients, with the mission of managing, monitoring activities and boosting the commercial action with current and potential clients, customizing the offer to their needs in order to guarantee a proximity relationship and trust. It is a differentiating service, prompt and efficient. Nowadays there are 59 branches and 81 managers operating the Loengo service in the North, South, Centre and Luanda Bengo.

WHO ARE LOENGO?



IN 2017, BAI HAS SHOWN HIGH NOTORITY IN THE ANGOLAN MARKET IN TERMS OF DEPOSITS AND LOANS, WITH A MARKET SHARE OF 15.58% FOR DEPOSITS AND 16.43% FOR LOANS.

ACTIVIY BY BUSINESS UNIT

- GEOGRAPHICAL PRESENCE
- COMMERCIAL BANKING
- RETAIL BANKING
- ELECTRONIC BANKING

06

Throughout 2017, BAI was widely known in the Angolan market in terms of deposits and loans[15], with a market share of 15.58% for deposits and 16.43% for loans.

Present throughout the country and with a customer-oriented strategy, BAI has guided its action by offering the best banking experience to all segments.

The turnover of BAI amounted to AOA 1,550 thousand million in 2017, maintaining its structure by segment. The corporate segment represented 78% of turnover, amounting to AOA 1,212 thousand million, comparable to the AOA 338 thousand million recorded in the individual segment.

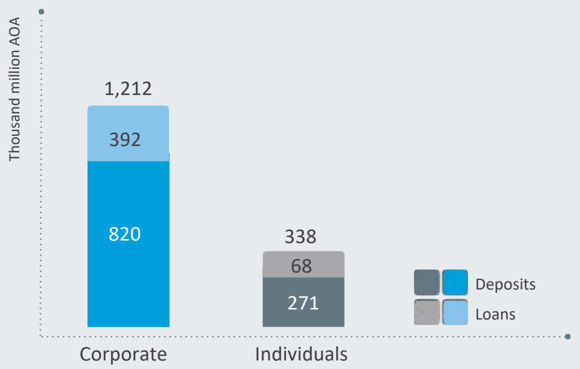
CORPORATE

- Large companies and institutions
- Small and medium-sized companies
- Very small companies

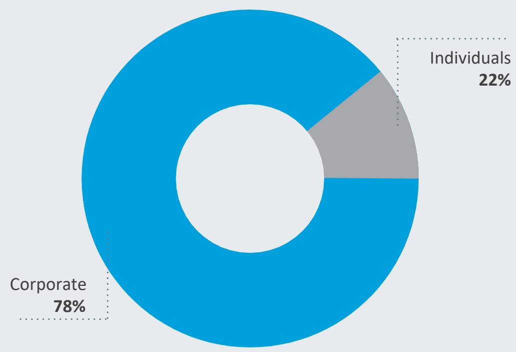
INDIVIDUALS

- *Premium*
- Loengo
- Retail banking

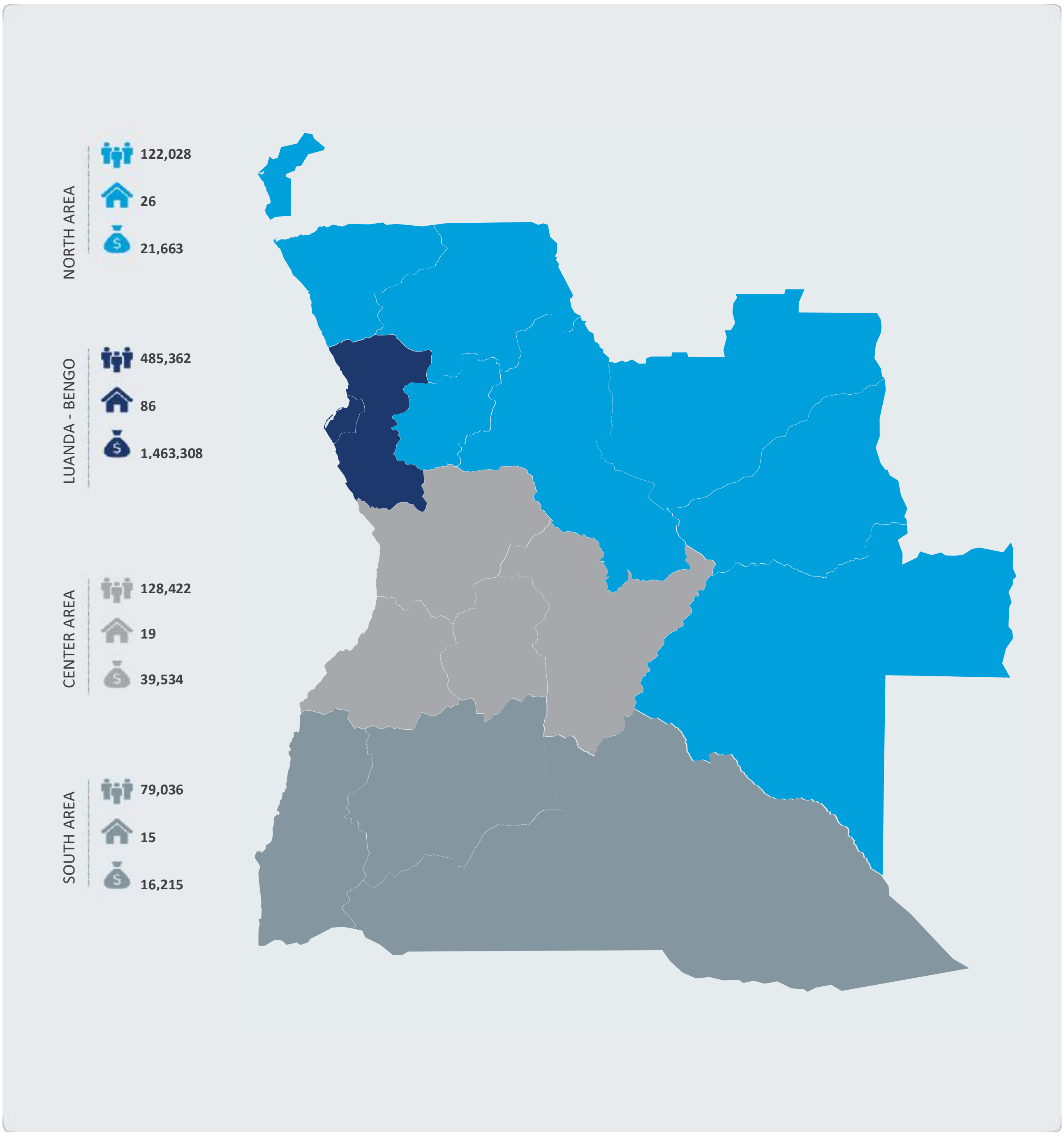
TURNOVER IN 2017



COMPOSITION OF TURNOVER IN 2017



6.1. GEOGRAPHICAL PRESENCE



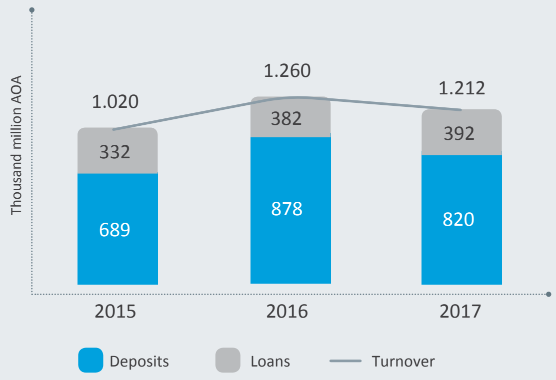
No. of active customers Number of agencies Turnover (Thousand million AOA)

6.2. COMMERCIAL BANKING

Commercial banking serves through its specialist network small and medium-sized companies (hereinafter referred to as “SME”) and public institutions. At the end of 2017 served around 55,370 customers, representing a 20% increase compared with the year ended in 2016. This is the most valuable segment for the Bank in figures speaking, supported by a deposit portfolio of AOA 820 thousand million and a loan portfolio of AOA 392 thousand million representing 75% of customer deposits and 76% of loans granted, respectively.

In 2017, the segmentation process of SME occurred, reaching 5,773 customers with a higher incidence in the Luanda Bengo area.

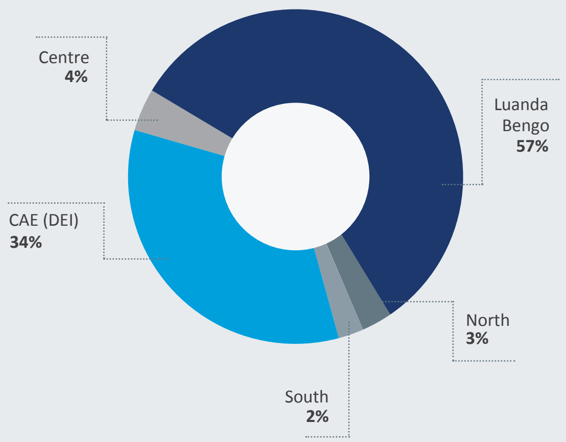
TURNOVER - CORPORATE



DISTRIBUTION BY AREA

Area	No. of customers
CAE (DEI - Corporate and Institutions Department)	1,943
Centre	238
Luanda Bengo	3,280
North	171
South	141
Total	**5,773**

CLIENTES POR ZONA

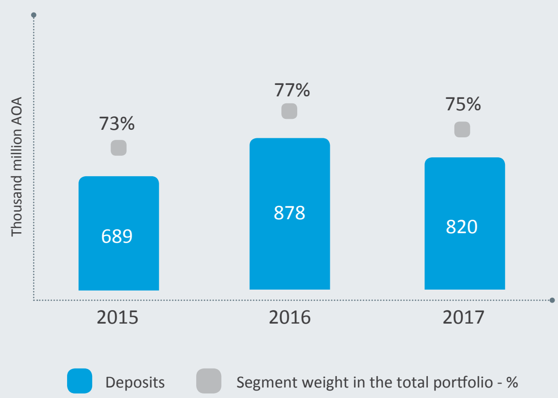


DEPOSITS PORTFOLIO

The slowdown in domestic economic activity and the higher level of payments abroad affected the deposits portfolio. In 2017, was verified a reduction in the volume of customer deposits portfolio in the corporate segment, contrary to the previous year. Deposits in the commercial banking segment stood at AOA 820 thousand million, a reduction of AOA 58 thousand million compared to the year ended in 2016 (AOA 878 thousand million). Overall, the weight of this segment in the bank's portfolio stood at 75%, 2 p.p. less than in 2016.

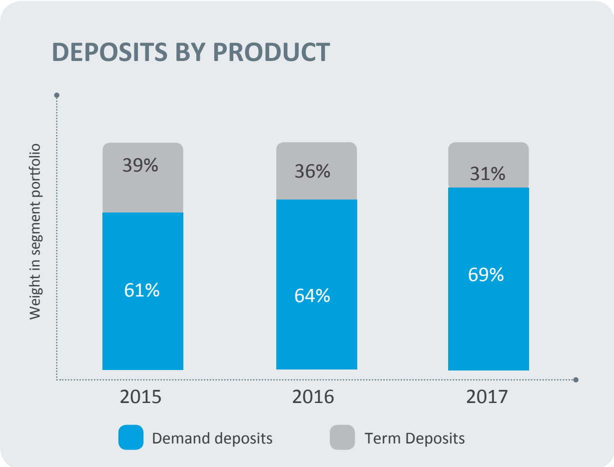
The decrease in deposits was influenced by the reduction of 20% (AOA 60 thousand million) in term deposits, to AOA 254 million in 2017, as demand deposits increased by 1% (4 thousand million) to AOA 566 million in 2017. Therefore, the weight of demand deposits to total deposits increased from 64% to 69%.

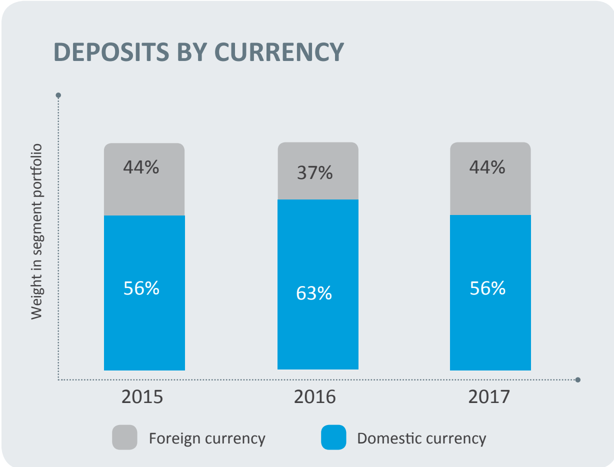
DEPOSITS PORTFOLIO



Regarding the deposits by currency, is verified a reduction of 18% (AOA 98 thousand million) to deposits in domestic currency, compared to 2016, totalled AOA 456 thousand million in 2017, and an increased by 13% (AOA 42 thousand million), to AOA 364 thousand million in 2017 to foreign currency deposits. This behaviour has led to a reduction in the weight of deposits in domestic currency from 63% in 2016 to 56% in 2017.

The reduction of deposits in domestic currency is explained by the reduction on non-financial corporate of private sector deposits in AOA 66 thousand million, the central government sector in AOA 20 thousand million and the public non-financial public sector in AOA 14 thousand million.

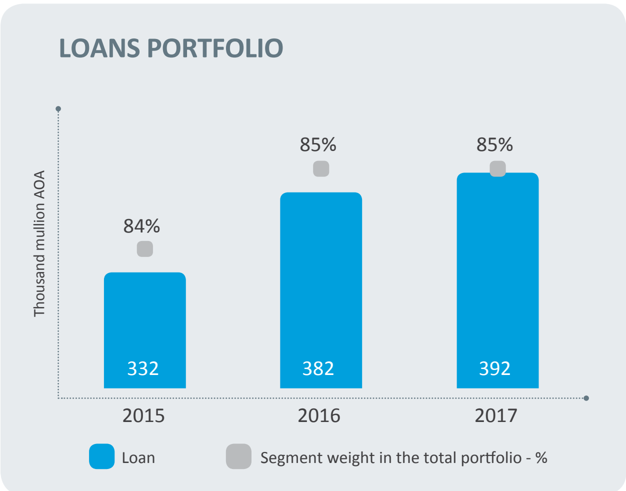


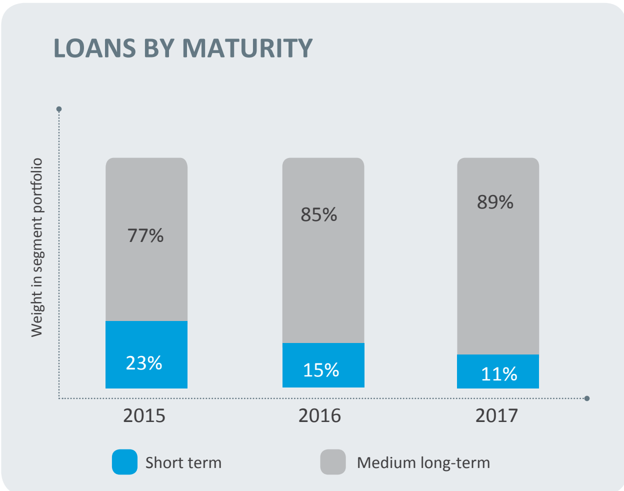


LOANS PORTFOLIO

At the end of 2017, the portfolio of loans showed an increase in the volume of loans to the business segment. The loans portfolio to the business segment reported was AOA 392 thousand million, an increase of AOA 10 thousand million compared to 2016 (AOA 382 thousand million). The weight of this segment relative to the Bank's portfolio remained at 85% compared to 2016.

Medium and long-term loans amounted to AOA 349 thousand million, representing 89% out of total portfolio in this segment, an increase of AOA 24 thousand million compared to 2016. This tendency is explained mainly due to the increase in disbursements to the Private Non-Financial business sector in AOA 18 thousand million, an increase of central government sector in AOA 8 thousand million and a reduction of public non-financial business sector in AOA 2 thousand million.

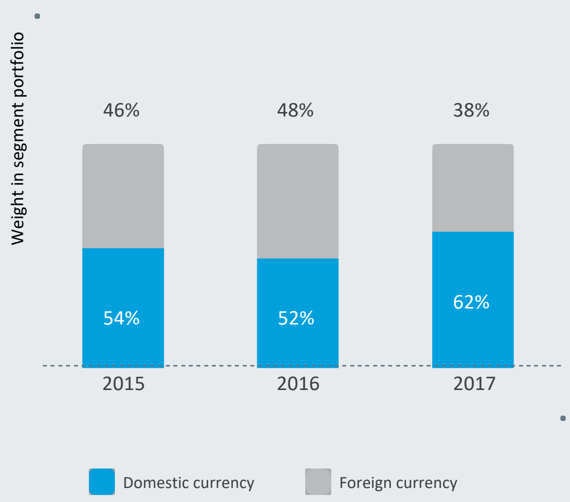




In contrast, short-term loans decreased by AOA 14 thousand million compared to 2016, reaching AOA 44 thousand million at the end of the year, corresponding to 11% of the total portfolio in this segment. The reduction is mainly explained by the reduction of the private non-financial business sector by AOA 26 thousand million and by the increase of the public non-financial business sector by AOA 11 thousand million.

Loans in domestic currency were equivalent to AOA 243 thousand million, corresponding to 62% of advances payments to customers in this segment, an increase of 10 p.p. comparing with the previous year. On the other side, for loans in foreign currency the effect was the opposite, reaching
AOA 150 thousand million, representing 38% out of the total loans granted to commercial banking and corresponding to a reduction of 10 p.p. when compared to the year ended in 2016.

LOANS BY CURRENCY



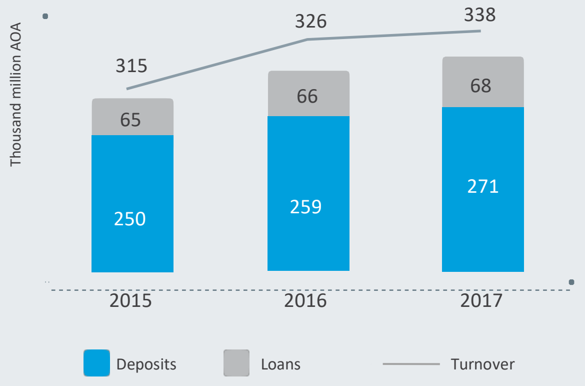
6.3. RETAIL BANKING

Retail banking comprises individuals and small business, served with a network of 135 traditional branches (a net increase of 3 over the year), 81 located in Luanda and 54 in the rest of the country.

The number of individuals customers in 2017, including customers in the *Premium* and Loengo segments, increased by 124,462 (+ 20%) compared to the year ended in 2016, reaching a total of 759,478 active individual customers.

In the same period, the number of individual customers in the *Premium* segment increased from 1,204 to 1,366 as a result of the implementation of measures to promote the individual follow-up through a close monitoring of their needs in specialized contact centres.

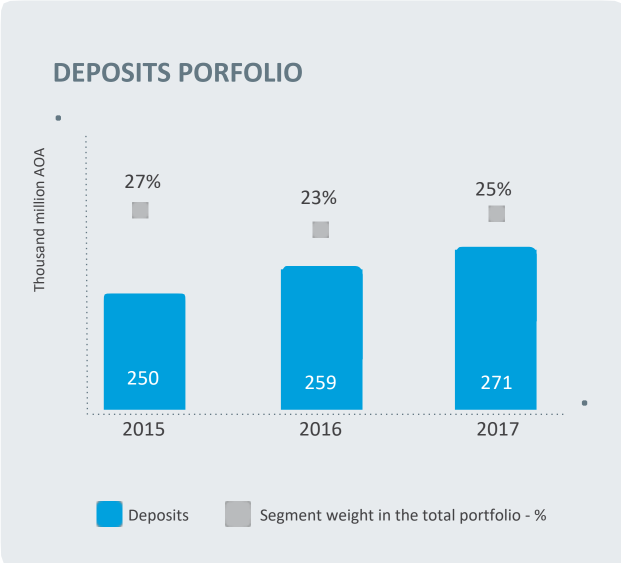
TURNOVER INDIVIDUALS

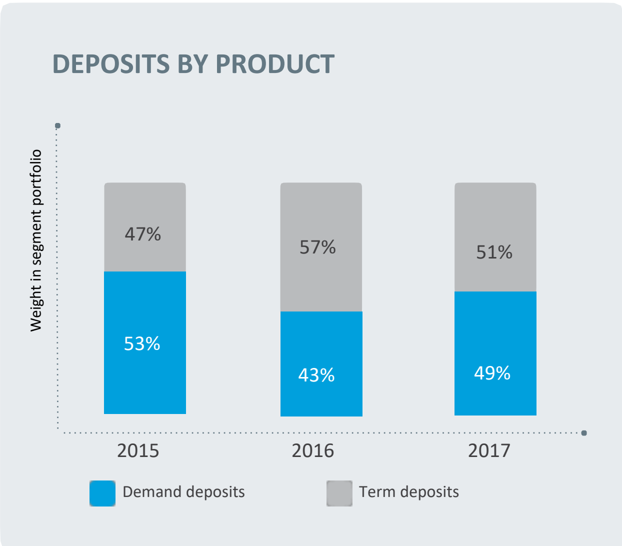


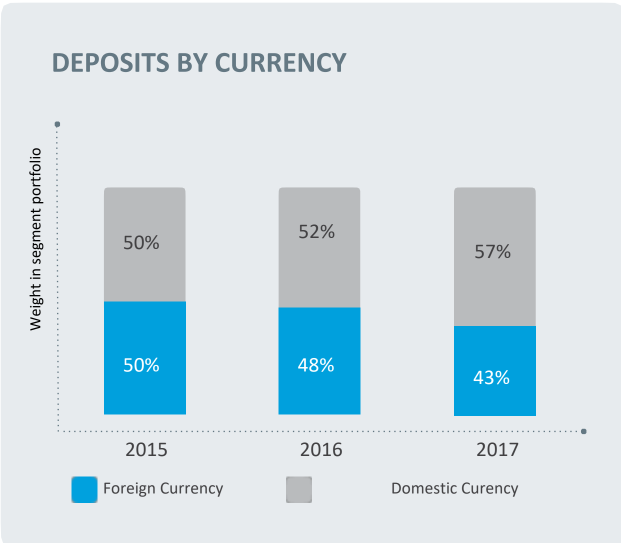
DEPOSITS PORTFOLIO

Retail banking deposits totalled AOA 271 thousand million at the end of the year, an increase of AOA 11 thousand million compared to 2016 (AOA 259 thousand million). The weight of this segment compared to the total deposit portfolio represented 25%, plus 2% p.p. comparing with 2016.

Domestic currency deposits accounted for 57% of deposits in this segment, reaching AOA 153 thousand million, an increase of AOA 18 thousand million, equivalent to 4 p.p. compared to 2016. Conversely, foreign currency deposits have showed a reduction of 4 p.p., standing at AOA 118 thousand million, a reduction of AOA 7 thousand million compared to the year ended in 2016.



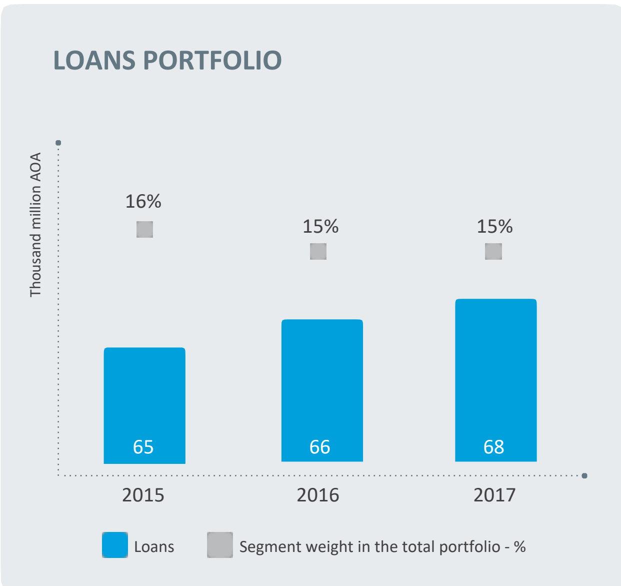




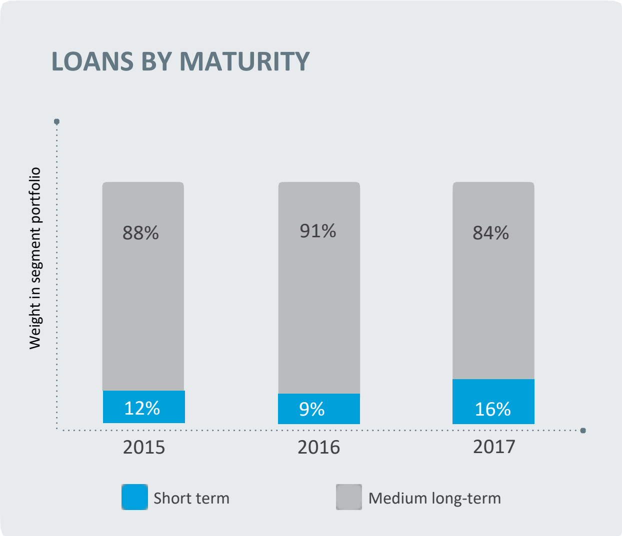
LOANS PORTFOLIO

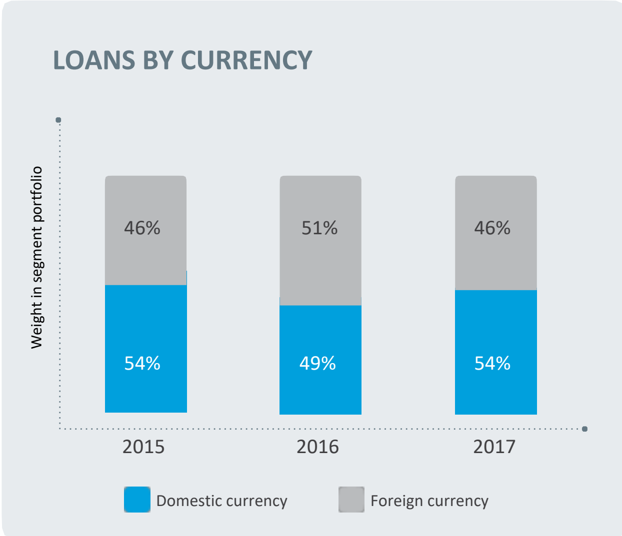
Throughout 2017 was recorded a slightly increase in the volume of loans granted to individuals customers, representing at end of the year AOA 68 thousand million. The weight of this segment comparing with the total Bank's portfolio remained at 15% compared to 2016.

Medium and long-term loans amounted to AOA 57 thousand million, 84% of the total portfolio in this segment, representing a reduction of AOA 4 thousand million compared to 2016.



In contrast, short-term loan amounted to AOA 11 thousand million, 16% out of the total portfolio in this segment, representing an increase of AOA 5 thousand million compared to 2016.





Loans in domestic currency were equivalent to AOA 37 thousand million, representing 54% of advance payments to individual customers, an increase of 5 p.p. over the year 2016.

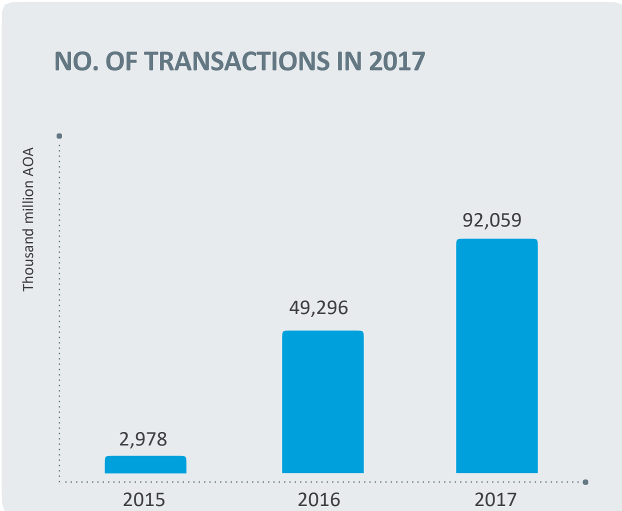
Foreign currency loans had the opposite behaviour, equivalent to AOA 31 thousand million, which represents 46% out of the total the segment, meaning a 5 p.p. reduction when compared to 2016, mainly influenced by the exchange rate effect of the Kwanza devaluation.

6.4. ELECTRONIC BANKING

The quality of service and the highest customer satisfaction continue to be the main challenges for our Bank. In line with the strategic plan, BAI launched a new banking management platform at the end of 2016, betting once again on the introduction of a new technology as a differentiating factor to provide greater customer satisfaction for the services provided and a better banking experience.

BAI DIRECTO

The way how customers interact with BAI is deeply changing thus creating new expectations and new models of interaction, along with technological developments and new digital solutions; we have more demanding consumers and less tolerant who are looking for banking services anytime, anywhere and with little inconveniences and movements as possible.

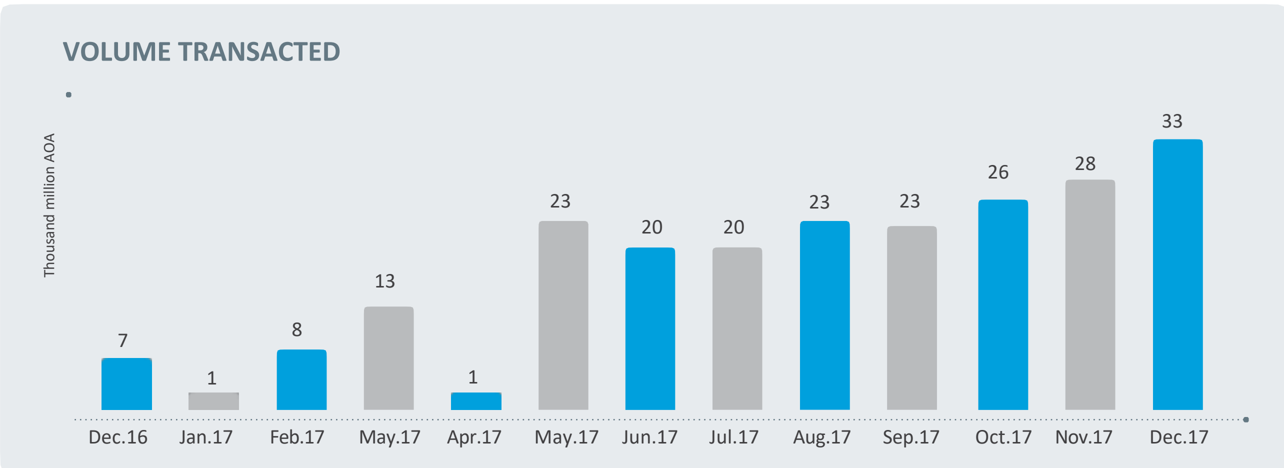


In this sense, BAI has operated important transformations on his commercial channels, which has been reflected on the number of transactions throughout 2017.

The services BAI Directo are available through mobiles phones and Internet, namely through Mobile Banking **(App. BAI Directo)** and internet banking (https://ib.bancobai.ao).

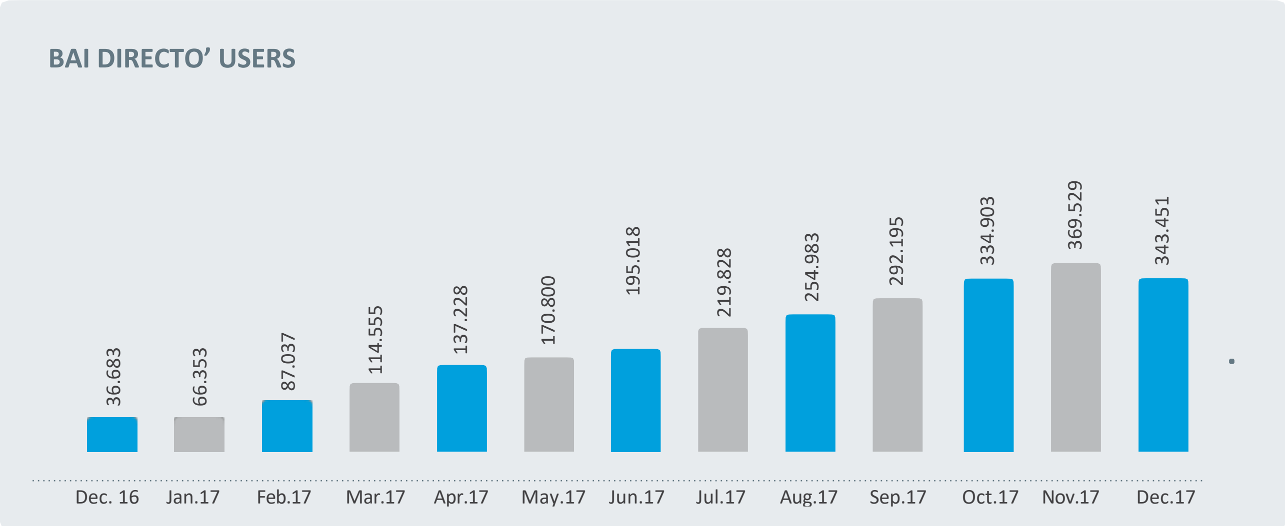
With a user-friendly experience, BAI Directo has a significant extension of functionalities such as following different bank accounts, either in national or foreign currency, view the financial agenda, submit payments or bank transfers, topping up, download supporting documents and sign up term deposits, among other functionalities carried out in a fast, simple and secure way.

The new platform BAI Directo continues to be a successful service achieved by the Bank, where has been experiencing a considerable growth in volume traded, reaching a value of AOA 33 thousand million in December 2017, which represent a 359% year-on-year increase.



Throughout 2017 BAI overcame the goal for new users at BAI Directo; the Bank has continued to grow considerably and by the end of 2017 signed up an additional 306,768 users to the platform, totalling 343,451.

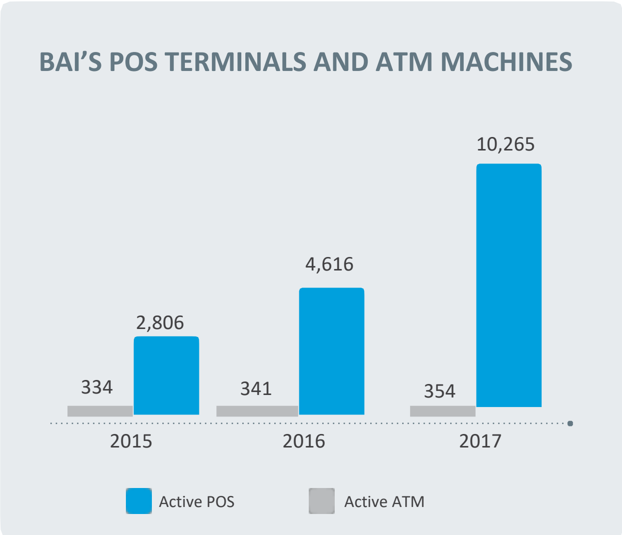
The reduction in the number of users in December 2017 was mainly due to the aggregation of several clients belonging to the same entity.



POS TERMINALS AND ATM MACHINES

In 2017, BAI has showed a prominent growth of his points of sale (hereinafter referred to as "POS") terminals and a moderate growth in Automatic Teller Machines (hereinafter referred to as "ATM").

At December 2017 were active 10,265 POS and 354 ATM, which compares to 2016 figures: 4,616 POS and 341 ATM, which represents a growth of 122% and 4%, respectively. This growth is due to the increased commercial initiatives, targeting both large companies and SME. BAI achieved an operating ratio of 75% for POS and 97% for ATM.

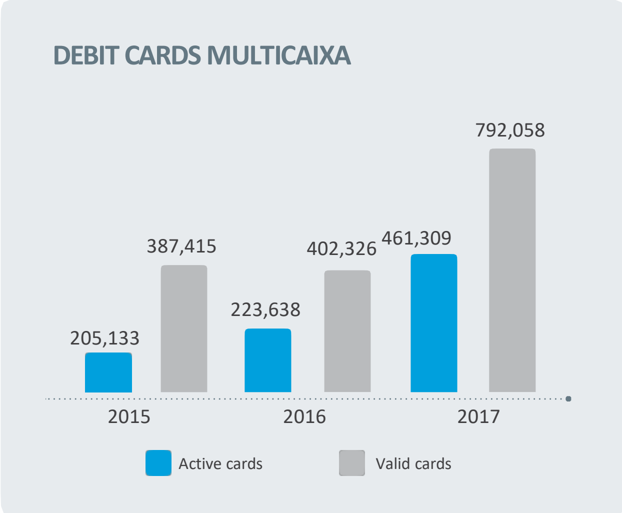


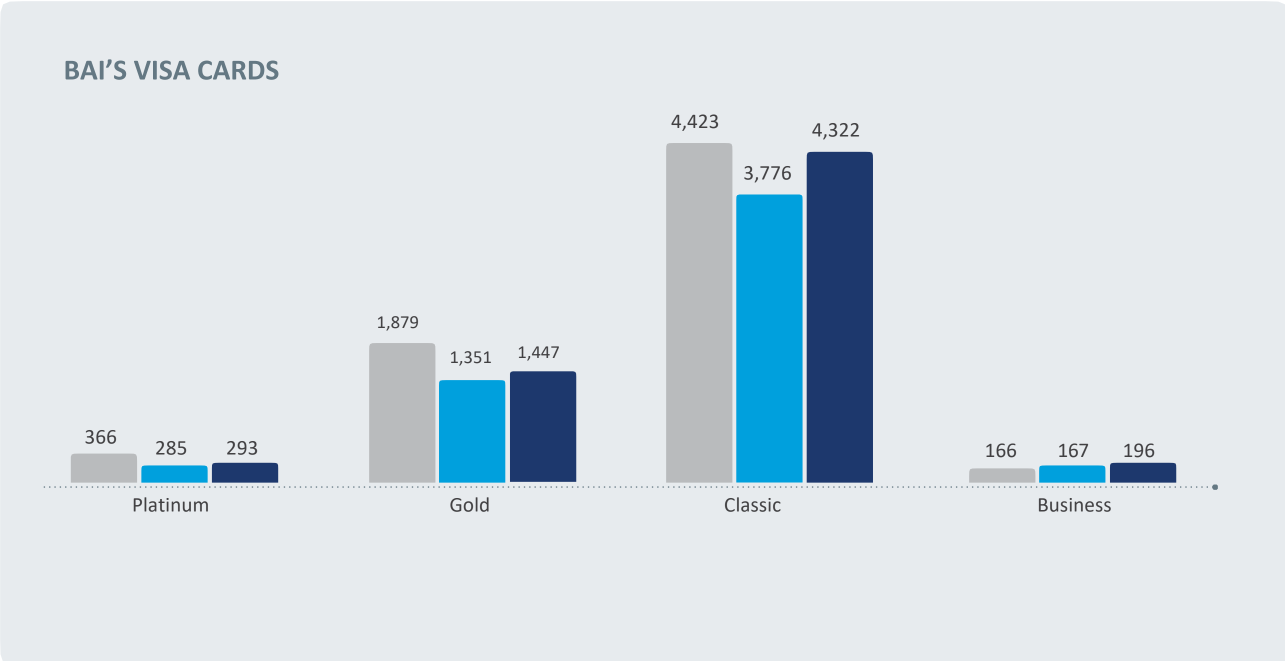
PAYMENT CARDS

Throughout 2017, Multicaixa cards, either active or valid, has registered a steep growth of 106% and 97%, respectively. The active cards stood at 461,309, while the valid cards[16] totalled 792,058.

BAI showed an operating ratio of 58%, up 3% compared to December 2016, reaching a market share of 13.5%, 4.5 p.p. more than in 2016.

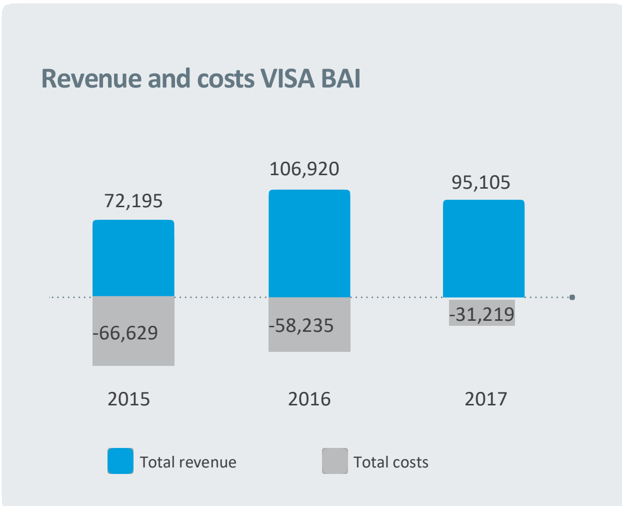
Visa international cards increased by 12% to 6,258 valid cards. Classic cards continue to contribute in greater numbers to this situation, registering an increase of 546 cards.



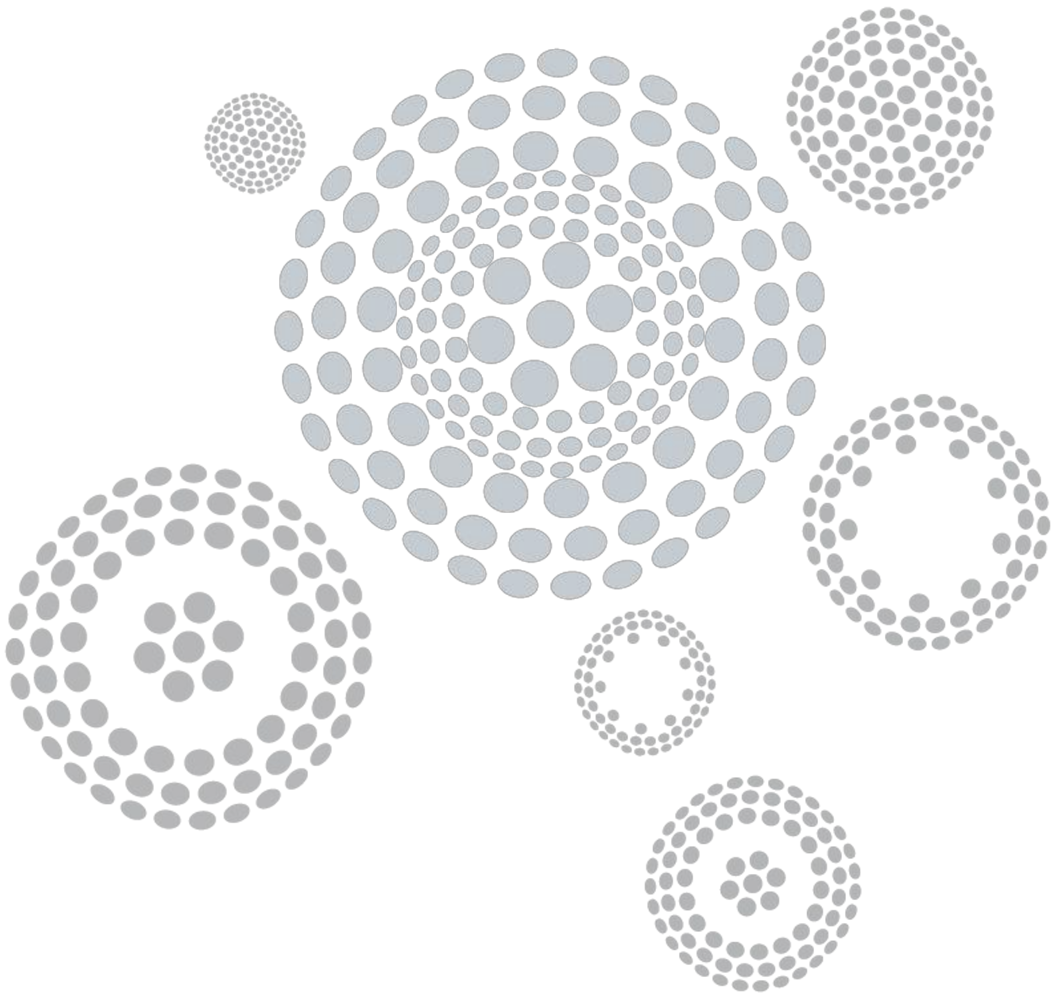


The Kamba debit cards reached 25,802 units, representing a reduction of 25%.

There was verified a year-on-year increase of AOA 15 thousand million in the results of the operation of the Visa cards, justified by the reduction in costs in AOA 27 thousand million, mainly due to the reduction in the issue and reissue of cards in the year 2017.



[16] Valid cards: total of cards accounted in the network with an expiration date valid on the last day of the month.



BAI EUROPA ASSETS AT 31 DECEMBER 2017 WAS EUR 1,005 MILLION, A 23% GROWTH COMPARED WITH THE YEAR ENDED IN 2016, WHERE IT STOODS OUT THE INCREASE OF LOANS TO CREDIT INSTITUTIONS AND BALANCES WITH OTHER CREDIT INSTITUTIONS EQUIVALENT TO EUR 127 MILLION.

