

# Banco de Fomento Angola Internal Control System

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**BANCO DE FOMENTO ANGOLA, S.A.**

Rua Amílcar Cabral n.º 58 Luanda Angola  
SWIFT / BIC: BFMXAOLU



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## INTERNAL CONTROL SYSTEM

The BFA internal control system organises all the methods and procedures adopted by management to ensure that wherever possible business is conducted methodically and efficiently. Objectives include implementation of management policies, protection of assets, the prevention and detection of fraud and errors, accurate and complete accounting records and the timely preparation of reliable financial information.

In accordance with BNA's Notice 2/13 regulating the duty of every financial institution to implement an internal control system, systems are considered suitable and effective if the board of directors and management can be reasonably certain that their bank's strategic and operating objectives are being met, that its reporting system is reliable and that there is compliance with legal requirements.

O Sistema de Controlo Interno é composto por 4 componentes com objectivos e instrumentos específicos que suportam o adequado e integrado Sistema de Controlo Interno do BFA:

|   |                                      |  |
|---|--------------------------------------|--|
|    | <b>Control environment</b>           | The control environment considers the behaviour and actions of the Bank's management and staff, whether their knowledge and experience is sufficient for their duties and the ethical principles and integrity they display in their work.   |
|  | <b>Risk management system</b>        | The risk management system establishes a set of policies and integrated processes to ensure the proper identification, assessment, monitoring, control and reporting of risk. It must look at all relevant risks and ensure they are managed efficiently, consistently and quickly.            |
|  | <b>Information and Communication</b> | The Bank's information and communication systems must provide full reliable, consistent and comprehensible information that is in line with specific objectives and measures and must also ensure the collection, processing and dissemination of that information in line with best practice. |
|  | <b>Monitoring</b>                    | The monitoring of the internal control system ensures the continuous, effective and fast detection of strategic, policy and process problems and all forms of risk, including those relating to ethical and professional principles.   |

## REMUNERATION OF CORPORATE BODIES

### Remuneration of executive directors

BFA's remuneration policy for the executive directors sitting on its management body, the Executive Committee of the Board of Directors (ECBD), is based on a fixed pay component supplemented by variable remuneration that is dependent on the performance of BFA and each of its directors in the year prior to payment of the remuneration, and on assessment of that performance over previous years. Assessment that is therefore in part based on the following criteria:

- personal performance;
- the collective performance of director's own units;
- the general performance of BFA as a whole;
- compliance with the internal/external regulations, rules and procedures applying to BFA's work and its code of conduct in particular.

The fixed component of the remuneration paid to ECBD members follows market practice and is as set out in their employment contracts and labour law.

Since BFA is not a public company, variable remuneration is paid entirely in cash. The inclusion of a variable pay component helps bring the interests of ECBD members into line with those of BFA and its shareholders. The performance-based component of ECBD remuneration helps prevent excessive risk-taking. Calculation of total variable remuneration for the ECBD as a whole takes account of several factors, including changes in pre-tax and after-tax profits over the years.

## **Remuneration of non-executive directors, the Supervisory Board and the Board of the Meeting of Shareholders**

The non-executive members of the Board of Directors, the Board of the Meeting of Shareholders and the Supervisory Board receive fixed pay only and no variable pay for their duties.

The remuneration of the members of the Board of Directors, the Board of the Meeting of Shareholders and the Supervisory Board is set directly by the shareholders via the Meeting of Shareholders.

Since there is no remuneration committee, pay is approved by the shareholders via the Meeting of Shareholders I.

### **Remuneration in 2015**

Total 2015 remuneration for all members of the Board of Directors, Supervisory Board and Board of the Meeting of Shareholders was AKZ 450 million, distributed as follows:

- Executive Committee of the Board of Directors: AKZ 392.5 million in fixed and variable pay;
- Board of Directors, Supervisory Board and Board of the Meeting of Shareholders, AKZ 57.5 million in fixed pay.

### **Profits distribution policy**

The profits distribution policy forms part of the articles of association, which set the following order of priority:

- Settlement of loss brought forward;
- Formation or replenishment of the legal reserve;
- Formation or replenishment of special statutory tax reserves;
- Payment of preferred dividends on any preference shares (without voting rights) issued by the Company;
- 40% of remaining profit to be distributed among all shareholders, unless an AGM resolution passed by 2/3 of the Company's share capital allocates it all or in part to create and/or supplement reserves or to any other purpose that is in the Company's interests;

- The remainder to be applied as resolved by the Meeting of Shareholders by simple majority vote.

Legal reserve requirements are currently met in full.

2009-2012, 65% of profits for the periods were distributed in the form of dividends, the remaining 35% being allocated to unrestricted reserves.

In 2013 and 2014, 50% of profits for each period were distributed in the form of dividends, the remaining 50% being allocated to unrestricted reserves.

For 2015, the proposal is that 40% of profits for the period be distributed in the form of dividends and the remaining 60% be allocated to unrestricted reserves.

### **Ethical principles and conflicts of interest**

The code of conduct and the regulations for the Board of Directors and the ECBD set the highest standards of conduct in accordance with ethical principles, and include rules, principles and procedures that must be applied to identify, monitor and mitigate conflicts of interest.

Transparent relations between management and staff are promoted and engagement in illegal activities and excessive risk taking is prohibited, thus contributing to transparent contractual relations between the Bank and its counterparties. Members of the Bank's corporate bodies and its staff are also prohibited from accepting gifts of more than symbolic value that might compromise the independent performance of their duties.

