Annual
Report
2019

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Management Report

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Message from the Chair of the Board of Directors

1. Message from the Chairman

Dear Shareholders, Customers, Employees and Stakeholders,

The year 2019 was marked by a less favourable trend in Gross Domestic Product (GDP), mainly due to the impact of climate shocks, especially in the provinces of the centre and north of the country. In addition to the deeply regrettable loss of human life, cyclones Idai (Sofala province) and Kenneth (Cabo Delgado province) also caused destruction of public and private infrastructure and affected production capacity, especially in agriculture, which accounts for the largest proportion of GDP, thus reviving inflationary pressures.

In view of the stability of the general price level, the Bank of Mozambique (BM) cut the monetary policy rate (MIMO) twice during 2019, from 14.25% to 12.75%. As a result, the prime rate (PRSF) in the same period moved in the same direction, falling from 20.20% to 18%. The mandatory reserve requirement in meticais also fell during the year, reaching 13%, compared to 14% in December 2018. These cuts stimulated and drove an increase in credit to the economy, though timid (+3% compared to the same period of 2018), with particular impact on lending to the private sector and in local currency.

In a domestic and international macroeconomic context marked by increasingly severe difficulties, in 2019 the trust of customers and of the market in general in Moza Banco continued to increase strongly. Our loan portfolio grew by MZN 5.9 billion, or some 33%, during the period, giving us a market share of 11.27% (2018: 8.66%). It should be pointed out that, even without the effect of the merger with the former BTM completed successfully during the period, Moza managed to grow 22% compared to 2018.

Customer funds increased by MZN 4.5 billion compared to the previous year, which represents year-on-year growth of 18%, giving us a market share of 6.24%, compared to 5.92% at the end of 2018 (growth of 12% excluding the effect of the merger).

At the same time, the Bank's financial transactions grew to MZN 57,984 million, up 24% compared to 2018, well above the market growth rate (8.21%).

According to the current levels of prudential ratios reported, Moza Banco has the strength required to carry on credit activity. At 31 December 2019, the Bank's solvency ratio reached 23.84%, well above the requirements imposed by the Regulator (12.0%) and the average market figures.

With regard to the customer base, the Bank kept its growth path and was successful in attracting new customers and in increasing the number and volume of transactions in the different distribution channels; this has shown that confidence grew clearly, very much like the trend in recent years. In 2019, the number of Bank customers rose from 134,987 to 182,878, which represents an annual increase of 35% (11% growth excluding the effect of the merger).

Despite the high levels of provisioning and coverage of the Bank's credit portfolio at the end of the previous period, an additional effort was still necessary to continue to significantly increase customer credit coverage in 2019, as a result of the slowdown in economic activity. At present the coverage ratio of loans due to impairment is at 132% (2018: 174%). This increase translates our commitment to ensuring adequate levels of coverage for these assets, in line with the conservative, prudent and stringent risk management policy set out by the Bank's Board of Directors.

However, the period under review was also challenging due to the change in the way leases are accounted for, with the Bank adopting International Financial Reporting Standard 16 (IFRS 16) in 2019, in line with best financial reporting practices. Given the weight of "operating" leases in Moza's structure, this procedure has led the Bank to recognise assets under the right to use in its Balance Sheet and corresponding liabilities amounting to MZN 2.6 billion. In terms of the operating account, the negative impact of implementing this policy amounts to MZN 209 million.

In contrast, we implemented some measures during the period in question for greater control and cost rationalisation. The objective was to ensure the sustained improvement of operational efficiency, in line with the objectives set out in the 2019-2023 Strategic Plan. As a result, profitability and efficiency ratios improved compared to the same period in 2018. Operating results grew significantly, reaching MZN 718 million (2018: MZN 89.8 million).

The cost-to-income ratio reached 84.9%, down from 111.5% in the same period in 2018, reflecting the positive effect of measures aimed at reducing costs, increasing banking income and the effects of adopting IFRS 16 in 2019.

As mentioned above, in 2019 we merged with the former BTM, whose capital, as is known, had been acquired almost entirely by Moza Banco as part of a wider operation which included the restructuring of the company's capital. This merger required a committed effort at all levels to be achieved with the greatest efficiency and the least possible impact on the lives of Customers, Suppliers, Employees and Stakeholders in general.

This merger marked the beginning of a new era. Although the combination of two others, it created a new institution that has excelled in standardising procedures and integrating operations by following clear principles which streamline resources and efforts to enable sound, efficient and prudent management.