NOSSA SEGUROS ASSETS HAS RISEN 38% WHEN COMPARED TO THE YEAR ENDED IN 2016, REACHING AOA 16,909 MILLION, HIGHLIGHTING THE RISE OF INVESTMENT BY AOA 1,216 MILLION (16%).

FINANCIAL INVESTMENTS IN COMPANIES

- BAI EUROPA
- BAI MICRO FINANÇAS (BMF)
- BAI CABO VERDE (BAICV)
- BANCO INTERNACIONAL DE SÃO TOMÉ E PRÍNCIPE (BISTP)
- NOSSA SEGUROS
- SOCIEDADE ANGOLANA DE ENSINO SUPERIOR PRIVADO (SAESP)
- BAI CENTER

07

7.1. BAI EUROPA

In December 2017, the total assets fo BAI Europa reached EUR 1,005 million, a EUR 186 million growth (23%) compared with the year ended in 2016, standing out the increase in investments in credit institutions and deposits at other credit institution equivalent to EUR 127 million, an increase in available-for-sale financial assets equivalent to EUR 86 million and a reduction of the customer loans portfolio by EUR 44 million due to the repayments made by the largest debtors. Also noteworthy was the increase in resources of central banks and other credit institutions by EUR 188 million and the decrease in customers' resources by EUR 4 million.

The Bank's activity has led to a net profit of EUR 7 million, more EUR 3 million year-on-year, mainly explained by the impact of commissions on documentary credits and foreign exchange transactions with BAI AO.

The Cost-to-Income ratio fell by 8.5 p.p. as a result of the increase in operating income from banking activity of EUR 5 million (57%) and an increase in overhead costs by EUR 957 thousand (26%).

Million EUR, except %	**Dec.15** Audited	**Dec.16** Audited	**Dec.17** Preliminar	**Variatio**
Assets	437	818	1,005	23%
Loans to customers	110	113	69	-39%
Impairment	-5	-3	-3	-5
Customers' resources	363	737	922	25%
Own Funds	67	72	80	10%
Net income/(loss)	**3**	**4**	**7**	**87%**
Cost-to-income	43.2%	42.6%	34.1%	-8.5%
Solvency ratio (BdP)	28.6%	17.0%	19.9%	2.9%
Overdue loans ratio	0.5%	0.0%	0.0%	0.0%
ROE	4.8%	5.1%	8.6%	3.5%
Number of employees	29	27	32	5
Number of customers	534	605	538	-67

7.2. BAI MICRO FINANÇAS (BMF)

BMF assets amounted to AOA 8,929 million, an increase of AOA 532 million compared to December 2016. This variation is mainly explained by the supplementary capital contributions of AOA 2,000 million by the shareholder BAI, notwithstanding the decrease of customers' resources by AOA 1,330 million.

The net profit for the period ended at 31 December 2017 stood at AOA 76 million, a reduction of AOA 1,928 million (96%) explained by the accounting of provisions for credit at AOA 35 million and by the weight of overhead costs which represent AOA 1,423 million.

The Regulatory Solvency Ratio increased by 99.5% mainly due to the combination of two effects: i) the increase in Regulatory Own Funds due to the BAI shareholder loan of AOA 2 thousand million and ii) the decrease in risk-weighted assets, as a result of the ceding of loans to BAI and the acquisition of a portfolio of government bonds, issued in December 2016.

The cost-to-income ratio, despite decreasing year-on-year, is still high mainly due to the level of overhead costs.

Million AOA, except %	**Dec.15** Audited	**Dec.16** Audited	**Dec.17** Preliminary	**Variation**
Assets	8,093	8,397	8,929	6%
Loans to customers	2,433	240	194	-19%
Provisions	-2.826	-258	-546	112%
Customers' resources	7,475	6,542	5,212	-20%
Own funds	-1,732	502	2.577	414%
Net income/(loss)	**-2,112**	**2,003**	**76**	**-96%**
Cost-to-income	202.4%	162.0%	99.0%	-63.0%
Solvency ratio (BNA)	5.0%	16.7%	116.2%	99.5%
Overdue loans ratio	32.0%	38.0%	65.0%	27.0%
ROE	122.0%	399.2%	2.9%	-396.3%
Number of employees	243	199	185	-14
Number of customers	99,610	102,669	110,534	7.865

7.3. BAI CABO VERDE (BAICV)

In 2017, the net assets of the BAICV reached ECV 19,422 million, an increase of ECV 2,566 million (15%), compared to the same period of the previous year. It stands out the increase in loans to customers in ECV 1,719 million, the increase in available-for-sale financial assets of ECV 1,030 million and the reduction in investments in credit institutions of ECV 408 million.

BAI Cabo Verde net profit for the period amounted to ECV 121 million, an increase of ECV 65 million (117%) compared to December 2016, mainly explained by the growth in interest on loans to customers of ECV 70 million (14%) and interest and income from other financial assets of ECV 44 million.

The Solvency Ratio stood at 14%, a decrease of 1.2 p.p. when compared to the previous year, mainly explained by the 10.0% increase in risk-weighted assets (ECV 962 million), higher than the increase of 1.2% (ECV 18 million) in Regulatory Own Funds.

Million ECV, except %	**Dec.15** Audited	**Dec.16** Audited	**Dec.17** Preliminar	**Variation**
Assets	13,988	16,856	19,422	15%
Loans to customers	6,410	7,439	9,158	23%
Impairment	-286	-355	-293	-18%
Customers' resources	12,617	15,164	17,612	16%
Own funds	1,034	1,089	1,210	11%
Net income/(loss)	**17.9**	**55.7**	**121.0**	**117%**
Cost-to-income	79.8%	78.8%	73.3%	-55%
Solvency ratio (BCV)	14.0%	15.3%	14.0%	-1.2%
Overdue loans ratio	10.9%	8.5%	6.5%	-2.0%
ROE	1.73%	5.12%	10%	5.4%
Number of employees	81	79	87	8
Number of customers	14,090	16,999	20,128	3,129

7.4. BANCO INTERNACIONAL DE SÃO TOMÉ E PRÍNCIPE (BISTP)

In 2017, BISTP assets totalled STD 2,349 thousand million, an increase equivalent to STD 47 thousand million (2%) compared to December 2016. The major changes at the balance sheet are highlighted the following ones: (i) an increase in securities portfolio by STD 206 thousand million, explained by the new subscriptions of Treasury Bills; ii) reduction of investments in credit institutions in STD 127 thousand million, explained by the need for foreign currency for imports and payments abroad; and (iii) the increase in customer loans by STD 62 thousand million, as a result of new credit products.

As a result of the activity was generated a net profit of STD 39 thousand million, representing an increase of STD 6 thousand million (18%) year-on-year. This was explained by the increase in the complementary margin of STD 21 thousand million, mainly due to the other operating income which grew by STD 12 thousand million, as well as the moderate growth in overhead costs of STD 1 thousand million.

Regarding the overdue loans ratio, there was an increase of 8 p.p. when compared to December 2016, due to the increase in credit default, mostly by business.

Thousand million STD, except %	**Dec.15** Audited	**Dec.16** Audited	**Dec.17** Preliminary	**Variation**
Assets	2,370	2,301	2,349	2%
Loans to customers	644	620	682	10%
Impairment	-146	-173	-194	12%
Customers' resources	1,910	1,875	1,949	4%
Equity	385	367	342	-7%
Net income/(loss)	**26**	**33**	**39**	**19%**
Cost-to-income	75.5%	72.7%	64.8%	-7.8%
Solvency ratio (BISTP)	20.6%	24.1%	24.8%	0.7%
Overdue loans ratio	19.7%	14.7%	23.5%	8.8%
ROE	6.7%	8.9%	11.3%	2.4%
Number of employees	168	165	165	0
Number of customers	51,180	54,791	58,194	3,403

7.5. NOSSA SEGUROS

The assets of NOSSA amounted to AOA 16,909 million, an increase of AOA 4,640 million (38%) compared to December 2016, where the increase in investments of AOA 1,216 million (16%) can be highlighted.

Net profit amounted to AOA 977 million meaning an increase of AOA 150 million compared to December 2016, based on the increase in direct insurance premiums and related amounts of AOA 3,762 million (63%) and income from investments of AOA 301 million, despite the increase in costs with claims of AOA 1,507 million.

Notwithstanding the substantial increase in direct insurance premiums and related amounts, the claims ratio increased by 2 p.p., standing at 37% in December 2017, due to the increase in costs with claims.

Million AOA, except %	Dec.15 Audited	Dec.16 Audited	Dec.17 Preliminary	Variation
Assets	11,028	12,269	16,909	38%
Equity	2,177	3,105	3,751	21%
Direct insurance premiums	5,544	5,959	9,721	63%
Costs with claims	2,509	2,095	3,602	72%
Net income/(loss)	**340**	**827**	**977**	**18%**
Claims ratio	45.0%	-35.0%	-37.0%	-2.0%
Combined ratio	-94.0%	-83.0%	-72.0%	11.0%
ROE	17%	27%	26%	-0.6%
Equity / Net assets	20%	25%	22%	-3.3%
Number of employees	139	138	131	-7
Number of customers	27,092	26,614	30,792	4,178

7.6. SOCIEDADE ANGOLANA DE ENSINO SUPERIOR PRIVADO (SAESP)

SAESP recorded income equivalent to AOA 1,355 million, an increase of AOA 458 million, based on the following accounts: professional training, office and store rents and other operating income, which recorded increases of AOA 263 million, AOA 58 million and AOA 56 million, respectively.

Net profit reached AOA 22 million, an increase of AOA 81 million over the same period, driven by the increased supply and demand for professional and executive training courses, management and training services, and office and retail rents

Million AOA, except %	Dec.15 Audited	Dec.16 Audited	Dec.17 Prelimina	Variation
Assets	7,138	7,071	7,182	2%
Equity	6,927	6,868	6,890	0%
Income	688	897	1,355	51%
Net income/(loss)	**-63**	**-59**	**22**	**137%**
ROE	-0.9%	-0.9%	0.3%	1%

7.7. BAI CENTER

During the financial year of 2017, BAI Center's turnover increased by ECV 2.2 million (2%), explained by the increase in the account "electricity consumption" of ECV 4.4 million, despite a decrease in rents of ECV 2.3 million.

Despite the increase in turnover, the net profit was negative in ECV 531 million, representing a deterioration of approximately ECV 480 million compared to 2016, explained by the reclassification of the BAI Center Building, from tangible assets to investment property and the consequently recorded loss for the reduction in fair value of ECV 526 million.

Million ECV, except %	Dec.15 Audited	Dec.16 Audited	Dec.17 Prelimina	Variatio
Assets	2,598	2,607	2,140	-18%
Equity	**2,032**	**1,984**	**1,460**	**-26%**
Turnover	88	102	104	2%
Operational costs	-37	-37	-42	-13%
Net income/(loss)	-65	-53	-531	-47,781%
ROE	-3.2%	-2.7%	-36.4%	-33.7%

OPERATIONAL RISK MANAGEMENT IS INTRINSIC TO ALL PRODUCTS, SERVICES, SYSTEMS AND BUSINESS PROCESSES, SUPPORT AND CONTROL, BEING A WIDE-RANGING OVERVIEW OF THE UNITS INCLUDED IN THE ORGANIZATIONAL STRUCTURE.

RISK MANAGEMENT

- GOVERNANCE AND ORGANIZATION OF THE RISK MANAGEMENT SYSTEM
- CREDIT AND COUNTERPARTY RISK
- BALANCE SHEET AND MARKET RISK
- OPERATIONAL RISK
- ELECTRONIC, ASSETS AND INFORMATION SECURITY
- RISK COMPLIANCE

08

MAJOR DEVELOPMENTS IN 2017

Approval of the Risk Management policy for BAI Financial Group	Reporting of major risks as set by Notice No. 9/2016	Report of the analysis to be observed in interest rates in terms of Notice No. 8/2016	Update of the prevention of money laundering and terrorist financing policy
Calculation of the net long-term liquidity ratio (Net Stable Funding Ratio)	Reporting of the regulatory solvency ratio according to the Notice No. 2/2016, Notice No. 3/2016, Notice No. 4/2016 and Notice No. 5/2016.	Report of quantitative analysis pursuant to management of liquidity risk as set by Instruction No. 19/2016	

Risk management is a central element in the BAI strategy through which it systematically identifies, assesses, monitors and controls the risks inherent to the business, with a view to ensuring legal compliance, financial soundness and maintain depositor confidence, partners and other stakeholders, pursuant to the best market practices and recommendations issued by supervisors and regulators.

Risk management is ruled by the following principles:

i. **Protect the financial soundness;** Exercise control over the risks with the purpose of limiting the impacts of potential adverse effects in the Bank's equity and earnings;

ii. **Protecting the reputation:** reputation is essential to the Bank's good performance and must be preserved diligently;

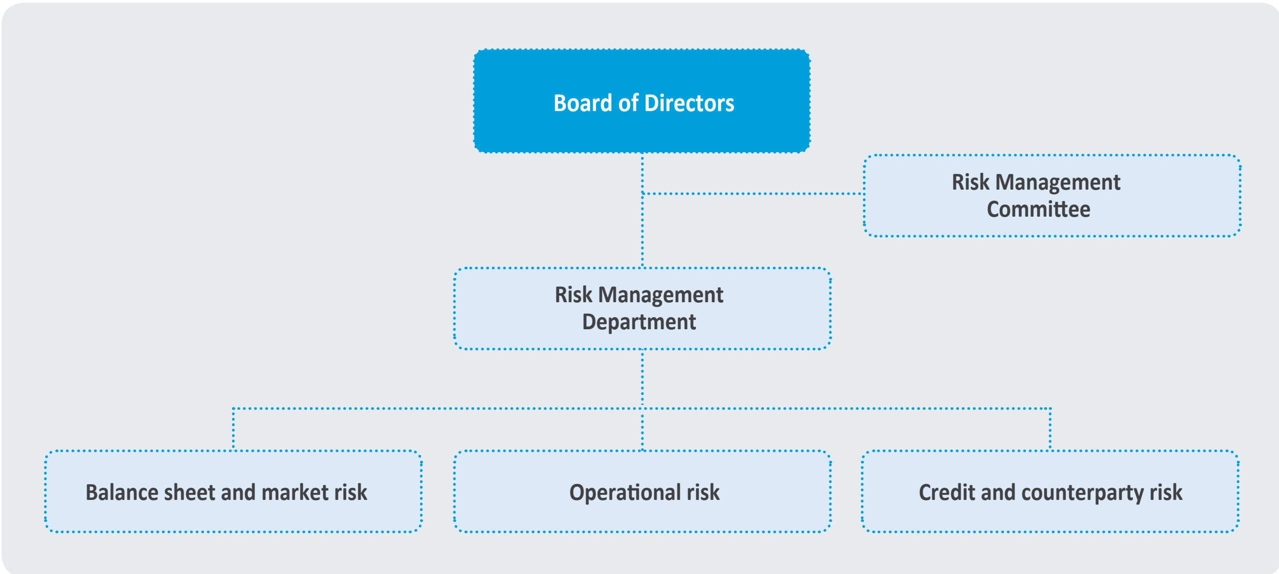
iii. **Transparency:** for a proper perception of the Bank's financial situation, it is essential to identify all the risks. To that end, the definition of risks should always be the most accurate and be properly assessed in order to support the management body in the decision-making process;

iv. **Independence:** A governance structure that allows for the identification, assessment, monitoring and control of risks, undertaken by an area that operates independently of the business areas;

v. **Limit control:** Risk monitoring is done by setting the risks within the defined limits.

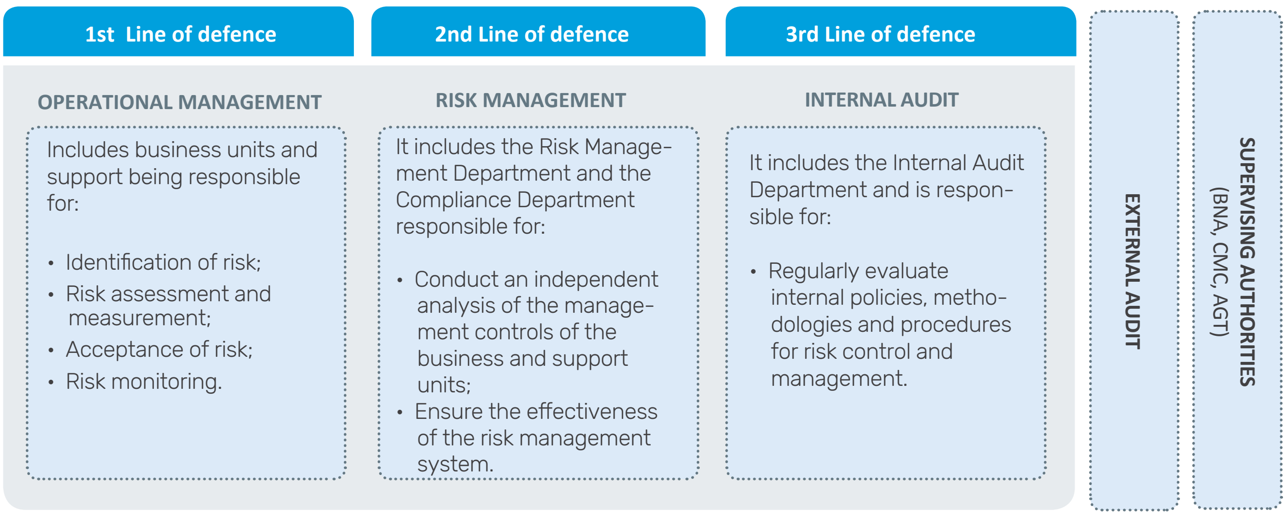
8.1. GOVERNANCE AND ORGANIZATION OF THE RISK MANAGEMENT SYSTEM

The risk management system in BAI was designed taking into account the strategic orientation and level of risk tolerance set by the Board of Directors, and the size, nature and complexity of the business activity. The organizational structure of the risk management system includes a stand-alone and independent function - the Risk Management Department (DGR) - without direct responsibility over any risk-taking role, which is hierarchically and functionally dependent on the Board of Directors, supervised by the Risk Management Committee and monitored on a daily basis by an executive director:



The bodies involved in the risk management system and their respective roles are outlined in Note 40 of the financial statements.

Risk management is composed by a structure of internal controls and evaluations defined by three lines of defence:



The first line of defence comprises the priority areas, who must ensure the effective risk management within the scope of their direct organizational responsibilities, in particular:

i. **Reporting:** Ensure that all material risks are identified, assessed, mitigated, monitored and reported;
ii. **Control**: ensure the implementation and compliance with all applicable policies, procedures, limits and other risk control requirements, as well as propose improvements in controls to ensure that any identified risk is controlled within the borders of the acceptable and consistent with the standards;
iii. **Plan and optimize:** align the strategies of the business areas or supporting roles with the risk appetite and seek to maximize the risk return profile.

The second line of defence is the independent review process conducted by the teams of the Risk Management Department and the Compliance Department. These have responsibility over the activities to be examined. These roles perform an independent review of management control over their own activities (first line of defence) and the processes maintained by the risk control and compliance roles (second line of defence). The DGR ensures the total effectiveness of risk management system.

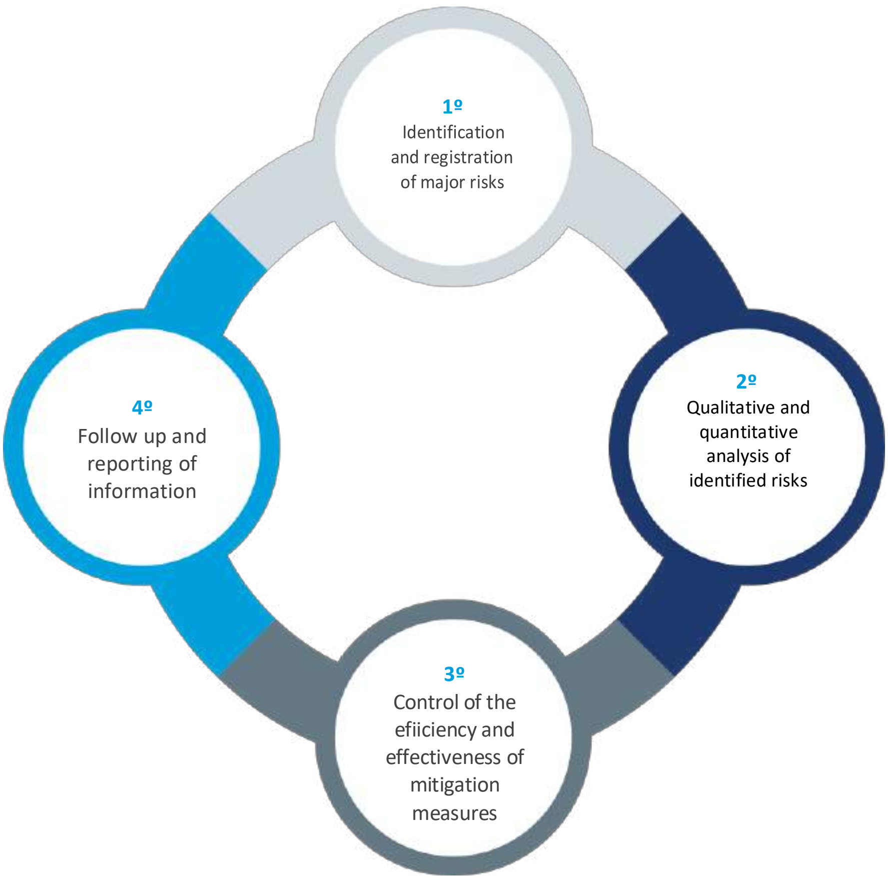
Internal Audit is the third and final line of defence at BAI and it is the responsibility of the Bank to regularly evaluate policies, methodologies and procedures to ensure that they are being implemented effectively.

The Board of Directors has set as its overall objective the adoption of a conservative risk profile for all material risks taken by the Bank and, therefore, a low risk tolerance, thus ensuring business continuity. This profile was determined based on the designed business strategy and the macroeconomic environment in which it operates.

BAI characterizes risks according to the following categories:

i. **Financial risk:** credit risk; balance sheet risk (interest rate and exchange rate); liquidity risk;
ii. **Non-financial risk:** operational risk; strategy risk; reputation risk.

The main components of risk management are the following:



8.2. CREDIT AND COUNTERPARTY RISK

Credit risk is the likelihood of negative impacts on results or capital due to the inability of the borrower or the counterparty to meet their financial commitments to the Bank.

The relevance of credit risk in the bank activity requires an effective risk management system, with the objective of ensuring an efficient and profitable performance of its activity, in the medium and long term, ensuring the ongoing of the business and the own survival of the institution.

The credit risk management system comprises:

i. A policy that defines the granting of credit strategy, meaning the guidelines and limits for granting of credit;

ii. A credit risk management policy that defines:
   - *a.* The process of granting credit (evaluation / approval of each operation);
   - *b.* The appropriate monitoring and follow-up processes;
   - *c.* The processes of evaluation of the quality of the assets and adequacy of the provisions/impairments.

In order to accommodate commercial interest with the credit risk, it is necessary to analyse the set of variables that define the degree of risk of each operation. Therefore, over the credit decision process the following dimensions are evaluated: Customer, Operation and Guarantee.

The Bank has its own statistical models of rating (risk factor) and scoring (score) for risk rating of credit to companies and individuals, respectively.

In the case of companies, the assignment of the rating is the result of the assessment of (i) the management capacity of the company, (ii) the economic and financial situation, (iii) historical banking data, (iv) the quality of the guarantees and (v) business activity. Weights are set for each of these parameters. The score is the result of multiplying those to the rating assigned. The sum of the scores of the 5 parameters is equal to the company rating (see table below).

In the case of individuals, the scoring model assesses (i) the commercial involvement, (ii) social stability[17], (iii) the professional situation and (iv) the customer's economic and financial situation. For each one of these parameters, there are weights that when multiplied to the assigned rating, results into the score. The sum of the scores of the 4 parameters is equal to the customer scoring (see table below).

CLASSIFICATION OF LOANS GRANTED

	Risk	Risk factor (Rating scale)
A	Nil	[6.5 to 7]
B	Very low	[5.5 to 6.4]
C	Low	[4.5 to 5.4]
D	Moderate	[3.5 to 4.4]
E	High	[2.5 to 3.4]
F	Very high	[1.5 to 2.4]
G	Loss	[0 to 1.4]

[17] Assessed by factors such as seniority in employment, age and address.

The Executive Committee has designed a credit decision matrix, under which several credit subcommittees are established that meet weekly. The decision matrix is applicable only to customers with A to C risk levels resulting from the implementation of the BAI scoring or rating model. Any transaction with a credit rating higher than C is decided at the 4th decision-making level, except for the renegotiation or restructuring operations, the risk of which stems from the evolution from default. The following table shows the credit decision matrix [18].

Decision-making level	Decision-making bodies
1º	Commercial Coordinator + Manager
2º	Manager DAC + Manager DRC + Manager GSP + Manager DPME + Regional Managers.
3º (Credit Committee - CCR3)	2 Directors + Manager DAC + Manager DRC + Manager GSP + Regional Managers + Manager DEI+ Manager DPME.
4º (Credit Committee – CCR4)	CEO + 4 Directors + Manager Coordinators + Manager DAC + Manager DRC + Manager GSP + Regional Managers + Manager DEI + Manager DPME+ Manager DCE.
5º	Board of Directors

The credit policy sets the following relevant limits:

LIMITS OF CREDIT RISK

Indicators	Limit	Established and followed up by
Upper limit of exposure per customer	25% of ROF	BNA/Board of Directors
Limit of exposure to largest debtors risk	300% of ROF	BNA/Board of Directors
Upper limit of exposure – Business segment (% total of the portfolio)	30%	Board of Directors
Upper limit of exposure – Individuals segment (% total of the portfolio)	10%	Board of Directors
Upper limit of exposure – Government (% total of the portfolio)	80%	Board of Directors
Upper limit of exposure depending on ROF (% of 7.69 * ROF)	100%	Board of Directors

ROF – Regulatory Own Funds

The Board of Directors has set the maximum exposure limits by sectors of economic activity depending on the Regulatory Own Funds (hereinafter referred to as "ROF"). The State exposure limit has risen to 80% due to the worsening risk in other sectors in the years 2016 and 2017.

For risk mitigation purposes, credit operations at BAI are subject to the provision of guarantees/collateral. The process of formalization of guarantees is of crucial importance, since it often has to comply with legal imperatives, whose non-compliance implies that the act of contracting the guarantee is flawed and can be invalidated. The guarantees required by BAI are grouped into:

i. **Real guarantees**: mortgage, pledge, public debt securities, term deposits, shares and collateral deposit. The choice of guarantee type depends on the type of credit operation, its term and the associated value. All collateral presented for credit coverage is assessed before a credit decision is taken.

ii. **Personal guarantees**: security with guarantee and guarantee.

iii. **Other guarantees**: guarantee by the employer of the credits granted to his employees, pledge of mortgage, insurance and comfort letters.

[18] DAC - Credit Analysis Department; DPN - Individuals and Business Banking Department; DEI - Corporate and Institutions Department; DRC - Credit Recovery Department; DCE - Specialized Credit Department; GSP - Premium Services Office; DPME - Small and Medium-sized Companies Department.

Credit management and follow-up aim at detecting, as early as possible, situations that could jeopardize the customer's ability to comply with credit obligations established with the Bank and the implementation of concrete actions to avoid default allow the immediate settlement of the outstanding amount or improve the conditions for recovery.

The follow-up of credit operations aims to minimize the financial losses resulting from the non-compliance of clients with the contractual conditions, through a set of methodologies, namely:

i. Periodic revaluation of credit rating using existing models;
ii. Periodic reassessment of existing risk mitigating factors;
iii. Monitoring of warning signs;
iv. Maintenance of the permanent and proper relationship with the Customer;
v. Periodic evaluation of the credit portfolio.

Credit recovery is the responsibility of the Commercial Department, the Credit Recovery Department (hereinafter referred to as “DRC”) and the Legal and Litigation Department (hereinafter referred to as “LLD”), ensuring the immediate collection of default values or the establishment of payment agreements.

Therefore, in credit processes with default up to 30 days, it is the responsibility of the Commercial Department to make the first contact with the client, in order to resolve the delay.

On the other hand, credit processes with more than 30 days in default pass into overdue credit and transition to the responsibility of the DRC. When a process moves to the DRC, this unit becomes manager of the customer relationship with the Bank and must authorize all operations from this moment. However, the DRC must always ensure coordination with the counter where the customer is domiciled.

Once the possibilities of extrajudicial recovery has been exhausted, the operations move to the responsibility of the LLD to manage the judicial recovery process. Loan operations may only be written-off the statement of financial position after the litigation recovery process has been already completed.

Counterparty risk is understood as the possibility of default by a particular counterparty in settling the obligations relating to the settlement of transactions in the money, capital and foreign exchange markets.

In the context of counterparty risk management, the Board of Directors has set the exposure limit of 50% of regulatory own funds, without prejudice to the Executive Committee setting a more conservative limit. Accordingly, the Bank also uses maximum exposure limits to counterparties related to an overall analysis of their situation by using an internal model with financial and economic variables approved and reviewed by the ALCO.
It is the Financial Market Department (hereinafter referred to as “DMF”) responsibility to monitor the Bank’s global risk positions against domestic and foreign counterparties and to monitor compliance with the limits.
It is incumbent upon the Executive Committee to authorize the excesses to the limits of exposure to counterparts, with a delegation of powers relying on a certain percentage of excess, according to the following hierarchy levels:
i. The DMF Manager up to a maximum of 10% of the limit;
ii. The DMF Director up to a maximum of 25% of the limit;
iii. The Executive Committee (at least two directors) 25% in excess of the limit, up to a maximum of 50% of ROF;

The Bank may increase its exposure to a particular counterparty beyond the limit calculated in the rating model, if evidenced that the counterparty presents a collateral acceptable to the Bank to guarantee the transaction.

8.3. BALANCE SHEET AND MARKET RISK

The **balance sheet risk** measures the Bank's ability to meet its liabilities in light of the assets structure on its balance sheet. It is subject to the following types of risks: i) Liquidity risk both in its transactional aspect of the different assets, as well as in the ability to meet its financial obligations; Balance sheet interest rate risk, which results from the sensitivity of assets and liabilities to interest rate changes (ii) interest rate risk; and (iii) exchange rate risk

Liquidity risk is the likelihood of negative impacts on results or equity arising from the institution's inability to have liquid funds to meet its financial obligations as they mature.

The liquidity risk management superimposes on the interest rate risk management thus the hedging of assets and liabilities in terms of maturity or interest rate reassessment should only be made after the limits of liquidity has been filled.

There are essentially three major liquidity vectors that affect the Bank's liquidity risk:

i. **Liquidity of the Central Bank:** related to the capacity of this body to provide the necessary liquidity to the financial system. This liquidity is measured through the monetary base;

ii. **Market liquidity:** the bank's ability to trade an asset in a short time, at low cost and with a low impact on its price. This vector encompasses two types of markets:
   a. Interbank: where liquidity is negotiated between banks;
   b. Stock exchanges: where the assets are traded by the financial agents.

iii. **Funding liquidity**: the ability of the bank to obtain financing to meet its liabilities as they mature. The major sources of liquidity financing for a bank are:
   a. Customers' resources;
   b. Market (interbank and stock exchanges).

BAI focuses the analysis on the assessment of market liquidity and financing risks. In this way, it is understood that the BNA can always satisfy the demand for money in the market.

Interest rate risk is the probability of negative impacts on results or equity, due to adverse movements in interest rates on the banking portfolio, through maturity mismatch or interest rate repricing periods, the absence of a perfect correlation between the rates received and paid in the different instruments, or the existence of options embedded in financial instruments of the balance sheet or off-balance sheet instruments.

The main types of interest rate risk to which BAI is exposed are the following:

i. **Repricing risk**: This is a result of residual maturity mismatch (for fixed interest rates) and/or re-settling periods (for variable interest rates) of the bank's interest rate, assets and off-balance sheet positions. This type of risk arises through traditional banking activities: collection of funds for typically short maturities (normally paid at variable interest rates) and lending for typically longer maturities (usually at fixed interest rates);

ii. **Yield curve risk**: results from changes in the slope and shape of the yield curve, constituting a refinement of the approach to the risk of re-fixing in the sense that, unlike this, it admits the possibility of non-parallel changes in the yield curve;

iii. **Basis risk**: results from the absence of a perfect correlation between the rates received and paid in the different financial instruments. Variations in interest rates may cause the spread between two indexes to vary unexpectedly.

The bank's interest rate risk assessment system addresses all material sources of interest rate risk. There are a number of techniques available for measuring the exposure to interest rate risk, both for the income perspective as well as for the economic value perspective. The Bank uses the following models for assessing interest rate risk, which are shown in the table "Risk assessment models".

Exchange rate risk is the probability of negative impacts on results or equity, due to adverse movements in the exchange rates of bank portfolio elements caused by changes in the exchange rates used in the conversion for the functional currency or for the change in the institution's competitive position due to significant changes in exchange rates.

Exchange rate risk is caused by the following factors:

i. Transaction risk: results from changes in the price of instruments that correspond to open positions in foreign currency;
ii. Conversion risk: results from changes in the book value of the conversion into domestic currency of foreign currency positions;
iii. Economic risk of the exchange rate: results from the change in the bank's competitive position due to significant changes in exchange rates.

The exchange rate risk assessment system analyses the impact that exchange rate exposure may have on the Bank's results, as well as the risks of maintaining a short net foreign exchange position in a jurisdiction where access to foreign currency is limited. Accordingly, the Bank uses the following exchange rate risk assessment models:

RISK ASSESSMENT MODELS

Risk	Metrics and tools
Liquidity	Liquidity Gaps Evolution of liquidity ratios Concentration of major depositors Simulations
Interest rate	Interest rate gaps Evolution of profitability ratios Simulations Analysis of monthly interest rates and those in the portfolio Earning at Risk Exposure per maturity interval or date re-setting – Impact on Equity and Interest Income
Exchange rate	Value at Risk Model Simulations Scenario analyses Assessment of the foreign exchange exposure limits

The main internal limits to exercise control over the financial risks are as follows:

Indicators	Limit
Aggregate transformation ratio (1)	0.5
Aggregate transformation ratio including bonds and securities (1)	100% (2)
Liquidity gap	0% for maturities of up 2 weeks 5% for maturities above 2 weeks and up to 3 months 13%
Regulatory solvency ratio	
Foreign exchange exposure ratio	10% of ROF applicable to long a short exposures

(1) Aggregate = domestic currency more foreign currency. To calculate the transformation ratio, the mandatory reserves are excluded.
(2) The limit may go up to 120% as long as it is used to short-term securities.

The various types of risks mentioned are monitored daily by the DMF through reports, which are also sent to the members of the Executive Committee. Furthermore, a report on the management of assets and liabilities is also produced on a monthly basis and serves as the sources for analysis made by ALCO.

8.4. OPERATIONAL RISK

Operational risk is defined as the probability of negative impacts occurring on results or equity arising from the following factors:

i. Failed analysis, processing or settlement of transactions
ii. Internal and external fraud;
iii. The use of resources under the regime of subcontracting;
iv. Inadequate internal decision-making processes;
v. Inadequate or insufficient human resources;
vi. The inoperability of the infrastructures.

The management of operational risk is crosscutting to all products, services, systems and business processes as well as to the organization's organizational units. This management is underpinned by principles, methodologies and control mechanisms such as segregation of duties, lines of responsibility, code of conduct, Key Risk Indicators (hereinafter referred to as "KRI"), access controls (physical and logical), reconciliation operations, exception reports, contingency plans, contracting of insurance and internal training on processes, products, services and systems.

All employees are responsible for managing and controlling operational risks within their scope of action. It is the responsibility of the Operational Risk Department of the Risk Management Department to ensure the identification, evaluation and monitoring of the operational risk inherent to the Bank's activity.

BAI uses the following tools to identify, analyse and control operational risk levels the operational risk event database, the KRI, and the integrated operational risk matrix.

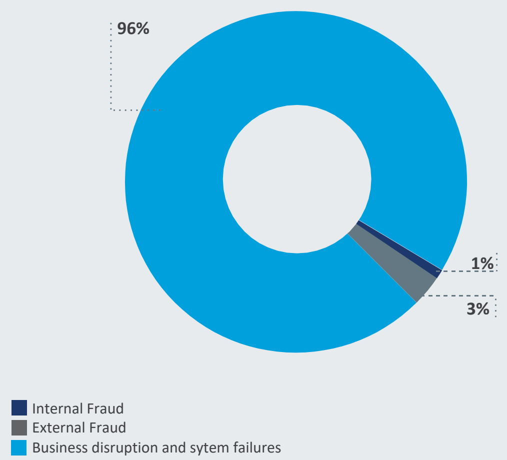
Operational risk events are categorized according to the following table:

Risk categories	Description
Internal fraud	Losses arising from acts intended to intentionally commit fraud, misappropriation of assets or circumvent corporate legislation, regulations or policies, with the exception of acts related to differentiation / discrimination involving at least an internal part of the company.
External fraud	Losses arising from acts intentionally intended to commit fraud, misappropriation of assets or circumvention of the law by a third party.
Employment and workplace safety practices	Losses arising from acts in breach with labour, health or safety legislation or agreements, as well as the payment of damages or acts related to differentiation / discrimination.
Clients, products and business practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.
Damage to physical assets	Losses arising from loss or damage to physical assets from natural disaster or other events.
Business disruption and system failures	Losses arising from disruption of business or system failures.
Execution, delivery and process management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Of a total of 5,076 registered operational risk events, the following are highlighted:

i. The category "execution, delivery and management of process management" has led to financial losses;
ii. The category "business disruption and system failures" had the largest number of operational risk events.

DISTRIBUTION OF OPERATIONAL RISK EVENTS BY CATEGORIES



KRI are metrics built to indicate or evidence the bank activities with high potential operational risk.

The main goals of the indicators are:

i. Provide warnings about potential occurrences of operational risk events;
ii. Provide metrics and historical data that allow predicting the occurrence of operational risk events;
iii. Identify areas with a potential increase in operational risk.

The BAI identifies potential operational risk events from the following KRI:

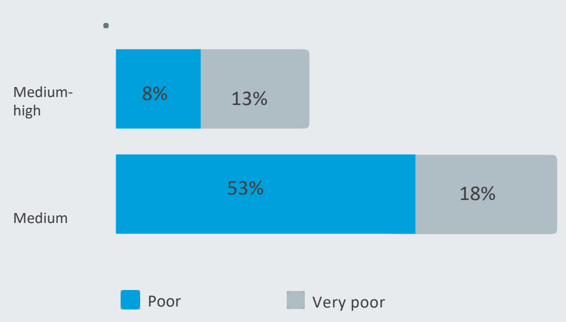
i. Customer complaints: corresponds to the number of customer complaints registered by BAI. This increase corresponds to a decrease in customer satisfaction, loss of loyalty, depreciation of the Bank's image and thus affect the Bank's strategy;
ii. Cash, ATM and cash surpluses and leftovers: this corresponds to the number of operations registered at branches, resulting from the differences/surpluses detected by employees, at the time of the cash closing. The increase or decrease in this indicator influences the analysis of the need to allocate a subsidy for cash shortages as well as the risk of internal fraud (misappropriation of funds or transactions not intentionally communicated);
iii. Return of checks due to fraud and insufficient funds: this corresponds to the total of checks returned in the compensation process, for reasons of attempted fraud or insufficient funds. Its increase corresponds to the increased risk of losses resulting from external fraud.

The Integrated Operational Risk Matrix (hereinafter referred to as “MIRO”) aims to identify the risks, the existing controls and those responsible for their mitigation, considering the information acquired in the mapping of processes, the monitoring of the activity of the structure units and tests carried out in specific scenarios.

According to Strategic Initiative No. 7, the Bank has defined as a high-level activity the mapping of risks and controls to the main processes. The operational risks identified are characterized as follows:

i. Implicit operational risk: it is the risk that has its existence implied, without the Bank adopting control measures to mitigate it;
ii. Residual operational risk: this is the risk that remains after the control measures have been implemented to mitigate the risk of recurrence.

The graph below presents the summary of the distribution of medium and medium-high residual operational risk levels by poor and very poor control levels.



8.5. ELECTRONIC, ASSETS AND INFORMATION SECURITY

In order to ensure the electronic, assets and information security, the Bank has the Integrated Security Office (hereinafter referred to as "GSI").

i. Ensure the relationship with external security companies and supervise their performance, ensure the control of access and goods in the premises, as well as the protection of transport and supply of values through the different channels, and dissemination of a security culture in the Bank;

ii. Ensure and control the correct functioning of all electronic security devices (access control, CCTV, intrusion and fire alarms), as well as their remote management and supervision;

iii. Define and keep up-to-date the policies, procedures, safety regulations and controls that ensure adequate management and monitoring of the risks to which the Bank's information structures are exposed (files, data centres, workstations, servers and networks).

The management of information security is reviewed by the GSI at least yearly, or whenever there are significant changes in order to assess their suitability and effectiveness. The review may uncover cases of non-compliance and, to address those, a plan of action is prepared and identify opportunities for improvement.

As key management indicators were carried out during 2017 48,760 carriage of valuables, 1,479 electronic security supports and 136 controls on security policies.

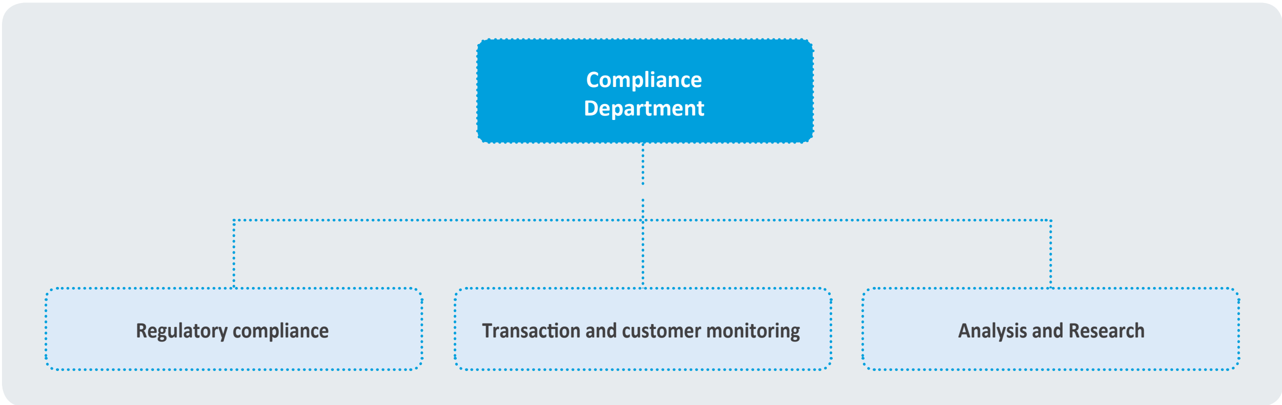
8.6. RISK COMPLIANCE

MAJOR DEVELOPMENTS IN 2017

Review of prevention of money laundering and terrorist financing.	Review of procedures for opening, operations, and maintaining accounts held by Politically Exposed Persons and Holders of Public Charges.	Treatment of the National Bank of Angola Questionnaire on money laundering and terrorist financing.	Beginning of the first risk assessment of Money Laundering and Terrorist Financing associated with the bank's customers portfolio, products and services.
Adoption of the Sanctions Policy.	Monitoring the topping-up of prepaid cards.	Self-Assessment on the money laundering and terrorist financing questionnaire made by the Capital Market Commission.	Elaboration of the report of clients with FATCA status to the General Tax Administration.

The Compliance Department (hereinafter referred to as "DCL") depends hierarchically and functionally on the Board of Directors. The functional monitoring of the structure unit is carried out by the CEO and its action has a countrywide coverage, according to the specific nature of the duties assigned to him. Nonetheless, his coverage can be extended to the financial group in the framework of tasks related to the system of Internal Control. The DCL reports quarterly to the Internal Control Committee (hereinafter referred to as "ICC").

The DCL was restructured in 2016 with a view to: (i) adapting compliance processes to the outlined in the BAI Strategic Plan (Risk Management and Internal Control), (ii) responding to internal and external requirements to strengthen internal control applicable to preventing money laundering and terrorist financing with the role the Financial Crime Compliance, and (iii) to ensure efficient handling of information that enables a pro-active tackling of events of various nature in the organizational units and correspondent banks.