The professional activities of members of the Bank's corporate bodies and its employees are governed by the ethical principles set out in the BFA code of conduct, which has been approved by its Board of Directors. This is available on the intranet and on the Bank's website. The following is a summary of the main points:

- In addition to fulfilling all legal banking requirements, the members of the Bank's corporate bodies and its staff must strictly comply with ethical principles and display exemplary civic behaviour;
- They must use all due professional diligence and skill in their professional duties, acting in good faith and meeting high standards of diligence, loyalty and transparency and must give customers and the competent authorities - subject to professional secrecy requirements - thorough, appropriate and complete answers to their questions;

- They must maintain absolute professional secrecy;
- Unless there are legal, contractual and/or risk-related reasons for not doing so, they must ensure all Bank customers receive equal treatment;
- Conflicts of interest: conflicts between the interests of two or more customers must be resolved carefully and fairly and all parties must be treated impartially. Conflicts of interest between customers and the Bank, its staff or members of its corporate bodies that concern the Bank's activities must be resolved in favour of the customer's interests unless there are legal or contractual reasons for acting otherwise;
- Unlawful benefits and abuse of position: members of the Bank's corporate bodies and its staff are prohibited from soliciting, accepting or receiving, directly or indirectly, any asset or non-asset benefit or promise thereof in connection with, or as consideration for, any action or omission committed during the exercise of their duties for the Bank (irrespective of whether this constitutes violation of their official duties);
- Relations with authorities: in their relations with banking supervisory, tax and judicial authorities, the members of the Bank's corporate bodies and Bank staff must act with all due diligence and must seek clarification from their immediate superiors wherever necessary.

In their contacts with customers and the market, the members of the Bank's corporate bodies and Bank staff must also act with extreme discretion and ensure that the services provided to customers and all facts and information concerning customers and third parties that is obtained as a result of duties in the Bank are kept entirely confidential.

### **Risk management system**

The risk management system allows an integrated overview and management of banking risk, mitigating the potential loss that risk can cause.

The Board of Directors, including non-executive directors and the Risk Committee, is responsible for the monitoring and control of the risk management system.

The Supervisory Board, Audit and Internal Control Committee and the Risk Committee are also tasked with assessing the main indicators and components of risk management.

Risk identification and assessment generally applies to all areas of the Bank and in particular to the following departments in the case of credit risk:

- Personal and Business Lending: monitoring of lending in these segments;
- Corporate Lending Risk: monitoring of lending in this segment;

- Structured Finance and Investment: structuring of large and complex loans and all investment financing proposals, including those that come under the Angola Investe Programme;
- Real Estate Transactions: financing assessment and monitoring of the loan portfolio (risk on mortgages and commercial real estate lending).
- Loan Monitoring, Recovery and Litigation: non-performing loans and their recovery through negotiation or the courts.

All these departments report to the same director, who has no commercial responsibilities.

BFA has a General Lending Regulation that is supplemented by a set of other internal rules and procedures to ensure proper credit risk control. These were reinforced in 2011 with the implementation of BNA's central credit risk tool, which is essential to the proper measurement of credit risk.

The Financial and International Department (DFI) is responsible for the supervision of liquidity, foreign exchange and interest rate risk and for compliance with BFA-approved ratios and limits in the DFI Limits and Procedures Manual (mandatory reserves and foreign exchange exposure limits). It is also responsible for contacts with BNA in this area.

Organisation and Training is responsible for operating risk management to help ensure the efficient and rational operation of the Bank through the execution and coordination of projects and the creation of processes and procedures that will allow the preparation and maintenance of internal rules, structures and processes to ensure efficiency, reduce risk and provide constant support for the Bank as a whole. It is also tasked with collecting information and preparing reports on operating loss.

As part of its management of the fight against money laundering and the financing of terrorism, Compliance is responsible for preliminary and ex-post controls to identify sanctioned entities and suspicious transactions and ensure compliance with the legal requirements affecting the Bank.

Audit and Inspection (DAI) works to protect the integrity and security of the assets of the Bank and its customers, performing regular analysis of the work done by business units and central services. Analysis is supplemented by controls by the Bank's own external auditor or by another auditor contracted for the purpose. DAI is also responsible for checking compliance with internal regulations and the code of conduct.

See the chapters on risk for details of the methods and tools used to manage the above risks.



## **Internal information**

The Bank continues to invest in IT as an essential part of its strategy for ensuring high levels of innovation, modernity and risk control. IT promotes BFA's sustainable growth and underpins not only better processes and procedures but also continuous improvement in the quality of service to customers.

## **Institutional reporting**

BFA places great importance on maintaining frank and transparent relations with shareholders and authorities, on social communications and on communications with all other market operators.

Communication with the market in general takes the form of publication of the annual report and financial statements and of quarterly interim accounts on BFA's public website.

Bank performance and activities are disclosed internally on the intranet to staff.

The Bank also holds executive meetings every six months attended by representatives from all its departments, at which results and outlook are presented.

## **Monitoring**

Audit and Inspection monitor the internal control system and assess the efficiency and effectiveness of its components by examining compliance with processes and procedures. The Department also ensures the regular audit and inspection of the commercial network (branches and business and investment centres) and central services to protect the integrity and security of Bank and customer assets, compliance with relevant internal regulations and rules and risk control.

During inspections DAI additionally performs targeted investigations as a result of customer complaints or decisions by the Bank's management bodies.