On the other hand, the merger has expanded our strategic status as a truly universal retail bank in covering the full spectrum of the banking business, with a strong national footprint. Currently, with 62 bank branches we have consolidated our position as the third largest network in the country, and we are present in all provinces across the entire country of Mozambique. This includes some districts and villages which are very remote from large urban centres, which shows we are making a concerted effort to be closer to the population.

In 2019, as part of an agreement with the Mozambican government to offer banking services throughout the country, we opened seven branches in different locations including Guijá, Chigubo and Mapai (Gaza), Machaze (Manica), Tsangano (Tete), Memba and Nacaroa (Nampula). In 2020, we will continue with the opening of more bank branches, in particular in Chimbonila and Majune (Niassa), Derre and Ille (Zambézia) and Zumbo (Tete). Our contribution to domestic banking is not limited to the expansion of our banking network, however. Allow me to highlight the work we have been doing in monitoring and supporting financial literacy, promoting good (security) practices and a culture of saving.
Finally, a word about a number of other events that have marked the life of our organisation this year:

- The official opening of our Head Office, on 13 June, by His Excellency the President of the Republic of Mozambique, Filipe Jacinto Nyusi, in a ceremony attended by other distinguished figures, which represented an undeniable milestone in strengthening the Bank's institutional image;

- The award by the prestigious magazine "The Banker"- owned by the Financial Times group - for being the institution with the best financial restructuring operation of 2019 in Africa.

- As a result of its excellent performance in card use and Moza Banco's proven ability to provide secure and reliable transactions for its customers in its range of cards, the VISA INTERNATIONAL NETWORK honoured Moza Banco in 2019, highlighting three important categories, with the Visa Cross border champion award, E-Com warrior award and Visa Premium award;

- The prize, for the second year running, for Best innovation in Retail Banking", awarded by International Banker, in recognition of its strong capacity for technological innovation and contribution to financial inclusion demonstrated throughout the year.

For the period 2020, we reaffirm our strong commitment to maintaining and boosting investment by building an organisational and technological infrastructure that will effectively support our business development. We will invest in innovation through new developments and transformational technological platforms and we will also open doors to the digital world. Special attention will be paid to our employees, investing in human capacity building, through training and a policy of retaining and developing our staff skills.

We will keep driving growth of our commercial activity, taking advantage of our branch network, providing added-value products and services to the Customer through strong focus on internal human capital and ongoing optimisation of the operational structure of processes and systems.

At the end of 2019, a worrying situation occurred around the world which had an impact on a global scale: the pandemic caused by COVID-19, better known as the 'Coronavirus'. Its exponential spread already shows signs of strong negative impact on various sectors of the global economy, leading some nations to take emergency measures. With these measures, all institutions and economic agents will be forced to activate their contingency plans and implement a continuity plan in line with environment in which they operate.
At the national level, all organisations and institutions must be prepared to limit the impacts caused by this pandemic by cooperating with society in general, as we are experiencing a major challenge on a global scale.

Last but not the least, on behalf of the Board of Directors, I would like to express our gratitude and appreciation to all those who have contributed to Moza Banco's consolidation and growth, namely to employees for the committed and professional manner in which they have carried out their mission, and to our customers who kept their trust in this institution. I would also like to thank our shareholders for all their support, and the Supervisory and Government Authorities for offering their support to the process that the Bank has been undertaking.