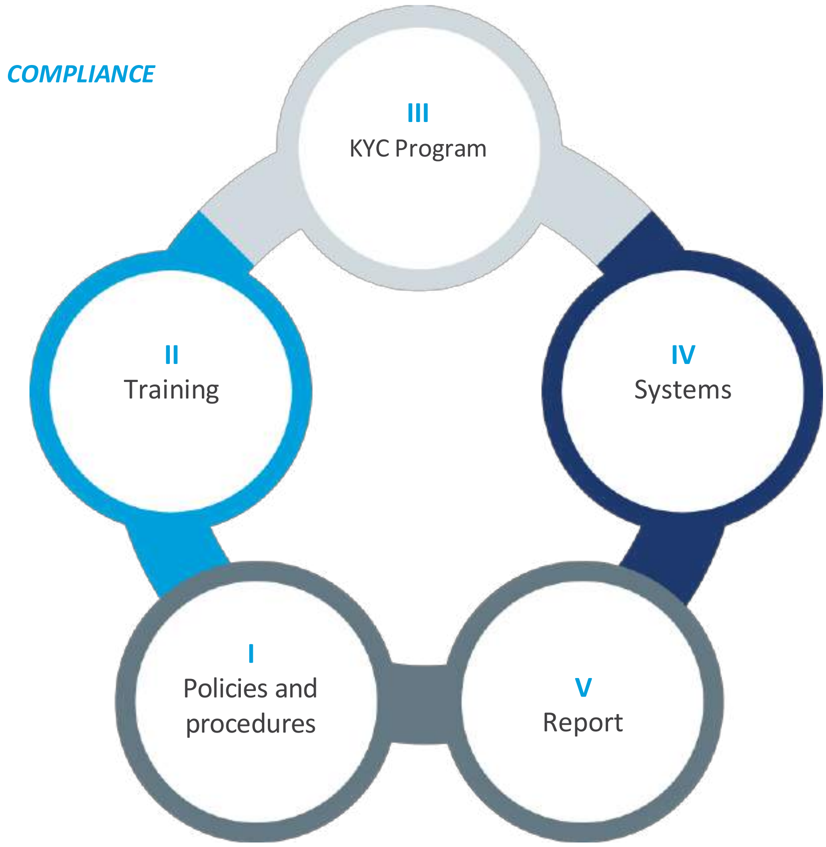


DCL comprises a team of 13 employees and supplemented by the “Compliance Agent”, a total of 106 which act as an extension of the DCL in the several risk-taking areas of compliance.

Department	Key functions
Regulatory Compliance	Ensure the planning, execution, supervision and reporting of compliance with the regulatory framework not related to the Bank’s prevention of money laundering and terrorist financing measures.
Transactions and Customer Monitoring	Ensure effective compliance with processes and procedures related to the opening and maintaining of accounts, as well as effective monitoring of all transactions originating and received by the Bank against compliance and reputational risks from the prevention of money laundering and terrorist financing perspective.
Analysis and Research	Conduct analysis and investigation of transactions on a consolidated basis for the purpose of reporting to relevant authorities, internal or external, as well as provide support to business areas in the analysis of compliance of transactions.

The model adopted by the bank for compliance risk management is based on five key pillars in order to ensure compliance with legal and regulatory provisions and ensure proper risk mitigation. The model focuses on the major risk areas for the Bank, namely, the commercial areas, the Operations Department and the Electronic Banking Department. However, BAI is finalizing the first risk assessment process to diagnose the most fragile areas of money laundering and terrorist financing and related crimes, in order to define the methods actions to mitigate any risks identified.

In the management of risk compliance, a special focus is given to legislation and regulations regarding prevention of money laundering and terrorist financing. In 2017, the money laundering and terrorist financing Combat Policy was updated and separated, as well as the Sanctions Policy, in accordance with the BNA regulations, which set out guidelines for money laundering and terrorist financing preventive measures and compliance with international sanctions. This policy applies to all employees of BAI, its subsidiaries, and associates, who are required to comply with applicable laws and regulations in the country in which they operate or this policy, whichever is the most demanding. In addition, specific procedures were established for the opening, handling and maintenance of accounts titled by Politically Exposed Persons and Holders of Public Charges.



As part of the monitoring of the compliance with the reporting obligations to the BNA, the UIF and other stakeholders, the Compliance Department prepares the following documents:

i. Monthly report on compliance with reports to the BNA and UIF;
ii. Daily report on compliance with procedures related to transactions in cash accounts;
iii. Quarterly report on the activity carried out;
iv. Annual Report on the Compliance Function;
v. BNA Self-Assessment Questionnaire reports due to 30 June of each year;
vi. CMC Self-Assessment Questionnaire reports due to 31 March of each year.

As regards the opening, maintaining and movement of bank accounts, in addition to the customer acceptance procedures set, an assessment of the qualitative risk profile of customers is also undertaken and established control mechanisms and procedures to mitigate effectively the risks identified.

The customer's anti-money laundering and terrorist financing risk levels comply with the following guidelines:

Risk Level	Guideline
Low risk customer	Only those customers set forth in the law, including: (i) the government or a legal person governed by public law, of any nature, which is part of the central, provincial or local administration: (ii) a public authority or body, subject to transparent accounting practices and supervision - simplified due diligence procedures apply.
Standard risk customer	Standard due diligence procedures will apply to all customers who do not fall into the low or high risk levels.
High risk customer	Clients defined by law, such as politically exposed persons, non-profit organizations; and other clients identified by the Bank as having high risk profile apply the enhanced due diligence procedures.
Unacceptable risk customers	Clients defined by law, such as shell banks, and other customers identified by the Bank as being of unacceptable risk - the business relationship should not be established or if existing, must be terminated.

The money laundering and terrorist financing risk matrix is being adjusted in order to bring it into line with the risk matrix in use at the Bank, from four to five levels of risk.

The first risk assessment of money laundering and terrorist financing is underway, whose works are aimed at:

i. **Definition of Compliance Risk Appetite**

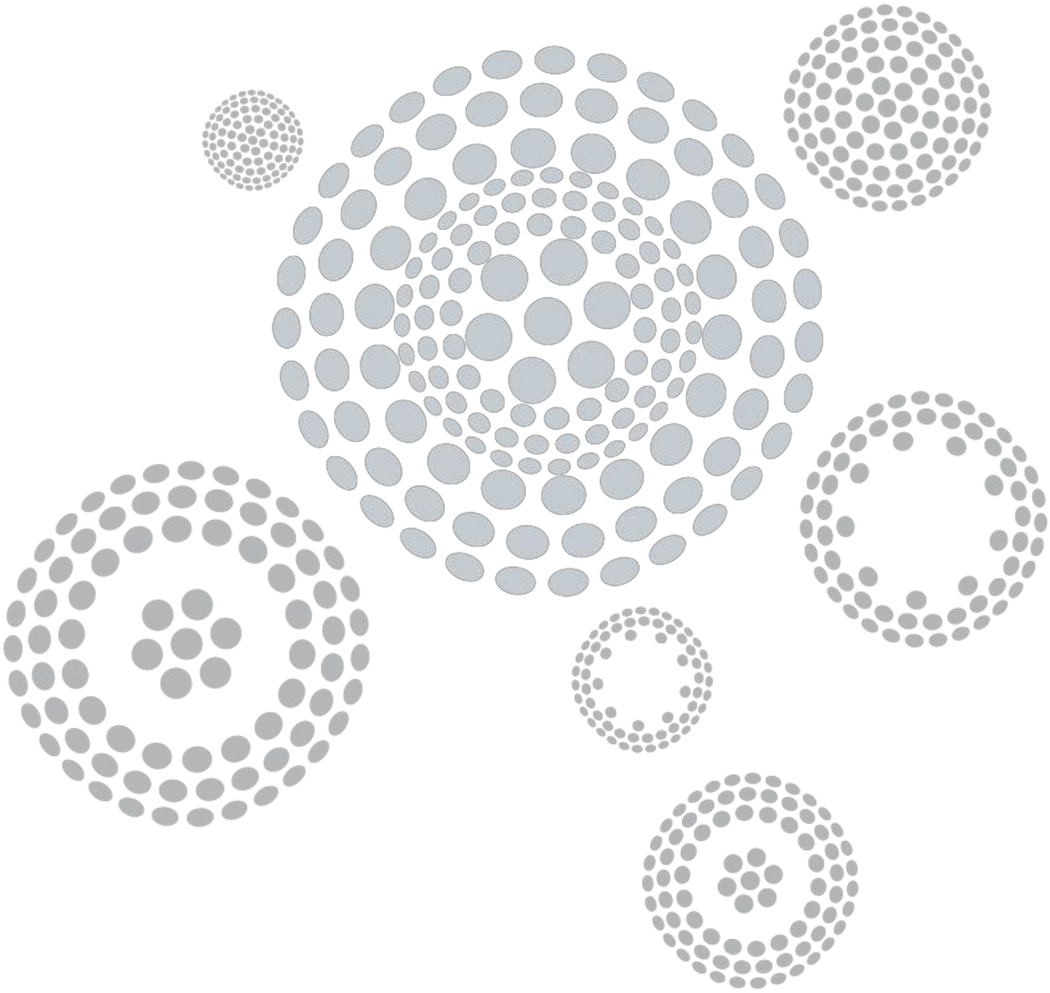
a. Definition of risk tolerance indicators, as well as alert and activation limits.

ii. **Definition of the risk assessment matrix**

a. Identification of variables that may make the Bank more exposed to money laundering and terrorist financing risk and corruption;
b. Definition of an assessment scale for the classification of the level of exposure to risk and weights for the variables;
c. Definition of control typologies and weights, according to their potential practical effectiveness;
- Evaluation of the intrinsic and residual risk in the compliance perspective for the processes of account opening, transfers, deposits and withdrawals;
- Identification of the differential against the risk appetite defined by the Bank.

Compliance with FATCA Reporting

The reporting about clients with FATCA (Foreign Account Tax Compliance Act) status to AGT at 31 July 2017, in accordance with Presidential Decree No. 1/17 of July 20, extended by Notice No. 290/17 of July 4, of the Minister of Finance. The report focused on natural and legal persons for the years 2014, 2015 and 2016.



BAI ACKNOWLEDGES THAT THE SUCCESS REACHED IS ESPECIALLY RELATED TO THE ACTION OF ITS HUMAN CAPITAL.

HUMAN CAPITAL

- HEADCOUNT
- TRAINING AND QUALIFICATION

09

BAI recognizes that the success achieved is mainly due to the action of its human capital. The 2017 activity focused on supporting the pillars of the strategic plan, helping to adapt the business model and efficiency of the objectives, starting from the vision of being a bank that offers the best banking experience to the clients.

Focused on Vision BAI 2021, the second year of the Cultural Transformation Program aims to strengthen the culture of excellence in service, communication, efficiency, rigor and leadership. 26 sessions were also held for all leaders (directors, assistant directors, advisors, supervisors, coordinators, managers, sub-coordinator and sub-managers), of which 5 sessions for central services and 21 sessions for the commercial area.

The process of evaluating and qualifying the Bank's functions began, with the purpose of establishing a set of cross-cutting criteria that allow (i) to describe the functions, (ii) to establish a rationale for the definition of a ranking of relative importance of functions in the organization, based on fair objective criteria and directly related to the value of the function in the chain of business (iii) ensure that the evaluation and qualification of the functions supports the development of equitable and adequate compensation models and (iv) ensure the opportunities to compete in the current economic context by fully clarifying the value of functions.

In 2017, the Occupational Qualification of BAI was concluded and approved by the General Labor Inspectorate of the Ministry of Public Administration, Labor and Social Security (hereinafter referred to as “MAPTESS”), an instrument for the management of human resources with a mandatory requirement by the same said public authority in its inspections, in accordance with Decree No. 70/01 of 5 October.

Also during the period under review, it was approved the revision of the Social Fund regulation that establishes the rules and procedures inherent to the granting of support to employees to cover expenses of a social scope, such as calamities, natural disasters or accidents.

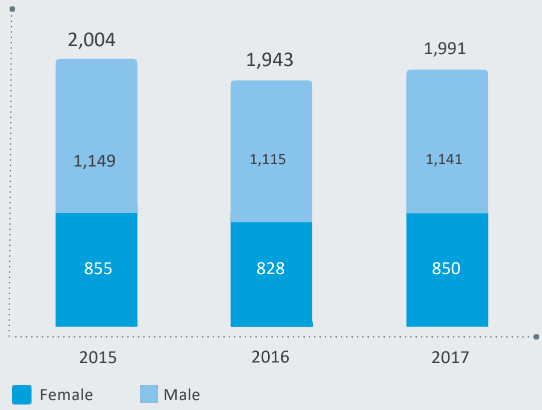
Committed to actively supporting the well-being of its employees, the Bank addresses issues of health education through awareness-raising campaigns and internal media, and has an occupational health post at headquarters. In this context, BAI opened BAI Arena, located on the *Ilha de Luanda*, and a gymnasium in its headquarters building, in a relaxed environment, with high quality equipment and qualified professionals.

9.1. HEADCOUNT

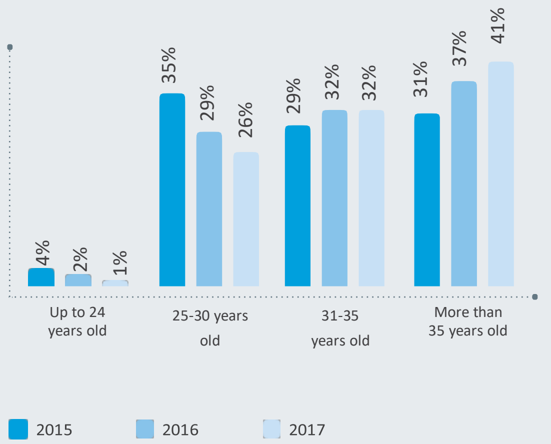
In the year 2017, the actual headcount registered a total of 1,991 employees, registering a reduction of 6 employees, compared to 2016, while the composition of the workforce according to gender was distributed by 43% female and 57% male.

At 31 December 2017, BAI's age structure was mostly represented by employees over 35 years of age, representing 41% of the total, and thus presenting an upward trend of the echelon with more than 35 years in the last 3 years. In average terms, the age by grade of the employees was 35 years.

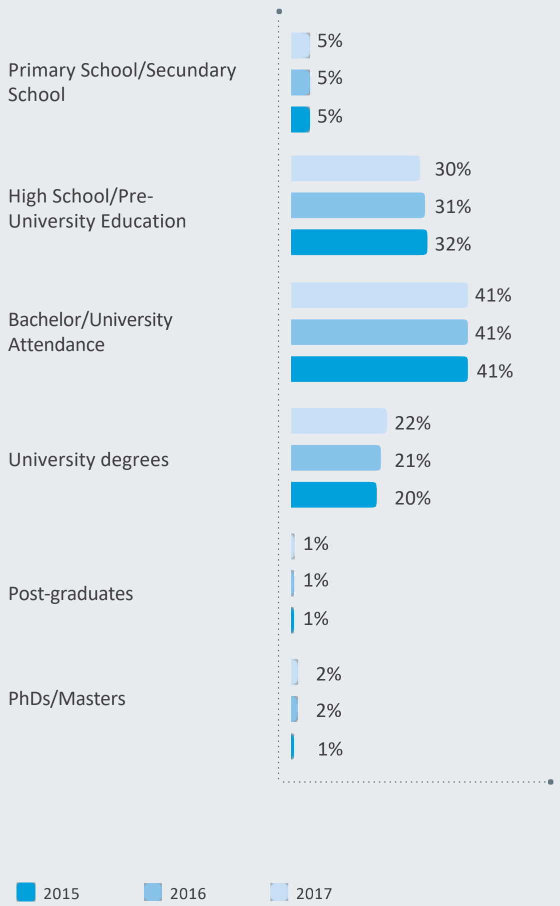
DISTRIBUTION BY GENRE



AGE STRUCTURE



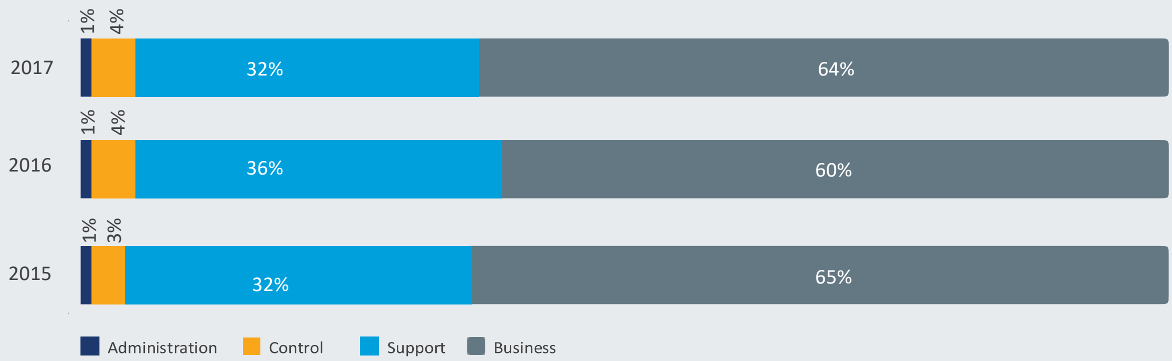
ACADEMIC QUALIFICATIONS



Regarding the literacy of the staff, 25% of the employees have higher education, that is, graduates, post-graduates and master's degrees. The number of workers with secondary education suffered a reduction of 1%; this decrease is reflected in the increase in higher education in the same percentage value, with emphasis on the increase of 28 employees with university degrees. In 2017, the Bank registered 818 employees with bachelor or university attendance, an increase of 5 employees compared to 2016.

The distribution by area shows that 64% of the workforce is allocated in the business areas. On the other hand, 26% of employees have been in the institution for more than 5 years.

DISTRIBUTION BY AREA



HUMAN RESOURCES

Structure Unit	Abbrevia-tion	Responsible	Category	Corporate Body	Control	Support	Business	Total
Fiscal Board	CF	Júlio Sampaio	Chairman of Fiscal Board	6				**6**
Board of Directors	CA	José Paiva	Chairman	4				**4**
Executive Committee	CE	Luís Lélis	CEO	7				**7**
Coordination	-	-	Coordinating Director			2	2	**4**
Integrated Security Office	GSI	N´Vunda Ferreira	Director		12			**12**
Compliance Department	DCL	Ulanga Martins	Director		15			**15**
Planning and Control Department	DPC	Carlos Guerra	Director		9			**9**
Risk Management Department	DGR	Antonio Buta	Director		12			**12**
Internal Audit Department	DAI	Selma Coelho	Director		26			**26**
Northern Individuals and Business Banking Department	DPNN	Feliciano Tavares	Director			7	186	**193**
Luanda – Bengo Individuals and Business Banking Department	DPNL	Rui Santos	Director				626	**626**
Centre Individuals and Business Banking Department	DPNC	Carlos Gonçalves	Director				157	**157**
Southern Individuals and Business Banking Department	DPNS	Helder Corte Real	Director				146	**146**
Commercial Support Department	DSC	Petra Mangueira	Director			11		**11**
Corporate and Institutions Department	DEI	Paulo Assis	Director				125	**125**
Loengo Services Office	GSL	Celmira Santos	Director			2		**2**
Premium Services Office	GSP	N'Zola Rangel	Director			2	20	**22**
Economic and Financial Studies Office	GEEF	Diogo Silva	Director			6		**6**
Electronic Banking Department	DBE	Antónia Cardoso	Director			65	6	**71**
Specialized Credit Department	DCE	João Lourenço	Director			10		**10**

HUMAN RESOURCES (CONT.)

Structure Unit	Abbreviation	Responsible	Category	Corporate Body	Control	Support	Business	Total
Financial Markets Depatrment	DMF	Calisto Ebo	Interim Director			18		**18**
Operations Department	DOP	Henrique Santos	Director			59		**59**
Credit Analysis Department	DAC	Gisela Fonseca	Director			24		**24**
Credit Recovery Department	DRC	Paula Lélis	Director			35		**35**
Human Capital Department	DCH	Andry Rodrigues	Interim Director			33		**33**
General Services Department	DSG	Torcato Fortuna	Director			116		**116**
Accounting and Finance Department	DCF	Juvelino Domingos	Director			18		**18**
Information Systems Department	DSI	Nuno Veiga	Director			65		**65**
Marketing Department	DMR	Fabio Correia	Director			14		**14**
Communication and Brand Management Office	GCM	Maria Neto	Director			11		**11**
Quality and Organization Department	DOQ	Diala Monteiro	Director			24		**24**
Legal Affairs and Litigation Department	DJC	Alexandre Morgado	Director			12		**12**
Treasury and Custody Department	DTC	Garibaldina Silva	Director			35		**35**
Small and Medium-sized Companies Department	DPME	Jorge Silva	Director			10		**10**
Secretariat of Executive Committee and support to the Administration	SCE		-			23		**23**
Other (BAI Associates)						30		**30**
Total Dec.2017				**17**	**74**	**632**	**1,268**	**1,991**
Total Dec.2016				**17**	**68**	**652**	**1,206**	**1,943**
Total Dec.2015				**13**	**53**	**644**	**1,294**	**2,004**

During 2017, 68 employees were admitted, of which 54% were allocated to the commercial network and 46% to the central services.

On the other hand, 70 contractual termination cases occurred, of which 41% were initiated by employees, 30% were retired, 24% resulted from disciplinary dismissal, 4% from job abandonment and 1% from other reasons.

Overall, there were 60 additional admissions and 9 contractual termination proceedings over the same period. This process represents a turnover rate of 4%, a 2 p.p. increase compared to 2016.

Reason for cessation of employment relationship	2016	2017
Job abandonment	7	2
Disciplinary dismissal	17	17
End of service charge	2	0
Employee Initiative	35	29
Reform	0	21
Death		1
Total	**61**	**70**

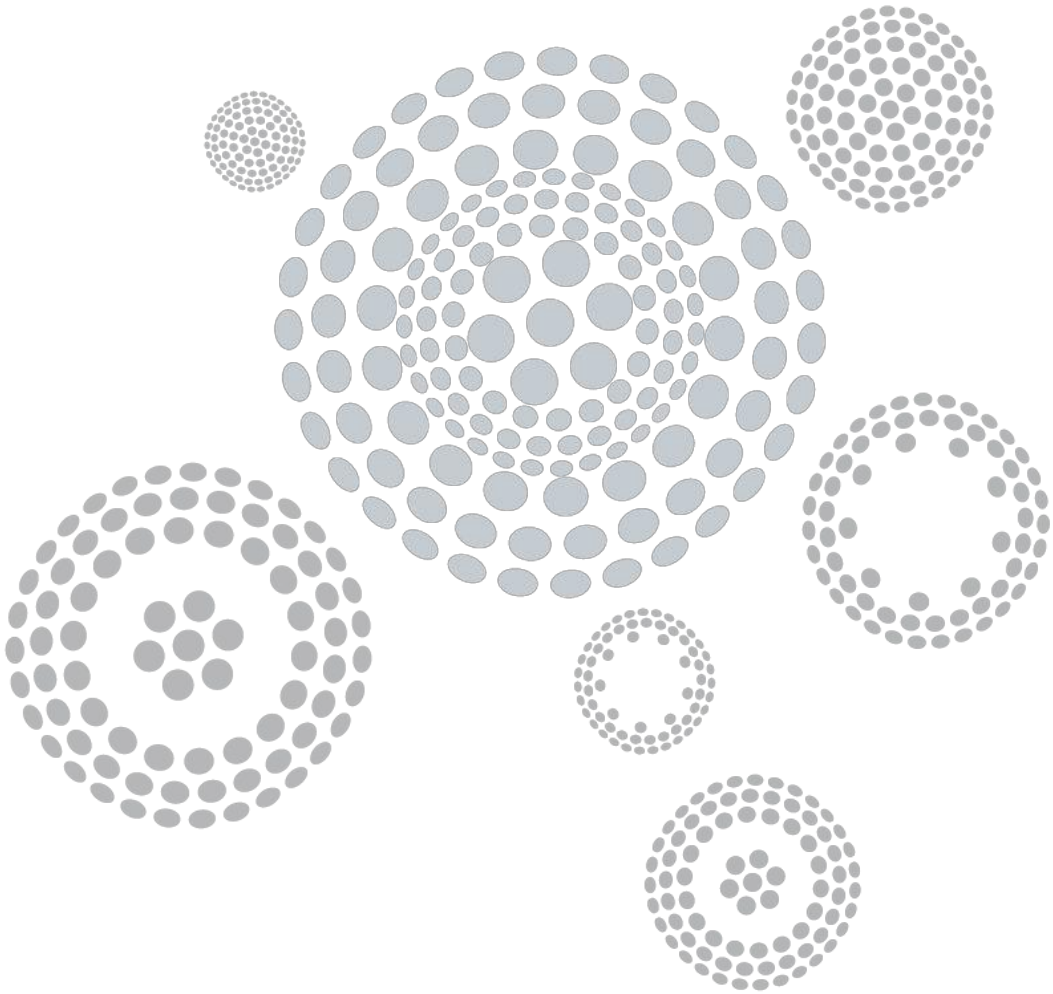
9.2. TRAINING AND QUALIFICATION

In what refers to training and qualification of employees, in 2017 were carried out 66 training actions, a total of 71,013 hours of training, representing an increase of 14,739 hours of training compared to 2016. Despite the increase in training hours, the number of training decreased 59% compared to 2016.

Training Areas	2015		2016		2017	
	No. of participants	No. of training hours	No. of participants	No. of training hours	No. of participants	No. of training hours
Welcome to new employees	71	827	-	-	110	990
Audit	4	19	4	90	48	1,008
Money laundering and fraud prevention	556	5,119	115	795	117	505
Accounting and business analysis	345	5,005	494	3,383	537	8,480
Ethics and banking deontology	99	379	1,561	2,389	69	276
Management of commercial activity	-	-	368	4,310	250	9,106
Processes management	-	-	329	2,745	76	712
Management of human resources	1,423	8,849	97	2,655	457	3,346
Risk management	195	4,540	35	810	66	2,004
Patrimonial management	-	-	-	-	18	250
Tax and contributive legislation	75	594	155	812	1	7
Leadership and Team Management	37	1,295	71	770	288	4,193
Languages	167	6,600	221	4,540	202	6,220
Financial Markets	248	6,701	11	56	25	632
Banking operations and techniques	664	21,788	982	11,995	447	19,684
Critical Thinking: Logical and Numerical Reasoning	307	10,760	74	2,464	162	4,436
Postgraduate - Banking Management	1	365	-	-		
Bank products and services	276	1,448	845	7,561	28	296
Quality of customer service - Attendance	204	3,430	2,449	8,729	102	1,876
Information systems	174	4,850	152	2,172	256	6,992
Total	**4,846**	**82,569**	**7,963**	**56,276**	**3,259**	**71,013**
Business	**3,529**	**59,539**	**6,399**	**45,809**	**1,727**	**46,153**
Support	**916**	**17,588**	**1,228**	**8,025**	**1,255**	**21,267**
Control	**401**	**5,441**	**336**	**2,440**	**277**	**3,593**

The technical / banking training represents 92% of the total, and the behavioural training and seminars the remaining 8%.

Total costs (direct and indirect) with training amounted to AOA 352 million, an increase of 22% over 2016.



IN 2017, BAI'S NET PROFIT ACHIEVED THE AOA 55 THOUSAND MILLIONS REPRESENTING A GROWTH OF 11% WHEN COMPARED TO 2016.

FINANCIAL ANALYSIS

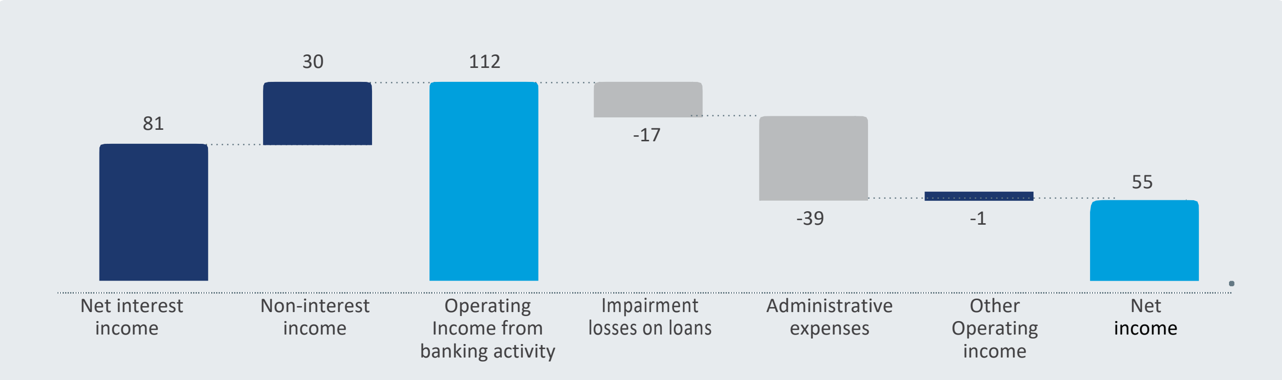
- INCOME STATEMENT
- BALANCE SHEET
- INVESTMENTS IN CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS
- INVESTMENTS AND FINANCIAL ASSETS
- LOANS TO CUSTOMERS
- CUSTOMERS' RESOURCES AND OTHER BORROWINGS
- REGULATORY SOLVENCY RATIO
- PROFITABILITY

10

10.1. INCOME STATEMENT

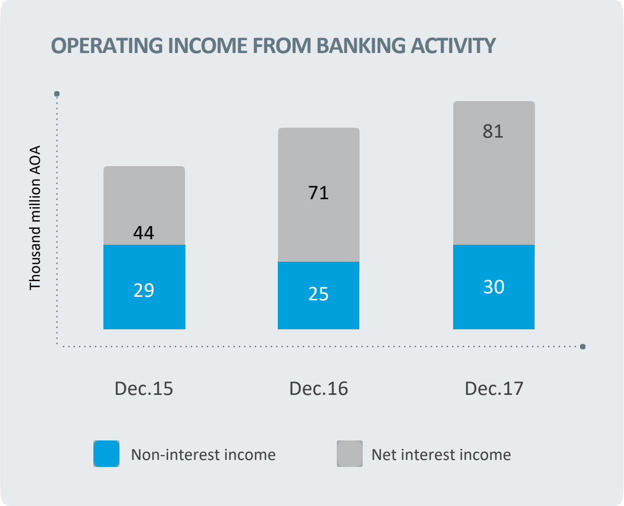
In 2017, BAI's net profit reached AOA 55 thousand million, representing a growth of 11% when compared to 2016, mainly driven by the increase (i) in the net interest income of 15% due to the increase in investments and financial assets and loans to customers and (ii) the net income on foreign exchange operations by 45%, due to the increase in the volume of foreign exchange operations, despite the increase in administrative expenses of 29%.

AOA thousand million	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
Interest and similar income	56	92	108	18%
Interest and similar expenses	(12)	(21)	(27)	30%
Net interest income	**44**	**71**	**81**	**15%**
Net income on non-trading financial instruments	0	0	1	1,071%
Net commissions	7	10	10	-1%
Net income on financial assets at fair value through profit or loss	0	3	1	-77%
Net income on foreign exchange operations	20	18	26	45%
Net income on the sale of assets	( )	( )	1	-1,428%
Other operating income	3	(6)	(7)	27%
Operating income from banking activity	**73**	**96**	**112**	**17%**
Staff costs	(13)	(14)	(18)	26%
Third party supplies and services	(11)	(13)	(18)	40%
Depreciation and amortisation	(3)	(3)	(3)	-1%
Administrative expenses	**(26)**	**(31)**	**(39)**	**29%**
Provisions, net of reversals	(4)	1	2	20%
Impairment on loans net of reversals and recoveries	(23)	(16)	(17)	4%
Impairment on other assets net of reversals and recoveries	(2)	1	(2)	-428%
Income/(loss) before tax	**17**	**51**	**55**	**8%**
Deferred taxes assets	(1)	(1)		-102%
Net income/(loss) for the year	**16**	**50**	**55**	**11%**



10.1.1. OPERATING INCOME FROM BANKING ACTIVITY

Operating income from banking income amounted to AOA 112 thousand million, corresponding to a 20% increase, mainly due to the increase in the net interest income, which represents a weight of 73% on operating income from banking activity.



10.1.1.1. NET INTEREST INCOME

The net interest income amounted to AOA 81 thousand million, a 15% increase over December 2016, due to the increase in investments and financial assets from Treasury Bills and the increase in income from loans due to the increase in LUIBOR interest rates.

Thousand million AOA	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
Loans to customers	32	42	44	5%
Cash balances at central banks and balances at other credit institutions	2	3	4	38%
Investments and financial assets	22	47	56	20%
Commissions received associated with amortised costs	0	0	3	100%
Customers' resources	(12)	(21)	(27)	30%
Total	**44**	**71**	**81**	**15%**

10.1.1.2. NON-INTEREST INCOME

Net profit on foreign exchange had a growth of 45% in 2017 compared to 2016, reaching AOA 26 thousand million, due to the volume of foreign exchange purchase and sale, in a context of almost zero exchange rate variation.

The results of commissions stood at AOA 10 thousand million, 1% less than in the previous year, as a result of the reduction in the volume of tax collection and openings of credit lines.

The other operating income were negative in AOA 7 thousand million, influenced by the payment of taxes on capital application, which reached the AOA 4.7 thousand million, related to tax on capital gains (hereinafter referred to as "IAC") which the Bank was subject during the exercise.

AOA Thousand million	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
Net income on non-trading financial instruments	0	0	1	1,071%
Net commissions	7	10	10	-1%
Net income on financial assets at fair value through profit or loss	0	3	1	-77%
Net income on foreign exchange operations	20	18	26	45%
Net income on the sale of assets	0	0	1	-1,428%
Other operating income	3	-6	-7	27%
Total	**29**	**25**	**30**	**24%**

10.1.2. ADMINISTRATIVE EXPENSES

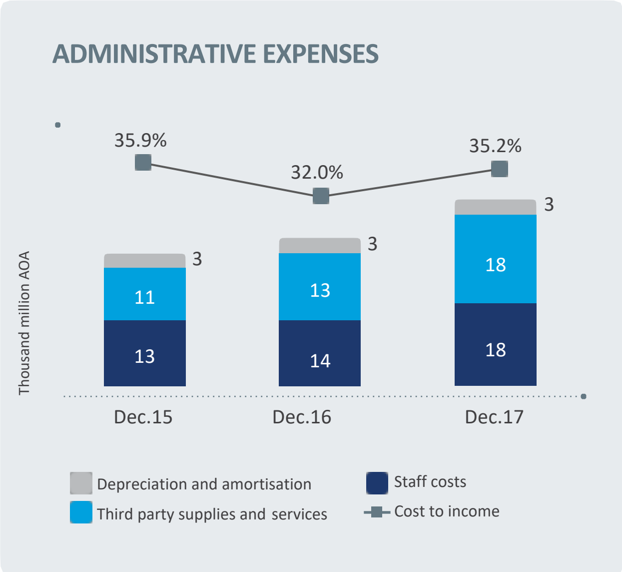
Administrative expenses increased by 29% (AOA 8 thousand million) compared to 2016, explained by the increase in staff costs and general administrative costs.

AOA Thousand million	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
Staff costs	13	14	18	26%
Third party supplies and services	11	13	18	40%
Depreciation and amortisation	3	3	3	(1%)
Total	**26**	**31**	**39**	**29%**

Staff costs totalled AOA 18 thousand million at the end of 2017, increasing by 26% (AOA 4 thousand million) compared to 2016, influenced by the 10% salary increase at the end of 2016, and in February and July 2017 to offset the loss of purchasing power, growth in training costs, implementation of the career management model, and payment of the 2016 performance premiums above the estimate.

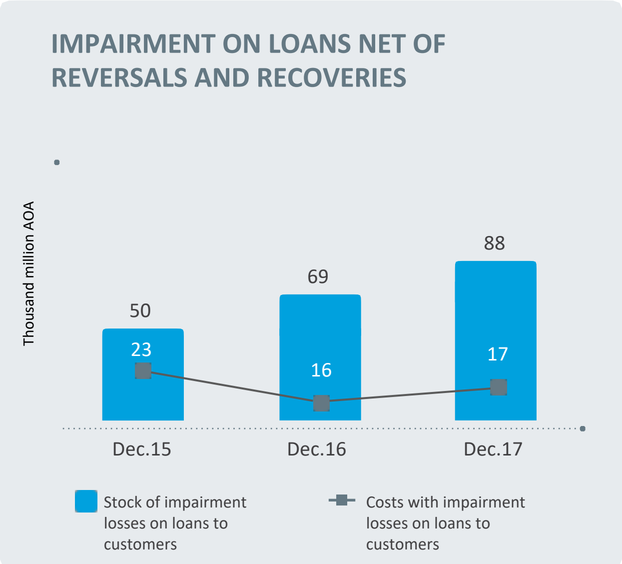
The third party supplies and services reached AOA 18 thousand million, plus 40% (AOA 5 thousand million) compared to 2016, a situation mainly explained by the increase in costs with specialized technical services related to BAI Directo, cultural dissemination, migration of the core system (Banka 3G) and rental and equipment rental.

Despite the increase in operating income from banking activity, the increase in administrative expenses led to an increase in the Cost-to-income ratio, which increased from 32.0% in 2016 to 35.3% in 2017.



10.1.3. IMPAIRMENT LOSSES ON LOANS

Impairment losses on loans net of reversals and recoveries, reached AOA 17 thousand million in 2017, 4% more than in the previous year.



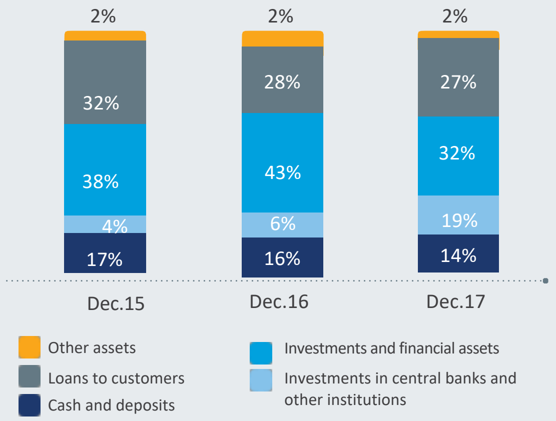
10.2. BALANCE SHEET

Total assets stood at AOA 1,369 thousand million at the end of 2017, broadly similar as in the previous year.

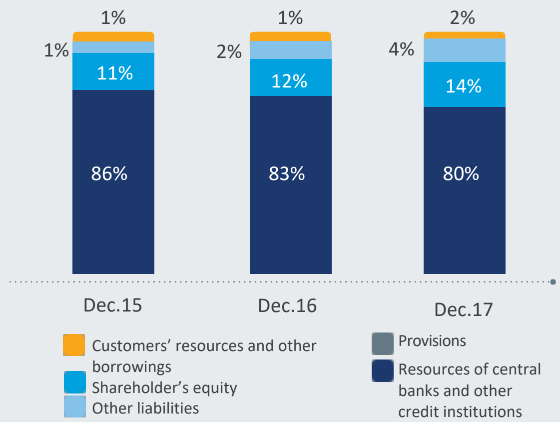
AOA Thousand million	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
Cash and deposits	184	220	190	-13%
Investments in central banks and other institutions	48	77	255	228%
Investments and financial assets	415	583	441	-24%
Loans to customers	347	380	369	-3%
Investments in affiliates, associates and joint ventures	7	8	7	-12%
Tangible assets and intangible assets	50	50	52	4%
Non-current assets held for sale	16	16	19	20%
Current tax assets	2	2	1	-41%
Deferred tax assets	4	3	3	7%
Other assets	23	28	32	15%
Total assets	**1,096**	**1,366**	**1,369**	**0%**
Resources of central banks and other credit institutions	15	19	28	44%
Customers' resources and other borrowings	939	1,137	1,093	-4%
Demand deposits	552	675	700	4%
Term deposits	387	463	392	-15%
Provisions	7	8	4	-50%
Other liabilities	12	34	49	45%
Shareholder's equity	123	167	196	17%
Total liabilities and shareholder's equity	**1,096**	**1,366**	**1,369**	**0%**

The structure of the asset was significantly altered due to (i) the impact of the new mandatory reserve regime (Notice No. 6/2017 of the BNA) at the end of the year, (ii) an increase of 28% in impairment which decreased the weight of loans granted, and (iii) the increase in investments in central banks and other institutions, with their weight on total assets increased from 6% in 2016 to 19% in December 2017 due to investments in foreign currency and the reduction of investments and financial assets due to the contraction of deposits, as well as, as previously mentioned, the change in the system of mandatory reserves.

ASSETS STRUCTURE



LIABILITY STRUCTURE



10.2.1. BALANCE SHEET BY CURRENCY

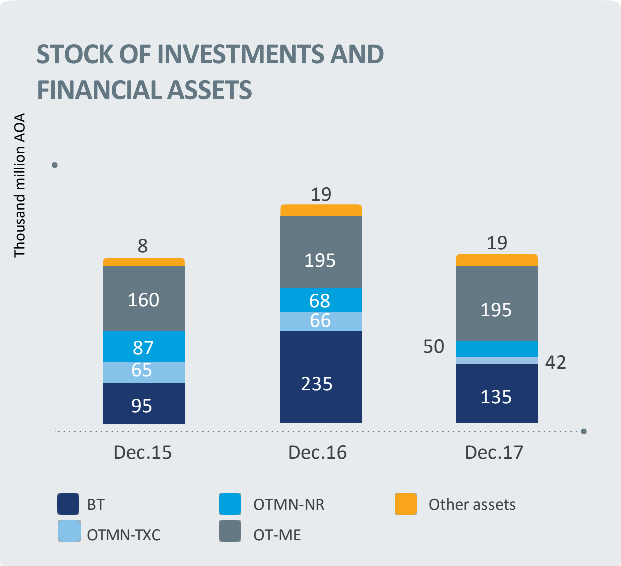
AOA Thousand million	Dec.16			Dec.17		
	Domestic Currency	Indexed to Foreign Currency	Foreign Currency	Domestic Currency	Indexed to Foreign Currency	Foreign Currency
Cash and Cash Equivalents	158		139	223		222
Investments and financial assets	317	69	197	198	42	201
Loans to customers	184		196	206		164
Other assets	99		7	106		7
Total assets	**758**	**69**	**538**	**733**	**42**	**594**
Customers' resources and other borrowings	658	36	463	586	25	482
Other liabilities	23		19	19		62
Shareholder's equity	168		0	196		0
Total liabilities + shareholder's equity	**848**	**36**	**481**	**800**	**25**	**545**
Exchange exposure USD			**343**			**300**

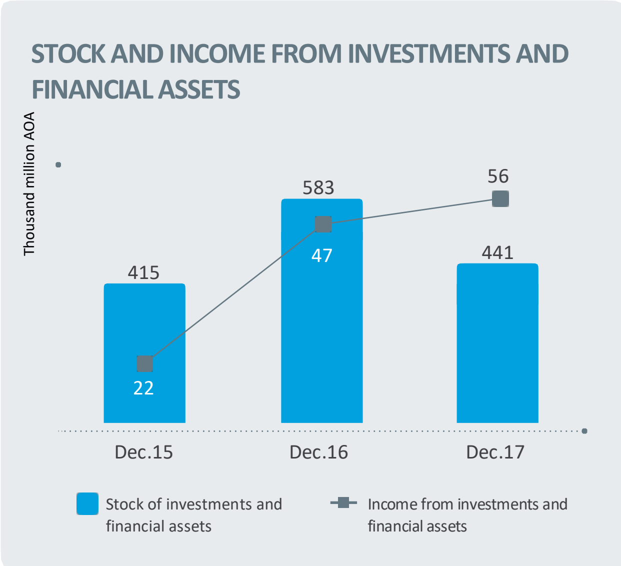
10.3. CASH AND CASH EQUIVALENTS IN CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

Cash stood at AOA 170 thousand million, representing a decrease of AOA 32 thousand million (-16%) compared to 2016, mainly due to the reduction of mandatory reserves in foreign currency at the BNA and the application of cash in foreign institutions. In the interbank money market in domestic currency, there was an increase of AOA 27.5 million in borrowings to resident banks.

10.4. INVESTMENTS AND FINANCIAL ASSETS

The portfolio of investments and financial assets continued to be the most representative asset of the balance sheet, reaching AOA 441 million in 2017, despite a reduction of 24% compared to 2016. The reduction was influenced by (i) OTMN-TXC maturity, (ii) the maturity of OTMN-NR and (iii) the impact of the new mandatory reserve system established by the BNA, which implied a reduction of investments in Treasury Bills.





10.5. LOANS TO CUSTOMERS

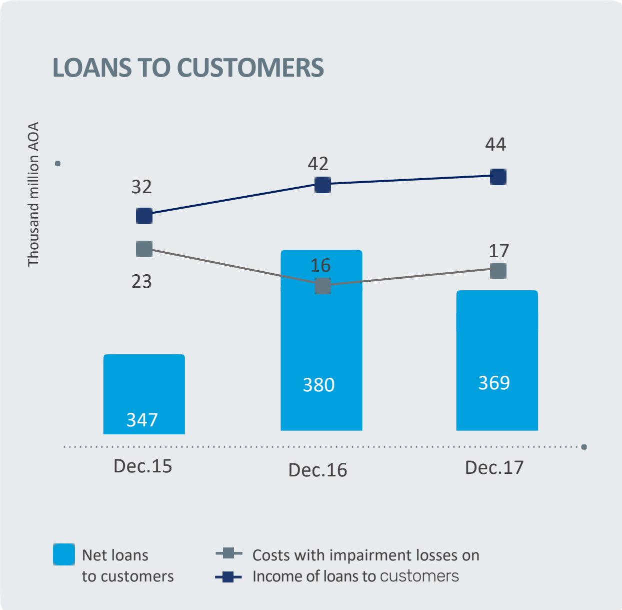
Loans to customers reduced AOA 11 thousand million in 2017 (-3%), mainly influenced by the increase in accumulated impairment losses and in payments on real estate and securities.

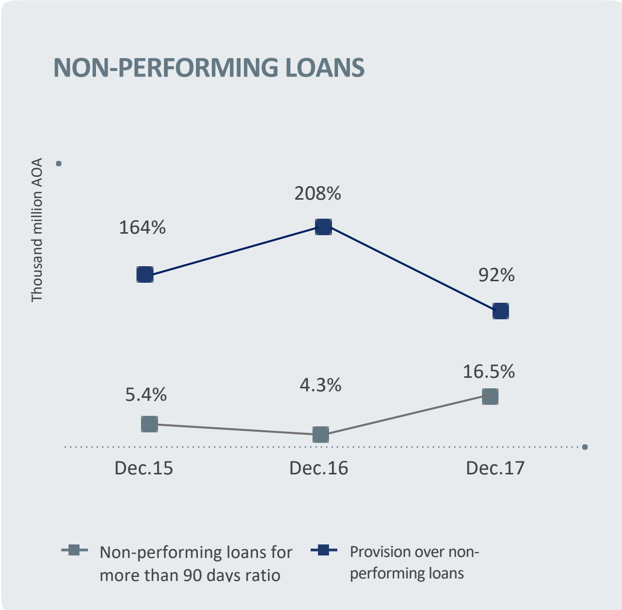
The non-performing loans [19] reached AOA 76 thousand million, having recorded an increase of AOA 57 thousand million relative to December 2016.

Thousand million AOA	Dec.15	Dec.16	Dec.17	Δ% 2016/2017
Performing amount - MINFIN	99	117	106	(9%)
Performing amount – Others sectors of economic activity	254	280	231	(18%)
Performing amount	353	397	337	(15%)
Non-performing loans	30	33	96	191%
From 31 to 60 days	8	10	3	(69%)
From 61 to 90 days	1	4	18	332%
More than 90 days	21	19	76	289%
Accrued interest - MINFIN	1	2	1	(41%)
Accrued interest - Others sectors of economic activity	12	17	24	41%
Accrued interest	13	19	25	34%
Gross loans to customers	**397**	**449**	**458**	**2%**
(-) Accumulated impairment losses	(50)	(69)	(88)	28%
Net loans to customers	**347**	**380**	**369**	**-3%**
Letters of credit	6	52	23	(57%)
Guarantees provided	18	10	11	14%
Loans written-off, which:	98	107	122	14%
Principal	84	88	87	(2%)
Interest (More than 90 days)	14	19	35	89%
Ratios				p.p.
Provision over non-performing loans	164%	208%	92%	(116)
Non-performing loans (more than 90 days) ratio	5.4%	4.3%	16.5%	12.2
Gross transformation ratio	42.2%	39.5%	41.9%	2.4

The balance of impairment losses on the customer loan portfolio increased by AOA 17 thousand million compared to 2016 to AOA 88 thousand million in 2017, reflecting the increased risk of the loan portfolio.

[19] The concept of non-performing loans referred to herein includes interest and capital overdue plus non-overdue exposure to credit operations with (i) capital instalments and/or interest overdue for more than 90 (ninety) days; and/or (ii) instalments of principal or interest due less than 90 (ninety) days, but on which there is evidence to justify its classification as "non-performing loan", namely bankruptcy, liquidation of the debtor, among others.





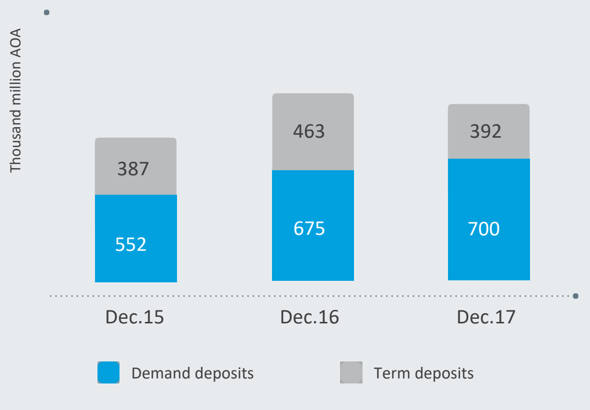
The transformation ratio (net loans to customers to deposits) stood at 34% at the end of 2017, more 1 p.p. comparing with 2016. The non-performing loan ratio (more than 90 days) stood at 17 % in 2017, 13 p.p. more than in 2016.

10.6. CUSTOMERS' RESOURCES AND OTHER BORROWINGS

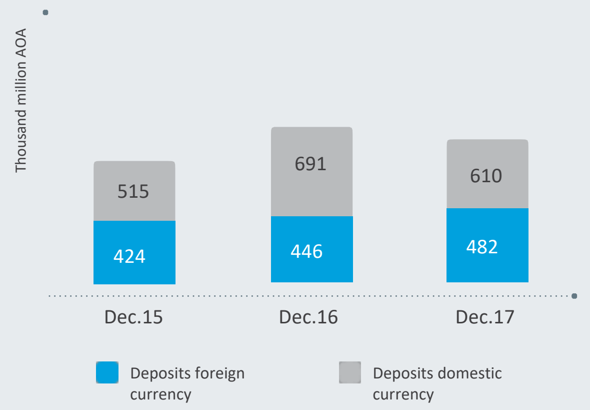
Customers' deposits amounted to AOA 1,092 thousand million in 2017, a 4% reduction compared to 2016, partly influenced by the increase in the volume of foreign operations, the reduction of AOA 19.5 thousand million of Central Government deposits at the beginning of the year, increased foreign exchange operations and higher demand in the secondary market for foreign currency-indexed securities.

Thousand million AOA	Dec.15	Dec.16	Dec.17	Δ%	
				Abs	%
OSFP - Sociedades de seguros e fundos de pensões	0	0	0	0	100%
OSFP - Auxiliares financeiros	0	0	0	0	189%
OSFP - Outros intermediários financeiros	0	0	0	0	-34%
Central Government	10	28	9	-20	-69%
Local Governments (Provinces)	0	0	0	0	-8%
Municipal administrations	0	0	0	0	-54%
Autonomous public funds and services	1	8	6	-2	-29%
Social Security Funds	53	62	48	-14	-22%
Non-financial corporate public sector	50	7	10	3	49%
Private non-financial business sector	274	448	383	-66	-15%
Non-Profit Institutions	0	2	2	0	-11%
Individuals	126	135	153	18	13%
Domestic currency:	**515**	**691**	**610**	**-80**	**-12%**
OSFP - Auxiliares financeiros	0	0	0	0	-16%
OSFP - Outros intermediários financeiros	0	0	0	0	36%
Central Government	17	17	13	-4	-23%
Local Governments (Provinces)	0	0	0	0	-8%
Municipal administrations	0	0	0	0	14%
Autonomous public funds and services	0	0	0	0	-64%
Social Security Funds	0	0	0	0	4%
Non-financial corporate public sector	2	0	10	9	4,562%
Private non-financial business sector	276	302	339	37	12%
Non-Profit Institutions	4	2	3	1	46%
Individuals	124	124	118	-7	-5%
Foreign Currency:	**424**	**446**	**482**	**36**	**8%**
Demand deposit – domestic currency	362	446	407	-39	-9%
Demand deposit – foreign currency	190	228	293	65	28%
Term deposit – domestic currency	153	244	203	-41	-17%
Term deposit – foreign currency	234	218	189	-29	-13%
Deposits foreign currency	424	446	482	36	8%
Deposits domestic currency	515	691	610	-80	-12%
Total Customers' deposits and other borrowings	939	1,137	1,093	-45	-4%

CUSTOMERS' RESOURCES AND OTHER BORROWINGS



CUSTOMERS' RESOURCES AND OTHER BORROWINGS BY CURRENCY



Deposits in domestic currency decreased by 12% compared to 2016, standing at AOA 611 thousand million in 2017. On the other side, deposits in foreign currency increased by 8% in the year, reaching AOA 482 thousand million due to sales of foreign currency.

10.7. REGULATORY SOLVENCY RATIO

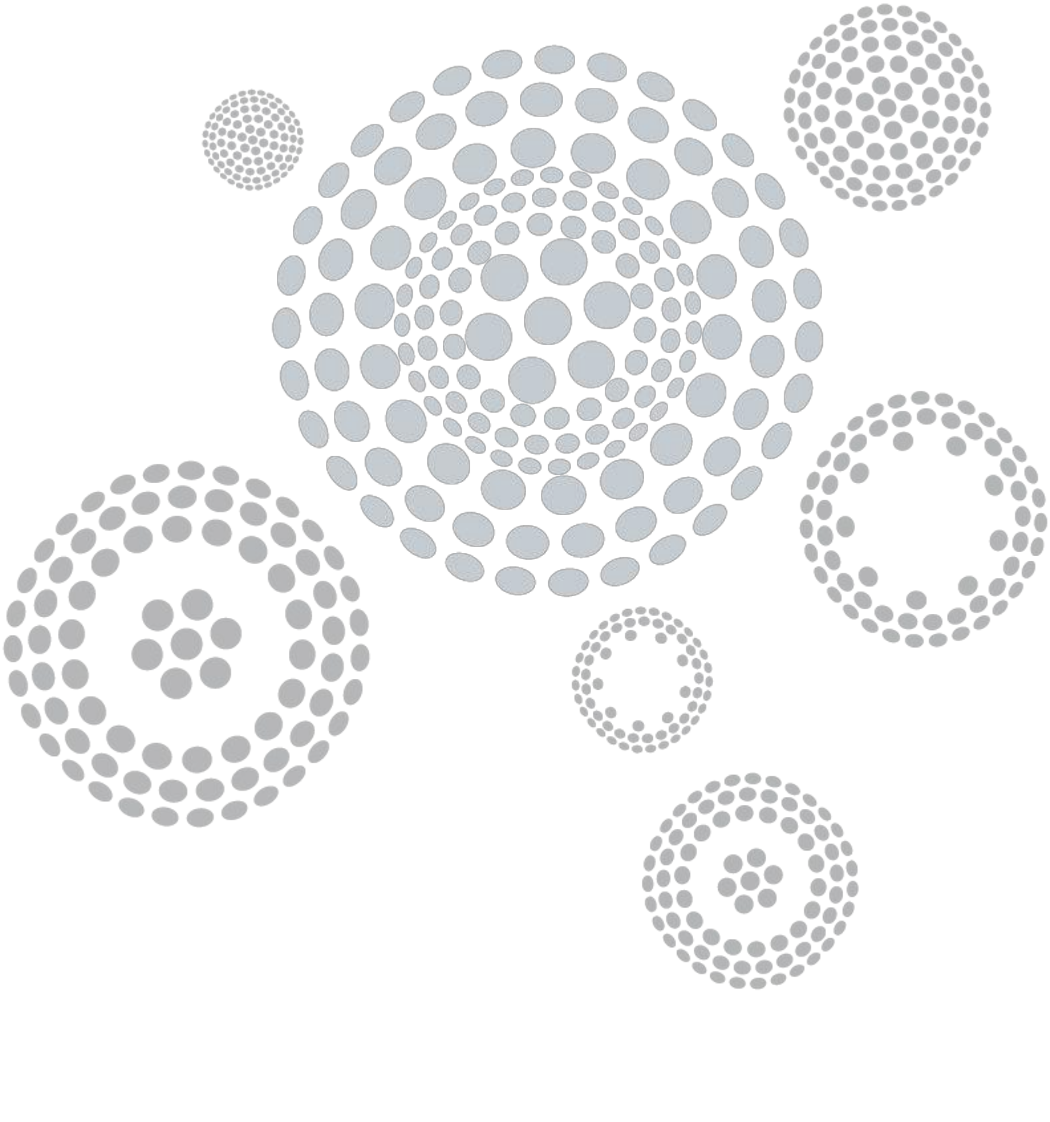
The regulatory solvency ratio, calculated in accordance with Notice No. 6/2016, was at the end of 2017 at 19%, above the established limit, presenting a reduction of 0.2 p.p. due to the increase of 35% growth in ROF's requirements is higher than the increase verified in ROF 34%.

Thousand million AOA	Dec.16	Dec.17	Δ %	
			Abs	%
ROF's requirements				
Operational risk	11	14	3	26%
Market risk	7	8	1	15%
Credit and counterparty risk	41	58	17	41%
Total	**60**	**81**	**21**	**35%**
Regulatory Own Funds	115	154	39	34%
Regulatory Solvency Ratio	19.2%	19.0%	-0.2%	-1%

10.8. PROFITABILITY

The return on average equity (hereinafter referred to as "ROAE") stood at 30.1%, down 4.1 p.p. compared to 2016, due to the lower average advantage (reduction of AOA 8.46 thousand million to AOA 7.53 thousand million).

	Dec. 16	Dec. 17	Δ% 2016/2017
Net interest income	**5.8%**	**5.9%**	**0.2 p.p.**
Net income on non-trading financial instruments	0.0%	0.0%	0.0 p.p.
Net commissions	0.8%	0.7%	-0.1 p.p.
Net income on financial assets at fair value through profit or loss	0.2%	0.0%	-0.2 p.p.
Net income on foreign exchange operations	1.5%	1.9%	0.4 p.p.
Net income on the sale of assets	0.0%	0.1%	0.1 p.p.
Other operating income	-0.5%	-0.5%	-0.1 p.p.
Operating income from banking activity	**7.8%**	**8.2%**	**0.4p.p.**
Staff costs	-1.2%	-1.3%	-0.2 p.p.
Third party supplies and services	-1.0%	-1.3%	-0.3 p.p.
Depreciation and amortisation	-0.3%	-0.2%	0.0 p.p.
Administrative expenses	**-2.5%**	**-2.9%**	**-0.4 p.p.**
Provisions, net of reversals	0.1%	0.1%	0.0 p.p.
Impairment on loans net of reversals and recoveries	-1.3%	-1.2%	0.1 p.p.
Impairment on other assets net of reversals and recoveries	0.1%	-0.2%	-0.2 p.p.
Income/(loss) before tax	**4.1%**	**4.0%**	**-0.1 p.p.**
Deferred taxes assets	-0.1%	0.0%	0.1 p.p.
Return on Average Assets (ROAA)	**4.0%**	**4.0%**	**0.0 p.p.**
Leverage	8.46	7.53	-11%
Return On Average Equity (ROAE)	**34.2%**	**30.1%**	**-4.1 p.p.**



PROPOSAL FOR THE APPROPRIATION OF PROFIT AND APPROVAL BY THE BOARD OF DIRECTORS

11

PROPOSAL FOR THE APPROPRIATION OF PROFIT AND APPROVAL BY THE BOARD OF DIRECTORS

The Board of Directors proposes, taking into account legal and statutory provisions, that the net profit of AOA 54,704,352,068.69 (Fifty-four billion, seven hundred and four million, three hundred and fifty-two thousand, sixty-eight Kwanzas and sixty-nine cents) for the year ended 31 December 2017, have the following application:

	%	KWANZAS
Transferred to free reserves	60%	32,822,611,241.21
To dividends	40%	21,881,740,827.48

Luanda, 26th March 2018

THE BOARD OF DIRECTORS

José Paiva
Chairman of the Board of Directors

Theodore Giletti
Director

Mário Barber
Director

Jaime Bastos
Director

Luís Lélis
Director

Inokcelina Santos
Director

Simão Fonseca
Director

João Fonseca
Director

Helder Aguiar
Director

FINANCIAL STATEMENTS

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- STATEMENTS OF INCOME
- STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
- STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
- STATEMENTS OF CASH FLOWS
- NOTES TO THE FINANCIAL STATEMENTS

12

12.1. BALANCE SHEETS

BANCO ANGOLANO DE INVESTIMENTOS, S.A.

INDIVIDUAL BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

	Notes	31-12-2017			31-12-2016
		Amounts before impairment, depreciation and amortisation	Impairment, depreciation and amortisation	Net value	Net value
ASSETS					
Cash and cash balances with central banks	4	180,950,674	-	180,950,674	194,593,850
Balances with other credit institutions	5	9,389,469	-	9,389,469	24,934,154
Investments in central banks and other credit institutions	6	254,537,675	-	254,537,675	77,499,381
Financial assets at fair value through profit or loss	7	4,078,615	-	4,078,615	15,862,414
Available-for-sale financial assets	8	19,333,516	-	19,333,516	16,889,938
Held-to-maturity investments	9	418,053,626	-	418,053,626	550,166,579
Loans to customers	10	457,802,949	88,457,685	369,345,264	379,864,044
Non-current assets held for sale	11	21,068,263	2,215,333	18,852,930	15,680,633
Other tangible assets	12	65,572,758	15,133,645	50,439,113	49,259,609
Intangible assets	12	4,431,103	2,616,493	1,814,610	1,056,727
Investments in affiliates, associates and joint ventures	13	12,661,958	5,655,152	7,006,806	7,976,049
Current tax assets	14	890,511	-	890,511	1,507,122
Deferred tax assets	14	3,045,421	-	3,045,421	2,851,545
Other assets	15	34,334,861	2,765,970	31,568,891	27,542,909
Total assets		**1,486,151,399**	**116,844,278**	**1,369,307,121**	**1,365,684,954**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Resources of central banks and other credit institutions	16	27,687,755	-	27,687,755	19,207,649
Customers' resources and other borrowings	17	1,092,660,008	-	1,092,660,008	1,137,303,582
Deferred tax liabilities	14	415,510	-	415,510	-
Provisions	18	3,850,472	-	3,850,472	7,689,187
Other liabilities	19	48,950,551	-	48,950,551	33,994,150
Total liabilities		**1,173,564,296**	**-**	**1,173,564,296**	**1,198,194,568**
Share capital	20	14,786,705	-	14,786,705	14,786,705
Share capital revaluation reserves		28,669	-	28,669	28,669
Share premium	20	(9,204,478)		(9,204,478)	-
Treasury shares	20	(739,335)	-	(739,335)	-
Other reserves and retained earnings	21	136,166,912	-	136,166,912	102,934,139
Net income/(loss) for the year		54,704,352	-	54,704,352	49,740,873
Total shareholder's equity		**195,742,825**	**-**	**195,742,825**	**167,490,386**
Total liabilities and shareholder's equity		**1,369,307,121**	**-**	**1,369,307,121**	**1,365,684,954**

The accompanying notes form an integral part of these financial statements.

12.2. STATEMENTS OF INCOME

BANCO ANGOLANO DE INVESTIMENTOS, S.A.

STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

	Notes	31-12-2017	31-12-2016
Interest and similar income	22	108,131,380	91,932,207
Interest and similar expenses	22	(27,014,227)	(20,859,675)
Net interest income		**81, 117,153**	**71,072,532**
Net income on non-trading financial instruments	23	578,277	49,397
Fee and commissions income	24	11,877, 897	11,213,926
Fee and commissions expense	24	(2,259,887)	(1,532,885)
Net income on financial assets at fair value through profit or loss	25	620,710	2,692,934
Net income on foreign exchange operations	26	25,927,517	17,863,595
Net income on the sale of assets	27	888,174	(66,899)
Other operating income	28	(7,107,806)	(5,648,940)
Operating income from banking activity		**111,642,035**	**95,643,660**
Staff costs	29	(18,112,176)	(14,404,799)
Third party supplies and services	31	(17,847,258)	(12,731,791)
Depreciation and amortisation	32	(3,403, 500)	(3,431,318)
Provisions, net of reversals	33	1,573,293	1,306,552
Impairment on loans net of reversals and recoveries	34	(16,928,278)	(16,231,077)
Impairment on other assets net of reversals and recoveries	35	(139,157)	715,404
Impairment on other assets net of reversals and recoveries	36	(2,101,178)	(59,849)
INCOME/(LOSS) BEFORE TAX		**54,683,781**	**50,806,782**
Income tax			
Deferred taxes	14	20,571	(1,065,909)
INCOME/(LOSS) AFTER TAX		**54,704,352**	**49,740,873**
NET INCOME/(LOSS) FOR THE YEAR		**54,704,352**	**49,740,873**

The accompanying notes form an integral part of these financial statements.

12.3. STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

BANCO ANGOLANO DE INVESTIMENTOS, S.A.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS 31 DECEMBER 2017 AND 2016

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

	Notes	31-12-2017	31-12-2016
Net income/(loss) for the year		54,704,352	49,740,873
Other comprehensive income			
Items that may be reclassified subsequently to net profit			
Changes in the fair value of available-for-sale financial assets	21	1,143,411	(336,060)
Deferred taxes	14	(242,205)	-
		901,206	(336,060)
Comprehensive income for the period		**55,605,558**	**49,404,813**

The accompanying notes form an integral part of these financial statements.

12.4. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

BANCO ANGOLANO DE INVESTIMENTOS, S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

	Share capital	Share capital revaluation reserve	Share premium	Treasury shares	Fair value reserves	Other reserves, retained earnings and other comprehensive income	Total	Net income/(loss) for the period	Total Equity
Balance at 31 December 2015 (Proforma)	**14,786,705**	**28,669**	**-**	**(47,260)**	**-**	**92,732,301**	**107,500,415**	**15,913,098**	**123,413,513**
Other comprehensive income:									
Changes to fair value	-	-	-	-	(336,060)	-	(336,060)	-	(336,060)
Actuarial deviations	-	-	-	-	-	-	-	-	-
Exchange differences	-	-	-	-	-	-	-	-	-
Net income/(loss) for the year	-	-	-	-	-	-	-	49,740,873	49,740,873
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(336,060)**	**-**	**(336,060)**	**49,740,873**	**49,404,813**
Allocation to reserves	-	-	-	-	-	10,537,898	10,537,898	(10,537,898)	-
Treasury shares	-	-	-	47,260	-	-	47,260	-	47,260
Dividends paid	-	-	-	-	-	-	-	(5,375,200)	(5,375,200)
Balance at 31 December 2016	**14,786,705**	**28,669**	**-**	**-**	**(336,060)**	**103,270,199**	**117,749,513**	**49,740,873**	**167,490,386**
Other comprehensive income:									
Changes to fair value	-	-	-	-	901,206	-	901,206	-	901,206
Net income/(loss) for the year	-	-	-	-	-	-	-	54,704,352	54,704,352
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**901,206**	**-**	**901,206**	**54,704,352**	**55 605,558**
Allocation to reserves	-	-	-	-	-	32,331,567	32,331,567	(32,331,567)	-
Share premium	-	-	(9,204,478)	-	-	-	(9,204,478)	-	(9,204,478)
Treasury shares	-	-	-	(739,335)	-	-	(739,335)	-	(739 335)
Dividends paid	-	-	-	-	-	-	-	(17,409,306)	(17,409,306)
Balance at 31 December 2017	**14,786,705**	**28,669**	**(9,204,478)**	**(739,335)**	**565,146**	**135,601,766**	**141,038,473**	**54,704,352**	**195,742,825**

The accompanying notes form an integral part of these financial statements.

12.5. STATEMENTS OF CASH FLOWS

BANCO ANGOLANO DE INVESTIMENTOS, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

	Notes	31-12-2017	31-12-2016
CASH FLOW FROM OPERATING ACTIVITIES			
Interest, commissions and other income received		109,559,736	103,146,133
Interest, commissions and other expenses paid		(29,261,839)	(22,392,560)
Payments to personnel and suppliers		(39,328,544)	(29,623,422)
Payments and contributions to pension funds and other benefits		(357,252)	(277,572)
Recovery of loans written off		1,847,535	9,434,466
Other income/(losses)		25,937,517	17,863,595
Cash flow before changes in operating assets and liabilities		**68,397,153**	**78,150,640**
(Increases)/Decreases in operating assets:			
Investments in central banks and other credit institutions		(177,038,294)	(29,527,930)
Financial assets at fair value through profit or loss		12,404,509	62,122
Available-for-sale financial assets		(480,081)	49,817,068
Held-to-maturity investments		132,112,953	(215,290,831)
Loans to customers		(4,862,694)	(60,457,347)
Non-current assets held for sale		(2,481,455)	3,447,280
Other assets		(4,735,267)	(2,458,039)
Net cash flow from operating assets		**(45,080,329)**	**(254,407,677)**
Increases/(Decreases) in operating liabilities:			
Resources of central banks and other credit institutions		8,478,946	4,381,101
Customers' resources and other borrowings		(44,654,688)	198,297,033
Other liabilities		14,945 651	17,556,568
Net cash flow from operating liabilities		**(21,230,091)**	**220,234,702**
Net cash from operating activities before income taxes		2,086,734	43,977,665
Net cash from operating activities		**2,086,734**	**43,977,665**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Dividends received		578,277	49,397
Purchase of other tangible assets, net of disposals		(3,870,425)	(2,673,178)
Purchase of intangible assets, net of disposals		(898,720)	(943,939)
Purchase of participations in affiliates, associates and joint ventures, net of disposals		-	61,728
Net cash from investment activities		**(4,190,868)**	**(3,505,992)**
CASH FLOW FROM FINANCING ACTIVITIES			
Purchase of treasury shares, net of disposals		(9,943,813)	47,260
Dividends paid		(17,139,914)	(5,279,459)
Net cash from financing activities		(27,083,727)	(5,232,199)
Changes in cash and equivalents		**(29,187,861)**	**35,239,474**
Cash and equivalents at the beginning of the period		219,528,004	184,288,530
Cash and equivalents at the end of the period		**190,340,143**	**219,528,004**
Cash and equivalents comprises:			
Cash	4	19,840,697	17,477,732
Demand deposits at the National Bank of Angola	4	161,109,977	177,116,118
Balances with other credit institutions	5	9,389,469	24,934,154
		190,340,143	**219,528,004**

The accompanying notes form an integral part of these financial statements.

12.6. NOTES TO THE FINANCIAL STATEMENTS

1. INTRODUCTORY NOTE

The Banco Angolano de Investimentos, S.A. (hereinafter referred to as "Bank" or "BAI"), with its headquarters in Luanda, is a private equity institution, partially owned by non-resident entities. The Bank was founded on 13 November 1996 and its commercial activity kicked off on 4 November 1997. On 11 January 2011, the Bank changed its corporate name to Banco Angolano de Investimentos, S.A. from Banco Africano de Investimentos, S.A..

The Bank's corporate purpose is to develop banking activities, under the terms and within the framework defined by the National Bank of Angola (hereinafter referred to as "BNA") with the aim of capturing third parties resources as deposits, deposit certificates and cash bonds, which are invested, combined with its own resources, as granted loans, deposits in the BNA, applications in financial institutions, acquisition of securities or in other assets for which it is duly authorized. The Bank also provides other banking services and carries out several types of operations in foreign currency, relying for this purpose on a nationwide network of 146 service centres.

2. ACCOUNTING POLICIES

2.1. BASIS OF PRESENTATION

According to Notice No. 6/2016 of 22 June, of BNA, the financial statements of BAI are prepared in accordance with International Accounting Standards / International Financial Reporting Standards (IAS / IFRS). These financial statements refer to the individual activity of the Bank as of 31 December 2017.

The IAS/IFRS includes the accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), as well as those set by their predecessors.

The financial statements are expressed in thousands of Kwanzas, rounded to the nearest thousand and were prepared in accordance with the historical cost principle, except for assets recognized at fair value, namely financial assets held for trading, at fair value through profit or loss and available-for-sale financial assets.

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

The BNA, the Angolan Banks Association ("ABANC") and the Bank's Board of Directors believe that the requirements settled on IAS 29 - Financial Reporting in Hyperinflationary Economies ("IAS 29") to consider the Angolan economy as hyperinflationary as of 31 December 2017 are not being met and, therefore, it was decided not to apply the dispositions of that Standard to the financial statements at that date.

2.2. TRANSACTIONS IN FOREIGN CURRENCY

The assets and liabilities in foreign currency are recorded under the multi-currency system (in their respective denomination currency).

The transactions in foreign currency are converted into Kwanzas (Angolan national currency) at the exchange rate on the date of the transaction.

Monetary assets and liabilities in foreign currency are converted into Kwanzas at the average exchange rate published by BNA at the balance sheet date. The costs and revenues related to exchange differences, either realized or potential, that result from the conversion, are recognized in profit and losses accounts.

Non-monetary assets and liabilities in foreign currency are converted into Kwanzas based on the following methodology:

- Recognized at historical cost – at the exchange rate on the date of the transaction;
- Recognized at fair value – at the exchange rate on the date the fair value is defined and previously recognized in profits and loss, except for those recognized in available-for-sale financial assets, for which the difference is booked by a corresponding entry in equity accounts.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The exchange rates used for the translation to United States (USD) and Euro (EUR) on 31 December 2017 and 2016 were as follow:

Reference period	USD	EUR
31-12-2017	165.924	185.400
31-12-2016	165.903	185.379

2.3. LOANS GRANTED AND ACCOUNTS RECEIVABLE

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not traded on active market and for which there is no intention to sell in the short term. These categories include loans granted to costumers, cash and deposits, investments in credit institutions and other receivables that are not traded on active market. They are recorded by contracted amounts, when originated by the Bank, or by amounts paid, when purchased from other entities.

Loans and accounts receivable are initially recognized at fair value, plus transaction costs, and subsequently measured at amortised cost, using its effective interest rate, and presented on balance sheets net of impairment losses. Interest recognized through the effective interest rate is booked in the net interest income.

Loans and accounts receivable are derecognized from the balance sheet (written off) when (i) the Bank's contractual rights related to the respective cash flows have expired; (ii) the Bank has substantially transferred all associated risks and benefits; or (iii) despite the fact that the Bank retained part, but not a substantial part, of the risks and benefits associated with the holding, the control over the assets was transferred.

IMPAIRMENT

The Bank's loan portfolio is subject to monthly impairment tests. In accordance with IAS 39, a financial asset is considered to be impaired when there is evidence that one or more loss events have occurred after the initial recognition of the asset, and such events have an impact on the estimated recoverable value of its future cash flows.

Impairment losses identified are recorded by a corresponding charge in profit and loss accounts. If there is a decrease in the estimated impairment loss, in subsequent periods, the impairment loss initially recorded is reversed through a credit to profit and loss accounts.

The Bank's loan portfolio is segmented as follow:

- Public Sector;
- Loans to large corporations;
- Loans to small companies;
- Consumer credit;
- Credit cards;
- Mortgage loans;
- Overdrafts.

According to IAS 39, there are two methods for calculating impairment losses: (i) individual assessment and (ii) collective assessment.

(i) Individual assessment

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

The Bank considers the following as individually significant exposures:

1. Value of the overall exposure to the client / economic group equal or greater than 0.5% of the regulatory own funds;
2. The top 20 individual's clients.

For the remaining segments of the loan portfolio, the Bank carries out a collective assessment to determine impairment losses.

For a timely and adequate detection and valuation of the impairment loss amount, the Bank takes into consideration a significant and comprehensive set of indicators.

Objective evidence of loss refers to observable events that occur or are collected by the institution relating to loss events, namely:

- Significant financial difficulty of the borrower;
- Existence of credit operations in a litigation situation in the last five years;
- Existence of returned cheques in the financial system according to the data available at the Information and Credit Risk Centre (CIRC);
- Existence of non-authorized overdrafts or authorized overdrafts used above the formally contracted limit;
- Existence of renewable credit operations used on a permanent basis, for at least 95% of the limit initially contracted, in the last twelve months;

- Existence of credits for real estate projects with a material decrease on the value of the collateral (over 20%) when this results in a loan to guarantee ratio of more than 80%;
- Knowledge of the existence of fiscal debts and / or social security debts;
- Existence of unemployment or long-term illness in the case of individual clients;
- Existence of bank account seizure;
- Client with expected bankruptcy or subject to financial and / or operational recovery/reorganization process;
- Disappearance or significant breakdown of relevant market to the borrower;
- Arrears on the payment of capital or interest:
  - Existence of credit operations with arrears in payments of more than 30 days with the Bank;
  - Existence of credit operations in the financial system with a delay of more than 90 days, capital and interest written off, cancelled or in a litigation situation, which represents more than 2% of the client's liabilities within the financial system, according to the information available at the CIRC;
- Existence of at least one credit operation restructured due to financial difficulties in the last twelve months' time or with perspective/request for credit restructuring;
- Existence of fraud committed by clients, based on information known by the Bank;
- Existence of litigation between the Bank and the client;
- Existence of non-paid commercial effects.

Impairment losses are calculated based on the comparison between the present value of the expected future cash flows discounted at the original effective interest rate of each contract and the book value of each credit, and the losses are recorded by corresponding entries to the statement of income. The book value of impaired loans is presented, in the balance sheet, net of impairment losses. As for loans with a variable interest rate, the discount rate used corresponds to the effective interest rate applicable in the period in which the impairment was calculated.

The calculation of the present value of expected future cash flows of a secured loan reflects the cash flows that may result from the recovery and sale of the collateral, deducted from inherent costs in its recovery and sale.

(ii) Collective assessment

In the context of the impairment analysis on a collective basis, the loans are grouped based on similar risk characteristics, accordingly with portfolio's segmentation that was defined by the Bank.

Impairment losses based on the collective analysis are calculated through two perspectives:

- For homogeneous groups of credit not considered individually significant; or
- For incurred but not reported losses (IBNR) in credits for which there is no objective evidence of impairment.

Future cash flows for a loan portfolio, whose impairment is assessed collectively are estimated based on contractual cash flows and historical loss experience. The Bank regularly reviews the methodology and assumptions used to estimate the future cash flows, in order to monitor the differences between estimated and real losses.

The impairment losses for performing clients correspond to the product between the probability of default ("PD") and the amount corresponding to the difference between the book value of the respective credits and the present value of the estimated future cash flows of those operations. The PD corresponds to the probability that an operation or client will default during a certain emergency period. This period is equivalent to the time that elapses between the occurrence of an event causing losses and the moment in which the existence of this event is detected by the Bank (IBNR).

For this purpose, the Bank determines the respective risk parameters PD and Loss Given Default (LGD), based on the guidelines defined by IAS 39 and the best market practices. The collective impairment results from the multiplication of these two factors to the exposure associated with each segment defined in the impairment model.

COLLATERAL ASSESSMENT PROCESS

Guarantees are assessed on a regular basis so that the Bank has updated information on the value of those instruments, thus improving its ability to mitigate the risk of those credit operations.

The valuation of each type of guarantee is determined based on the specificities of each of those instruments, considering the following criteria:

(i) Real Estate

The valuation is determined based on prudential criteria and taking into account the long-term sustainable aspects of the property, local market conditions, current use and adequate alternative uses of the property.

According to BNA Notice No. 10/2014 of 10 December 2014, on guarantees accepted for prudential purposes, property rights should be reassessed at least every 2 years, whenever the exposure represents:

- An amount equal or greater than 1% of the Bank's total loan portfolio or equal or greater than AOA 100,000,000; or
- Cases of overdue loan for more than 90 days and / or other material evidence of impairment as long as the latest valuation date is greater than 6 months; or
- Cases in which changes of a different nature are identified under market conditions with a potential significant impact on the value of real estate assets and / or in a group or more of real estate assets with similar characteristics.

The valuations are carried out by real estate experts registered with the Capital Market Commission (CMC). The values and evaluation dates of the guarantees are booked in the collateral management system, which issues automatic warnings regarding the dates for revaluations.

(ii) Pledge of term deposits

The value of the guarantee will be the nominal value of the deposit, as well as the respective interest (if they are also involved).

(iii) Other guarantees received

For other guarantees received, namely equipment pledges, it is considered the market value determined based on an updated evaluation, with a seniority of less than one year, to be carried out by a suitable entity with specific competences taking into account the particular nature of each warranty received. It is a necessary condition for the valuation of this type of guarantees, the validation of the property; its safeguard and the operating conditions of the underlying assets.

Exceptions to this rule are subject to professional judgment and discounts are applied in accordance with the specific nature of the assets.

In the case of no valuation of the guarantee, or the ownership and safeguard of the assets is not ensured, the value of the collateral received is not considered for the purpose of calculating impairment losses.

Taking into account the difficulties underlying a correct and careful evaluation of this type of guarantees received, the Bank has chosen to follow a conservative approach and not to consider them as credit risk mitigating factors.

(iv) Other financial assets

In the case of listed securities and shares, the value to be considered will be the market value at the report reference date. For unlisted securities and holdings, valuations are based on the discounted cash flow method or another alternative method if it is considered more applicable.

As alternative methods of valuation of not listed securities and equity stakes, the Bank uses (i) the multiples method or alternatively (ii) the adjusted book value method, where the choice of the respective valuation method is dependent on the available information and the specific characteristics of each instrument, at the valuation moment. At each moment, the Bank decides which method is most appropriate to be used.

In order to adopt a conservative approach to the consideration of guarantees into the loan portfolio, the Bank defined a set of haircuts that are intended to reflect the risk in the use of collateral and which can be translated into two dimensions, namely: (i) legal and procedural obstacles to its implementation; (ii) the volatility of its market value.

IMPAIRMENT REVERSAL

The amount of the impairment loss decreases in subsequent period and the decrease can be objectively associated with an event that occurs after the recognition of the impairment, the impairment loss previously recognized is reversed. The amount of the reversal is recognized in the statement of income.

LOANS WRITE-OFFs

The Bank writes off loans when there is no realistic prospect of recovering the credits from an economic point of view and, for collateralized loans, when the funds from the realization of the collateral have already been received through the use of impairment losses when they correspond to 100% of the value of credits considered as non-recoverable[20].

[20] BNA Notice No. 11/2014 allows an operation with more than 180 days in arrears to remain in the Bank's balance sheet until all possible collection and recovery steps have been exhausted.

2.4. FINANCIAL INSTRUMENTS

(i) Classification, initial recognition and subsequent measurement

The Bank recognizes account receivables / payables and deposits on the date they are incurred. All other financial instruments are recognized on the date of the transaction, which is the moment from which the Bank becomes an integral part of the contract and are classified according to the underlying intention, according to the categories described below:

- Financial assets at fair value through profit or loss, and within this category as:
  - Held for trading;
  - Designated at fair value through profit or loss.
- Held-to-maturity investments;
- Available-for-sale financial assets; and
- Financial liabilities.

A financial asset or liability is initially measured at fair value plus transaction costs directly attributable to the acquisition or issue, in the case of items recorded at fair value through profit or loss in which transaction costs are immediately recognized as costs.

1) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

1a) Financial assets held for trading

Financial assets held for trading are those acquired primarily for trading purposes in the short term or held as part of a portfolio of assets, usually securities or derivatives, for which there is evidence of recent realization of short-term gains.

1b) Designated at fair value through profit or loss

The designation of financial assets or liabilities at fair value through profit or loss (Fair Value Option) may be carried out if at least one of the following requirements is met:

- the financial assets or liabilities are managed, evaluated and reported internally at their fair value;
- the designation eliminates or significantly reduces the accounting mismatch of the transactions; or
- financial assets or liabilities contain embedded derivatives that significantly change the cash flows of the original contracts (host contracts).

Financial assets and liabilities at fair value through profit or loss are initially recognized at fair value, with the costs or income associated with the transactions recognized in profit or loss at the initial moment, with subsequent changes in fair value recognized in profit or loss. The accrual of interest and the premium / discount (when applicable) are recognized in the net interest income based on the effective interest rate of each transaction, as well as the accrual of interest on derivatives associated with financial instruments classified in this category.

2) HELD-TO-MATURITY INVESTMENTS

In this category are recognized non-derivative financial assets, with fixed or determinable payments and fixed maturity, for which the Bank has the intention and ability to hold to maturity and have not been assigned to any other category of financial assets. These financial assets are recognized at amortised cost at the initial recognition date and are subsequently measured at amortised cost using the effective interest rate method. Interest is calculated using the effective interest rate method and recognized in the net interest income. Impairment losses are recognized in the income statement when identified.

Any reclassification or sale of financial assets recognized in this category that is not carried out near maturity will require the Bank to reclassify this entire portfolio to available-for-sale financial assets and the Bank became unable to classify any financial asset in this category.

3) AVAILABLE-FOR-SALE FINANCIAL ASSETS

These are non-derivative financial assets that: (i) the Bank intends to maintain for an indefinite period, (ii) which are designated as available-for-sale at the time of their initial recognition or (iii) that do not fall within the above mentioned categories. This category may include debt or equity securities.

Available-for-sale financial assets are initially recognized at fair value, including costs or income associated with the transactions and subsequently measured at fair value. Changes in fair value are recorded through a corresponding charge to fair value reserves until the asset is sold or until recognition of impairment losses, in which case they are recognized in the income statement. Equity instruments that are not listed and whose fair value cannot be estimated reliably are recorded at cost.

In the disposal of available-for-sale financial assets, the accumulated gains or losses recognized in fair value reserves are recognized in the statement of income as "Results from available-for-sale financial assets". Foreign exchange fluctuations of foreign currency debt securities are recorded in the income statement. For equity instruments (non-monetary assets), exchange rate fluctuations are recognized in the fair value Reserve (Equity), as an integral component of their fair value.

Interest on debt instruments are recognized based on the effective interest rate in the net interest income, including the premium or discount, when applicable. Dividends are recognized in income when the right to receive is granted.

4) FINANCIAL LIABILITIES

A financial instrument is classified as a financial liability when there is a contractual obligation for a liquidation to be effected by delivering cash or another financial asset, regardless of its legal form.

Non-derivative financial liabilities include resources of other credit institutions and clients, loans, liabilities represented by securities, other subordinated liabilities and short sales.

Financial liabilities are initially recognized at fair value and subsequently at amortised cost. The associated transaction costs are part of the effective interest rate. Interest recognized by the effective interest rate method are recognized in the net interest income.

The gains and losses recorded at the time of repurchase of other financial liabilities are recognized in the results of assets and liabilities measured at fair value through profit and loss at the time they occur.

The Bank classifies its financial liabilities as non-guarantees and commitments, measured at amortised cost, based on the effective rate method.

(ii) Amortised cost

The amortised cost of a financial asset or financial liability is the amount by which a financial asset or liability is initially recognized, minus capital receipts, plus or minus accumulated depreciation using the effective interest rate method, arising from the difference between the value initially recognized and the amount at maturity, less the reductions resulting from impairment losses.

(iii) Identification and measurement of impairment

In addition to the analysis of impairment losses on costumers' loans, at each balance sheet date, an evaluation is made on 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 when there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition that have an impact on the future cash flows of the asset that can be estimated with reliability.

The Bank regularly assesses whether there is objective evidence that a financial asset, or group of financial assets, presents signs of impairment.

A financial asset or group of financial assets is impaired when there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, such as: (i) for equities and other equity instruments a prolonged or significant devaluation in its market value below the acquisition cost (ii) for debt securities, where such event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can reasonably be estimated.

For held-to-maturity investments, impairment losses correspond to the difference between the book value 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 asset and are recorded by corresponding charge to profit or loss. These assets are presented in the balance sheet net of impairment. In the case of an asset with a variable interest rate, the discount rate to be used to determine the respective impairment loss is the current effective interest rate determined based on the rules of each contract. If in a subsequent period the amount of the impairment loss decreases, and that decrease can be objectively related to an event that occurred after the recognition of the impairment, it is reversed through the statement of income for the year.

When there is evidence of impairment in available-for-sale financial assets, the potential accumulated loss on reserves, corresponding to the difference between the acquisition cost and the current fair value, less any impairment loss on assets previously recognized in profit or loss, is transferred to profit or loss.

If, in a subsequent period, the amount for impairment loss decreases, the previously recognized impairment loss is reversed through the statement of income for the year, up to the amount of the acquisition cost if the increase is objectively related to an event occurring after recognition of the impairment loss, except for shares or other equity instruments, where subsequent capital gains are recognized in reserves.

(iv) Transfers between categories

The Bank only transfers non-derivative financial assets with fixed or determinable payments and defined maturities from the category of available-for-sale financial assets to the held-to-maturity category of financial assets, if it has the intention and ability to maintain these financial assets to maturity.

These transfers are made based on the fair value of the assets transferred, determined on the date of the transfer. The difference between the fair value and its nominal value is recognized in the income statement until the maturity of the asset, based on the effective rate method. The fair value reserve existing at the date of the transfer is also recognized in the income statement based on the effective rate method.

(v) De-recognition

The Bank derecognises its financial assets when all rights to future cash flows expire. In a transfer of assets, derecognition can only occur when substantially all the risks and rewards of the financial assets have been transferred or when the Bank neither transfers nor retains substantially all the risks and benefits and does not maintain control of the financial assets.

The Bank derecognises financial liabilities when they are cancelled, extinct or expired.

(vi) Compensation of financial instruments

The Bank proceeds to offset financial assets and liabilities, presenting a net amount in the balance sheet when, and only when, the Bank has the irrevocable right to offset them and the intention to settle them on a net basis or to receive the value of the asset and settle the liability simultaneously.

Gains and losses are only offset when this is permitted under IFRS or for gains and losses arising from a group of transactions of similar nature.