Chairman of the Board of Directors
Dr. João Figueiredo

2. Key highlights

2.1. Key indicators

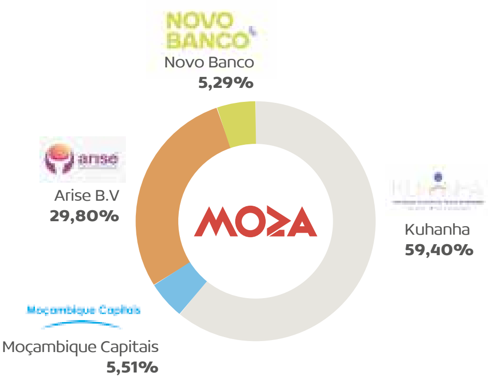
Key indicators (in MZN thousand)	2018	2019	Var. % 2019 - 2018
BALANCE SHEET			
Total Assets	36,411,293	41,817,315	15%
Loans to customers (net) [1]	17,985,608	23,875,241	33%
Customer funds	24,893,226	29,346,124	18%
Loan-to-deposit Ratio (Credit/Deposits)	88%	98%	9.7 pp
COMPETITIVE POSITION[2]			
Market share in loans to customers	8.66%	11.27%	2.61 pp
Market Share in deposits	5.92%	6.24%	0.31 pp
Market share in assets	6.06%	6.30%	0.23 pp
PROFITABILITY			
Profit or loss before tax	(545,943)	(570,318)	-4%
Operating income	2,491,183	3,135,253	26%
Return on Equity (ROE)	-7.79%	-9.07%	-1.2 pp
ROA	-2.11%	-1.85%	0.25 pp
PRUDENT LIMITS			
Tier I	25.66%	24.54%	-1.1 pp
Solvency Ratio - Moza Banco	21.70%	23.84%	2.137 pp
Liquidity Ratio	49.92%	34.60%	-15. pp
ASSET QUALITY			
Overdue Loans >90 days	2,162,766	3,405,832	57.5%
Total Overdue Loans	2,225,883	3,603,457	61.9%
Credit Impairment	3,872,886	4,763,077	23.0%
Overdue Loans >90 days/Loans to Customers	10.21%	12.06%	1.84 pp
Credit Impairment/Overdue loans > 90 days	179%	140%	-39. pp
Credit Impairment/Total Overdue loans	174%	132%	-41. pp
Credit Impairment/Loans to customers	18.29%	16.86%	-1.4 pp
EFICIENCY			
Operating expenses	2,609,667	2,661,670	2.0%
Other Operating expenses	1,471,531	1,365,726	-7.2%
Staff Costs	1,138,136	1,295,944	13.9%
Operating Expenses/Total Assets (%)	7.2%	6.4%	-0.8 pp
Cost-to-Income ratio[3]	104.8%	84.9%	-19. pp
External supplies & Services/Operating income	59.1%	43.6%	-15 pp
Staff costs/ operating income	45.7%	41.3%	-4. pp
BUSINESS INDICATORS			
Bank Branches	55	62	13%
No of ATMs	111	123	11%
No of POS	2,747	3,249	18%
No of employees at end of period	753	919	22%
No of customers	134,987	182,878	35%
Network cards	94,158	116,836	24%

[1] Gross loans of impairment provisions
[2] Statistical information from the Bank of Mozambique, December 2019
[3] Not including amortisations
pp = percentage points

2.2. Key highlights

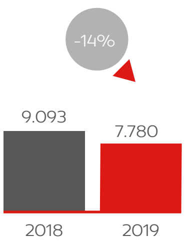
CAPITAL AND FINANCIAL STABILITY

Shareholding

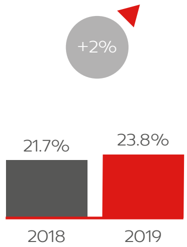


- The Bank's shareholders have shown their commitment to making Moza Banco a leading institution in Mozambique. With its modern infrastructure it can offer a wide range of products and services in order to satisfy its customers' needs, with emphasis on individuals and small and medium enterprises.
- Full integration of the former BTM. This operation was carried out in an exemplary way, both from the point of view of people and the integration of technologies, processes and operations. Moza Banco now has a specialised segment in Agribusiness and Rural Banking, as a result of the experience consolidated by the former BTM.

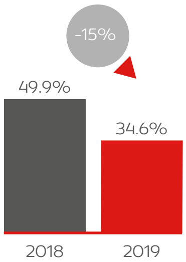
Equity (MZN Million)



Solvency Ratio



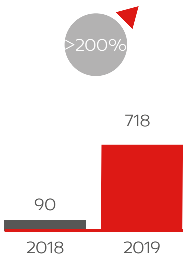
Liquidity Ratio



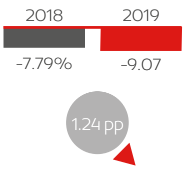
- The Bank's Equity fell by 14% compared to the same period in 2018.
- Moza continues to show adequate levels of stability, given the Bank of Mozambique's minimum requirements of 12% and market benchmarks.
- The liquidity ratio stood at 34.6%, above the regulatory minimum (25.0%), showing that the Bank is able to honour all its commitments to customers, suppliers or any other stakeholder.