(vii)Measurement at fair value

Fair value is the price that would be received when selling an asset or paid to transfer a liability in a current transaction between market participants at the measurement date or, in its absence, the most advantageous market to which the Bank has access to carry out the transaction at that date. The fair value of a liability reflects the Bank's own credit risk.

When available, the fair value of an investment is measured using its market price in an active market for that instrument. A market is considered active if there is sufficient frequency and volume of transactions in such a way that there is a constant price quotation.

If there is no quotation in an active market, the Bank uses valuation techniques that maximize the use of observable market data and minimize the use of unobservable market data. The valuation technique chosen incorporates all the factors that a market participant would take into consideration when calculating a price for the transaction.

2.5. EQUITY INSTUMENTS

A financial instrument is classified as an equity instrument when there is no contractual obligation for its liquidation to be effected by delivering cash or other financial assets to third parties, regardless of their legal form, showing a residual interest in the assets of an entity after the deduction of all their liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the issuance value. Amounts paid and received for purchases and sales of equity instruments are recorded in equity, net of transaction costs.

Net income on non-trading financial instruments (dividends) is recognized when the right to receive it is established and deducted from equity.

2.6. OTHER TANGIBLE ASSETS

(i) Recognition and measurement

Other tangible assets are recorded at acquisition cost deducted of accumulated amortisation and impairment losses. The cost includes expenses that are directly attributable to the acquisition of the assets.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

(ii) Subsequent costs

Subsequent costs are recognized as a separate asset only if it is likely that future economic benefits will flow to the Bank. Maintenance and repair expenses are recognized as costs as they are incurred under the accrual method.

(iii) Depreciation

Land is not depreciated. For other assets, depreciation is calculated using the straight-line method, according to the following expected useful life periods:

	No. of years
Property for own use	50
Improvements on leased real estate	10
Equipment	
Furniture and materials	10
Machinery and tools	6 to 10
Computer equipment	3 to 10
Transport Vehicles	4
Other tangible assets	3 to 10

When there is an indication that an asset may be impaired, IAS 36 – Impairment of Assets requires that its recoverable amount should be estimated and an impairment loss should be recognized whenever the net asset value exceeds its recoverable value. Impairment losses are recognized in the income statement.

The recoverable amount is determined as the higher of its net selling price and its value in use, which is calculated based on the present value of the estimated future cash flows expected to be derived from the continued use of the asset and the disposal at the end of its useful life.

2.7. INTANGIBLE ASSETS

SOFTWARE

The costs incurred with the acquisition of software to third entities are capitalized, as well as the additional expenses incurred by the Bank necessary for their implementation. These costs are amortised on a straight-line basis over the estimated useful life, which is normally within 3 years.

EXPENSES RELATED TO RESEARCH AND DEVELOPMENT PROJECTS

Costs directly related to the development of computer applications, on which they are expected to generate future economic benefits beyond one exercise, are recognized and recorded as intangible assets.

All other expenses related to IT services are recognized as costs when incurred.

2.8. TRANSACTIONS WITH REPURCHASE AGREEMENT

Securities sold with repurchase agreement (repo) for a fixed price or for a price that equals the sale price plus interest inherent to the term of the transaction are not derecognised from the balance sheet. The corresponding liability is accounted for in amounts payable to other credit institutions or to customers (as appropriate). The difference between the sale price and the repurchase amount is treated as interest and is deferred over the life of the agreement, using the effective rate method.

Securities purchased with a resale agreement (reverse repo) for a fixed price or a price that equals the purchase price plus interest inherent to the term of the transaction are not recognized in the balance sheet, and the purchase value is recorded as loans to other credit institutions or to customers (as appropriate). The difference between the purchase price and the resale value is treated as interest and is deferred during the life of the agreement, using the effective rate method.

2.9. INVESTMENTS IN AFFILIATES AND ASSOCIATES COMPANIES

Investments in affiliates and in associates are recorded in the Bank's financial statements at their historical cost, deducted of any impairment losses.

Affiliates are entities over which the Bank has control. The Bank controls an entity when it is exposed to, or has rights to, the variability in returns from its involvement with that entity and is able to seize them through the power it holds over its relevant activities (de facto control).

Associates are entities in which the Bank has significant influence but does not exercise control over its financial and operating policies. It is assumed that the Bank exercises significant influence when it holds the power to exercise more than 20% of the associate's voting rights. If the Bank holds, directly or indirectly, less than 20% of the voting rights, it is assumed that the Bank has no significant influence, unless such influence can be clearly demonstrated.

One of the following usually demonstrates significant influence by the Bank:

- representation on the Board of Directors or equivalent management body;
- participation in policy-making processes, including participation in decisions on dividends or other distributions;
- material transactions between the Bank and the investee;
- exchange of management personnel; or
- provision of essential technical information.

IMPAIRMENT

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

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

Non-current assets, groups of non-current assets held for sale (groups of assets together with the respective liabilities, which include at least one non-current asset) and discontinued operations are classified as held for sale when there is an intention to dispose such assets and liabilities, the assets or groups of assets are available for immediate sale and their sale is very likely.

The Bank also classifies as non-current assets held for sale non-current assets or groups of assets acquired only for the purpose of subsequent sale only, which are available for immediate sale and the sale is very likely.

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

Discontinued operations and subsidiaries acquired exclusively for the purpose of sale in the short term are consolidated until they are sold.

The Bank also classifies in non-current assets held for sale the real estate asset arising from credit recoveries, which are initially measured at the lower of their fair value net of selling costs and the book value of the existing credit at the date that the recovery occurs or the judicial adjudication of the property.

The fair value is estimated based on market value, which is determined considering the expected selling price obtained through periodic valuations conducted by the Bank.

Subsequent measurement of these assets is carried out at the lower of their book value and the corresponding fair value, net of selling costs, and are not subject to amortisation. In the event of unrealized losses, these are recorded as impairment losses through the statement of income for the year.

2.11. INCOME TAXES

Income taxes recorded in the income statement include the effect of current and deferred taxes. Taxes are recognized in the income statement, except when related to items recognized in equity, which implies their recognition in equity. Deferred taxes recognized in equity arising from the revaluation of available-for-sale financial assets and cash flow hedging derivatives are subsequently recognized in the income statement when the gains and losses that originated them are recognized in profit or loss.

i. Current taxes

Current taxes correspond to the amount assessed for the taxable income of the period, using the tax rate in force or substantially approved by authorities at the balance sheet date and any adjustments to taxes from previous years.

With the publication of Law no. 19/14 of 22 October, which entered into force on 1 January 2015, the Industrial Tax is provisionally settled in a single instalment to be made in August, calculated based on the application of 2% rate on income from financial intermediation operations, calculated in the first six months of the previous fiscal year, excluding income subject to Tax on Capital Gains ("IAC"), regardless of the existence of a taxable amount in the exercise.

ii. Deferred taxes

Deferred taxes are calculated according to the liability method based on the balance sheets, on temporary differences between the carrying amounts of the assets and liabilities and their tax base using the tax rates, approved or substantially approved at the balance sheet date and which are expected to be applied when temporary differences are reversed.

Deferred tax liabilities are recognized for all taxable temporary differences other than goodwill, not deductible for tax purposes, differences resulting from the initial recognition of assets and liabilities that do not affect the accounting or taxable profit, and differences related to investments in subsidiaries to the extent that they are not likely to be reversed in the future.

Deferred tax assets are recognized when it is probable a future taxable income that will absorb temporary differences that are deductible for tax purposes (including tax losses carry forward).

In accordance with IAS 12 – Income taxes, paragraph 74, the Bank proceeds to offset deferred tax assets and liabilities whenever: (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) deferred tax assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity or different taxable entities that wish to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

iii. Tax on Capital Gains (IAC)

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

The IAC is generally levied on income from the Bank's financial investments. The rate varies between 5% (in the case of interest, amortisation, redemption premiums and other forms of remuneration of public debt securities, bonds, participation certificates or other similar securities issued by any company, which are admitted to trading on a regulated market with a maturity above 3 years) and 15%.

In addition, under the terms of article 18 of the Industrial Tax Code, the IAC itself is not a deductible expense for the purpose of calculating the tax base. On the other hand, it will be deducted from taxable income, the income subject to IAC, in accordance with the provisions of article 47 of the Industrial Tax Code.

iv. Special Contribution on Foreign Exchange Transactions of Invisible Currents

The Special Contribution on Foreign Exchange Transactions of Invisible Currents, approved by Presidential Legislative Decree No. 2/15 of 29 June, is levied (at the rate of 10%) on transfers made under the service contracts foreign technical assistance or management, regulated by the provisions of the respective Regulation, approved by Presidential Decree 273/11 of 27 October, as amended by Presidential Decree 123/13 of 28 of August.

2.12. OTHER TAXATION

i. Property tax

Urban Property Tax (IPU)

Pursuant to Law no. 18/11, of April 21, the IPU is levied on (i) the equity value of own property greater than AOA 5,000,000 which are used for the Bank's normal business, at the rate of 0.5%, and (ii) rents received from rented properties, at the rate of 15%.

Additionally, pursuant to article 18 of the Industrial Tax Code, the IPU is not accepted as a deductible expense for the purposes of calculating the tax base, as well as the maintenance and repair costs of leased properties, which are considered as expenses in the calculation of the IPU.

Sisa

Pursuant to Legislative Decree no. 230 of 18 May 1931, as well as the amendments introduced by Law No. 15/92 of 3 July and Law No. 16/11 of 21 April, Sisa levies on all acts that imply perpetual or temporary transmission of property of any value, kind or nature, whatever the name or form of the title (e.g. acts that affect the transmission of improvements in rural or urban buildings, transmissions real estate through donations with pensions or the transfer of real estate through donations) at the rate of 2%.

ii. Other taxes

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

iii. Tax substitution

In the scope of its activity, the Bank assumes the role of a tax substitute, making withholding taxes on third parties, which later delivers to the State.

Tax on Capital Gains

According to Presidential Legislative Decree No. 2/14, 20 October, the Bank withholds the IAC at a rate of 10%, levied on interest paid to costumers for term deposits.

Stamp Duty

According to Presidential Legislative Decree No. 3/14, 21 October, the Bank is responsible for the settlement and delivery of the Stamp Duty due by its clients in all banking operations (e.g. financing, interest collection financing commissions, financial services commissions), proceeding to settle the tax at the rates set forth in the Stamp Tax Table.

Industrial Tax

In accordance with article 67, paragraph 1, of Law No. 19/14 of 22 October, services of any nature are subject to taxation, withholding tax at the rate of 6.5 %.

Urban Property Tax

Pursuant to Law No. 18/11 of April 21, the Bank proceeds to withhold the IPU at the rate of 15% on the payment or delivery of rent related to rented properties.

2.13. EMPLOYEE BENEFITS

i. Defined contribution plans

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

ii. Long-term benefits of employees

The Bank's net liability for long-term employee benefits is the amount of future benefit that employees are expected to receive in exchange for their service in the current period and in past periods. This benefit is discounted to determine its present value. The re-measurements are recognized in the statement of income for the year.

iii. Benefits associated with termination of service

Benefits associated with the termination of functions are recognized as a cost, at the earliest time, between the times when the Bank can no longer withdraw the offer of these benefits or the group recognizes costs associated with a restructuring. If benefits are not expected to be settled within 12 months, then they are discounted.

iv. Short-term benefits of employees

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

The General Labour Law establishes that the amount of holiday allowance payable to workers in a given year is a right acquired by them in the immediately preceding year. As a result, the Bank records in the current year the amounts relating to vacation and holiday allowance payable in the next year.

v. Social Fund

BAI's Social Fund aims to provide financial support to employees to cover expenses of eminently social nature, in order to prevent, reduce or solve problems arising from work, personal or family conditions, in the face of serious and urgent situations.

The financial allocations of the Social Fund require the approval of the Board of Directors through the allocation, in each fiscal year, of a percentage of profits before tax deductions. The allocations not used annually shall be carried over to the budget for the following year.

vi. Variable remuneration for employees and directors

The Bank assigns variable remuneration to its employees and directors as a result of their performance (performance bonuses). The Executive Committee and Remunerations Committee of Members of the Governing Bodies are responsible for establishing the respective allocation criteria for employees and for each employee and manager, respectively, whenever this is attributed. The variable remuneration attributed is recorded in the income statement for the year to which it refers.

2.14. PROVISIONS

Provisions are recognized when (i) the Bank has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain liabilities), (ii) it is probable that its payment will be required, and (iii) when a reliable estimate of the value of that obligation can be made.

The measurement of the provisions takes into account the principles defined in IAS 37 as regards the best estimate of the expected cost, the most likely outcome of the actions in progress and taking into consideration the risks and uncertainties inherent to the process.

In cases where the discount effect is material, the provision corresponds to the present value of expected future payments, discounted at a rate that considers the risk related to obligation.

Provisions are reviewed at the end of each reporting date and adjusted to reflect the best estimate, and are reversed through the statement of income, in the proportion of payments that are not likely to occur.

Provisions are derecognised when their use for the obligations for which they were initially constituted or in cases where they are no longer observed.

2.15. RECOGNITION OF INTEREST

The income referring to interest on financial instruments and liabilities measured at amortised cost are recognized under interest and similar income or interest and similar expenses (net interest income) using the effective interest rate method. Interest at the effective rate of available-for-sale financial assets are also recognized in the net interest income as well as interest of financial assets and liabilities at fair value through profit or loss.

The effective interest rate corresponds to the rate discounting future receipts or payments estimated over the expected life of the financial instrument (or, when appropriate, for a shorter period) to the net present book value of the financial asset or liability.

For the determination of the effective interest rate, the Bank estimates the future cash flows considering all contractual terms of the financial instrument (for example, prepayment options), not considering any impairment losses. The calculation includes commissions paid or received which are considered to be an integral part of the effective interest rate, transaction costs and all premiums or discounts directly related to the transaction, except for financial assets and liabilities at fair value through profit or loss.

For financial assets or groups of similar financial assets for which impairment losses have been recognized, the interest recorded in the statement of income are determined based on the interest rate used to discount future cash flows in the measurement of those impairment losses.

Specifically with regard to the accounting policy for recording interest on overdue loans, the following aspects are considered in accordance with IAS 18 - Revenue:

- Interest on overdue loans with collaterals until the prudently assessed value of the guarantees is reached, are recorded through the statement of income on the assumption that there is a reasonable probability of their recovery; and

- Interest already recognized and unpaid on loans overdue for more than 90 days that are not covered by collateral are annulled, and are only recognized when received given that it is considered that its recovery is remote.

2.16. RECOGNITION OF DIVIDENDS

Dividends (net income on non-trading financial instruments) are recognized in the income statement when the right to receive them arises. Dividends are presented in the income from financial operations, net profit of other financial instruments at fair value through profit or loss or other income, depending on the classification of the underlying instrument.

2.17. RECOGNITION OF INCOME FROM SERVICES AND COMISSIONS

Income from services and commissions is recognized in accordance with the following criteria:

- when it is obtained as the services are gradually rendered, the recognition in profit and loss is made in the period to which they relate;
- when it results from the provision of services, recognition is given when the service is completed;
- when it is an integral part of the effective interest rate of a financial instrument, income from services and commissions is recorded in the net interest income.

2.18. FIDUCIARY ACTIVITIES

Assets held under fiduciary activities are not recognized in the Bank's financial statements. Income obtained from services and commissions from these activities is recognized in the income statement in the period in which it occurs.

2.19. NET PROFIT ON FINANCIAL OPERATIONS

Gains or losses on financial operations include gains and losses generated by financial assets and financial liabilities at fair value through profit or loss, namely from trading portfolios and other assets and liabilities at fair value through profit or loss, including dividends related to these portfolios.

These results also include gains on the sale of available-for-sale financial assets and held-to-maturity financial assets.

2.20. CASH AND EQUIVALENTS

For the purposes of the statement of cash flows, the cash and equivalents comprise the amounts recorded in the balance sheet with a maturity of less than three months from the balance sheet date, including cash, demand deposits at the BNA and balances with other credit institutions.

2.21. FINANCIAL GUARANTEES AND COMMITMENTS

Financial guarantees are contracts that 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. Irrevocable commitments are intended to provide credit under predetermined conditions.

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

3. MAIN ESTIMATES AND JUDGMENTS USED IN THE PREPARATION OF FINANCIAL STATEMENTS

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

Considering that in many situations there are alternatives to the accounting treatment adopted by the Board, the results reported by the Bank could be different if a different treatment was adopted. 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 aspects.

3.1 IMPAIRMENT OF THE AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Bank determines that there is impairment in its available-for-sale financial assets when there is a continued or significant devaluation of its fair value or when the Bank foresees an impact on the future cash flows of the assets. This determination requires judgment in which the Bank collects and evaluates all information relevant to the formulation of the decision, including the normal price volatility of financial instruments. For this purpose, and as a consequence of the strong market volatility, the following parameters were considered as indicators of impairment:

i) *Equity securities:* continued or significant devaluation in their market value when compared to acquisition cost;
ii) *Debt securities:* whenever there is objective evidence of events with an impact on the recoverable value of the future cash flows of these assets.

Additionally, valuations are obtained through market prices (mark-to-market) or valuation models (mark-to-model), which require the use of certain assumptions or judgments in the establishment of fair value estimates.

The use of alternative methodologies and different assumptions and estimates may result in a different level of impairment losses recognized, with a consequent impact on the Bank's income.

3.2 FAIR VALUE OF OTHER FINANCIAL ASSETS AND LIABILITIES RECOGNIZED AT FAIR VALUE

Fair value is based on market prices, when available, and in the absence of a quotation is determined based on the price of similar recent transactions made under market conditions, or based on valuation methodologies based on discounted future cash flow techniques considering market conditions, the time value, the yield curve and volatility factors. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

Consequently, the use of different methodologies or different assumptions or judgments in the application of a particular model could generate financial results different from those reported.

3.3 IMPAIRMENT LOSSES ON LOANS TO COSTUMERS

The Bank executes a periodic review of its credit portfolio in order to assess the existence of impairment losses, as referred to in the accounting policy described in Note 2.3.

The valuating process of the loan portfolio in order to determine whether an impairment loss should be recognized is subject to various estimates and judgments. This process includes factors such as probability of default, credit ratings, collateral value associated with each transaction, recovery rates, estimates of future cash flows and the timing of those cash flows.

Alternative methodologies and the use of other assumptions and estimates could result in different levels of impairment losses recognized, with a consequent impact on the Bank's results.

3.4. HELD-TO-MATURITY INVESTMENTS

The Bank classifies its non-derivative financial assets with fixed or determinable payments and maturities as held-to-maturity investments, in accordance with the requirements of IAS 39. This classification requires a significant level of judgment.

In its judgment, the Bank assesses its intention and ability to hold these investments until its maturity. If the Bank does not hold these investments up to its maturity, except in specific circumstances - for example, the sale of dispose of a non-significant portion - the reclassification of the entire portfolio to available-for-sale financial assets is required, with its subsequent measurement at fair value and not at amortised cost.

Assets held-to-maturity are tested for impairment, which follows an analysis and decision by the Bank.

The use of different methodologies and assumptions from those used in the calculations could imply different impacts on results.

3.5. INCOME TAXES

In order to determine the overall amount of income taxes it was necessary to make certain interpretations and estimates. There are several transactions and calculations for which the determination of taxes payable is uncertain during the normal business cycle.

Other interpretations and estimates could result in a different level of income tax, current and deferred, recognized in the year.

The Tax Authority has the possibility to review the calculation of the tax base carried out by the Bank during a period of five years. In context, corrections to the tax base are possible, mainly resulting from differences in the interpretation of tax legislation, which by its likelihood, the Board of Directors believes will not have a material effect on the financial statements.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

4. CASH AND CASH BALANCES WITH CENTRAL BANKS

This caption is made up as follows:

	31-12-2017	31-12-2016
Cash		
Domestic currency	17,554,716	14,395,828
Foreign currency	2,285,981	3,081,904
Demand deposits at the National Bank of Angola		
Domestic currency	152,481,955	136,783,183
Foreign currency	8,628,022	40,332,935
	180,950,674	**194,593,850**

The demand deposits at the National Bank of Angola are held in order to comply with the mandatory reserve requirements. These reserves are established accordingly with Instruction No. 6/2017 of the BNA, of 1 December 2017, summarized as follows:

Reserve base	Assessment	Coefficient in domestic currency	Coefficient in foreign currency
Central Government	Daily	75%	100%
Local Governments and Municipal Administrations	Daily	50%	100%
Other Sectors	Weekly	21%	15%

Compliance with the mandatory reserves for a given weekly observation period for Other Sectors is carried out taking into account the average value of the balances of customer deposits, among others, with the Bank during period in question.

According to the above-mentioned Instruction, the foreign currency reserve requirements may be fulfilled in 20% of the amounts deposited with the BNA and 80% in treasury bonds in foreign currency.

At 31 December 2017, the total amount of liabilities (Central Government, Local Governments, Local Administrations and Other Sectors) amounts to tAOA 213,426,738 (2016: tAOA 245,444,892).

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

5. BALANCES WITH OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	31-12-2017	31-12-2016
Balances with credit institutions in Angola		
Cheques for collection	6,358	501,786
Other	244,688	254,898
Balances with credit institutions abroad		
Demand deposits	9,145,983	24,180,002
Cheques for collection	(7,568)	(7,568)
Other	8	5,036
	9,389,469	**24,934,154**

6. INVESTMENTS IN CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	31-12-2017	31-12-2016
Investments in central banks and other credit institutions		
Deposits		
National Bank of Angola	27,500,000	6,000,000
Accrued interest	43,685	8,384
Purchased transactions with resale agreement	25,024,784	-
	52,568,469	**6,008,384**
Investments in credit institutions abroad		
Interbank money market	201,575,933	71,256,060
Accrued interest	143,503	84,934
Collateral deposits	249,770	150,003
	201,969,206	**71,490,997**
	254,537,675	**77,499,381**

The Schedule of Investments in central banks and other credit institutions by maturity on 31 December 2017 and 2016 is as follow:

	31-12-2017	31-12-2016
Until 3 months	245,684,552	61,616,455
From 3 to 6 months	5,546,062	12,726,349
From 6 months to 1 year	3,307,061	3,156,577
	254,537,675	**77,499,381**

At 31 December 2017, Investments in central banks and other credit institutions bear interest at the average rate of 16.47% in domestic currency and 1.09% in foreign currency (2016: 25.50% in domestic currency and 1.10% in foreign currency).

Deposits at credit institutions abroad bear interest at the international market rates where the Bank operates

As of 31 December 2017, the balance comprising the Collateral Deposits item refers to the corresponding provisioning for daily settlements of VISA cards used for subsequent settlements with the costumer.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

As of 31 December 2017, the caption Investments in credit institutions abroad – Interbank money market includes the amounts of tAOA 6,471,017, tAOA 995,541 and tAOA 682,496 which are collateralizing loans granted by BAI Europa, Commerzbank and BAI Cabo Verde, respectively, as detailed in Note 37.

7. FINANCIAL ASSETS HELD FOR TRADING

This caption is made up as follows:

	31-12-2017	31-12-2016
Financial assets held for trading		
Securities		
Bonds and other fixed-income securities		
From public issuers		
Bonds indexed to the US dollar exchange rate	3,901,418	13,658,766
Bonds in foreign currency	177,197	2,203,648
	4,078,615	**15,862,414**

According to the accounting policy described in Note 2.4.1 a), securities held for trading are those acquired for the purpose of trading in the short term, regardless of their maturity.

At 31 December 2017 and 2016, available-for-sale financial assets net of impairment have the following valuation levels:

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Bonds and other fixed-income securities				
From public issuers	-	4,078,615	-	4,078,615
Balance at 31 December 2017	**-**	**4,078,615**	**-**	**4,078,615**
Financial assets held for trading				
Securities				
Bonds and other fixed-income securities				
From public issuers	-	15,862,414	-	15,862,414
Balance at 31 December 2016	**-**	**15,862,414**	**-**	**15,862,414**

In accordance with IFRS 13, financial instruments are measured at the valuation levels described in Note 39.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the maturity of securities held for trading are as follows:

	Less than 3 months	Between 3 months and 1 year	From 1 year to 5 years	More than 5 years	Total
Bonds and other fixed-income securities					
From public issuers	-	-	3,429,467	649,148	4,078,615
Balance at 31 December 2017	**-**	**-**	**3,429,467**	**649,148**	**4,078,615**
Bonds and other fixed-income securities					
From public issuers	7,439	2,026,341	13,217,580	611,054	15,862,414
Balance at 31 December 2016	**7,439**	**2,026,341**	**13,217,580**	**611,054**	**15,862,414**

At 31 December 2017 and 2016, the securities held for trading can be analysed as follows:

31-12-2017	Issuer	Domicile	Activity	Currency	Indexer	Average rate	Nominal value	Acquisition cost	Accrued interest	Fair value adjustment	Book value
Financial assets held for trading											
Securities											
OT's indexed to the US dollar exchange rate	State	Angola	Government	AOA	USD	6.55%	3,582,705	3,582 705	5,919	312,794	3,901,418
Treasury Bonds in foreign currency	State	Angola	Government	USD	n.a.	4.28%	175,879	175,879	1,318	-	177,197
							3,758,584	**3,758,584**	**7,237**	**312,794**	**4,078,615**

31-12-2016	Issuer	Domicile	Activity	Currency	Indexer	Average rate	Nominal value	Acquisition cost	Accrued interest	Fair value adjustment	Book value
Financial assets held for trading											
Securities											
OT's indexed to the US dollar exchange rate	State	Angola	Government	AOA	USD	5.95%	13,069,580	13,052,626	246,062	360,078	13,658,766
Treasury Bonds in foreign currency	State	Angola	Government	USD	n.a.	4.20%	2,166,688	2,166,688	36,960	-	2,203,648
							15,236,268	**15,219,314**	**283,022**	**360,078**	**15,862,414**

At 31 March 2017, the amount of tAOA 7,083,034 was reclassified to the caption of held-to-maturity investments, as shown below:

	At reclassification date		31-12-2017	
	Book value	Fair value	Book value	Fair value
Financial assets held for trading				
Financial assets held-to-maturity	7,083,034	7,083,034	7,240,788	7,240,788
Total	**7,083,034**	**7,083,034**	**7,240,788**	**7,240,788**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption is made up as follows:

	Cost[1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
From public issuers	16,640,212	-	-	-	16,640,212
Shares	75,033	-	-	-	75,033
Other variable-yield securities	1,810,920	807,351	-	-	2,618,271
Balance at 31 December 2017	**18,526,165**	**807,351**	**-**	**-**	**19,333,516**
Bonds and other fixed-income securities					
From public issuers	16,638,118	-	-	-	16,638,118
Shares	561,176	-	-	(486,143)	75,033
Other variable-yield securities	512,847	-	(336,060)	-	176,787
Balance at 31 December 2016	**17,712,141**	**-**	**(336,060)**	**(486,143)**	**16,889,938**

[1] Acquisition cost in respect of shares and other equity instruments and amortised cost for debt securities.

In accordance with the accounting policy described in Note 2.4, the Bank regularly assesses whether there is objective evidence of impairment in its available-for-sale assets portfolio following the judgment criteria described in Note 39.

At 31 December 2017 and 2016, the impairment losses present the following movements:

	31-12-2017	31-12-2016
Opening balance	**486,143**	**486,143**
Utilisations	(486,143)	-
Closing balance	**-**	**486,143**

In February 2017, BAI entered into a contract for the disposal of its entire interest in the share capital of BPN Participações, a limited company whose corporate purpose is limited to the participation in Banco BPN Brasil. The sale was effected after obtaining the authorization of the Central Bank of Brazil, and implied the use of the impairment constituted, in the amount of tAOA 486,143, as presented in the table above.

The caption Bonds and other fixed-income securities - From public issuers refers to the securities and respective accrued interest that resulted from the conversion of the mandatory reserves into USD, within the scope of the requirements defined by the BNA at the end of 2015. On 21 October 2016, the amount of tUSD 386,140 was reclassified to the caption of Held-to-maturity investments, as shown below:

	Reclassification date		31-12-2017	
	Book value	Fair value	Book value	Fair value
Available-for-sale financial assets				
Held-to-maturity investments	63,762,180	63,762,180	64,254,517	64,254,517
Total	**63,762,180**	**63,762,180**	**64,254,517**	**64,254,517**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the available-for-sale financial assets, net of impairment, have the following valuation levels:

	Level 1	Level 2	Level 3	At cost	Total
Bonds and other fixed-income securities					
From public issuers	-	16,640,212	-	-	16,640,212
Shares	-	-	-	75,033	75,033
Other variable-yield securities	-	2,618,271	-	-	2,618,271
Balance at 31 December 2017	**-**	**19,258,483**	**-**	**75,033**	**19,333,516**
Bonds and other fixed-income securities					
From public issuers	-	16,638,118	-	-	16,638,118
Shares	-	-	-	75,033	75,033
Other variable-yield securities	-	176,787	-	-	176,787
Balance at 31 December 2016	**-**	**16,814,905**	**-**	**75,033**	**16,889,938**

In accordance with IFRS 13, financial instruments are measured at the valuation levels described in Note 39.

At 31 December 2017 and 2016, available-for-sale financial assets have the following residual maturity dates:

	Less than 3 months	Between 3 months and 1 year	From 1 to 5 years	More than 5 years	Indefinite duration	Total
Bonds and other fixed-income securities						
From public issuers	-	-	16,640,212	-	-	16,640,212
Shares	-	-	-	-	75,033	75,033
Other variable-yield securities	-	-	-	-	2,618,271	2,618,271
Balance at 31 December 2017	**-**	**-**	**16,640,212**	**-**	**2,693,304**	**19,333,516**
Bonds and other fixed-income securities From public issuers	-	-	-	16,638,118	-	16,638,118
Shares	-	-	-	–	75,033	75,033
Other variable-yield securities	-	-	-	-	176,787	176,787
Balance at 31 December 2016	**-**	**-**	**-**	**16,638,118**	**251,820**	**16,889,938**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, available-for-sale financial assets have the following characteristics:

31-12-2017	Issuer	Domicile	Activity	Currency	Indexer	Average rate	Nominal value	Acquisition cost	Accrued interest	Premium/ Discount	Fair value adjustment / impairment	Book value
Available-for-sale financial assets												
Treasury Bonds in foreign currency	State	Angola	Government	USD	n.a.	5.00%	16,592,350	16,592,350	47,862	-	-	16,640,212
Carlyle	n.a.	USA	Investment Fund	USD	n.a.	n.a.	n.a.	512,911	n.a.	n.a.	(457,009)	55,902
FIPA I	n.a.	Luxembourg	Investment Fund	USD	n.a.	n.a.	n.a.	820,219	n.a.	n.a.	1,385,077	2,205,296
FIPA II	n.a.	Luxembourg	Investment Fund	USD	n.a.	n.a.	n.a.	477,790	n.a.	n.a.	(120,717)	357,073
Shares	Others	Angola	Financial Institutions; Insurance	AOA	n.a.	n.a.	n.a.	75,033	n.a.	n.a.	-	75,033
							16,592,350	**18,478,303**	**47,862**	**-**	**807,351**	**19,333,516**

31-12-2016	Issuer	Domicile	Activity	Currency	Indexer	Average rate	Nominal value	Acquisition cost	Accrued interest	Premium /Discount	Fair value adjustment/ impairment	Book value
Available-for-sale financial assets												
Treasury Bonds in foreign currency	State	Angola	Government	USD	n.a.	5.00%	16,590,261	16,590,261	47,857	-	-	16,638,118
Carlyle	Carlyle	USA	Investment Fund	USD	n.a.	n.a.	n.a.	512,847	n.a.	n.a.	(336,060)	176,787
Shares	Others	Angola	Financial Institutions; Insurance	AOA	n.a.	n.a.	n.a.	561,176	n.a.	n.a.	(486,143)	75,033
							16,590,261	**17,664,284**	**47,857**	**-**	**(822,203)**	**16,889,938**

The fair value reserve movement occurred during the year is detailed in Note 21.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

9. HELD-TO-MATURITY INVESTMENTS

This caption is made up as follows:

	31-12-2017	31-12-2016
Bonds and other fixed-income securities		
From public issuers		
Treasury Bills	147,579,736	248,057,293
Treasury Bonds in domestic currency		
OT indexed to the US dollar exchange rate	38,214,068	53,629,920
OT non-readjustable	50,355,635	68,550,995
Treasury Bonds in foreign currency	180,218,605	178,201,622
From other issuers		
Other bonds in foreign currency	1,685,582	1,726,749
	418,053,626	**550,166,579**

The caption Treasury Bonds in foreign currency includes the securities that resulted from the conversion of the mandatory reserves into foreign currency and were partially reclassified in October 2016 from the caption Available-for-sale financial assets, as described in Note 8.

The caption OT non-readjustable includes Treasury Bonds in the amount of tAOA 42,814,711 resulting from a direct loan to the government, as a “Bridge Finance”, under a banking syndicate, whose settlement was made in Treasury Bonds, according to conditions established by Presidential Decree No. 136/14 of 16 July.

As part of the financial restructuring process of Banco BAI Micro Finance, SA ("BMF") agreed with BNA, at the end of 2016, BAI acquired from BMF a loan portfolio totalling tAOA 4,297,256. This business was formalized through the transfer of a portfolio of securities issued by the Angolan Government for an equal amount, so that the transaction did not generate any value in BAI's income statement. The securities ceded by BAI were classified in the caption held-to-maturity investments, and the transaction was within the scope of IAS 39, which states that in exceptional situations, an insignificant percentage of the portfolio may be sold if it is not a recurring procedure. Assigned assets represented 0.78% of the total portfolio at the date of the transaction.

The fair value of the held-to-maturity investments portfolio is presented in Note 39, within the scope of the disclosure requirements defined in IAS 39.

At 31 December 2017 and 2016, the Bank assessed the existence of objective evidence of impairment in its held-to-maturity investments portfolio, and did not verify events with an impact on the recoverable amount of the future cash flows of these investments.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

Held-to-maturity investments have the following residual maturity dates:

	Less than 3 months	Between 3 months and 1 year	From 1 to 5 years	More than 5 years	Total
Bonds from domestic public issuers					
Treasury Bills	111,333,745	36,245,991	-	-	147,579,736
Treasury Bonds in domestic currency					
OT indexed at US dollar exchange rate	-	7,609,806	22,773,612	7,830,650	38,214,068
OT non-readjustable	2,503,667	9,023,697	38,828,271	-	50,355,635
Treasury Bonds in foreign currency	6,560,956	74,949,417	94,306,824	4,401,408	180,218,605
Bonds from other issuers	860,880	-	824,702	-	1,685,582
Balance at 31 December 2017	**121,259,248**	**127,828,911**	**156,733,409**	**12,232,058**	**418,053,626**
Bonds from domestic public issuers					
Treasury Bills	99,567,379	148,489,914	-	-	248,057,293
Treasury Bonds in domestic currency					
OT indexed at US dollar exchange rate	16,954,911	12,995,040	22,442,535	1,237,434	53,629,920
OT non-readjustable	3,972,892	19,174,456	37,196,198	8,207,449	68,550,995
Treasury Bonds in foreign currency	40,456	2,268,687	111,212,950	64,679,529	178,201,622
Bonds from other issuers	433,102	-	1,293,647	-	1,726,749
Balance at 31 December 2016	**120,968,740**	**182,928,097**	**172,145,330**	**74,124,412**	**550,166,579**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, held-to-maturity investments have the following characteristics:

31-12-2017	Issuer	Domicile	Activity	Currency	Indexer	Average rate	Nominal value	Acquisition cost	Accrued interest	Premium/ Discount	Book value
Held-to-maturity investments											
Treasury Bills	State	Angola	Government	AOA	n.a.	21.11%	152,720,783	135,154,898	-	12,424,838	147,579,736
Treasury Bonds in domestic currency											
OT indexed to US dollar exchange rates	State	Angola	Government	AOA	USD	6.15%	30,975,478	37,909,532	240,761	63,775	38,214,068
OT non-readjustable	State	Angola	Government	AOA	n.a.	8.67%	53,858,600	49,007,217	244,379	1,104,039	50,355,635
Treasury Bonds in foreign currency	State	Angola	Government	USD	n.a.	4.55%	178,447,406	177,760,711	1,768,149	689,745	180,218,605
Other bonds in foreign currency - EUR	Others	Cape Verde	Financial Institutions; Construction; Transports	EUR	n.a.	6.25%	810,729	810,729	21,153	-	831,882
Other bonds in foreign currency - USD	Others	Angola	Financial Institutions	USD	n.a.	11.00%	829,618	829,618	24,082	-	853,700
							417,642,614	**401,472,705**	**2,298,524**	**14,282,397**	**418,053,626**

31-12-2016	Issuer	Domicile	Activity	Currency	Indexer	Average rate	Nominal value	Acquisition cost	Accrued interest	Premium/ Discount	Book value
Held-to-maturity investments											
Treasury Bills	State	Angola	Government	AOA	n.a.	18.44%	264,249,375	234,735,679	-	13,321,614	248,057,293
Treasury Bonds in domestic currency											
OT indexed to US dollar exchange rates	State	Angola	Government	AOA	USD	6.03%	53,036,661	52,857,403	661,277	111,240	53,629,920
OT non-readjustable	State	Angola	Government	AOA	n.a.	7.53%	67,147,041	67,147,041	624,970	778,984	68,550,995
Treasury Bonds in foreign currency	State	Angola	Government	USD	n.a.	7.62%	176,798,277	175,986,267	1,713,573	501,782	178,201,622
Other bonds in foreign currency - EUR	Others	Cape Verde	Financial Institutions; Construction; Transports	EUR	n.a.	6.82%	849,863	849,863	23,041	-	872,904
Other bonds in foreign currency - USD	Others	Angola	Financial Institutions	USD	n.a.	11.00%	829,513	829,513	24,332	-	853,845
							562,910,730	**532,405,766**	**3,047,193**	**14,713,620**	**550,166,579**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

10. LOANS TO COSTUMERS

This caption is made up as follows:

	31-12-2017	31-12-2016
Domestic loans		
To companies	**267,026,569**	**349,844,907**
Current account loans	44,401,154	35,427,041
Loans	222,507,566	305,535,406
Overdrafts	-	8,806,392
Credit cards	117,849	76,068
To individuals	**59,481,579**	**45,493,412**
Housing	23,708,103	27,129,217
Consumeption and others	35,773,476	18,364,195
	326,508,148	**395,338,319**
Foreign loans		
To companies	9,458,436	11,032,814
Overdrafts	21	20
Credit cards	775	271
Other loans	9,457,640	11,032,524
To individuals	4,790	875
	9,463,226	**11,033,689**
Non-performing loans (principal and interest)		
Up to 30 days	25,631,708	9,258,622
From 30 to 90 days	20,778,427	13,636,864
More than 90 days	75,421,440	19,443,903
	121,831,575	**42,339,389**
	457,802,949	**448,711,397**
Impairment losses	(88,457,685)	(68,847,353)
	369,345,264	**379,864,044**

Non-performing loans include all credit operations with overdue instalments for more than one day, including instalments due and not yet due.

At 31 December 2017 and 2016, the composition of non-performing loans and impairment by days in arrears is as follows:

Segment	Exposure 31-12-2017					Impairment 31-12-2017		
	Non-performing loans	Up to 30 days	From 30 to 90 days	More than 90 days	Total impairment	Up to 30 days	From 30 to 90 days	More than 90 days
Consumption	6,656,110	3,300,925	620,476	2,734,709	2,622,229	35,794	145,834	2,440,601
Overdrafts	120,411	49,295	9,219	61,897	24,535	189	26	24,320
Large companies	66,227,642	4,413,026	13,631,674	48,182,942	30,076,114	805,919	140,254	29,129,941
Housing	6,594,824	3,550,638	633,252	2,410,934	1,965,603	167,237	134,008	1,664,358
Small companies	22,700,463	330,694	350,118	22,019,651	19,095,811	99,761	119,637	18,876,413
Public sector	19,532,124	13,987,130	5,533,688	11,307	11,287	-	-	11,287
Total	**121,831,575**	**25,631,708**	**20,778,427**	**75,421,440**	**53,795,579**	**1,108,900**	**539,759**	**52,146,920**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

Segment	Exposure 31-12-2016					Impairment 31-12-2016		
	Non-performing loans	Up to 30 days	From 30 to 90 days	More than 90 days	Total impairment	Up to 30 days	From 30 to 90 days	More than 90days
Consumption	4,011,128	545,982	150,066	3,315,080	2,751,841	73,095	37,756	2,640,990
Large companies	32,825,087	7,322,181	11,203,019	14,299,887	13,573,965	3,470,105	7,845,775	2,258,085
Housing	2,884,763	1,062,109	729,188	1,093,466	956,468	46,599	163,446	746,423
Small companies	2,618,411	328,350	1,554,591	735,470	1,133,266	34,848	638,138	460,280
Total	**42,339,389**	**9,258,622**	**13,636,864**	**19,443,903**	**18,415,540**	**3,624,647**	**8,685,115**	**6,105,778**

At 31 December 2017 and 2016, the composition of non-performing loans without impairment by days in arrears is as follows:

Segment	Exposure 31-12-2017				Exposure 31-12-2016			
	Non-performing loans without impairment	Up to30 days	From 30 to 90days	More than 90 days	Non-performing loans without impairment	Up to30 days	From 30 to 90days	More than 90 days
Consumption	3,161,307	2,819,937	190,334	151,036	381,715	328,485	53,230	-
Overdrafts	34,354	18,415	9,189	6,750	-	-	-	-
Large companies	4,261,307	456,946	245,000	3,559,361	12,413,063	2,747,951	1,802,821	7,862,291
Housing	3,890,825	3,033,335	313,993	543,497	1,200,713	926,182	274,531	-
Small companies	640,569	63,666	148,842	428,061	1,057,385	166,288	724,990	166,107
Public sector	19,520,818	13,987,130	5,533,688	-	-	-	-	-
Total	**31,509,180**	**20,379,429**	**6,441,046**	**4,688,705**	**15,052,876**	**4,168,906**	**2,855,572**	**8,028,398**

Asof 31 December 2017 and 2016, the composition of non-performing loans with impairment by days in arrears is as follows:

Segment	Exposure 31-12-2017				Exposure 31-12-2016			
	Non-performing loans without impairment	Up to30 days	From 30 to 90days	More than 90 days	Non-performing loans without impairment	Up to30 days	From 30 to 90days	More than 90 days
Consumption	3,494,803	480,987	430,142	2,583,673	3,629,420	217,498	96,836	3,315,086
Overdrafts	86,057	30,880	30	55,147	-	-	-	-
Large companies	61,966,335	3,956,081	13,386,674	44,623,580	20,412,017	4,574,229	9,400,198	6,437,590
Housing	2,703,999	517,303	319,259	1,867,437	1,684,050	135,927	454,657	1,093,466
Small companies	22,059,894	267,028	201,276	21,591,591	1,561,026	162,062	829,601	569,363
Public sector	11,307	-	-	11,307	-	-	-	-
Total	**90,322,395**	**5,252,279**	**14,337,381**	**70,732,735**	**27,286,513**	**5,089,716**	**10,781,292**	**11,415,505**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, loans to customers by currency are as follows:

Currency	31-12-2017		31-12-2016	
	Loans	Impairment	Loans	Impairment
AOA	277,198,277	71,561,869	231,593,402	47,779,491
USD	180,411,138	16,884,231	217,114,340	21,067,312
EUR	193,532	11,585	3,655	550
GBP	2	-	-	-
Total	**457,802,949**	**88,457,685**	**448,711,397**	**68,847,353**

At 31 December 2017 and 2016, loans to customers by residual maturity terms are as follows:

	31-12-2017	31-12-2016
Up to 3 months	23,574,422	28,569,339
From 3 months to 1 year	30,688,887	35,211,246
From 1 to 5 years	187,963,546	181,239,884
More than 5 years	93,744,519	161,351,539
Indefinite duration	121,831,575	42,339,389
	457,802,949	**448,711,397**

Non-performing loans are included in the "Indefinite duration" category due to the condition that it presents. As of 31 December 2017, approximately 53% (31 December 2016: 55%) of credit portfolio had a maturity of less than 5 years.

At 31 December 2017 and 2016, the composition of credit and impairment by segment and situation is as follows:

Segment	Exposure 31-12-2017			Impairment 31-12-2017		
	Total Exposure	Performing loans	Non-performing loans	Total impairment	Performing loans	Non-performing loans
Credit cards	859,595	859,595	-	41,551	41,551	-
Consumption	30,274,690	23,618,580	6,656,110	3,352,436	730,207	2,622,229
Overdrafts	120,946	535	120,411	24,535	-	24,535
Large companies	215,734,767	149,507,126	66,227,641	62,990,863	32,914,749	30,076,114
Housing	36,951,188	30,356,364	6,594,824	2,438,676	473,073	1,965,603
Small companies	29,906,498	7,206,036	22,700,462	19,582,756	486,945	19,095,811
Public sector	143,955,265	124,423,138	19,532,127	26,868	15,581	11,287
	457,802,949	**335,971,374**	**121,831,575**	**88,457,685**	**34,662,106**	**53,795,579**

Segment	Exposure 31-12-2016			Impairment 31-12-2016		
	Total Exposure	Performing loans	Non-performing loans	Total impairment	Performing loans	Non-performing loans
Credit cards	494,825	494,825	-	1,975	1,975	-
Consumption	22,687,822	18,676,693	4,011,129	3,862,853	1,111,012	2,751,841
Overdrafts	50,787	50,787	-	19,678	19,678	-
Large companies	235,442,753	202,617,666	32,825,087	51,153,960	37,579,995	13,573,965
Housing	42,900,515	40,015,753	2,884,762	2,100,208	1,143,740	956,468
Small companies	28,141,892	25,523,481	2,618,411	11,700,684	10,567,418	1,133,266
Public sector	118,992,803	118,992,803	-	7,996	7,996	-
	448,711,397	**406,372,008**	**42,339,389**	**68,847,354**	**50,431,814**	**18,415,540**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

Due to its nature, the Bank classifies the overdrafts as non-performing credit, except for overdrafts authorized for as long as they do not exceed the authorized term established.

At 31 December 2017 and 2016, the composition of loan and impairment by concession date is as follows:

31-12-2017

Segment	2014 and prior			2015			2016			2017			Total		
	No.	Amount	Impairment	No.	Amount	Impairment	No.	Amount	Impairment	No.	Amount	Impairment	No.	Amount	Impairment
Credit cards	7,206	673,824	40,786	352	38,259	108	278	32,732	11	1,303	114,780	646	9,139	859,595	41,551
Consumption	4,010	4,626,738	1,832,964	3,547	6,410,343	529,567	815	2,932,366	444,101	8,279	16,305 242	545,804	16,651	30,274,689	3,352,436
Overdrafts	3,609	93,887	18,208	554	6,188	1,003	669	10,087	3,919	649	10,784	1,405	5,481	120,946	24,535
Large companies	551	86,997,962	28,707,869	36	18,629,477	5,663,456	94	93,606,549	24,744,597	92	16 ,500,780	3,874,941	773	215,734,768	62,990,863
Housing	1,462	34,056,902	2,274,687	87	2,069,521	163,467	21	577,123	522	11	247,642	-	1,581	36,951,188	2,438,676
Small companies	667	6,571,047	5,250,225	83	3,740,194	1,426,303	162	15,166,760	12,413,437	87	4,428,497	492,791	999	29,906,498	19,582,756
Public sector	121	105,794,976	15,639	8	1,181,898	24	13	19,390,578	11,205	6	17,587,813	-	148	143,955,265	26,868
	17,626	**238,815,336**	**38,140,378**	**4,667**	**32,075,880**	**7,783,928**	**2,052**	**131,716,195**	**37,617,792**	**10,427**	**55,195,538**	**4,915,587**	**34,772**	**457,802,949**	**88,457,685**

31-12-2016

Segment	2013 and prior			2014			2015			2016			Total		
	No.	Amount	Impairment	No.	Amount	Impairment	No.	Amount	Impairment	No.	Amount	Impairment	No.	Amount	Impairment
Credit cards	6,582	382,267	1,954	624	60,233	-	352	38,033	5	278	13,209	16	7,836	493,742	1,975
Consumption	2,352	1,824,194	818,413	3,525	6,105,861	2,116,316	4,094	7,997,253	340,410	942	6,642,398	587,715	10,913	22,569,706	3,862,854
Overdrafts	-	-	-	-	-	-	377	11,395	5,945	1,567	39,281	13,733	1,944	50,676	19,678
Large companies	463	59,137,405	17,678,042	73	27,000,673	3,274,391	82	30,986,794	8,118,714	548	118,873,922	22,082,812	1,166	235,998,794	51,153,959
Housing	1,342	32,738,334	1,904,989	206	4,995,139	139,940	155	3,778,206	49,113	33	1,247,363	6,165	1,736	42,759,042	2,100,207
Small companies	431	3,316,845	2,231,083	85	4,100,968	2,252,675	65	4,402,972	1,062,298	261	16,286,283	6,154,628	842	28,107,068	11,700,684
Public sector	52	4,500	-	11	116,388,632	-	5	938,634	-	56	1,400,603	7,996	124	118,732,369	7,996
	11,222	**97,403,545**	**22,634,481**	**4,524**	**158,651,506**	**7,783,322**	**5,130**	**48,153,287**	**9,576,485**	**3,685**	**144,503,059**	**28,853,065**	**24,561**	**448,711,397**	**68,847,353**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the composition of loan and impairment by segment is as follows:

31-12-2017

Segment	Individual impairment		Collective impairment		IBNR impairment		Total	
	Total exposure	Impairment	Total exposure	Impairment	Total exposure	Impairment	Total exposure	Impairment
Credit cards	1,091	2,930	850,307	38,530	8,197	91	859,595	41,551
Consumption	1,752,617	1,619,467	24,609,228	1,643,990	3,912,844	88,979	30,274,689	3,352,436
Overdrafts	2,002	2,002	88,064	22,344	30,880	189	120,946	24,535
Large companies	163,396,277	59,855,499	2,957,286	1,738,447	49,381,205	1,396,917	215,734,768	62,990,863
Housing	152,430	152,430	35,683,880	2 ,276,514	1,114,878	9,732	36,951,188	2,438,676
Small companies	18,878,286	16,920,854	7,726,658	2,551,189	3,301,554	110,713	29,906,498	19,582,756
Public sector	11,199	11,199	16,406,467	88	127,537,599	15,581	143,955,265	26,868
	184,193,902	**78,564,381**	**88,321,890**	**8,271,102**	**185,287,157**	**1,622,202**	**457,802,949**	**88,457,685**

31-12-2016

Segment	Individual impairment		Collective impairment		IBNR impairment		Total	
	Total exposure	Impairment	Total exposure	Impairment	Total exposure	Impairment	Total exposure	Impairment
Credit cards	-	-	490,841	1,946	2,901	29	493,742	1,975
Consumption	3,295,602	2,628,655	16,147,160	1,138,174	3,126,944	96,025	22,569,706	3,862,854
Overdrafts	-	-	50,676	19,678	-	-	50,676	19,678
Large companies	138,375,742	36,995,358	21,683,860	1,085,114	75,939,192	13,073,487	235,998,794	51,153,959
Housing	-	-	41,015,863	2,072,287	1,743,179	27,920	42,759,042	2,100,207
Small companies	16,930,138	9,818,080	8,240,090	1,692,404	2,936,840	190,200	28,107,068	11,700,684
Public sector	1,400, 501	7,977	5,373	19	117,326,495	-	118,732,369	7,996
	160,001,983	**49,450,070**	**87,633,863**	**6,009,622**	**201,075,551**	**13,387,661**	**448,711,397**	**68,847,353**

The assessment of the existence of impairment losses in individual terms is determined by analyzing the total credit exposure on a case-by-case basis. As mentioned in Note 2.3, the Bank considers individually significant exposures to be equal to or greater than 0.5% of the institution's regulatory own funds as well as the twenty largest private customers.

The credits that were subject to individual analysis in 2017 represent 81% of the loan portfolio and 89% of total impairment. It should be noted that, for the credits subject to individual analysis for which it was concluded that they do not show objective signs of impairment, they are transferred to the collective analysis portfolio (IBNR).

The restructured loan position as of 31 December 2017 and 2016 can detailed as follows:

	31-12-2017	31-12-2016
Opening balance of the restructured loan portfolio (gross of impairment)	**138,009,819**	**68,379,477**
Loans restructured during the period	27,064,634	79,852,038
Accrued interest of the restructured loan portfolio	186,362	1,392,842
Settlement of restructured loans (partial or total)	(20,848,525)	(6,092,463)
Others – Write-offs	-	(5,522,075)
Closing balance of the restructured loan portfolio (gross of impairment)	**144,412,290**	**138,009,819**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the credit by geographical area is as follows:

31/12/2017	Geographical area		
	Angola	Others	Total
Individuals	68,477,902	-	68,477,902
Companies	242,512,670	-	242,512,670
Public sector	19,480,436	-	19,480,436
State	117,874,301	9,457,640	127,331,941
	448,345,309	**9,457,640**	**457,802,949**

31/12/2016	Geographical area		
	Angola	Others	Total
Individuals	65,873,233	-	65,873,233
Companies	255,125,778	-	255,125,778
Public sector	8,902,506	-	8,902,506
State	107,777,356	11,032,524	118,809,880
	437,678,873	**11,032,524**	**448,711,397**

At 31 December 2017 and 2016, the loan portfolio by activity sector is as follows:

31-12-2017

Activity sector	Loan and advances to customers				Impairment	
	Performing	Non-performing	Total exposure	Relative weight	Amount	%
Companies	**281,136,300**	**108,460,230**	**389,596,530**	**85.10%**	**82,600,487**	**21.20%**
State	108,151,917	19,379,416	127,531,333	27.86%	1,215	0.00%
Real estate development	87,674,079	15,570,297	103,244,376	22.55%	43,801,267	42.42%
Trade	14,366,030	10,031,054	24,397,084	5.33%	9,708,490	39.79%
Extractive industry	40,402,846	148,917	40,551,763	8.86%	2,639,816	6.51%
Construction	19,829,153	4,909,878	24,739,031	5.40%	4,382,743	17.72%
Agro-industry	1,269,716	18,554,096	19,823,812	4.33%	3,610,638	18.21%
Manufacturing industry	1,210,451	30,290,146	31,500,597	6.88%	11,307,146	35.90%
Services	5,379,815	2,336,294	7,716,109	1.69%	1,917,426	24.85%
Others	285,695	926,203	1,211,898	0.26%	441,238	36.41%
Hotels and tourism	863,262	2,873 456	3,736,718	0.82%	2,901,614	77.65%
Fishing	1,402,281	2,960,658	4,362,939	0.95%	1,820,418	41.72%
Agriculture	299,939	413,021	712,960	0.16%	30,591	4.29%
Agro-livestock	1,116	66,794	67,910	0.01%	37,885	55.79%
Individuals	**54,835,074**	**13,371,345**	**68,206,419**	**14.90%**	**5,857,198**	**8.59%**
Consumer loans	23,618,580	6,656,110	30 274,690	6.61%	3,352,436	11.07%
Mortgage	30,356,364	6,594,824	36 951,188	8.07%	2,438,676	6.60%
Others	860,130	120,411	980,541	0.21%	66,086	6.74%
	335,971,374	**121,831,575**	**457,802,949**		**88,457,685**	

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

31-12-2016

Activity sector	Loans to costumers				Impairment	
	Performing	Non-performing	Total exposure	Relative weight	Amount	%
Companies	**347,133,950**	**35,443,498**	**382,577,448**	**85.26%**	**62,862,632**	**16.43%**
State	118,977,362	-	118,977,362	26.52%	8	0.0%
Real estate development	74,830,074	20,919,275	95,749,349	21.34%	28,650,098	29.9%
Trade	24,603,987	335,329	24,939,316	5.56%	10,357,057	41.5%
Extractive industry	30,947,697	2,275,332	33,223,029	7.40%	5,335,326	16.1%
Construction	23,140,841	1,152,349	24,293,190	5.41%	2,394,365	9.9%
Agro-industry	19,859,187	27	19,859,214	4.43%	3,699,884	18.6%
Manufacturing industry	34,913,059	9,204,517	44,117,576	9.83%	5,383,794	12.2%
Services	5,902,737	1,093,628	6,996,365	1.56%	1,084,871	15.5%
Others	7,379,197	153,194	7,532,391	1.68%	2,449,521	32.5%
Hotels and tourism	3,075,371	38,627	3,113,998	0.69%	2,129,605	68.4%
Fishing	3,016,156	97,056	3,113,212	0.69%	1,124,350	36.1%
Agriculture	436,224	147,449	583,673	0.13%	226,606	38.8%
Agro-livestock	52,058	26,715	78,773	0.02%	27,155	34.5%
Individuals	**59,238,058**	**6,895,891**	**66,133,949**	**14.74%**	**5,984,713**	**9.05%**
Consumer loans	18,676,693	4,011,129	22,687,822	5.06%	3,862,852	17.0%
Mortgage	40,015,753	2,884,762	42,900,515	9.56%	2,100,207	4.9%
Others	545,612	-	545,612	0.12%	21,654	4.0%
	406,372,008	**42,339,389**	**448,711,397**		**68,847,345**	

As of 31 December 2017 and 2016, the average interest rate of the loan portfolio by currency is as follows:

Weighted average rate	31-12-2017	31-12-2016
In domestic currency	18.70%	16.29%
In foreign currency	8.25%	6.17%

As of 31 December 2017 and 2016, the impairment losses show the following movements:

	31-12-2017	31-12-2016
Opening balance	**68,847,353**	**49.615.930**
Increases	40,253,801	146.139.722
Decreases/reversals	(21,477,986)	(120,474,179)
(Note 34)	18,775,815	25,665,543
Utilisations	(428,034)	(6,986,679)
Transfers (Note 18)	1,260,801	(2,996,292)
Adjustments	1,750	3,548,851
Closing balance	**88,457,685**	**68,847,353**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the composition of the risk factors associated with impairment is as follows:

Segment	Impairment 31-12-2017				Impairment 31-12-2016			
	Probability of default (%)			Loss given default (%)	Probability of default (%)			Loss given default (%)
	< 30 days without signs	< 30 days with signs	Between 30 and 90 days		< 30 days without signs	< 30 days with signs	Between 30 and 90 days	
Credit cards	3.30%	19.05%	5.39%	55.05%	18.65%	93.10%	95.43%	5.48%
Consumer loans	4.26%	17.33%	70.72%	58.47%	4.06%	24.59%	61.32%	68.24%
Overdrafts	16.26%	11.47%	20.74%	38.03%	1.06%	12.46%	56.72%	51.80%
Major companies	8.27%	41.46%	10.05%	66.29%	14.58%	34.92%	76.86%	42.11%
Mortgage	4.52%	11.80%	52.36%	59.63%	2.34%	6.98%	50.70%	68.25%
Small companies	3.70%	45.95%	87.51%	53.30%	17.72%	44.20%	99.09%	44.10%
Public sector	5.26%	3.97%	43.94%	90.60%	0.20%	28.02%	41.43%	36.54%
	3.27%	**4.56%**	**70.04%**	**58.47%**	**7.95%**	**34.10%**	**77.81%**	**44.26%**

11. NON-CURRENT ASSETS HELD FOR SALE

This caption is made up as follows:

	31-12-2017	31-12-2016
Property received as settlement for defaulting loans	19,144,186	14,996,481
Other property	1,924,077	2,812,047
Impairment	(2,215,333)	(2,127,895)
	18,852,930	**15,680,633**

The Bank expects to sell the property within two years, unless market conditions do not allow it.

At 31 December 2017, receipts arising from the disposal of property received as settlement for defaulting loans in the amount of tAOA 3,263,562 are recorded in the caption Other Receivables – Securities received (Note 19).

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The caption Other property includes the investment in two buildings acquired by the Bank, still as a project, in 2008, with the purpose to sell them to Banks employees at prices similar to the acquisition prices, which are included in the regime established by the Social Fund of the Bank (Note 2.13 v.). In the scope of this process, a loss was estimated for the Bank, for which an impairment was recognized corresponding to this expectation.

The movement of Non-current assets held for sale during the years ended 31 December 2017 and 2016, as well as changes in impairment losses, were as follows:

31-12-2017	Balance at 31-12-2016		Increases	Disposals	Transfers and other	Impairment		Balance at 31-12-2017		
	Gross amount	Accumulated impairment				Charges	Utilisations	Gross amount	Accumulated impairment	Net amount
Property received as settlements for defaulting loans	14,996,481	(928,316)	5,619,620	(1,091,888)	(380,027)	(87,438)	-	19,144,186	(1,015,754)	18,128,432
Other property	2,812,047	(1,199,579)	-	(887,970)	-	-	-	1,924,077	(1,199,579)	724,498
	17,808,528	**(2,127,895)**	**5,619,620**	**(1,979,858)**	**(380,027)**	**(87,438)**	**-**	**21,068,263**	**(2,215,333)**	**18,852,930**

31-12-2016	Balance at 31-12-2015 (Proforma)		Increases	Disposals	Transfers and other	Impairment		Balance at 31-12-2016		
	Gross	Accumulated impairment				Charges	Utilisations	Gross amount	Accumulated impairment	Net amount
Property received as settlements for defaulting loans	15,076,206	(928,316)	-	(79,683)	(42)	-	-	14,996,481	(928,316)	14,068,165
Other property	3,390,257	(1,200,479)	-	(578,210)	-	-	900	2,812,047	(1,199,579)	1,612,468
	18,466,463	**(2,128,795)**	**-**	**(657,893)**	**(42)**	**-**	**900**	**17,808,528**	**(2,127,895)**	**15,680,633**

The caption Transfers and other includes the amount of tAOA 346,551 related to the transfer for own use of the Bank of 6 fractions of a property classified in this category, as presented in Note 12.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

12. OTHER TANGIBLE AND INTANGIBLE ASSETS

This caption as of 31 December 2017 and 2016, as well as the transactions during those periods, are as follows:

31-12-2017	Gross amount					Depreciations/Amortisations				Net amount	
	Balance at 31-12-	Acquisition	Sales, write-offs and other rectifications	Transfers	Balance at 31-12-2017	Balance at 31-12-2016	Amortisations for the year	Sales, write-offs and other transfers	Balance at 31-12-2017	Balance at 31-12-2017	Balance at 31-12-2016
Other tangible assets											
Property											
For own use	32,886,482	1,305,493	(87,262)	527,777	34,632,490	(2,606,455)	(717,245)	3,430	(3,320,270)	31,312,220	30,280,027
Leasehold improvements	5,589,966	201,543	-	521,829	6,313,337	(2,080,846)	(558,397)	-	(2,639,243)	3,674,094	3,509,120
Other tangible assets in progress											
For own use	7,448,186	2,290,564	(482,347)	(697,433)	8,558,970	-	-	-	-	8,558,970	7,448,186
	45,924,634	**3 ,797,600**	**(569,609)**	**352,173**	**49,504,797**	**(4,687,301)**	**(1,275,642)**	**3,430**	**(5,959,513)**	**43,545,284**	**41,237,333**
Equipment											
Furniture and fixtures	3,152,960	30,045	-	-	3,183,005	(808,239)	(362,405)	-	(1,170,644)	2,012,361	2,344,721
Machinery and tools	4,292,259	250,979	(145,750)	-	4,397,488	(2,309,512)	(615,291)	145,122	(2,779,681)	1,617,807	1,982,747
Computer hardware	2,602,371	211,307	(22,058)	-	2,791,620	(1,250,885)	(495,553)	22,058	(1,724,380)	1,067,240	1,351,486
Interior installations	713,952	25,121	-	-	739,073	(437,054)	(60,945)	-	(497,999)	241,074	276,898
Vehicles	2,085,022	425,202	-	-	2,510,224	(1,638,015)	(232,684)	-	(1,870,699)	639,525	447,007
Security equipment	640,960	14,832	-	-	655,792	(256,669)	(77,424)	-	(334,093)	321,699	384,291
Other	1,075,540	79,214	(4,213)	-	1,150,541	(488,703)	(105,631)	4,213	(590,121)	560,420	586,837
Other tangible assets in progress											
Equipment	379,826	-	-	(379,826)	-	-	-	-	-	-	379,826
	14,942,890	**1,036,700**	**(172,021)**	**(379,826)**	**15,427,743**	**(7,189,077)**	**(1,949,933)**	**171,393**	**(8,967,617)**	**6,460,126**	**7,753,813**
Other tangible assets	402,905	6,774	-	223,925	633,604	(169,427)	(37,089)	-	(206,516)	427,088	233,478
Other tangible assets in progress											
Other	34,985	230,540	(34,985)	(223,925)	6,615	-	-	-	-	6,615	34,985
	437,890	**237,314**	**(34,985)**	**-**	**640,219**	**(169,427)**	**(37,089)**	**-**	**(206,516)**	**433,703**	**268,463**
	61,305,414	**5,071,614**	**(776,615)**	**(27,654)**	**65,572,759**	**(12,045,805)**	**(3,262,664)**	**174,823**	**(15,133,646)**	**50,439,113**	**49,259,609**
Intangible assets											
Organization and expansion expenses	754,214	-	-	-	754,214	(734,072)	(18,688)		(752,760)	1,454	20,142
Automatic data processing systems	1,912,249	64,205	-	393,321	2,369,775	(1,741,584)	(122,148)		(1,863,732)	506,043	170,665
	2,666,463	**64,205**	**-**	**393,321**	**3,123,989**	**(2,475,656)**	**(140,836)**	**-**	**(2,616,492)**	**507,497**	**190,807**
Intangible assets in progress											
Automatic data processing systems	865,920	463,919	(3,608)	(19,117)	1,307,114	-	-	(1)	(1)	1,307,113	865,920
	865,920	**463,919**	**(3,608)**	**(19,117)**	**1,307,114**	**-**	**-**	**(1)**	**(1)**	**1,307,113**	**865,920**
	3,532,383	**528,124**	**(3,608)**	**374,204**	**4,431,103**	**(2,475,656)**	**(140,836)**	**(1)**	**(2,616,493)**	**1,814,610**	**1,056,727**
	64,837,797	**5,599,738**	**(780,223)**	**346,551**	**70,003,862**	**(14,521,461)**	**(3,403,500)**	**174,822**	**(17,750,139)**	**52,253,723**	**50,316,336**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

31-12-2016	Gross amount					Depreciations/Amortisations				Net amount	
	Balance at 31-12-2015	Acquisitions	Sales, write-offs and other rectifications	Transfers	Balance at 31-12-2016	Balance at 31-12-2015 (Proforma)	Amortisations for the year	Sales, write-offs and other transfers	Balance at 31-12-2016	Balance at 31-12-2016	Balance at 31-12-2015 (Proforma)
Other tangible assets											
Property											
For own use	12,182,877	621,189	(127,891)	20,210,307	32,886,482	(2,113,568)	(554,238)	61,351	(2,606,455)	30,280,027	10,069,309
Leasehold improvements	5,159,052	17,317	144,109	269,488	5,589,966	(1,534,100)	(556,716)	9,970	(2,080,846)	3,509,120	3,624,952
Other tangible assets in progress											
For own use	30,580,023	1,959,891	(1,261,969)	(23,829,759)	7,448,186	-	-	-	-	7,448,186	30,580,023
	47,921,952	**2,598,397**	**(1,245,751)**	**(3,349,964)**	**45,924,634**	**(3,647,668)**	**(1,110,954)**	**71,321**	**(4,687,301)**	**41,237,333**	**44,274,284**
Equipment											
Furniture and fixtures	1,324,000	325,056	220	1,503,684	3,152,960	(479,185)	(330,766)	1,712	(808,239)	2,344,721	844,815
Machinery and tools	3,515,728	809,770	(44,247)	11,008	4,292,259	(1,737,815)	(571,697)	-	(2,309,512)	1,982,747	1,777,913
Computer hardware	1,177,967	2,755	-	1,421,649	2,602,371	(767,191)	(483,694)	-	(1,250,885)	1,351,486	410,776
Interior installations	696,770	11,442	-	5,740	713,952	(377,032)	(60,022)	-	(437,054)	276,898	319,738
Vehicles	2,433,707	-	(355,832)	7,147	2,085,022	(1,653,179)	(329,878)	345,042	(1,638,015)	447,007	780,528
Security equipment	395,661	77,510	-	167,789	640,960	(183,898)	(72,771)	-	(256,669)	384,291	211,763
Other	820,312	18,003	-	237,225	1,075,540	(384,943)	(103,760)	-	(488,703)	586,837	435,369
Other tangible assets in progress											
Equipment	379,826	-	-	-	379,826	-	-	-	-	379,826	379,826
	10,743,971	**1,244,536**	**(399,859)**	**3,354,242**	**14,942,890**	**(5,583,243)**	**(1,952,588)**	**346,754**	**(7,189,077)**	**7,753,813**	**5,160,728**
Other tangible assets	402,905	-	-	-	402,905	(132,748)	(36,680)	-	(169,427)	233,478	270,157
Other tangible assets in progress											
Other	34,985	-	-	-	34,985	-	-	-	-	34,985	34,985
	437,890	**-**	**-**	**-**	**437,890**	**(132,748)**	**(36,680)**	**-**	**(169,427)**	**268,463**	**305,142**
	59,103,813	**3,842,933**	**(1,645,610)**	**4,278**	**61,305,414**	**(9,363,659)**	**(3,100,222)**	**418,075**	**(12,045,805)**	**49,259,609**	**49,740,154**
Intangible assets											
Organization and expansion expenses	754,214	-	-	-	754,214	(633,555)	(100,517)	-	(734,072)	20,142	120,659
Automatic data processing systems	1,840,828	63,384	-	8,037	1,912,249	(1,511,005)	(230,579)	-	(1,741,584)	170,665	329,823
	2,595,042	**63,384**	**-**	**8,037**	**2,666,463**	**(2,144,560)**	**(331,096)**	**-**	**(2,475,656)**	**190,807**	**450,482**
Intangible assets in progress											
Automatic data processing systems	6,802	871,433	-	(12,315)	865,920	-	-	-	-	865,920	6,802
	6,802	**871,433**	**-**	**(12,315)**	**865,920**	**-**	**-**	**-**	**-**	**865,920**	**6,802**
	2,601,844	**934,817**	**-**	**(4,278)**	**3,532,383**	**(2,144,560)**	**(331,096)**	**-**	**(2,475,656)**	**1,056,727**	**457,284**
	61,705,657	**4,777,750**	**(1,645,610)**	**-**	**64,837,797**	**(11,508,219)**	**(3,431,318)**	**418,075**	**(14,521,461)**	**50,316,336**	**50,197,438**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The caption Other tangible assets in progress – For own use include the amount of tAOA 7,093,426 (2016: tAOA 7,093,426) concerning the acquisition of the property in the building “Torres Kianda”, located in Luanda.

13. INVESTMENTS IN AFFILIATES, ASSOCIATES AND JOINT VENTURES

This caption is made up as follows:

Subsidiary	HQ	Business	Currency	Share capital	% of shares	Acquisition cost in currency	31-12-2017	31-12-2016
Shares in affiliates and associates in the country								
BAI Micro Finanças, S.A.	Luanda	Banking services	AOA	5,334,907	96.79%	5,163,656	4,940,884	4,940,884
BAI Micro Finanças, S.A. - Impairment							(4,771,903)	(4,455,605)
NOSSA - Nova Sociedade Seguros Angola, S.A.	Luanda	Insurance	AOA	933,807	72.24%	717,926	1,074,661	1,074,661
BAIGEST, S.A.	Luanda	Investment fund management	AOA	60,000	100.00%	60,000	60,000	60,000
							1,303,642	**1,619,940**
Shares in affiliates and associates abroad								
BAI Europa, S.A.	Lisbon	Banking services	EUR	40,000	99.99%	39,996	4,322,614	4,322,614
BAI Cabo Verde, S.A.	Praia	Banking services	CVE	2,330,795	80.43%	1,874,658	2,193,319	2,193,319
BAI Cabo Verde, S.A. - Impairment							(883,249)	(1,060,390)
Banco Internacional de São Tomé e Príncipe	S, Tomé	Banking services	STD	150,000,000	25.00%	37,500,000	65,136	65,136
BAI Center, S.A.	Praia	Real Estate services	CVE	2,500	100.00%	2,500	2,950	2,950
							5,700,770	**5,523,629**
							7,004,412	**7,143,569**
Shares in other companies in the country								
Fundação BAI	Luanda	Public utility foundation	AOA	10,000	100.00%	10,000	-	10,000
SAESP	Luanda	Training	AOA	2,000	80.00%	2,394	2,394	2,394
							2,394	**12,394**
Shares in other companies abroad								
FIPA - Fundo Privado de Investimento de Angola	Luxembourg	Investment Fund	USD	8,344,346	25.64%	5,892	-	820,086
							-	**820,086**
							7,006,806	**7,976, 049**

During 2017, the following reclassifications were made:

- to the investment portfolio in the category of available-for-sale financial assets in the form of units of participation in the Fundo Privado de Investimento de Angola (FIPA) in the amount of tAOA 820,086 (Note 8).
- to results of Fundação BAI’s initial allocation of tAOA 10,000.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The changes in impairment for the years ended 31 December 2017 and 2016 were as follows:

	31-12-2017	31-12-2016
Opening balance	**5,515,995**	**6,231,399**
Increases	316,299	-
Decreases	(177,142)	(715,404)
Closing balance	**5,655,152**	**5,515,995**

The balances with active, passive and off-balance sheet operations with the Bank's subsidiaries are detailed in Note 38.

At 31 December 2017, the financial information of the subsidiaries is as follows (values in tAOA converted at the year-end exchange rate):

	Currency	Reference date	Net asset	Equity	Net income/(loss)	Equity share	31-12-2017 Book value net of impairment
BAI Europa, S.A.*	AOA	31-12-2017	186,241,271	14,598,618	1,112,629	14,597,158	4,322,614
BAI Micro Finanças, S.A.*	AOA	31-12-2017	8,928,746	2,577, 248	75,548	2,494,518	168,981
BAI Cabo Verde, S.A.*	AOA	31-12-2017	32,656,100	2,034,995	203,472	1,636,746	1,310,070
NOSSA - Nova Sociedade Seguros Angola, S.A.*	AOA	31-12-2017	16,395,369	3,740,240	956,085	2,701,949	1,074,661
Banco Internacional de São Tomé e Príncipe*	AOA	31-12-2017	17,765,575	2,590,149	293,969	647,537	65,136
BAI Center, S.A.*	AOA	31-12-2017	3,598,587	2,454,759	(892,393)	2,454,758	2,950
BAIGEST, S.A.**	AOA	31-12-2017	n.d.	n.d.	n.d.	n.d.	60,000
SAESP*	AOA	31-12-2017	7,181,813	6,890,068	22,051	5,512,054	2,394
							7,006,806

*- unaudited
**- entity starting its activity. Without financial statements or audited
n.d. - unavailable

14. TAXES

The Bank is subject to Industrial Taxation and is considered a Group A contributor.

Income taxes (current or deferred) are reflected in profit or loss, except when the transactions that gave rise to them have been reflected in other equity items. In these situations, the corresponding tax is also reflected through equity, without affecting the result for the year.

The calculation of the current tax estimate for the years ended 31 December 2017 and 2016 was calculated pursuant to paragraphs 1 and 2 of article 64, of Law No. 19/14, 22 October, and the applicable tax rate of 30%.

Tax returns are subject to review and correction by the tax authorities for a period of five years and may result, due to different interpretations of tax legislation, in any corrections to taxable income for the years 2013 to 2017.

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

Tax losses calculated in a given year, as provided in No. 1 article 48 of the Industrial Tax Code, may be deducted from taxable profits of the three subsequent years.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The caption Current taxes includes taxes recoverable through tax credits settled in previous years, amounting to tAOA 890,511. As of 31 December 2017 and 2016, this caption in broken down as follows:

	31-12-2017	31-12-2016
Recoverable taxes	-	616,611
On-account payments	880,803	880,803
IAC repos / Tax Law 7/97	9,708	9,708
	890,511	1,507,122
Provisions for tax contingencies (Note 18)	-	(616,611)
Recoverable tax at end of the period	**890,511**	**890,511**

The Bank used the provision recorded in the amount of tAOA 616,611, related to the recoverable tax recorded in this account due to the expiration of the same. This provision was recorded in the caption Provisions, as described in Note 18.

Deferred taxes are calculated based on the tax rates anticipated to be in effect at the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved at the balance sheet date. Thus, for the years ended 31 December 2017 and 2016, deferred tax was generally calculated based on a rate of 30%.

At 31 December 2017 and 2016, the deferred tax assets recognized in the balance sheet have the following composition:

	Asset		Liability	Net	
	31-12-2017	31-12-2016	31-12-2017	31-12-2017	31-12-2016
Financial Instruments	**173,305**	-	(415,510)	(242,205)	-
Loans to customers	216,484	420,921	-	216,484	420,921
Non-current assets held for sale	690,827	359,874	-	690,827	359,874
Investments in affiliates, associates and joint ventures	1,914,489	1,962,921	-	1,914,489	1,962,921
Provisions	50,316	107,829	-	50,316	107,829
Deferred tax asset/(liability)	**3,045,421**	**2,851,545**	**(415,510)**	**2,629,911**	**2,851,545**

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

The transactions occurred in deferred income tax were performed against the following:

	31-12-2017			31-12-2016
	Assets	Liabilities	Net	Assets
Opening balance	**2,851,545**	**-**	**2,851,545**	**3,917,454**
Recognized in the income statement	20,571	-	20, 571	(1,065,909)
Recognized in fair value reserves	173,305	(415,510)	(242,205)	-
Closing balance	**3,045,421**	**(415,510)**	**2,629,911**	**2,851,545**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The tax recognized in the income statement for the years ended 31 December 2017 and 2016 had the following origins:

	31-12 -2017		31-12-2016
	Recognized in the income statement	Recognized in reserves	Recognized in the income statement
Deferred taxes			
Financial instruments	-	(242,205)	-
Loans to customers	(204,437)	-	172,755
Non-current assets held for sale	330,953	-	270
Investments in affiliates, associates and joint ventures	(48,432)	-	196,666
Customers' resources	-	-	153,755
Provisions	(57,513)	-	542,463
	20,571	**(242,205)**	**1,065,909**
Current taxes	-	-	-
Total recognized tax	**20,571**	**(242,205)**	**1,065,909**

Transition adjustments to IAS / IFRS generated impacts on deferred taxes for 2017 and 2016 of the Bank in the amount of tAOA 216,484 (2016: tAOA 326,510).

The reconciliation of the tax rate, in the part with respect to the amount recognized in the income statement, can be analysed as follows:

	31-12-2017		31-12-2016	
	%	Amount	%	Amount
Income/(loss) before tax		**54,683,781**		**50,806,782**
Tax rate	30.0%		30.0%	
Tax calculated based on the statutory tax rate		16,405,134		15,242,035
Positive variations in net equity	0.4%	242,205	0.2%	78,576
Unforeseen provisions	0.2%	98,064	-1.0%	(526,959)
Tax on Capital Gains (IAC) and Urban Property Tax (IPU)	2.7%	1,486,568	2.5%	1,281,381
Income from rents	0.2%	82,675	0.0%	-
Fines and charges concerning infractions	0.0%	66	0.1%	25,897
Non deductible donations	0.1%	73,518	0.3%	150,985
Corrections relating to prior and extraordinary fiscal years	0.6%	316,833	0.4%	213,373
Unspecified expenses	0.0%	4,816	0.0%	964
Income subject to IAC and IPU	-32.1%	(17,551,270)	-28.7%	(14,577,974)
Income from credit operations	-4.6%	(2,495,627)	-3.7%	(1,869,480)
Other adjustments	2.4%	1,316,448	2.1%	1,047,111
Tax for the year	**0.0%**	**(20,571)**	**2.1%**	**1,065,909**

Income from public debt securities, resulting from Treasury Bonds and Treasury Bills issued by the Angolan State, whose issuance is regulated by Presidential Decree No. 259/10, dated November 18 and Presidential Decree No. 31 / 12, of January 30, are exempted from all taxes.

In addition, Presidential Legislative Decree No. 5/11, dated December 30 (revised and republished through Presidential Legislative Decree No. 2/14, of October 20) introduced a subjugation norm to IAC on the income of securities of public debt resulting from Treasury Bonds and Treasury Bills issued by the Angolan State.

Nevertheless, in accordance with article 47 of the Industrial Tax Code (Law No. 19/14 of 22 October), in force since 1 January 2015, in determining the taxable amount, the subject to IAC will be deducted.

Therefore, in determining taxable income for the years ended 31 December 2017 and 2016, such income was deducted from taxable income.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

Likewise, the expense calculated with the liquidation of IAC is not fiscally accepted for the determination of the taxable amount, as provided in paragraph a) of paragraph 1 of article 18 (1) (a) of the Industrial Tax Code.

Without prejudice to the foregoing, with respect to income from public debt securities, according to the latest understanding of the Tax Authority addressed to the Angolan Banks Association ("ABANC") (letter with reference number 196 / DGC / AGT / 2016 of 17 May 2016), only those arising from securities issued on or after 1 January 2012 are subject to this tax.

It should also be noted that, according to the opinion of the Tax Authority, exchange revaluations of public debt securities issued in domestic currency but indexed to foreign currency, issued from 1 January 2012, should be subject to Industrial Tax until the National Bank of Angola is able to make the appropriate withholding tax on the IAC.

15. OTHER ASSETS

This caption is made up as follows:

	31-12-2017	31-12-2016
Debtors and other		
Shareholders' loans and supplementary contributions in affiliates and associates		
SAESP	7,614,153	7,614,153
BAI Center, S.A.	4,449,600	4,449,084
BAI Micro Finanças, S.A.	2,230,125	230,125
EMIS	108,738	108,738
Central Government – Ministry of Finance	8,002,520	5,874,215
Debtors BAI INVEST	1,253,851	906,392
Debtors - Loans	1,178,688	1,191,787
Debtors - Novinvest	794,699	3,655
E-Kwanza Network Manager	101,000	101,000
Debtors - Nossa Seguros	57,958	60,299
Debtors NOVENGE	11,997	-
Debtors BAIGEST	1,210	-
Regulator - BNA	21,971	23,537
Others	719,945	182,568
	26,546,455	**20,745,553**
Accrued income		
For commitments assumed in relation to third parties	-	18,233
	-	**18,233**
Deferred expenses		
Insurance	121,492	55,838
Rents and leases	41,807	78,158
Advertisement	34,875	60,669
Office supplies	-	92,454
Other	29,581	35,707
	227,755	**322,826**
Other assets		
Operational risk incidents	1,569,291	1,423,006
Lending operations pending settlement	653,076	488,753
Cash shortages	186,578	57,852
Resources linked to foreign exchange operations	15,616	-
Others	5,136,090	5,238,916
	7,560,651	**7,208,527**
Impairment	**(2,765,970)**	**(752,230)**
	31,568,891	**27,542,909**

At 31 December 2017, the caption Shareholders' loans in affiliates and associates - SAESP includes the amount of tAOA 7,614,153 (2016: tAOA 7,614,153) corresponding to supplementary capital contributions made to SAESP, which do not bear interest nor do they have a defined repayment term. The Bank has recognized impairment losses on these supplies in the amount of tAOA 726,479 (2016: tAOA 752,230).

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017, the caption Shareholders' loans in affiliates and associates - BAI Center, SA includes a balance of tAOA 4,449,600 (2016: tAOA 4,449,084) related to supplies made to that company, which are remunerated half-yearly, at the rate of 1.5%.

At 31 December 2017, the caption Central Government – Ministry of Finance corresponds to amounts receivable from the Ministry of Finance, relating to tax collection commissions, under the contract signed between both parties. The commissions related to tax collections are recognized as income for the year in the caption Fee and commission income (Note 24).

At 31 December 2017, the caption Debtors – Loans in the amount of tAOA 1,178,688 (2016: tAOA 1,191,787), correspond essentially to loans made to BAI Cabo Verde S.A. and other companies related to this Bank.

The caption Operational risk incidents corresponds to outstanding operations related to operational risk, mainly due to the fact that they are under internal investigation or whose lawsuits are in progress, and the Bank has recognized the impairment losses to cover the associated risks.

At 31 December 2017, the caption Other assets – Others includes the adjustment to credit to employees in the amount of tAOA 5,097,107 (2016: tAOA 5,199,934), within the scope of application of IAS 19 - Employee benefits.

In fact, BAI, like most Angolan financial institutions, grants loans to its employees at lower interest rates than those for their clients, which is a supplement to their base salary. This benefit allows the employee to have a much lower effort rate than if his credit had a market rate, which is why the opportunity cost for the Bank should be accounted for in line with IAS 19.

At 31 December 2017 and 2016, the impairment movement for other assets is as follows:

	31-12-2017	31-12-2016
Opening balance	**752,230**	**692,381**
Increases	2,063,471	59,849
Decreases	(49,731)	-
Closing balance	**2,765,970**	**752,230**

As of 31 December 2017, impairment losses were reclassified through profit and loss, which were recorded in the caption Provisions in the amount of tAOA 1,802,858, to the caption Impairment for other assets, as described in Note 18.

16. RESOURCES OF CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

This caption is made up as follows:

	31-12-2017	31-12-2016
Resources of domestic credit institutions		
Other resources	602,201	2,615,545
	602,201	**2,615,545**
Resources of foreign credit institutions		
Very short-term resources	27,083,700	16,590,261
Accrued interest	1,854	1,843
	27,085,554	**16,592,104**
	27,687,755	**19,207,649**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The balance of Very short-term resources includes an intake of tUSD 100,000 (tAOA 16,592,350) in 2017 (2016: tUSD 100,000 (tAOA 16,590,261)), remunerated at an interest rate of 1%.

This caption also includes, temporary overdraft positions in other credit institutions in the amount of tAOA 9,729,972, at 31 December 2017,.

The breakdown of the caption Resources of other credit institutions by residual maturity, at 31 December 2017 and 2016, is as follows:

	31-12-2017	31-12-2016
Up to 3 months	24,809,671	19,207,649
	24,809,671	**19,207,649**

17. CUSTOMERS' RESOURCES AND OTHER BORROWINGS

This caption is made up as follows:

	31-12-2017	31-12-2016
Demand deposits of residents		
Domestic currency		
Companies	241,890,821	320,845,887
Individuals	95,415,954	82,462,925
Corporate Public sector	58,609,923	11,461,169
General Government sector	6,707,079	28,240,635
	402,623,777	**443,010,616**
Foreign currency		
Companies	234,217,382	180,403, 500
Individuals	34,817,696	26,506,334
Corporate Public sector	10,116,396	808,054
General Government sector	13,375,909	17,447,291
	292,527,383	**225,165,179**
	695,151,160	**668,175,795**
Demand deposits of non-residents		
Domestic currency	4,426,931	3,463,048
Foreign currency	609,223	3,096,404
	5,036,154	**6,559,452**
Total demand deposits	**700,187,314**	**674,735,247**
Term deposits in domestic currency		
Companies	119,564,413	122,926,897
Individuals	44,979,200	43,198 800
Corporate Public sector	5,266,140	64,519,828
General Government sector	1,964,211	15,982
Non-residents	2,931,607	464,286
	174,705,571	**231,125,793**
Term deposits in foreign currency		
Companies	102,811,977	117,454,576
Individuals	81,316,268	96,439,321
Corporate Public sector	-	124,826
General Government sector	-	986
Non-residents	193,729	142,094
	184,321,974	**214,161,803**
Total term deposits	**359,027,545**	**445,287,596**
Total accrued interest on term deposits	33,445,149	17,280,739
Total deposits and accrued interest on term deposits	**392,472,694**	**462,568,335**
Total customers' deposits	**1,092,660,008**	**1,137,303,582**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The breakdown of Customers' resources and other borrowings by residual maturity, at 31 December 2017, is as follows:

	31-12-2017	31-12-2016
Domestic currency		
Up to three months	75,709,328	132,057,665
From three to six months	43,113,569	48,654,543
From six months to one year	54,344,013	48,068,068
More than one year	1,538,661	2,345,517
	174,705,571	**231,125,793**
Foreign currency		
Up to three months	59,438,557	62,915,874
From three to six months	56,036,678	59,599,102
From six months to one year	64,475,234	83,096,340
More than one year	4,371,505	8,550,487
	184,321,974	**214,161,803**
	359,027,545	**445,287,596**

At 31 December 2017 and 2016, the Customer's' term deposits, excluding accrued interest, had the following structure in terms of currency and average interest rate:

	31-12 2017		31-12- 2016	
	Average interest rate	Amount	Average interest rate	Amount
In Kwanzas	12.23%	174,705,571	5.50%	231,642,726
In US Dollars	4.59%	181,738,504	2.13%	211,563,763
In Euros	1.59%	2,583,470	1.37%	2,081,107
		359,027,545		**445,287,596**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

18. PROVISIONS

Provisions can be detailed as follows:

	31-12-2017	31-12-2016
Provisions for contingent liabilities		
Operational risk incidents under investigation	486,376	1,659,917
Bonds in foreign currency	913,235	862,614
Tax contingencies (Note 14)	-	616,611
Rents payable	463,558	488,758
Credit Transfer System (STC)	-	418,447
Associates	-	266,469
Pending litigations	158,678	92,963
Asset operations pending settlement	-	175,389
National Social Security Institute	-	50,394
Tangible assets in progress	-	39,199
Others	93,134	22,134
	2,114,981	4,692,895
Provisions for signature credit (Note 10)	1,735,491	2,996,292
	3,850,472	**7,689,187**

The balance of the caption Provisions is intended to cover adequately identified contingencies arising from the Bank's activity and are reviewed on each reporting date in order to reflect the best estimate of the amount and the respective likelihood of payment.

At 31 December 2017, impairment losses related to other assets in the amount of tAOA 1,802,858, as described in Note 15, were reclassified through profit and loss for the year.

The caption Provision for signature credit refers to the provision determined in the scope of the application of the credit impairment model used by the Bank on off-balance sheet liabilities related to loans assumed with customers, as established in Note 2.3.