PROFITABILITY

Gross Operating Income (MZN Million)

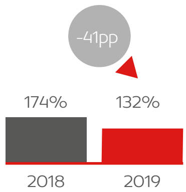


Profitability of Equity (in%)

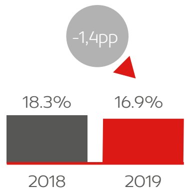


ASSET QUALITY

Credit Impairment/ Total Overdue Loans



Credit impairment/ Total Credit



BUSINESS TRENDS

Attracting Customers
48 000 new Customers

Deposit Acquisition
Increase of 18% compared to the same period in 2018

Loans to Customers
Growth of 33% on the previous year

Mobile and Internet Banking
Maintaining levels reached in 2018, in terms of volume de business

Bank Branches
Integration of more than 7 former BTM bank branches, to make a network of 62 Bank Branches

USSD - Moza Já
Growth in transactions of 22% compared to 2018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MOZA

3. Moza Banco

Brief Description

Moza Banco, S.A. Moza Banco, S.A. (hereinafter referred to as “Moza Banco”, “Moza” or “Bank”) is a private commercial bank, operating in the Mozambican market since 16 June 2008; it provides banking services throughout the country, based on a network of 62 bank branches (third largest branch network of the Mozambican banking system), offering products and services to a wide range of institutional, corporate, private and retail customers.

For the Bank, 2019 was an exceptional year due to the successful merger with the former BTM, a Bank with extensive experience in the agribusiness sector in Mozambique, and clearly established its position in the financial market as a truly Mozambican Bank. Also, in 2019, in order to meet the challenges posed by growth, it officially opened its new Head Office, which is an undeniable and decisive milestone in strengthening the Bank as an institution. This is an imposing, modern 15-storey building, which houses all the Bank’s 19 central units, with a total of over 500 employees.

The Bank’s capital structure is supported by five shareholders, namely KUHANHA - Sociedade Gestora do Fundo de Pensões do Banco de Moçambique, Arise B.V., Moçambique Capitais, S.A., Novo Banco África S.G.P.S, S.A. (a Portuguese bank) and António Almeida Matias.

Competitive Position

Although 2019 was a very challenging year both internally and externally, the Bank continued to grow its commercial balance sheet, with the credit portfolio growing by approximately 33% (22% excluding the portfolio migrated from the former BTM), which allowed the Bank to exceed its internal objectives. As a result of the increase in its loan portfolio, Moza recorded the highest growth in the sector, translated in an increase in its market share to 11.27% (2018: 8.66%). This milestone is a sign of the Bank’s commitment to keep supporting Mozambican households and companies, both in terms of the rigorous granting of credit and through the provision of a financial advisory aimed at adjusting our offer to the needs of each customer.

In terms of Customer Funds, the Bank posted growth of 18% (12% excluding BTM’s transferred portfolio). In annual terms, Moza Banco’s Customer Fund portfolio outperformed the sector, which clearly reflects the market’s increased loyalty and confidence in Moza.

Main Historical Milestones

- In 2010, KPMG rated Moza Banco the fastest growing bank in Mozambique in terms of turnover;

- In 2011, Banco Espírito Santo África (BES África), now Novo Banco África, became part of the Moza shareholding with 25.1% of the share capital, while Moçambique Capitais (the founding shareholder) kept its position as the largest shareholder, holding 51%. Also, in 2011, the prestigious and renowned magazine, ‘The Banker’, ranked Moza Banco as Africa’s fifth fastest growing bank in terms of assets;

- In 2013, the shareholder BES África (now Novo Banco África) acquired a further 23.9% of Moza’s share capital, holding 49%, and a 5-Year Strategic Plan was approved to expand Moza Banco at the top of the Mozambican financial system. The approved Plan was based on four main cornerstones, namely, service excellence, gradual universal positioning, a top ranking and market-aligned profitability;

- In 2014, the renowned publication ‘Global Banking and Finance Review’ named Moza the fastest-growing commercial bank operating in Mozambique in 2014;

- In early 2015, the renowned magazine, Banker Africa, rated Moza as the most innovative bank in Southern Africa. The Bank secured total national coverage, with a total of 45 Bank Branches, a network of 83 ATMs and 1,587 POS, with 56,692 cards (debit and credit) and a total of 74,567 customers in all provinces of Mozambique. At the end of 2015, as a result of the economic climate and its adverse financial performance, the Bank showed the first signs of decreasing economic and financial stability;