At 31 December 2017 and 2016, provisions presented the following movements:

	31-12-2017	31-12-2016
Opening balance	**7,689,187**	**6,745,397**
Increases (Note 33)	309,914	2,057,242
Decreases/reversals (Note 33)	(1,883,207)	(3,363,794)
Utilisations	(1,004,636)	(771,863)
Transfers (Note 10)	(1,260,801)	2,996,292
Adjustments	15	25,913
Closing balance	**3,850,472**	**7,689,187**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

19. OTHER LIABILITIES

This caption is made up as follows:

	31-12-2017	31-12-2016
Dividends payable	632,514	363,122
Tax charges payable – retained from third parties	1,772,613	2,169,107
Funds from realized guarantees – transfer in lieu of payments	-	33,477
Tax charges payable – own	84,476	89,326
Income tax on employment income	325,214	119,067
Creditors for acquisition of assets and rights	933,468	1,288,462
Creditors for services provided	57,121	44,502
Other creditors:		
Transactions pending settlement	1,506,466	3,895,455
Monetary Agreement BNA – Bank of Namíbia	95,840	102,152
Funds for cash faults	(3,689)	261,254
Cash surpluses	113,039	92,861
E-Kwanza Network Manager	101,590	101,621
Down payments received	3,263,562	2,790,245
Others	899,016	941,297
Salary and other remuneration		
Productivity Bonus	263,750	720,000
Vacation and holiday allowance	1,361,638	716,000
Social Fund	1,698,585	1,700,342
Social Security contributions		
Employer's contribution	60,789	48,263
Employees' contribution	23,351	18,654
Other administrative expenses	2,371,495	1,193,786
Resources allocated to currency exchange operations	31,319,950	14,566,151
Customers' advance – pre-paid BAI Kamba cards	2,069,763	2,739,006
	48,950,551	**33,994,150**

The caption Tax charges payable – retained from third parties includes the amount of tAOA 1,573,163 (2016: tAOA 1,455,625) relating to tax payable on capital gains.

At 31 December 2017, the caption Other creditors – down payments received corresponds to the amounts paid under promissory contracts of purchase and sale with several promissory purchasers of the assets received and classified as Non-current assets held for sale. These amounts are regularized after the transfer to the promissory purchasers of all risks and rewards associated with the ownership of the property and the respective derecognition of the asset (Note 11).

The Social Fund account, in the amount of tAOA 1,698,585 (2016: tAOA 1,700,342) corresponds to the value of the Social Fund at 31 December 2017, whose allocation has not yet been made under its regulations.

The caption Resources allocated to currency exchange operations refers to the amount of foreign currency customers' deposits associated with documentary import credits and foreign exchange transactions in the context of direct sales by BNA pending execution (issuance of foreign payment orders).

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

20. CAPITAL, SHARE PREMIUM AND TREASURY SHARES

Ordinary shares

At 31 December 2017, the Bank's share capital, in the amount of tAOA 14,786,705 (tUSD 194,500), was represented by 19,450,000 ordinary shares, fully subscribed and held by different shareholders of which the following stand out:

	31-12-2017			31-12-2016		
	No. shares	% of shares	Amount	No. shares	% of shares	Amount
Sonangol Holding Limitada - SGPS	1,653,250	8.50%	1 256,870	1 653,250	8.50%	1 256,870
Oberman Finance Corp	972,500	5.00%	739,335	972,500	5.00%	739,335
Dabas Management Limited	972,500	5.00%	739,335	972,500	5.00%	739,335
Mário Abílio R. M. Palhares	972,500	5.00%	739,335	972,500	5.00%	739,335
Theodore Jameson Giletti	972,500	5.00%	739,335	972,500	5.00%	739,335
Lobina Anstalt	972,500	5.00%	739,335	972,500	5.00%	739,335
Coromasi Participações Lda.	923,875	4.75%	702,368	923,875	4.75%	702,368
Mário Alberto dos Santos Barber	752,715	3.87%	572,245	752,715	3.87%	572,245
Others	11,257,660	57.88%	8,558,547	11,257,660	57.88%	8,558,547
	19,450,000	**100%**	**14,786,705**	**19,450,000**	**100%**	**14,786,705**

The capital shares held by members of the Governing Bodies (Article 446 (3), Law No. 1/04, of 13 February - Business Companies Law) are broken down as follows:

Shareholders	Position	Acquisition	No. shares	% of shares
Theodore Giletti	Director	nominal	972,500	5.00%
Mário Alberto dos Santos Barber	Deputy-Chairman of the Board of Directors	nominal	752,715	3.87%
Luis Lélis	Director	nominal	583,500	3.00%
Helder Aguiar	Director	nominal	97,250	0.50%
Inokcelina dos Santos	Director	nominal	97,250	0.50%

Treasury shares

The Bank may, under the terms and conditions permitted by law, acquire its own shares and carry out all legally authorized transactions on them.

Treasury shares are registered in capital accounts at acquisition costs and are not subject to revaluation.

During the year ended 31 December 2017, the Bank acquired treasury shares corresponding to 5% of the share capital for the nominal value of tAOA 739,335 (non-revalued amount).

Share premium

As a result of the share purchase process described above, the Bank paid a share premium in the amount of tAOA 9,204,478, corresponding to the difference between the nominal value of the shares and the total amount paid by them.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

21. RESERVES, RETAINED EARNINGS AND OTHER COMPREHENSIVE INCOME

Legal Reserve

This caption is fully constituted by the Legal Reserve, which can only be used to cover accumulated losses or to increase capital.

The applicable Angolan legislation requires the Legal Reserve to be credited annually with at least 10% of the annual net profit, until the capital stock competition. At this date, the Legal Reserve corresponds to the value of the Bank's share capital.

Revaluation reserves, other reserves and retained earnings

At 31 December 2017 and 2016, movements in revaluation reserves, other reserves and retained earnings were as follows:

	Revaluation reserves (available-for-sale financial assets)	Other reserves and retained earnings			Total
		Legal Reserve	Other reserves and retained earnings	Total Other reserves and retained earnings	
Balance at 31 December 2015 (Proforma)	**-**	**14,786,705**	**77,945,596**	**92,732,301**	**92,732,301**
Changes to fair value	(336,060)	-	-	-	(336,060)
Allocation to reserves	-	-	10,537,898	10,537,898	10,537,898
Balance at 31 December 2016	**(336,060)**	**14,786,705**	**88,483,494**	**103,270,199**	**102,934,139**
Changes to fair value	901,206	-	-	-	901,206
Allocation to reserves	-	-	32,331,567	32,331,567	32,331,567
Balance at 31 December 2017	**565,146**	**14,786,705**	**120,815,061**	**135,601,766**	**136,166,912**

By unanimous decision of the General Meeting of 31 March 2017, it was decided to distribute to the shareholders dividends in the amount corresponding to 35% of the net profit obtained in the previous year (tAOA 49,740,873), and the remaining amount was applied to the item Other reserves .

Fair value reserves (revaluation reserves)

Fair value reserves represent the potential gains and losses on the available-for-sale financial assets portfolio, net of impairment recognized in profit or loss in the year and / or in prior years and deferred taxes.

The changes to the fair value reserve, net of deferred taxes, is as follows:

	31-12-2017	31-12-2016
Opening balance	**(336,060)**	**-**
Gross changes to fair value	1,143,411	(336,060)
Deferred taxes recognized in reserves	(242,205)	-
Closing balance	**565,146**	**(336,060)**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

22. NET INTEREST INCOME

This caption is made up as follows:

	31-12-2017			31-12-2016		
	From assets/liabilities at amortised cost and assets held for sale	From assets/liabilities at fair value through profit or loss	Total	From assets/liabilities at amortised cost and assets held for sale	From assets/liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest on loans to customers	48,126,137	-	48,126,137	42,257,425		42,257,425
Interest on held-to-maturity investments	54,870,876	-	54,870,876	43,162,484		43,162,484
Interest on financial assets at fair value through profit or loss	-	320,719	320,719	-	2,848,450	2,848,450
Interest on deposits and placements with credit institutions	3,984,068	-	3,984,068	2,877,488		2,877,488
Interest on available-for-sale financial assets	829,580	-	829,580	786,360		786,360
	107,810,661	**320,719**	**108,131,380**	**89,083,757**	**2,848,450**	**91,932,207**
Interest and similar expenses						
Interest on Customers' resources	(26,780,373)	-	(26,780,373)	(20,557,350)	-	(20,557,350)
Interest on resources of central banks and credit institutions	(233,854)	-	(233,854)	(302,325)	-	(302,325)
	(27,014,227)	**-**	**(27,014,227)**	**(20,859,675)**	**-**	**(20,859,675)**
Net interest income	**80,796,434**	**320,719**	**81,117,153**	**68,224,082**	**2,848,450**	**71,072,532**

In the years ended 31 December 2017 and 2016, the caption Interest on loans to customers includes tAOA 9,012,857 and tAOA 6,198,619, respectively, related to income from credit operations with the Ministry of Finance.

The caption of Interest on loans to customers includes the positive effect of tAOA 3,712,483 (2016: negative effect of tAOA 646,442) on commissions and other income accounted for using the effective interest rate method, as established in IAS 39 and explained in Note 2.3.

The caption of Interest on loans to customers also includes the amount of tAOA 473,639 (2016: tAOA 322,101) related to the effect of credit granted to employees, in accordance with IAS 19.

At 31 December 2017 and 2016, the caption Interest on deposits and placements with credit institutions includes the amounts of tAOA 1,285,176 and tAOA 1,441,667, respectively, related to interest on the purchase of third-party securities with credit agreement repurchase agreements with the BNA.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

23. REVENUE FROM CAPITAL INSTRUMENTS

This caption is made up as follows:

	31-12-2017	31-12-2016
Income from investments in affiliates and associates	**266,880**	**49,397**
NOSSA - Nova Sociedade Seguros Angola, S.A.	238,936	-
Banco Internacional de São Tomé e Príncipe	27,944	49,397
Income from available-for-sale financial assets	**311,397**	**-**
FIPA - Fundo de Investimento Privado de Angola, S.A.	170,178	-
Fundo Carlyle	141,219	-
	578,277	**49,397**

24. FEE AND COMISSIONS INCOME AND EXPENSES

This caption is made up as follows:

	31-12-2017	31-12-2016
Fee and commission income	**11,877,897**	**11,213,926**
On banking services rendered	9,116,225	8,713,779
On currency exchange operations	1,397,607	1,572,528
On guarantees provided	521,941	459,584
On commitments to third parties	534,885	309,693
On operations rendered on behalf of third parties	159,277	129,152
Other income from commissions	147,962	29,190
Fee and commission expenses	**(2,259,887)**	**(1,532,885)**
On banking services rendered by third parties	(1,736,293)	(1,248,740)
On commitments to third parties	(414,510)	(248,243)
On services rendered	(2,465)	(3,247)
Other commissions paid	(106,619)	(32,655)
	9,618,010	**9,681,041**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

25. EARNINGS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption is made up as follows:

	31-12-2017			31-12-2016		
	Income	Costs	Total	Income	Costs	Total
Securities held for trading						
Securities						
Bonds and other fixed-income securities						
From public issuers	899,179	(278,469)	620,710	2,754,535	(61,601)	2,692,934
	899,179	**(278,469)**	**620,710**	**2,754,535**	**(61,601)**	**2,692,934**

This caption records the result of the disposals of securities recorded in the financial assets held for trading portfolio, as defined in Note 2.4.

26. NET INCOME ON FOREIGN EXCHANGE OPERATIONS

This caption is made up as follows:

	31-12-2017			31-12-2016		
	Income	Costs	Total	Income	Costs	Total
Revaluation of spot foreign exchange operations	1,522,599,620	(1,528,456,491)	(5,856,871)	1,131,502,438	(1,133,800,478)	(2,298,040)
Revaluation of assets and liabilities	718,639	(656,849)	61,790	184,211,171	(188,167,046)	(3,955,875)
Purchase and sale of foreign currency	33,642,639	(1,925,786)	31,716,853	13,954,046	(4,423,894)	9,530,152
Revaluation of USD indexed Treasury Bonds	5,904	(159)	5,745	14,964,355	(376,997)	14,587,358
	1,556,966,802	**(1,531,039,285)**	**25,927,517**	**1,344,632,010**	**(1,326,768,415)**	**17,863,595**

This caption includes the results arising from the foreign exchange revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.2.

The purchase and sale of foreign currency in the net amount of tAOA 31,716,853 was accounted for by the Bank's increased involvement in direct foreign currency sales.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

27. NET INCOME FROM SALE OF OTHER ASSETS

This caption is made up as follows:

	31-12-2017	31-12-2016
Gains in other tangible assets	575,941	23,829
Gains in non-current assets held for sale	316,431	-
	892,372	**23,829**
Losses in other tangible assets	(4,198)	(77,329)
Losses in other intangible assets	-	(13,399)
	(4,198)	**(90,728)**
	888,174	**(66,899)**

28. OTHER OPERATING INCOME

This caption is made up as follows:

	31-12-2017	31-12-2016
Other operating income		
Income on services rendered	1,886,750	2,131,015
Recovery of interest and expenses on overdue loans	2,820,489	1,562,127
Other gains on investments in shareholdings	36,911	100,932
Other operating income	953,530	636,880
	5,697,680	**4,430,954**
Other operating expenses		
Taxes and fees not included in the income statement	(5,287,035)	(5,268,755)
Debt write-offs	(6,364,782)	(4,700,720)
Penalties imposed by regulators	(220)	(43,161)
Other losses on investments in shareholdings	(100,000)	(39,204)
Other operating expenses	(1,053,449)	(28,054)
	(12,805,486)	**(10,079,894)**
	(7,107,806)	**(5,648,940)**

The item Other operating income - income on services rendered reflects income earned during the year, charged by the various services provided by the Bank and income earned from the issue of cheques.

Other operating expenses - Taxes and charges not included in the income statement include the amount of tAOA 4,725,608 (2016: tAOA 3,870,594) related to Tax on Capital Gains to which the Bank was subject during the year.

The caption Other operating expenses - Debt write-offs refers to losses incurred by the Bank in the context of the credit restructuring, which were already fully covered by the recognition of impairment losses.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

29. STAFF COSTS

This caption is made up as follows:

	31-12-2017	31-12-2016
Remunerations	8,556,844	7,400,272
Other remunerations	5,791,286	4,261,691
Mandatory social costs	2,203,135	1,646,871
Costs with post-retirement benefits	1,032,069	800,461
Other costs	528,842	295,504
	18,112,176	**14,404,799**

The caption Other remunerations includes the amount of tAOA 473,639 (2016: tAOA 322,101) referring to the effect of loans granted to employees, pursuant to IAS 19.

The caption Costs with post-retirement benefits includes the amount of tAOA 674,817 (2016: tAOA 522,888) concerning contributions to the Social Security Fund. This caption also includes tAOA 357,252 (2016: tAOA 277,572) referring to contributions to the defined contribution fund assumed by BAI ("BAI Pension Fund"), as defined in Note 30.

The costs with remunerations and other benefits attributed to the Board of Directors and Fiscal Board during the years 2017 and 2016 are presented as follows:

	31-12-2017			31-12-2016		
	Board of Directors	Fiscal Board	Total	Board of Directors	Fiscal Board	Total
Remunerations	414,725	23,185	437,910	448,593	22,297	470,890
Other remunerations	192,240	-	192,240	288,612	-	288,612
Costs with post-retirement benefits	43,650	-	43,650	39,063	1,778	40,841
	650,615	**23,185**	**673,800**	**776,268**	**24,075**	**800,343**

The number of employees of the Bank, considering the number of regular and fixed-term employees, presents the following breakdown by professional category:

	31-12-2017		31-12-2 016	
	Average of the FY	End of the FY	Average of the FY	End of the FY
Directors	11	9	13	12
Management and Coordination	59	70	52	48
Top management	315	326	309	303
Technical staff	670	680	614	660
Administrative staff	828	877	850	779
Other employees	85	29	138	141
	1,967	**1,991**	**1,974**	**1,943**

30. EMPLOYEES' BENEFITS

Law no. 7/04 of October 15, which regulates the Angolan Social Security system, provides for the granting of retirement pensions to all Angolan workers registered in Social Security. The value of these pensions shall be calculated based on a scale proportional to the number of years of work applied to the average monthly gross wages received in the periods immediately preceding the date on which the worker ceases to work.

According to Decree No. 7/99 of 28 May, the contribution rates for this system are 8% for the employer and 3% for the employees. In 2004, the Bank undertook, voluntarily, the commitment to set up a pension fund to provide its employees or their families with cash benefits as a supplement to old-age, disability, early retirement and death grant, under the terms agreed in the constitution contract of the "BAI Pension Fund".

Until 31 December 2009, the Bank had voluntarily granted, in the form of a defined benefit, a pension supplement for old age, disability, early retirement and survival pension supplement to its employees.

On the 21st November 2012, Order No. 2529/12 approved by the Ministry of Finance was published in official gazette, whose single item was the approval of the changes to the pension plan and the constitution contract of the Bank Workers' Pension Fund, from a defined benefit pension plan to a defined contribution plan.

Following this amendment to the Fund, the defined benefit pension plan was maintained for existing pensioners and for participants who terminated their contractual relationship with the Bank and with vested rights until 31 December 2009.

Also according to this amendment approved in 2012 to the agreement to establish the Fund, BAI should contribute 6% of the salary of its employees on a monthly basis, and it has also contemplated a contribution to be made by the participants of the Fund of 3% on their salary, for the new defined contribution plan.

Until 31 December 2012, the Bank was exceptionally provisioning a 3% salary contribution corresponding to the potential liability of the participants (employees). In 2013, in view of the above, this provision was annulled, and this procedure was supported by a legal opinion and by a favourable decision of the Angolan Agency for Insurance Regulation and Supervision (ARSEG).

It should also be noted that between 2010 and December 2013, the Bank set up provisions related to its potential contribution of 6% on the employees' salaries and decided that it will take this period into consideration, even if there are no employee contribution, such as pensionable service time for those participants who joined the Fund.

The management of the "BAI Pension Fund" was transferred from AAA Pensões, SA to NOSSA – Nova Sociedade Angolana de Seguros de Angola, S.A., dated 31 October 2013 in accordance with the Order of the Ministry of Finance, dated 28 of October 2013.

BAI began to deduct monthly amounts of 3% of the salaries of employees who joined the Fund, maintaining their contribution of 6% on the salaries of the mentioned employees.

With regard to the amount to be reimbursed to employees, previously covered by the Defined Benefit Plan and who have transferred to the Defined Contribution Pension Plan, the Fund has, at this date, the amount to cover this liability.

With regard to the Defined Benefit Plan which was still in force, it was decided to settle all liabilities to all participants of this fund (former employees and pensioners), so that this fund is fully settled on 31 December 2015. All this process was monitored and authorized by ARSEG.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

31. THIRD PARTY SUPPLIES AND SERVICES

This caption is made up as follows:

	31-12-2017	31-12-2016
Auditing, consultancy and other specialized technical services	5,748,321	3,847,523
Consumable material	4,051,982	1,626,865
Rent and leasing	3,427,915	1,730,039
Communications	2,186,503	1,869,082
Security, maintenance and repairs	1,215,662	1,447,112
Advertising and publishing	560,303	1,047,463
Insurance	135,181	393,178
Transport, travel and lodging	135,206	138,519
Water and energy	157,620	116,683
Other supplies and services	228,565	515,327
	17,847,258	**12,731,791**

32. DEPRECIATION AND AMORTISATION OF THE YEAR

This caption is made up as follows:

	31-12-2017	31-12-2016
Intangible assets		
Organization and expansion expenses	18,688	100,517
Automatic data processing systems	122,148	230,579
	140,836	**331,096**
Other tangible assets		
Property in use		
Property for own use	717,245	554,238
Leasehold improvements	558,397	556,716
Furniture, tools, facilities and equipment		
Furniture and fixtures	362,405	330,766
Machinery and tools	615,291	571,697
Computer hardware	495,553	483,694
Interior installations	60,945	60,022
Vehicles	232,684	329,878
Security equipment	77,424	72,771
Other equipment	105,631	103,760
Other tangible assets	37,089	36,680
	3,262,664	**3,100,222**
	3,403,500	**3,431,318**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

33. PROVISIONS, NET OF REVERSALS

This caption is made up as follows:

	31-12-2017	31-12-2016
Increases (Note 18)	309,914	2,057,242
Decreases/reversals (Note 18)	(1,883,207)	(3,363,794)
	(1,573,293)	**(1,306,552)**

34. IMPAIRMENT ON LOANS NET OF REVERSALS AND RECOVERIES

This caption is made up as follows:

	31-12-2017	31-12-2016
Increases net of reversals (Note 10)	18,775,815	25,665,543
Recovery of loans and interest	(1,847,537)	(9,434,466)
	16,928,278	**16,231,077**

35. IMPAIRMENT ON OTHER ASSETS NET OF REVERSALS AND RECOVERIES

This caption is made up as follows:

	31-12-2017	31-12-2016
Increases (Note 13)	316,299	-
Reversals (Note 13)	(177,142)	(715,404)
	139,157	**(715,404)**

36. IMPAIRMENT ON OTHER ASSETS NET OF REVERSALS AND RECOVERIES

This caption is made up as follows:

	31-12-2017	31-12-2016
Non-current assets held for sale (Note 11)		
Increases	87,438	-
Other assets (Nota 15)		
Increases	2,063,471	59,849
Decreases/reversals	(49,731)	-
	2,101,178	**59,849**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

37. OFF-BALANCE SHEET ITEMS ACOUNTS

This caption is made up as follows:

	31-12-2017	31-12-2016
Guarantees and sureties provided	33,883,431	61,850,125
Guarantees and sureties received	(222,333,289)	(270,229,062)
Commitments to third parties	19,116,262	3,898,198
Deposit and safeguard of assets	(337,549,379)	(369,143,054)
Responsibility for services provided:		
Custody of securities	467,718,196	132,056,372
Treasury Bills	41,771,552	8,701,244
Custody of BNA Funds (Soyo)	7,236,824	5,412,862
Other responsibilities for services provided	4,826,858	4,827,268
Consigned funds	526,546	528,287
Loans written-off:		
Principal	86,756,886	88,310,229
Interest	35,133,943	18,622,610
Other off-balance sheet items	(5,080)	(4,646)
Loans provided by third parties:		
Collateralized investments in BAI Europa	6,471,017	518,446
Collateralized investments in Commerzbank	995,541	-
Collateralized investments in BAI Cabo Verde	682,496	1,633,785

The guarantees and sureties provided are bank operations that do not translate into the mobilization of funds by the Bank and include bank guarantees and documentary credits.

Documentary credits are irrevocable commitments assumed by the Bank, on behalf of its customers, to pay / order to pay a determined amount to the supplier of a given merchandise or service, within a stipulated period, against the presentation of documents referring to the shipment of the goods or services. The irrevocable condition is that its cancellation or alteration is not viable without the express agreement of all parties involved.

Commitments to third parties have contractual arrangements for the granting of credit to the Bank's customers (for example, unused lines of credit), which are usually contracted on fixed terms or with other expiration requirements and usually require the payment of a commission. Substantially all existing credit-granting commitments require clients to maintain certain requirements when contracting them. They may be revocable and irrevocable.

Notwithstanding the specificities 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 be duly collateralized when necessary. Since most of them are expected to expire without being used, the amounts indicated do not necessarily represent future cash requirements.

All financial instruments referred to above are subject to the same approval and control procedures applied to the customer loan portfolio, namely in relation to the assessment of the adequacy of provisions, constituted as described in the accounting policy referred to in Note 2.3. This provision is recorded under Provisions, as described in Note 18.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

38. RELATED PARTY TRANSACTIONS

In accordance with IAS 24, the entities considered to be related to BAI are:

- Holders of qualifying shareholdings – Shareholders, presuming that this happens when the equity interest is not less than 10%;
- Entities that are directly or indirectly in a controlling relationship or in a group relationship - Affiliates, associates and joint ventures;
- Members of the governing and supervisory bodies of the Bank and its spouses, descendants or ascendants up to the second degree of the straight line, who are the final beneficiaries of transactions or assets.

The Bank's related entities with which it maintained balances or transactions in the year ended 31 December 2017 and 2016 are as follows:

Name of related entity	%	Head Office
Companies that are directly or indirectly controlled by the Bank		
BAI Micro Finanças, S.A.	96.79%	Angola
BAI Europa S.A.	99.99%	Portugal
BAI Cabo Verde S.A.	80.43%	Cape Verde
BAI Center S.A	100.00%	Cape Verde
NOSSA - Nova Sociedade de Seguros de Angola S.A.	72.24%	Angola
SAESP - Sociedade Angolana de Ensino Superior Privado S.A.	80.00%	Angola
Fundação BAI	100.00%	Angola
BAIGEST S.A.	100.00%	Angola

Name of related entity	%	Head Office
Members of the Board of Directors of BAI		
José Paiva – Chairman	n.a	n.a
Mário Barber -Deputy-Chairman	n.a	n.a
Theodore JGiletti – Director	n.a	n.a
Jaime Bastos – Independent Director	n.a	n.a
Luís Lélis – Chief Executive Officer (interim)	n.a	n.a
Inokcelina Santos – Executive Director	n.a	n.a
Helder Aguiar - Executive Director	n.a	n.a
Simão Fonseca - Executive Director	n.a	n.a
João Fonseca - Executive Director	n.a	n.a
Members of the Fiscal Board of BAI		
Júlio Sampaio – Chairman	n.a	n.a
Moisés Joaquim – Member	n.a	n.a
Alberto Pereira - Member	n.a	n.a
Isabel Lopes – Alternate Member	n.a	n.a
Members of the Shareholders' General Meeting Board of BAI		
Domingos Viegas - Chairman	n.a	n.a
Josina Magalhães - Deputy-Chairwoman	n.a	n.a
Alice Escórcio - Secretary	n.a	n.a

Name of related entity	%	Head Office
Corporations under common control		
AAA PENSOES, S.A.	5%	Angola
AAA SEGUROS, S.A.	5%	Angola
EMIS - Empresa Interbancária de Serviços, S.A.	4.09%	Angola
BAI Invest, S.A.	n.a	Angola
FIPA - Fundo de Investimento Privado de Angola, S.A.	n.a	Luxembourg
GRINER Engenharia, S.A.	n.a	Angola
Nova Cimangola, S.A.	n.a	Angola
BISTP - Banco Internacional de São Tomé e Princípe, S.A.	25%	São Tomé and Princípe
SODIMO - Sociedade de Desenvolvimento Imobiliário, S.A.	n.a	Angola
Novinvest, S.A.	n.a	Angola
Benguela Premium, LDA	n.a	Angola
Benfica Boulevard Empreendimentos, S.A.	n.a	Angola
SOPROS, S.A.	n.a	Angola
Hotel Terminus Lobito	n.a	Angola
IMOGESTIN, S.A.	n.a	Angola

The amounts of the Bank's transactions with related parties at 31 December 2017 and 2016, as well as the respective costs and income recognized in the period under review, are summarized as follows:

	31-12-2017				31-12-2016
	Members of the Governing Bodies	Affiliates, associates and joint ventures	Corporations under common control	Total	Total
Assets					
Balances with other credit institutions	-	3,246,298	-	3,246,298	7,220,108
Investments in central banks and other credit institutions	-	136,764,398	-	136,764,398	48,716,717
Available-for-sale financial assets	-	-	75,033	75,033	75,033
Held-to-maturity investments	-	447,037	-	447,037	432,442
Investments in affiliates, associates and joint ventures	-	7,006,806	-	7,006,806	7,976,049
Loans to customers	954,758	13	25,553,370	26,508,142	16,879,006
Direct loans	977,361	13	29,921,411	30,898,786	21,007,947
Loan portfolio impairment	(22,603)	-	(4,368,041)	(4,390,644)	(4,128,941)
Other assets	-	14,005,757	2,189,164	16,194,920	12,928,082
Total assets	**954,758**	**161,470,309**	**27,817,567**	**190,242,634**	**94,227,437**
Liabilities					
Resources of central banks and other credit institutions		6,875,325	155,459	7,030,784	253,435
Customers' resources and other borrowings	3,400,226	2,514,758	5,450,152	11,365,136	10,994,360
Exchange operations	-	77	771,934	772,010	-
Other liabilities	-	-	564	564	1,806
Total liabilities	**3,400,226**	**9,390,160**	**6,378,108**	**19,168,494**	**11,249,601**
Guarantees received	165,758		4,190,613	4,356,371	581,722
Loans written-off	-	-	442,084	442,084	1,506
Indirect credit	109,479	-	7,098,254	7,207,733	2,702,476

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

Net interest income	31-12-2017				31-12-2016
	Members of the governing bodies	Affiliates, associates and joint ventures	Corporations under common control	Total	Total
Interest on deposits and placements with credit institutions	-	73,027	-	73,027	252
Interest on held-to-maturity investments	-	-	-	-	-
Interest on loans to customers	38,501	13	4,637,904	4,676,417	2,439,848
Interest and similar income	**38,501**	**73,039**	**4,637,904**	**4,749,444**	**2,440,100**
Interest on Customers' resources	(129,642)	(28,142)	(22,329)	(180,113)	(202,626)
Interest on resources of central banks and credit institutions	-	-	-	-	24,145
Interest and similar expenses	**(129,642)**	**(28,142)**	**(22,329)**	**(180,113)**	**(178,481)**
Net interest income	**(91,142)**	**44,897**	**4,615,575**	**4,569,331**	**2,261,619**

At 31 December 2017 and 2016, the aggregate amount of cash and deposits as well as placements with other credit institutions that refer to transactions with affiliates, associates and joint ventures are summarized as follows:

Balances with other credit institutions	31-12-2017	31-12-2016
BAI Europa, S.A.	-	7,121,583
BAI Cabo Verde, S.A.	3,246,298	98,525
Total	**3,246,298**	**7,220,108**

Placements with other credit institutions	31-12-2017	31-12-2016
BAI Europa, S.A.	125,986,362	39,853,171
BAI Cabo Verde, S.A.	10,778,036	8,863,546
Total	**136,764,398**	**48,716,717**

The expenses with remuneration and other benefits attributed to the key personnel of the Bank's management (short- and long-term) are presented in Note 29.

Transactions with related parties are carried out under the following conditions, as per Bank policy:

• Business transactions – carried out under normal market conditions and applicable to transactions with the same characteristics and to customers of a similar profile, in terms of, among other, risk level, turnover, sector of activity, etc., according to the price charged by the BAI, i.e. the price of the transactions must be established using the comparable market price method.

• Cost sharing transactions – the price of transactions is defined using the increased cost method.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is based on market quotations, whenever these are available. If these do not exist, fair value is estimated through internal models based on cash flow discounting techniques. The cash flow generation of the 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.

Thus, the fair value obtained is influenced by the parameters used in the valuation model, which necessarily incorporate some degree of subjectivity, and reflects exclusively the value attributed to the different financial instruments.

The fair value of the financial assets and liabilities held by the Bank is presented as follows:

	Amortised cost	Recorded at Fair Value			Total balance sheet value	Fair value
		Market quotations	Valuation models with observable market inputs	Valuation models with non-observable market inputs		
		(Level 1)	(Level 2)	(Level 3)		
31 December 2017						
Cash and cash balances with central banks	180,950,674	-	-	-	180,950,674	180,950,674
Balances with other credit institutions	9,389,469	-	-	-	9,389,469	9,389,469
Investments in central banks and other credit institutions	254,537,675	-	-	-	254,537,675	254,537,675
Financial assets at fair value through profit or loss	-	-	4,078,615	-	4,078,615	4,078,615
Available-for-sale financial assets	-	-	19,333,516	-	19,333,516	19,333,516
Held-to-maturity investments	418,053,626	-	-	-	418,053,626	407,394,805
Loans to customers	369,345,265	-	-	-	369,345,265	363,115,584
Financial assets	**1,232,276,710**	**-**	**23,412,131**	**-**	**1,255,688,840**	**1,238,800,338**
Resources of central banks and other credit institutions	27,687,755	-	-	-	27,687,755	27,687,755
Customers' resources and other borrowings	1,092,660,008	-	-	-	1,092,660,008	1,092,660,008
Financial liabilities	**1,120,347,763**	**-**	**-**	**-**	**1,120,347,763**	**1,120,347,763**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

	Amortised cost	Recorded at Fair Value			Total balance sheet value	Fair value
		Market quotations	Valuation models with observable market inputs	Valuation models with non-observable market inputs		
		(Level 1)	(Level 2)	(Level 3)		
31 December 2016						
Cash and cash balances with central banks	194,593,850	-	-	-	194,593,850	194,593,850
Balances with other credit institutions	24,934,154	-	-	-	24,934,154	24,934,154
Investments to central banks and other credit institutions	77,499,381	-	-	-	77,499,381	77,499,381
Financial assets at fair value through profit or loss	-	-	15,862,414	-	15,862,414	15,862,414
Available-for-sale financial assets	-	-	16,889,938	-	16,889,938	16,889,938
Held-to-maturity investments	550,166,579	-	-	-	550,166,579	534,769,770
Loans to customers	379,864,044	-	-	-	379,864,044	368,788,626
Financial assets	**1,227,058,008**	**-**	**32,752,352**	**-**	**1,259,810,360**	**1,233,338,134**
Resources of central banks and other credit institutions	19,207,649	-	-	-	19,207,649	19,207,649
Customers' resources and other borrowings	1,137,303,582	-	-	-	1,137,303,582	1,137,303,582
Financial liabilities	**1,156,511,231**	**-**	**-**	**-**	**1,156,511,231**	**1,156,511,231**

The Bank uses the following three-level hierarchy in the valuation of financial instruments (assets or liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters applied in determining the fair value valuation of the instrument, in accordance with IFRS 13:

- **Level 1:** Fair value is determined based on unadjusted quoted prices captured in transactions in active markets involving financial instruments identical to the instruments to be valued. If there is more than one active market for the same financial instrument, the relevant price prevails in the main instrument market or the most advantageous market for which access exists;

- **Level 2:** Fair value is determined based on valuation techniques based on observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect (derivatives), and valuation assumptions similar to those that a party would use in estimating the fair value of the same financial instrument. It also includes instruments whose appreciation is obtained through quotations disclosed by independent entities, but whose markets have the lowest liquidity; and,

- **Level 3:** Fair value is determined based on data not observable in active markets, using techniques and assumptions that market participants would use to evaluate the same instruments, including assumptions about the inherent risks, the valuation technique used and the inputs used and contemplated processes to review the accuracy of the values thus obtained.

The Bank considers an active market for a given financial instrument at the measurement date, depending on the volume of business and the liquidity of the transactions carried out, the relative volatility of quoted prices and the readiness and availability of the information and should verify the following minimum conditions:

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

A parameter used in a recovery technique shall be considered as observable in the market if the following conditions are met:

- Its value is determined in an active market;
- If there is an Over-the-counter (OTC) market and it is reasonable to assume that active market conditions are present, with the exception of the trading volume condition; and,
- The parameter value can be obtained by the inverse calculation of the prices of the financial instruments and / or derivatives where the other parameters necessary for the initial valuation are observable in a net market or an OTC market that comply with the previous paragraphs.

As of 31 December 2017 and 2016, the financial assets held by the Bank are not being valued using methods with parameters not observable in the market (level 3), for which reason there is no movement of the items valued according to this level.

As of 31 December 2017 and 2016, all financial assets recorded at fair value were classified in level 2, despite the fact that, in some situations, they were prices recorded in the Angolan Capital Market (BODIVA). The fact that this market started operating at the end of 2016, given the low liquidity and depth of the capital market and its embryonic stage, it was considered that they did not have the necessary conditions to be classified in level 1 .

The main methodologies and assumptions used in estimating the fair value of the financial assets and liabilities recorded in the balance sheet at amortised cost are analysed as follows:

Cash and cash balances with central banks, Deposits in other credit institutions and Investments in central banks and other credit institutions

These are very short-term assets and, therefore, the balance sheet value is a reasonable estimate of their fair value.

Financial assets held for trading and Available-for-sale financial assets

These financial instruments are recorded at fair value. For the Angolan public debt securities, the fair value is based on the market quotations available at BODIVA, whenever these are available. If they do not exist, the calculation of the fair value is relies on the use of numerical models, based on cash flow discounting techniques that use the market interest rate curves adjusted by the associated factors, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and deadlines.

Market interest rates are determined based on information disseminated by financial content providers and the BNA. Interest rates for specific cash flow maturities are determined by appropriate interpolation methods. The same interest rate curves are still used in the projection of non-deterministic cash flows such as indexing.

For investment funds, their financial statements at the balance sheet date of the Bank and, when possible, the respective auditors' report, are considered as the best fair value estimate.

Held-to-maturity investments

The fair value of these financial instruments is based on market quotations, when available. If they do not exist, the fair value is estimated based on the actualization of expected future capital and interest cash flows for these instruments.

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

Loans to customers

The fair value of loans to customers is estimated based on the update of the expected cash flows of principal and interest, considering that the instalments are paid on the contractually defined dates. The interest and discount rates used are the current average rates charged for loans with similar characteristics in the last three months.

For the purposes of this disclosure, it was assumed that variable interest rate credit agreements present regular updates of the interest rate and no relevant changes are being made to the associated spreads, which is why it is assumed that the book value substantially the fair value of these assets.

Resources of central banks and other credit institutions

These liabilities are very short-term and therefore the balance sheet value is a reasonable estimate of their fair value.

Customers’ resources and other borrowings

The fair value of these financial instruments is estimated based on the updating of the expected capital and interest cash flows. The discount rate used is that which reflects the rates charged for deposits with similar characteristics at the balance sheet date.

Considering that, for the vast majority of the customers’ resources 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.

40. ACTIVITY RISK MANAGEMENT

The Bank is subject to several risks in the development of its activity. Risk management is centralized 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 soundness of the Bank, as well as the guidelines for the implementation of a risk management system that allows the identification, assessment, monitoring, control and reporting of all material risks inherent to the Bank's activity.

In this context, it is particularly important to monitor and control the main financial risks - credit, market and liquidity - and non-financial risks – operational – to which the Bank's activity is subject:

Main Risk Categories

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

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

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

Operational – Operational risk is understood as 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 subcontracting, processes inadequate internal decisions, insufficient or inadequate human resources or the inoperability of infrastructures.

Internal organization

The organizational structure of the risk management system includes an autonomous and independent function - the Risk Management Department ("DGR"), without direct responsibility for any risk-taking function, which is hierarchically and functionally dependent of the Board of Directors ("CA"), being supervised by the Risk Management Committee ("CGR") and monitored daily by a director appointed by the Executive Committee ("CE").

The Board of Directors is responsible for defining, approving and implementing a risk management system that allows the identification, evaluation, control and follow-up of all material risks to which the Bank is exposed, in order to ensure that they are maintained at the previous level and will not significantly affect the Bank's financial situation.

The Board of Directors is responsible for: (i) approving the operating regulations of the CGR; (ii) ensure the material and human resources adequate to the performance of the risk management functions; (iii) ensure that risk management activities have sufficient independence, status and visibility and are subject to periodic reviews; (iv) approve the limits of exposure to the various material risks to which the Bank is exposed; and (v) define general guidelines for the risk management system and definition of the Bank's risk profile, formalized in the risk management policy.

The CGR is responsible for assessing the effectiveness of the risk management system, advising the Board on the risk strategy, overseeing the implementation of the risk strategy, and overseeing the performance of the DGR as set out in Order No. 2 / 13, of 19 April, issued by the BNA.

The DGR is responsible for identifying, evaluating and monitoring the risks that are materially relevant to the Bank, as well as monitoring the adequacy and effectiveness of the measures taken to correct any deficiencies in the risk management system.

The Bank's organizational units are responsible for effective risk control and compliance with the internal procedures manuals defined by the Executive Committee.

The risk management system is documented through policies, internal standards (processes) and procedures manuals.

In the course of 2016, BNA issued a set of Notices and Instructions with a special focus on risk management and reporting by Financial Institutions. The Bank is in the process of implementing them, in order to conduct the reporting and compliance within the legally applicable deadlines.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

RISK ASSESSMENT

Credit risk

Credit risk models play a key role in the credit decision process. Thus, the credit decision process is based on a set of policies and parameters that are embodied in scoring models for Private and Business client's portfolios and rating models for the Business segment.

The information on the Bank's exposure to credit risk for financial assets and off-balance sheet credit is as follows:

(thousands of Kwanzas)

	31-12-2017		
	Gross book value	Impairment	Net book value
Balance sheet items			
Balances with other credit institutions	9,389,469	-	9,389,469
Investments in central banks and other credit institutions	254,537,675	-	254,537,675
Financial assets at fair value through profit or loss	4,078,615	-	4,078,615
Available-for-sale financial assets	19,333,516	-	19,333,516
Held-to-maturity investments	418,053,626	-	418,053,626
Loans to customers	457,802,949	88,457,685	369,345,264
	1,163,195,850	88,457,685	1,074,738,165
Off-balance sheet items			
Guarantees provided and Letters of credit	33,883,431	1,735,491	32,147,940
Commitments assumed in relation to third parties	19,116,262	-	19,116,262
	52,999,693	1,735,491	51,264,202
	1,216,195,543	**90,193,176**	**1,126,002,367**

(thousands of Kwanzas)

	31-12-2016		
	Gross book value	Impairment	Net book value
Balance sheet items			
Balances with other credit institutions	24,934,154	-	24,934,154
Investments in central banks and other credit institutions	77,499,381	-	77,499,381
Financial assets at fair value through profit or loss	15,862,414	-	15,862,414
Available-for-sale financial assets	17,376,081	486,143	16,889,938
Held-to-maturity investments	550,166,579	-	550,166,579
Loans to customers	448,711,397	68,847,353	379 864,044
	1,134,550,006	**69,333,496**	**1,065,216,510**
Off-balance sheet items			
Guarantees provided and Letters of credit	61,850,125	2,996,292	58,853,833
Commitments assumed in relation to third parties	3,898,198	-	3,898,198
	65,748,323	2,996,292	62,752,031
	1,200,298,329	**72,329,788**	**1,127,968,541**

Regarding the quality of the credit risk of the financial assets, based on internal rating levels, the Bank is developing the necessary tools to present the information accordingly.

Nevertheless, it is important to take into account the following points related to the mitigation of credit risk of the Bank's financial assets:

- With regard to credit risk, the portfolio of securitised financial assets maintains its predominant position in sovereign bonds of the Republic of Angola;

- For the purpose of reducing the credit risk granted to customers, the real mortgage collateral and financial collateral, that allow a direct reduction in the value of the position, are considered relevant. The guarantees of personal protection with substitution effect in the risk exposure are also considered;

- In terms of direct reduction of credit risk to customers, credit operations collateralized by financial collateral are considered, namely, deposits, obligations of the Republic of Angola, among others similar;

- For real mortgage guarantees, independent appraisers registered with the CMC carry out valuations of assets. The revaluation of the assets is carried out by on-the-spot assessments conducted by an appraiser in accordance with the best practices adopted in the market;

- The Bank's credit portfolio impairment loss model has been in production since December 2016, and is governed by the general principles set forth in IAS 39, as well as the guidelines and iterations for the implementation of IAS / IFRS, according to the plan defined by the BNA, in order to align the calculation process with the best international practices;

- The Bank's impairment model begins by segmenting credit portfolio customers into distinct groups, namely in the public sector, large corporations, small and medium-sized corporations, and for individuals in consumer credit, credit cards, mortgage and overdrafts;

- The assessment of the existence of impairment losses in individual terms is determined by analysing the total credit exposure on a case-by-case basis. For each loan considered as individually significant, the Bank assesses, at each balance sheet date, the existence of objective evidence of impairment;

- It should be noted that restructured loan is a sign of impairment and therefore the loan portfolio marked as restructured is included in the loans with signs of impairment;

- According to the defined model, customers (or economic groups) whose individual exposure is individually significant are analysed on an individual basis. In this context, the exposure is considered significant whenever it is equal to or greater than 0.5% of the Bank's regulatory own funds. The Bank also carries out the individual analysis of its 20 customers with the greater exposure in the private segment;

- For the remaining segments of the loan portfolio, the Bank carries out a collective analysis for the determination of impairment losses. The calculation of the impairment value for the loans of the clients belonging to the homogeneous populations results from the product of the exposure at default ("EAD"), deducted from risk-free financial collaterals and sovereign guarantees, by the following risk parameters:

- Probability of default ("PD"): corresponds to the internal default estimates, based on the risk classifications associated with the operations / customers, the segments and respective signs of impairment. If the credit is in default or there is another credit of that customer in default ("cross-default"), PD corresponds to 100%;

- Loss given default ("LGD"): corresponds to the internal loss estimates in case of default, which vary according to the segment, depending on the collateral type, the Loan-to-Value ratio ("LTV") and the antiquity of the default, based on the historical experience of recovering credits that were in default;

- In the group of individually significant customers, customer's exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovery of credit, taking into account in particular the collateral and existing collateral;

- The impairment value for the customers subject to individual analysis is determined using the discounted cash flows method, i.e. the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows relating to the various operations of the customer, updated according to the interest rates of each operation.

Market risk

With regard to market risk information and analysis, regular reporting on the financial asset portfolios is ensured. At the level of own portfolios, open position limits are defined during the section and at the end of the day, limits of execution volume by type of operator, as well as limits of exposure to counterparties.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

The Bank calculates the exposure to credit risk in accordance with BNA Notice No. 8/2016, of 16 May, and is within the regulatory limits.

The portfolio of held-to-maturity investments is mainly exposed to sovereign bonds of the Republic of Angola, which, as of 31 December 2017, represented 99.60% (2016: 99.69%) of the total portfolio.

The assessment of the interest rate risk arising from the operations of the banking portfolio is carried out by risk sensitivity analysis, based on the financial characteristics of each contract, and the respective projection of the expected cash flows is made according to the rate re-setting dates and any behavioural assumptions considered.

The aggregation for each of the currencies analysed of the expected cash flows at each time interval allows the determination of interest rate gaps by repricing dates.

Following the recommendations of BNA Instruction No. 6/2016 of 8 August, the Bank calculates its exposure to balance-sheet interest rate risk based on the methodology defined in the Instruction.

At 31 December 2017 and 2016, assets and liabilities are broken down by rate type as follows:

	31-12-2017			
	Exposure to		Not subject to interest rate risk	Total
	Fixed rate	Variable rate		
Assets				
Investments in central banks and other credit institutions	254,537,675	-	-	254,537,675
Financial assets at fair value through profit or loss	4,078,615	-	-	4,078,615
Available-for-sale financial assets	16,640,212	-	2,693,304	19,333,516
Held-to-maturity investments	418,053,626	-	-	418,053,626
Loans to customers	177,595,595	280,207,354	-	457,802,949
	870,905,723	**280,207,354**	**2,693,304**	**1,153,806,381**
Liabilities				
Customers' resources and other borrowings (term)	359,027,545	-	-	359,027,545
Resources of central banks and other credit institutions	27,085,554	-	602,201	27,687,755
	386,113,099	**-**	**602,201**	**386,715,300**
	484,792,624	**280,207,354**	**2,091,103**	**767,091,081**

	31-12-2016			
	Exposure to		Not subject to interest rate risk	Total
	Fixed rate	Variable rate		
Assets				
Investments in central banks and other credit institutions	77,499,381	-	-	77,499,381
Financial assets at fair value through profit or loss	15,862,414	-	-	15,862,414
Available-for-sale financial assets	16,638 ,118	-	251,820	16,889,938
Held-to-maturity investments	550,166,579	-	-	550,166,579
Loans to customers	154,251,617	225,612,427	-	379,864,044
	814,418,109	**225,612,427**	**251,820**	**1,040,282,356**
Liabilities				
Customers' resources and other borrowings (term)	462,568,335	-	-	462,568,335
Resources of central banks and other credit institutions	16,592,104	-	2,615,545	19,207,649
	479,160,439	**-**	**2,615,545**	**481,775,984**
	1,293,578,548	**225,612,427**	**2,867,365**	**1,522,058,340**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the financial instruments with exposure to interest rate risk are as follows by repricing date:

	31-12-2017					
	Repricing date / Maturity date					
	Up to 3 months	From 3 months To 1 year	From 1 to 5 years	More than 5 years	Indefinite duration	Total
Assets						
Investments in central banks and other credit institutions	245,684,552	8,853,123	-	-	-	254,537,675
Financial assets at fair value through profit or loss	3,721,370	-	180,048	177,197	-	4,078,615
Available-for-sale financial assets	-	-		16,640,212	2,693,304	19,333,516
Held-to-maturity investments	81,435,171	80,641,003	181,602,912	74,374,540	-	418,053,626
Loans to customers	199,780,411	68,522,741	34,884,793	66,157,319	-	369,345,264
	530,621,504	**158,016,867**	**216,667,753**	**157,349,268**	**2,693,304**	**1,065,348,696**
Liabilities						
Resources of central banks and other credit institutions	(27,085,554)	-	-	-	(602,201)	(27,687,755)
Customers' resources and other borrowings	(135,147,885)	(217,969,494)	(5,910,166)	-	-	(359,027,545)
	(162,233,439)	**(217,969,494)**	**(5,910,166)**	**-**	**(602,201)**	**(386,715,300)**
Net exposure	**368,388,065**	**(59,952,627)**	**210,757,587**	**157,349,268**	**2,091,103**	**678,633,396**

	31-12-2016					
	Repricing date / Maturity date					
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Indefinite duration	Total
Assets						
Investments in central banks and other credit institutions	61,616,455	15,882,926	-	-	-	77,499,381
Financial assets at fair value through profit or loss	7,439	2,026,341	13,217,580	611,054	-	15,862,414
Available-for-sale financial assets	-	-	-	16,638,118	251,820	16,889,938
Held-to-maturity investments	120,535,638	183,361,199	172,145,330	74,124,412	-	550,166,579
Loans to customers	217,266,985	49,842,693	54,546,607	58,207,759	-	379,864,044
	399,426 517	**251,113,159**	**239,909,517**	**149,581,343**	**251,820**	**1,040,282,356**
Liabilities						
Resources of central banks and other credit institutions	19,207,649	-	-	-	-	19,207,649
Customers' resources and other borrowings	194,973,539	239,418,053	10,896,004	-	-	445,287,596
	214,181,188	**239,418,053**	**10,896,004**	**-**	**-**	**464,495,245**
Net exposure	**185,245,329**	**11,695,106**	**229,013,513**	**149,581,343**	**251,820**	**575,787,111**

The sensitivity to the balance sheet interest rate risk, by currency, is calculated by the difference between the present value of the interest rate differential ("mismatch") discounted at the market interest rate and the discounted value of the same cash flows, simulating parallel displacements of the yield curve.

At 31 December 2017 and 2016, the average interest rates for the main categories of financial assets and liabilities, as well as the respective average balances and income and expenses for the year, are as follows:

(thousands of Kwanzas)

	31-12-2017			31-12-2016		
	Yearly average balance*	Yearly interest	Average interest rate	Yearly average balance*	Yearly interest	Average interest rate
Investments						
Investments in central banks and other credit institutions	193,404 813	3,984,068	2.06%	94,513,132	2,877,488	3.04%
Securities**	506,572 711	56,021,175	11.06%	528,432,774	46,797,294	8.86%
Loans to customers	457,802,949	48,126,137	10.51%	432,256,668	42,257,425	9.78%
Total investments	**1,157,780 473**	**108,131,380**		**1,055,202,574**	**91 932 207**	
Resources						
Customers' resources and other borrowings (term)	426,296,169	26 780,373	6.28%	401,643,721	20,557,350	5.12%
Resources of central banks and other credit institutions	16,669,141	233,854	1.40%	16,414,689	302,325	1.84%
Financial liabilities	**442,965,310**	**27,014,227**		**418,058,410**	**20,859,675**	
Net interest income		**81,117,153**			**71,072,532**	

* Sum of the balance of the end of the month of January to December divided by 12

**) Financial assets at fair value through profit or loss + Available-for-sale financial assets + Held-to-maturity investments

At 31 December 2017, the sensitivity analysis of financial assets to changes in interest rates is as follows (in thousands of Kwanzas):

Exposures by maturity interval or rate re-setting - Impact on equity							
Time Band	Assets	Liabilities	Off-balance sheet items		Position	Weighting factor	Weighting position
			+	-			
At sight - 1 month	317,831	72,159	3,602	-	249,274	0.08%	199
1 - 3 months	253,739	121,049	69	-	132,759	0.32%	425
3 - 6 months	87,519	100,598	-	-	(13,079)	0.72%	(94)
6 - 12 months	113,910	119,531	1,452	-	(4,169)	1.43%	(60)
1 - 2 years	45,582	140,593	18,984	-	(76,027)	2.77%	(2,106)
2 - 3 years	14,044	365	150	-	13,829	4.49%	621
3 - 4 years	55,554	360	21,415	-	76,609	6.14%	4,704
4 - 5 years	95,453	315	-	-	95,138	7.71%	7,335
5 - 7 years	21,762	-	-	-	21,762	10.15%	2,209
7 - 10 years	27,459	1,873	209	-	25,795	13.26%	3,420
10 -15 years	20,699	2,716	-	-	17,983	18.84%	3,388
15 - 20 years	3,558	-	-	-	3,558	22.43%	798
>20 years	8,238	-	-	-	8,238	26.03%	2,144
Total							**22,983**
Accumulated impact interest rate – sensitive instruments							**22,983**
Regulatory Own Funds							**154,274**
Impact on Economic Value /Regulatory Own Funds							**15%**

Exposures by maturity interval or rate re-setting - Impact on interest margin							
Time Band	Assets	Liabilities	Off-balance sheet items		Position	Weighting factor	Weighting position
			+	-			
At sight	52,199	76	669	-	52,792	2.00%	1,056
At sight - 1 month	265,632	72,083	2,933	-	196,482	1.92%	3,766
1 - 2 months	185,578	64,572	8	-	121,014	1.75%	2,118
2 - 3 months	68,161	56,477	61	-	11,745	1.58%	186
3 - 4 months	30,086	-	-	-	30,086	1.42%	426
4 - 5 months	19,529	-	-	-	19,529	1.25%	244
5 - 6 months	37,904	100,598	780	-	(61,914)	1.08%	(679)
6 - 7 months	629	-	-	-	629	0.92%	6
7 - 8 months	78,784	-	-	-	78,784	0.75%	591
8 - 9 months	4,908	-	-	-	4,908	0.58%	29
9 -10 months	4,242	-	-	-	4,242	0.42%	18
10 - 11 months	5,413	-	-	-	5,413	0.25%	14
11 - 12 months	19,935	119,531	1,452	-	(98,144)	0.08%	(82)
Total							**7,693**
Accumulated impact of interest rate – Sensitive instruments up to one year							**7,693**
Interest margin							**81,117**
Accumulated impact of interest rate – Sensitive instruments up to one year/Interest margin							**9%**

At 31 December 2016, the sensitivity analysis of financial assets to changes in interest rates is as follows (in thousands of Kwanzas):

Exposures by maturity interval or rate re-setting - Impact on equity							
Time Band	Assets	Liabilities	Off-balance sheet items		Position	Weighting factor	Weighting position
			+	-			
At sight - 1 month	150,761	41,960	-	-	108,801	0.08%	87
1 - 3 months	248,363	184,777	-	-	63,586	0.32%	203
3 - 6 months	154,482	109,119	-	-	45,363	0.72%	327
6 - 12 months	94,726	132,137	-	-	(37,411)	1.43%	(535)
1 - 2 years	113,350	140,668	-	-	(27,318)	2.77%	(757)
2 - 3 years	45,927	296	-	-	45,631	4.49%	2,049
3 - 4 years	9,049	352	-	-	8,697	6.14%	534
4 - 5 years	58,541	323	-	-	58,218	7.71%	4,489
5 - 7 years	91,986	-	-	-	91,986	10.15%	9,337
7 - 10 years	17,353	1,825	-	-	15,528	13.26%	2,059
10 - 15 years	27,249	2,651	-	-	24,598	18.84%	4,634
15 - 20 years	252	-	-	-	252	22.43%	57
>20 years	12,379	-	-	-	12,379	26.03%	3,222
Total							**25,706**
Accumulated impact interest rate – sensitive instruments							**25,706**
Regulatory Own Funds							**149,007**
Impact on Economic Value /Regulatory Own Funds							**17%**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

Exposures by maturity interval or rate re-setting - Impact on interest margin							
Time Band	Assets	Liabilities	Off-balance sheet items		Position	Weighting factor	Weighting position
			+	-			
At sight	57,963	879	-	-	57,084	2.00%	1,142
At sight - 1 month	92,799	41,080	-	-	51,719	1.92%	991
1 - 2 months	147,716	58,788	-	-	88,928	1.75%	1,556
2 - 3 months	100,647	125,989	-	-	(25,342)	1.58%	(401)
3 - 4 months	51,272	-	-	-	51,272	1.42%	726
4 - 5 months	56,712	-	-	-	56,712	1.25%	709
5 - 6 months	46,498	109,119	-	-	(62,621)	1.08%	(678)
6 - 7 months	19,726	-	-	-	19,726	0.92%	181
7 - 8 months	11,505	-	-	-	11,505	0.75%	86
8 - 9 months	14,147	-	-	-	14,147	0.58%	83
9 - 10 months	27,203	-	-	-	27,203	0.42%	113
10 - 11 months	9,497	-	-	-	9,497	0.25%	24
11 - 12 months	12,647	132,137	-	-	(119,490)	0.08%	(100)
Total							**4,432**
Accumulated impact of interest rate – Sensitive instruments up to one year							**4,432**
Interest margin							**71,719**
Accumulated impact of interest rate – Sensitive instruments up to one year/Interest margin							**6%**

Pursuant to article 6 of Notice No. 8/2016, of 16 May, the Bank shall inform the BNA whenever, as a result of a change of the 2% interest rate, there is a potential reduction of the economic value in its banking portfolio or in the net interest income equal to or above 20% of the regulatory own funds. During the years 2017 and 2016, the Bank has complied with this requirement.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the breakdown of assets and liabilities by currency is as follows:

(thousands of Kwanzas)

Net interest income	31-12-2017				
	Kwanzas	US Dollars	Euros	Others	Total
Assets					
Cash and cash balances with central banks	170,036,671	10,008,363	670,384	235,256	180,950,674
Balances with other credit institutions	251,046	4,537,560	3,509,343	1,091 520	9,389,469
Investments in central banks and other credit institutions	52,568,469	191,235,503	10,733,703	-	254,537,675
Financial assets at fair value through profit or loss	3,901,418	177,197	-	-	4,078,615
Available-for-sale financial assets	75,033	19,258,483	-	-	19,333,516
Held-to-maturity investments	236,174,091	181,054,833	824,702	-	418,053,626
Loans to customers	205,636,408	163,526,906	181,948	2	369,345,264
Non-current assets held for sale	18,852,930	-	-	-	18,852,930
Other tangible assets	50,439,113	-	-	-	50,439,113
Intangible assets	1,814,610	-	-	-	1,814,610
Investments in affiliates, associates and joint ventures	7,006,806	-	-	-	7,006,806
Current tax assets	890,511	-	-	-	890,511
Deferred tax assets	2,872,116	173,305	-	-	3,045,421
Other assets	24,532 912	1,834,933	5,185,436	15,610	31,568,891
	775,052,134	**571,807,083**	**21,105,516**	**1,342,388**	**1,369,307,121**
Liabilities					
Resources of central banks and other credit institutions	893,866	17,418,058	9,216,816	159,015	27,687,755
Customers' resources and other borrowings	610,463,483	465,417,096	16,267,676	511,753	1,092,660,008
Deferred tax liabilities	194,476	221,034			415,510
Provisions	2,248,459	979,326	622,338	349	3,850,472
Other liabilities	15,225,248	3,409,909	30,062,916	252,478	48,950,551
	629,025,532	487,445,423	56,169,746	923,595	1,173,564,296
	146,026,602	**84,361,660**	**(35,064,230)**	**418,793**	**195,742,825**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

(thousands of Kwanzas)

Net interest income	31-12-2016				
	Kwanzas	US Dollars	Euros	Others	Total
Assets					
Cash and cash balances with central banks	151,179,011	19,710,788	23,457,286	246,765	194,593,850
Balances with other credit institutions	756,684	14,446,590	9,091,600	639,280	24,934,154
Investments in central banks and other credit institutions	6,008,384	49,839,837	21,651,160	-	77,499,381
Financial assets at fair value through profit or loss	13,658,766	2,203,648	-	-	15,862,414
Available-for-sale financial assets	75,033	16,814,905	-	-	16,889,938
Held-to-maturity investments	370,238,208	179,062,648	865,723	-	550,166,579
Loans to customers	183,813,844	197,244,572	(1 194,135)	(237)	379,864,044
Non-current assets held for sale	15,680,633	-	-	-	15,680,633
Other tangible assets	49,259,609	-	-	-	49,259,609
Intangible assets	1,056,727	-	-	-	1,056,727
Investments in affiliates, associates and joint ventures	7,976,049	-	-	-	7,976,049
Current tax assets	1,507,122	-	-	-	1,507,122
Deferred tax assets	2,851,545	-	-	-	2,851,545
Other assets	20,936,340	1,499,834	5,106,769	(34)	27,542,909
	824,997,955	**480,822,822**	**58,978,403**	**885,774**	**1,365,684,954**
Liabilities					
Resources of central banks and other credit institutions	2,926,254	16,276,526	4,858	11	19,207,649
Customers' resources and other borrowings	654,911,277	467,915,671	13,971,792	504,842	1,137,303 582
Provisions	7,561,247	-	127,940	-	7,689 187
Other liabilities	15,265,594	1,696,888	16,801,919	229,749	33,994,150
	680,664,372	485,889,085	30,906,509	734,602	1,198,194 568
	144,333,583	**(5,066,263)**	**28,071,894**	**151,172**	**167,490,386**

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

As of 31 December 2017 and 2016, the sensitivity analysis of the book value of the financial instruments at the exchange rate variation at the date mentioned is as follows:

Currency	31-12-2017					
	-20%	-10%	-5%	+5%	+10%	+20%
US Dollars	-16,872,332	-8,436,166	-4,218,083	4,218,083	8,436,166	16,872,332
Euros	7,012,846	3,506,423	1,753,212	-1,753,212	-3,506,423	-7,012,846
Others	-83,759	-41,879	-20,940	20,940	41,879	83,759
	-9,943,245	**-4,971,622**	**-2,485,811**	**2,485,811**	**4,971,622**	**9,943,245**

Currency	31-12-2016					
	-20%	-10%	-5%	+5%	+10%	+20%
US Dollars	-6,110,461	-3,055,231	-1,527,615	1,527,615	3,055,231	6,110,461
Euros	-5,615,980	-2,807,990	-1,403,995	1,403,995	2,807,990	5,615,980
Others	-30,240	-15,120	-7,560	7,560	15,120	30,240
	-11,756,682	**-5,878,341**	**-2,939,170**	**2,939,170**	**5,878,341**	**11,756,682**

LIQUIDITY RISK

The liquidity risk assessment is done using internal metrics defined by the Bank's management, namely, exposure limits.

This control is reinforced by the monthly performance of sensitivity analyses with the aim of characterizing the Bank's risk profile and ensuring that its obligations in a liquidity crisis scenario are met.

The purpose of controlling liquidity levels is to maintain a satisfactory level of liquidity in order to meet short-, medium- and long-term financial needs.

The liquidity risk is monitored on a daily basis, and various reports are prepared for control purposes and for monitoring and support for decision-making in the Asset-Liability Committee (ALCO).

The evolution of the liquidity situation is carried out in particular on the basis of the estimated future cash flows for various time horizons, taking into account the Bank's balance sheet. The liquidity position of the day and the amount of assets considered highly liquid in the uncommitted portfolio are added to the amounts calculated, thus determining the accumulated liquidity gap for several time horizons. In addition, liquidity positions are monitored from a prudential point of view, calculated according to the rules defined by the BNA (Instruction No. 19/2016, of 30 August).

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

At 31 December 2017 and 2016, the liquidity gap of the Bank's balance sheet presented the following structure:

(thousands of Kwanzas)

	31-12-2017						
	Periods to maturity						
	At sight	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Indefinite duration	Total
Assets							
Cash and cash balances with central banks	180,950,674						180,950 ,674
Balances with other credit institutions	9,389,469						9,389,469
Investments in central banks and other credit institutions	-	245,684,552	8,853,123	-	-	-	254,537,675
Financial assets at fair value through profit or loss	-	-	3,429,467	649,148	-	-	4,078,615
Available-for-sale financial assets	-	-	-	16,640,212	-	2,693,304	19,333,516
Held-to-maturity investments	-	121,259,248	127,828,911	156,733,409	12,232,058	-	418,053,626
Loans to customers	-	23,574,422	30,688,887	187,963,546	93,744,519	121,831,575	457,802,949
	190,340,143	**390,518,222**	**170,800,388**	**361,986,315**	**105,976,577**	**124,524,879**	**1,344,146,524**
Liabilities							
Resources of central banks and other credit institutions	-	27,085,554	-	-	-	602,201	27,687,755
Customers' resources and other borrowings (term)	-	135,147,885	217,969,494	5,910,166	-	-	359,027,545
	-	162,233,439	217,969,494	5,910,166	-	602,201	386,715,300
Liquidity gap	**190,340,143**	**228,284,783**	**(47,169,106)**	**356,076,149**	**105,976,577**	**123,922,678**	**957,431,224**
Accumulated liquidity gap	**190,340,143**	**418,624,926**	**371,455,820**	**727,531,969**	**833,508,546**	**957,431,224**	

	31-12-2016						
	Periods to maturity						
	At sight	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Indefinite duration	Total
Assets							
Cash and cash balances with central banks	194,593,849	-	-	-	-	-	194,593,849
Balances with other credit institutions	24,934,155	-	-	-	-	-	24,934,155
Investments in central banks and other credit institutions	-	61,616,455	15,882,926	-	-	-	77,499,381
Financial assets at fair value through profit or loss	-	7,439	2,026,341	13,217,580	611,054	-	15,862,414
Available-for-sale financial assets	-	-	-	-	16,638,118	251,820	16,889,938
Held-to-maturity investments	-	120,535,638	183,361,199	172,145,330	74,124,412	-	550,166,579
Loans to customers	-	28,569,339	35,211,245	146,816,208	126,927,863	42,339,389	379,864,044
	219,528,004	**210,728,871**	**236,481,711**	**332,179,118**	**218,301,447**	**42,591,209**	**1,259,810,360**
Liabilities							
Resources of central banks and other credit institutions	-	19,207,649	-	-	-	-	19,207,649
Customers' resources and other borrowings (term)	-	194,973,539	239,418,053	10,896,004	-	-	445,287,596
	-	214,181,188	239,418,053	10,896,004	-	-	464,495,245
Liquidity gap	**219,528,004**	**(3,452,317)**	**(2,936,342)**	**321,283,114**	**218,301,447**	**42,591,209**	**795,315,115**
Accumulated liquidity gap	**219,528,004**	**216,075,687**	**213,139,345**	**534,422,459**	**752,723,906**	**795,315,115**	

It should be noted that at 31 December 2017, the Bank has an amount of tAOA 352,113,527 (2016: tAOA 484,193,403) related to sovereign bonds of the Republic of Angola, not encumbered, classified in the portfolio of held-to-maturity investments that may be used as collateral for the purpose of obtaining liquidity[21]. For this purpose, the public debt securities resulting from the conversion of mandatory reserves, as referred to in notes 8 and 9, are not being included.

At 31 December 2017 and 2016, the liquidity ratio calculated in accordance with Instruction No. 19/2016, of 30 August, amounts to 340% and 306%, respectively. This Instruction defines at least a 100% liquidity ratio for cash flows in domestic currency and aggregate cash flows in all currencies and 150% for exposure to cash flows in foreign currency. The regulator defined minimum observation ratios similar to the previous ones. The Bank presents observation ratios for the period of 1 to 3 months of 1,595% and 1,000% in 2016.

OPERATIONAL RISK

An operational risk management system that is based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk is implemented.

BAI manages operational risk based on business process vision, support and control, being a crosscutting view of the organizational units of the organization. This type of management is supported by principles, methodologies and control mechanisms, such as:

segregation of duties, lines of responsibility, codes of conduct, Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI), access controls (physical and logical), reconciliation activities, exception reports, contingency plans, contracting insurance and internal training on processes, products, services and systems.

CAPITAL MANAGEMENT AND SOLVENCY RATIO

Regulatory Own Funds are calculated in accordance with Notice No. 2/2016, of 28 April, and Instruction No. 18/2016, of 8 August.

The solvency ratio reflects the relation between the Regulatory Own Funds and the sum of regulatory own funds requirements for credit risk and counterparty credit risk (Notice No. 3/2016), own funds requirements for market risk and counterparty credit risk of counterparties in the trading portfolio (Notice No. 4/2016) and own funds requirements for operational risk (Notice No. 5/2016).

Financial institutions shall maintain a level of own funds compatible with the nature and scale of the operations, which are duly weighted by the risks inherent in the operations, with a minimum regulatory solvency ratio of 10%.

The Regulatory Own Funds comprise:

1. Base Own Funds – comprise: (i) the paid-up share capital; (ii) Share premiums related to items included in the previous paragraph; (iii) Reserve for registration of the monetary restatement of the paid-up share capital; (iv) positive retained earnings from previous years; (v) legal, statutory reserves and other reserves arising from undistributed results, or constituted for the capital increase; (vi) positive net profit from the previous year; (vii) provisional positive net profit from the current year; (viii) part of the reserves and deferred tax assets results, insofar as they are associated with losses that they contain as a negative element of the base own funds, and (ix) instruments whose issuance conditions were previously approved by the BNA.

2. Negative elements of the Base Own Funds - comprise: (i) treasury shares portfolio, at the book value in the balance sheet; (ii) negative results, carried out from prior years; (iii) negative net profit from the previous year; (iv) negative latent results related to the revaluation of securities; (v) negative latent results related to the revaluation of available-for-sale securities and cash flow hedges and investments abroad; (vi) provisional negative net profit for the current year; (vii) intangible assets net from amortisations; (viii) deferred costs related to pension liabilities; (ix) part of reserves and deferred tax liabilities, to the extent that they are associated with gains that they contain as a positive element of the base own funds; (x) positive revaluation differences arising from the application of the equity method; (xi) insufficiency of provisions in relation to the provisions of Notice No. 12/2014, of 17 December, on the constitution of provisions; and (xii) actuarial losses not recognized in profit or loss.

3. Additional Own Funds - comprise (i) redeemable preference shares; (ii) funds and generic provisions; (iii) reserves arising from the realization of properties for own use; (iv) subordinated debt, in the form of loans or bonds issued, whose issuance conditions were previously approved by the National Bank of Angola;

[21] The liquidity-providing facilities are subject to the limits defined in Directive No. 3 / DRO / DMA / 16, of 21 September.

(Unless otherwise indicated, all amounts are expressed in thousands of Kwanzas – tAOA)

(v) positive latent results related to the revaluation of available-for-sale securities and cash flow hedges and investments abroad, up to 45% of their value (by the amount of the net effect of the hedge) before taxes; (vi) other instruments whose terms of issue were previously approved by the BNA.

Deductions – Comprise:

(i) the instruments issued or contracted by other financial institutions, which the Institution holds, provided for in paragraphs a) and i) of paragraph 2 of article 5 and in paragraphs a), d) and f) of paragraph 2 of article 7, both of Notice No. 2/2016. This deduction must take into account the amount recorded in the balance sheet, net of provisions, and comply with the following conditions:

a) If the Institution has a participation of more than 10% of the share capital of the investee, all of the aforementioned instruments will be deducted; or

b) If the institution has a stake equal to or less than 10% of the share capital of the investee, and if it exceeds 10% of the participant's capital, the value of the above mentioned instruments will be deducted, excluding 10% of the participant's own funds, considered before this deduction;

(ii) the excesses in relation to the limits established in Notice No. 9/2016, on prudential limits to large exposures.

The positive results referred to in the previous points may only be considered when certified by the accounting expert member of the supervisory body or statutory auditor and by the external auditor.

As of 31 December 2017, the calculation of the regulatory solvency ratio is as follows:

(thousands of Kwanzas)

		31-12-2017
Regulatory Own Funds Requirements		
Operational risk		14,296,966
Market risk		8,495,298
Credit and Counterparty risk		58,419,791
	A	81,212,055
Regulatory Own Funds	B	154,273,735
Base Own Funds	C	154,273,735
Base Own Funds without deferred taxes and subordinated debt	D	151,228,314
Regulatory solvency ratio	E=B/A*10%	19.00%
Regulatory solvency ratio only considering the Base Own Funds	F=C/A*10%	19.00%
Regulatory solvency ratio only considering the Base Own Funds without deferred taxes and subordinated debt	G=D/A*10%	18.62%

41. ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED RECENTLY

The recently issued accounting standards and interpretations that the Bank opted for not early application are as follows:

IFRS 9 – Financial instruments

IFRS 9 is effective for periods beginning on or after January 1, 2018 and will replace IAS 39 – Financial Instruments: Recognition and Measurement, as well as establishing new rules for the accounting of financial instruments, presenting significant changes in respect of impairment requirements. For this reason, it is a norm that has been subjected to a detailed and complex implementation process that has involved all the key areas, in order to understand the impacts and the changes in the processes, governance and business strategy that may imply.

The requirements presented by IFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of initial application.

The Bank has been working on this process and has constituted in this context a working group that is responsible for making key decisions regarding the requirements defined by IFRS 9 and for monitoring the status of the process of analysis and implementation of this new standard.

The main departments involved in this project are the Accounting and Finance Department, Risk Management Department and the Financial Market Department.

The Bank has identified a number of risks that may arise and several mitigating factors and control actions to prevent those risks.

Financial instruments

In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard (IFRS) 9 – Financial Instruments. IFRS 9 is effective for annual, with early adoption allowed, and replaces International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued an amendment to IFRS 9 "Prepayment Features with Negative Compensation". The amendment is effective for annual periods beginning on or after 1 January 2019, with early adoption allowed.

BAI will apply IFRS 9 as issued in July 2014 for the period beginning at 1 January 2018 and will adopt early amendments to IFRS 9 made on the same date. The quantification of impacts is currently under way and is not yet finalized. These impacts can be typified in the following components:

- Impairment requirements (see (ii));
- Changes in classification and measurement, which are not related to impairment (see (i) and (ii)); and
- Deferred tax.

In view of the adoption of the standard, as defined by the BNA, in the financial statements with reference to 31 March 2018, the transition process has not yet been finalized. The main processes still under way can be summarized as follows:

- Review and adaptation of policies, accounting procedures and associated internal control.
- Framework of the business model as defined in the standard for defining the classification of instruments or portfolios of instruments;
- Conclusion of the analysis of the characteristics of the instruments (Solely Payments of Principal and Interest- "SPPI") relevant to their classification;
- Conversion of the application systems, namely the calculation of impairment and management of securities in the light of the new requirements of the standard and subsequent change of the associated controls
- Adaptation of the governance structure;
- Finalization of the expected loss calculation ("ECL") models; and
- A number of decisions are still being taken, to be approved assumptions and methods of calculation and registration.

I – CLASSIFICATION – FINANCIAL ASSETS

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL).

Thus, the standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL (use of Fair Value Option):

- it is held within a business model whose objective is to hold assets to collect contractual cash (HTC – Held to collect); and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI – Solely Payments of Principal and Interest).

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL (use of Fair Value Option):

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC and Sell – Held to collect and Sell); e
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (Fair Value Option).

A financial asset is classified in one of these categories on initial recognition. See (VIII) alluding to the transition requirements related to the classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Bank is making, at reference date January 1, 2018, an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Banks's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, sales information should not be considered in isolation, but as part of an overall assessment of how the Bank sets goals for managing financial assets and how cash flows are obtained.

Financial assets held for trading and financial assets and managed and valued at fair value (Fair Value Option) will be measured at FVTPL, as they are not held either for the collection of contractual cash flows (HTC) or for collection of contractual cash flows and sale of financial assets (HTC and Sell).

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the original contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features)
- features that modify consideration of the time value of money – e.g. periodic reset of interest rates.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, a prepayment feature is consistent with the solely payments of principal and interest criterion if i) the financial asset is acquired at a significant discount or premium to its contractual par amount, ii) a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) and iii) the fair value of the prepayment feature is insignificant at initial recognition.

Impact assessment

The standard will have an impact on the classification and measurement of financial assets held on January 1, 2018 as follows:

- Trading assets and derivative assets held for risk management that are classified as held-for-trading and measured at FVTPL under IAS 39 would also be measured at FVTPL under IFRS 9;
- Loans to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 would in general also be measured at amortised cost under IFRS 9;
- Held-to-maturity investment securities measured at amortised cost under IAS 39 would in general also be measured at amortised cost under IFRS 9;
- Debt securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances;
- Loans to customers and investment securities designated as at FVTPL (Fair Value Option) under IAS 39 would in general continue to be so designated under IFRS 9;
- Equity securities classified as available-for-sale under IAS 39 would generally be measured at FVTPL under IFRS 9. Although, some equity securities represent investments that the Bank intends to hold for the long term for strategic purposes and as permitted by IFRS 9, the Bank has designated these investments at 1 January 2018 (the date of initial application) as measured at FVOCI.

Based on the analysis performed to date and on the strategy defined, no material changes are expected at the level of the measurement on associated with the Bank's financial assets.

II– IMPAIRMENT– FINANCIAL ASSETS, LOAN COMMITMENTS AND FINANCIAL GUARANTEES

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model which considers the expected losses over the life of the financial instruments. Thus, in the determination of the ECL, macroeconomic factors as well as other forward-looking information are taken into account, whose changes impact the expected losses.

The new impairment model will apply to the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments (including the loans portfolio);
- Loan commitments and financial guarantee issued (previously impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss will be recognised on equity investments.

The instruments subject to impairment will be divided into three stages, taking into account their level of credit risk, as follows:
- Stage 1: assuming that credit risk has not increased significantly after initial recognition. Thus, impairment will reflect the credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date.
- Stage 2: financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition, but for which it is still not verified an objective evidence of impairment. Thus, impairment will reflect lifetime ECL that result from all possible default events over the life of the financial instrument.
- Stage 3: financial instruments which have an objective evidence of impairment, namely a breach of contract, such as a default or past due event. Thus, impairment will reflect lifetime ECL that result from all possible default events over the life of the financial instrument.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas:

- Assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see Note 2.3).

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank will consider information that is relevant and available without undue cost and/or effort. This Includes both quantitative and qualitative information and analysis, based on the Bank's historical experience, expert judgement and forward-looking information.

Under IFRS 9, the identification of a significant increase in credit risk has occurred should be done by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

The Bank will identify the occurrence of a significant increase in credit risk for an exposure by comparing the current 12-month PD to the 12-month PD estimated at the time the contract is recognized as a proxy for the comparison of the current remaining PD lifetime values and the remaining PD lifetime calculated at the initial time of the contract.

As a backstop, the Bank will consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Bank will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- Tthe criteria do not align with the point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred from 12-month ECL measurement to credit-impaired;
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD and lifetime PD.

Credit risk grades

According to the Bank's current credit risk management, each client, and consequently its exposures, is allocated to a degree of risk from the internally defined scale.

The Bank will use these risk grades as a key factor in identifying the significant increase in credit risk under IFRS 9.

Inputs for measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default– EAD.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

The degrees of risk will be a highly relevant input for determining the PD associated with each exposure. The Bank will collect performance and default indicators on its credit risk exposures with analyses by types of customers and products.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the collaterals, counterparty industry, seniority of the claim and recovery costs. For loans secured by retail property, LTV (loan-to-value) ratios are a key parameter in determining LGD.

EAD represents the expected exposure in the event of a default. The Bank will derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation and pre-payments. For lending commitments and financial guarantees, the EAD will include the amount drawn, as well as potential future amounts that may be drawn under the contract.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period will extend to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. The Bank will develop a view of the future direction of relevant economic variables based on advice from internal and external experts. This view will represent a most-likely outcome and will be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting.

III – CLASSIFICATION – FINANCIAL LIABILITIES

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

IV – DERECOGNITION AND CONTRACT MODIFICATION

IFRS 9 incorporates the requirements of IAS 39 for derecognition of financial assets and liabilities without significant changes.

V – HEDGE ACCOUNTING

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9.

Currently, the Bank has not formally designated under IAS 39 any accounting hedge relationships.

VI – DISCLOSURES

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

VII – IMPACT ON CAPITAL PLANNING

The Bank regulator issued guidances on the transition requirements regarding the implementation of IFRS 9.

It is expected that the main impact on the Bank's regulatory capital in the context of the implementation of IFRS 9 will result from the application of the new impairment requirements.

VIII – TRANSITION

Changes in accounting policies resulting from the adoption of IFRS 9 Will generally be applied retrospectively, except as described below:

- The Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments should be made on the basis of the facts and circumstances that existed at the date of initial application:
- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI; and
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank will assume that the credit risk on the asset had not increased significantly since its initial recognition.

IFRS 15 – Revenue from Contracts with Customers

The IASB issued, on 28 May 2014, IFRS 15 – Revenue from Contracts with Customers.
Early adoption is permitted. This standard supersedes IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, 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 model based on 5 steps of analysis in order to determine when the revenue should be recognized and what the amount. The model specifies that revenue must be recognized 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, the revenue is recognized:

i) At the precise moment when the control of the goods or services is transferred to the customer; or
ii) Throughout the period, in that it portrays the performance of the entity.

The Bank is evaluating the impacts arising from the adoption of this standard.

IFRS 16 - Leases

On 13 January 2016, the IASB issued IFRS 16 - Leases, which are mandatory for periods beginning on or after 1 January 2019. Its early adoption is permitted provided once that IFRS 15 is also adopted. This standard repeals IAS 17 - Leases.

IFRS 16 removes the classification of leases as operational or financial (for the lessor - the leasing customer), treating all leases as financial leases.

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

The Bank will initiate a process to evaluate the potential effects of this standard, however at this date, the Bank has not recorded leases in the financial statements.

The accounting standards, amendments and interpretations issued, but still not effective for the Bank, are as follows:

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The IFRIC 22 interpretation was issued on 8 December 2016, with a date of mandatory enforcement for periods beginning on or after 1 January 2018.

The new IFRIC 22 provides that, in the event that there have been advances in foreign currency for the purpose of asset acquisition, expense support or income generation, in applying paragraphs 21 to 22 of IAS 21, the date considered as a transaction for the purpose of determining that (or part of it) is the date on which the entity initially recognizes the non-monetary asset or liability resulting from the payment or receipt of the advance in the foreign currency (or if there being multiple advances, the rates in force at each advance).

The Bank does not expect significant changes to occur in the adoption of this interpretation.

IFRIC 23 – Uncertainty over Income Tax Treatments

An accounting interpretation was issued on 7 June 2017 on how to deal with uncertainties about the income taxes treatments, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to resort to the understanding 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 criterion of probability defined by the norm 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 resolution can dictate ranges of values, use the expected value method.

The IFRIC 23 is applied for periods beginning on or after 1 January 2019 and may be adopted in advance.

The Bank does not expect significant changes in the adoption of this interpretation to occur.

Other changes:

- On 19 January, 2016 and applicable to periods beginning on or after 1 January 2017, amendments to IAS 12 aimed at clarifying the deferred tax asset recognition requirements for unrealized losses to resolve disagreements;
- On 29 January, 2016, and applicable to periods beginning on or after 1 January, 2017, amendments to IAS 7, disclosure initiative, requiring companies to provide information on changes in their financial liabilities, providing information that assists Investors in the understanding of corporate indebtedness;
- The annual improvements for the 2014-2016 cycle, issued by the IASB on 8 December 2016, introduce changes to IFRS 12 (clarification of the Application of the standard) with effective date on after 1 January 2017.
- On 20 June 2016, and applicable to periods beginning on or after 1 January 2018, amendments to IFRS 2 - Classification and Measurement of Share-based Share Transactions;
- On 8 December, 2016, and applicable to periods beginning on or after 1 January, 2018, amendments to IAS 40 - Transfer of investment property clarifying the time at which the entity must transfer properties under construction or development of, or for, investment properties when there is a change in the use of such properties that is supported by evidence (other than that listed in paragraph 57 of IAS 40);
- The annual improvements for the 2014-2016 cycle, issued by the IASB on 8 December 2016, introduce changes, with an effective date of application for periods beginning on or after 1 July 2018, to IFRS 1 (elimination of First time adoption) and IAS 28 (measurement of an associate or joint venture at fair value) and effective on or after 1 January 2017, IFRS 12 (clarification of the Application of the standard).
- Improvements in the 2015-2017 cycle issued by the IASB on 12 December 2017 introduce changes, effective for periods beginning on or after 1 January 2019, to IFRS 3 (remeasurement of the holding previously held as IFRS 11 (not remeasuring the holding previously held in the joint venture when it obtains joint control over the business), IAS 12 (accounting for all the tax consequences of the payment of dividends from IAS 23 (treatment as general loans any loan originally made to develop an asset when it becomes eligible for use or sale).

The Bank does not anticipate any impact on the application of these changes in its financial statements.

EXTERNAL AUDITOR'S REPORT

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INDEPENDENT AUDITORS' REPORT

(This report is a free translation to English from the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail)

To the shareholders of
Banco Angolano de Investimentos, S.A.

Introduction

1. We have audited the accompanying financial statements of **Banco Angolano de Investimentos, S.A.,** which comprise the balance sheet as at 31 December 2017 which presents a total of 1,369,307,121 thousands AOA and an equity of 195,742,825 thousands AOA including a net profit for the period of 54,704,352 thousands AOA, the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended and the corresponding Notes to the financial statements.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3. Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with the Technical standards of the Angolan Institute of Accountants and Chartered Accountants ("Ordem dos Contabilistas e Peritos Contabilistas de Angola"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

KPMG

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures included in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for the Qualified Opinion

6. As described in Note 2.1 of the Notes to the financial statements, Associação Angolana de Bancos ('ABANC') and Banco Nacional de Angola ('BNA') stated that, as at 31 December 2017, not all of the requirements set forth in IAS 29 - Financial Reporting in Hyperinflationary Economies ('IAS 29') are met in order to consider the Angolan economy as hyperinflationary. Consequently, the Board of Directors of the Bank decided not to apply the IAS 29 in its financial statements for the period under review. As at 31 December 2017, the accumulated inflation rate over the last three years is close to or above 100%, depending on the index used, and there is also the expectation that it will continue to cumulatively exceed 100% in 2018, which is an objective quantitative condition that leads us to consider, in addition to other conditions established in IAS 29, that the functional currency of the Bank's financial statements, as at 31 December 2017, corresponds to the currency of a hyperinflationary economy. In these circumstances, the Bank should have presented its financial statements as at 31 December 2017, considering that premise and in accordance with the requirements defined in that Standard, which also establish the restatement of the financial statements of the previous year disclosed for comparative purposes. However, we have not obtained enough information to quantify accurately the effects of this situation on the Bank's financial statements as at 31 December 2017, which we consider to be significant.

KPMG

Qualified Opinion

7. In our opinion, except for the effects of the matter described in paragraph 6 of the "Basis for the Qualified Opinion" section of our report, the financial statements referred in paragraph 1 above, give a true and fair view, in all material respects, of the financial position of **Banco Angolano de Investimentos, S.A.,** as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Emphasis of matter

8. Without qualifying our opinion expressed in the paragraph above, we draw attention to the fact that, as disclosed in note 2.1., these financial statements, prepared for the year ended 31 December 2017, relate to the Bank´s individual activity.

Luanda, 27 March 2018

KPMG Angola – Audit, Tax, Advisory, S.A.
Represented by
Vitor Manuel da Cunha Ribeirinho
Chartered Accountant (Member n.º 20120089)

REPORT AND OPINION OF THE FISCAL BOARD

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REPORT AND OPINION OF THE FISCAL BOARD

Dear Shareholders,

In compliance with the legal and statutory regulations, namely the Law 1/04 13 February (Commercial Companies Law), we hereby submit to you for your consideration the Report and Opinion of the Fiscal Board on the Annual Report of 2017 of the Banco Angolano de Investimentos, S.A., as well as on the proposal of application of results:

1. During the year, we had the opportunity to periodically monitor the Bank's activity through accounting information and contacts with both the Administration and the various areas, namely Accounting and Finance, Internal Audit and Planning and Control.

2. In the exercise of our functions and with the depth and extent possible, we have carried out the analyses that, in the circumstances, seemed necessary and we have appreciated the Report of the Board of Directors and the Financial Statements, including the Balance Sheet, Income Statements and respective notes. These documents were prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), in compliance with the Notice No. 6/16 of 22 June 2016 of Bank of Angola, except in relation to IAS 29 – Financial Reporting in Hyperinflationary Economies as mentioned in the report of the independent auditors.

3. Accordingly, and taking into account the Independent Auditors' Report, we have concluded the following:

    a) That the Report of the Board of Directors and the Financial Statements, in accordance with the accounting records, satisfy the legal and statutory regulations;
    b) That the 2017 financial year was positive, with the Bank achieving a net result of tAOA 54,704,352 (Fifty-four thousand, seven hundred and four million, three hundred and fifty-two thousand Kwanzas), observing the practice legally permitted and economically advisable, to set up adequate provisions to contribute to the stability of its assets;
    c) That the valuation criteria used and the policies followed are consistent with those applied in previous years.

4. Considering that the documents referred to in (2) together allow an understanding of the Bank's financial situation and economic performance, we propose:
    a) The approval of the Management Report of the Board of Directors and the Accounts for the year 2017.
    b) Approval of the proposal for the application of the net profit for the year 2017, included in the Report of the Board of Directors.

5. Finally, we express our gratitude to the Board of Directors and to all the staff of the Bank that we have contacted for their valuable cooperation.

Luanda, 27th March 2018