- In September 2016, as a result of continued deterioration in the Bank’s economic, financial, and prudential indicators, the Bank of Mozambique intervened in Moza Banco to protect the interests of depositors and stakeholders. It appointed a Provisional Board of Directors to take the necessary actions for the recovery of business activity and to restore confidence in the Bank within the sector and the market;

- In June 2017, as part of the Bank’s recapitalisation process, Kuhanha (the Bank of Mozambique’s Pension Fund Management Company) became part of the Bank’s shareholding, injecting MZN 8,170 million into its share capital. It should be noted that after the capital increase, Moza Banco re-established its levels of prudential ratios, and on 28 July 2017 the regulator called an end to the extraordinary measures imposed on Moza Banco.

- In December 2017, Moza Banco shareholders carried out a further capital increase of MZN 3,542 million, thus providing greater resilience and sustainability to Moza’s business model, in line with that embodied in the Strategic Plan 2017-2021;

- In December 2018, Arise B.V. became part of Moza’s shareholding, with a 29.80% stake. Also, in December 2018, Moza Banco fulfilled its objective of acquiring 100% of the shares in Banco Terra, S.A. (BTM), opening up the prospect of a merger between both institutions;

- In June 2019, the President of the Republic Filipe Jacinto Nyusi officiated the opening of the new Moza Banco headquarters, representing an undeniable and decisive milestone in consolidating the Bank as an institution;

- The merger between Moza Banco and Banco Terra was completed on 23 August 2019, after approval by the legal entities and regulator; this was an important milestone in the consolidation of the Bank and the Mozambican Financial System;

The Moza Brand

In 2019, the Mozambican economy was hard hit by the unfavourable climatic events that lashed the central and northern regions of the country in March and April, respectively, which affected the financial capacity of companies and households. Notwithstanding the challenges and obstacles brought about by the domestic situation, Moza Banco consolidated its market position in 2019 by regaining the confidence of the market in general and its customers in particular. It should be noted that the increase in customer confidence is the result of the Bank's new business approach as a Relational Bank, which puts the customer at the centre of its strategic positioning, and focuses on a specialised offer that stands out due to its quality.

Thanks to this increased confidence Moza Banco's market share was able to develop and provide sustainable growth, maintaining and increasing adequate stability and liquidity indices and enjoying a considerable improvement in its profitability.

In 2019, yet again Moza Banco's value was commended by various entities, which is a sign of the positive effect of increased confidence in the MOZA BANCO brand by both customers and the market:

- Moza Banco was honoured by "The Banker", owned by the Financial Times group, with the award for "Deal of the Year for Restructuring in Africa". This award recognises the success of the structured capital increase operation that culminated in the entry of ARISE, and the acquisition of all the shares of Banco Terra, S.A. (BTM) by Moza Banco for subsequent merger;

- For the second year running, Moza Banco was honoured by "International Banker", with the award for "The Best Innovation in Retail Banking Mozambique 2018" for its strong capacity for technological innovation and contribution to financial inclusion. This award considered Moza's strong capacity for innovation as a distinctive feature, and quality of service as a commitment to market positioning.

- In October, due to the growth of debit and credit card transactions, VISA International honoured Moza Banco in the categories "Visa Cross Border Champion Award, E-com Warrior Award, Visa Premium Award 2019".

2015

Moz was awarded the "VISA Product & Marketing Card Warrior Award" for its outstanding contribution to promoting electronic payment instruments in 2015.

Moza was reconised as the Most Innovative Bank in Southern Africa by Banker Africa Magazine

Moza won the Estrela Mercator trophy, awarded by Mercator in recognition of the innovative training Branch project, through which Moza provides all its staff with the chance to receive training and develop their skills.

Moza economic player of 2015 Notícias newspaper named Moza as an outstanding player in the Mozambican economy..

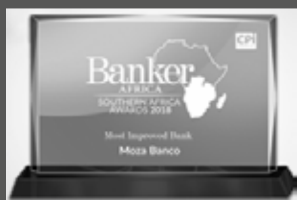
2016

Moza was reconised as the bank with the best online plataform in Mozambique, for its innovative corporate website and internet banking service.

Moza was reconised for the second consecutive year as the most innovative bank in Southern Africa, with consistent innovation in the services and financial solutions that it provides to customers and to the market in general

Moza won the "Visa Agile – Acquiring award 2016", in recognition of the bank's differented positioning in the region

2018



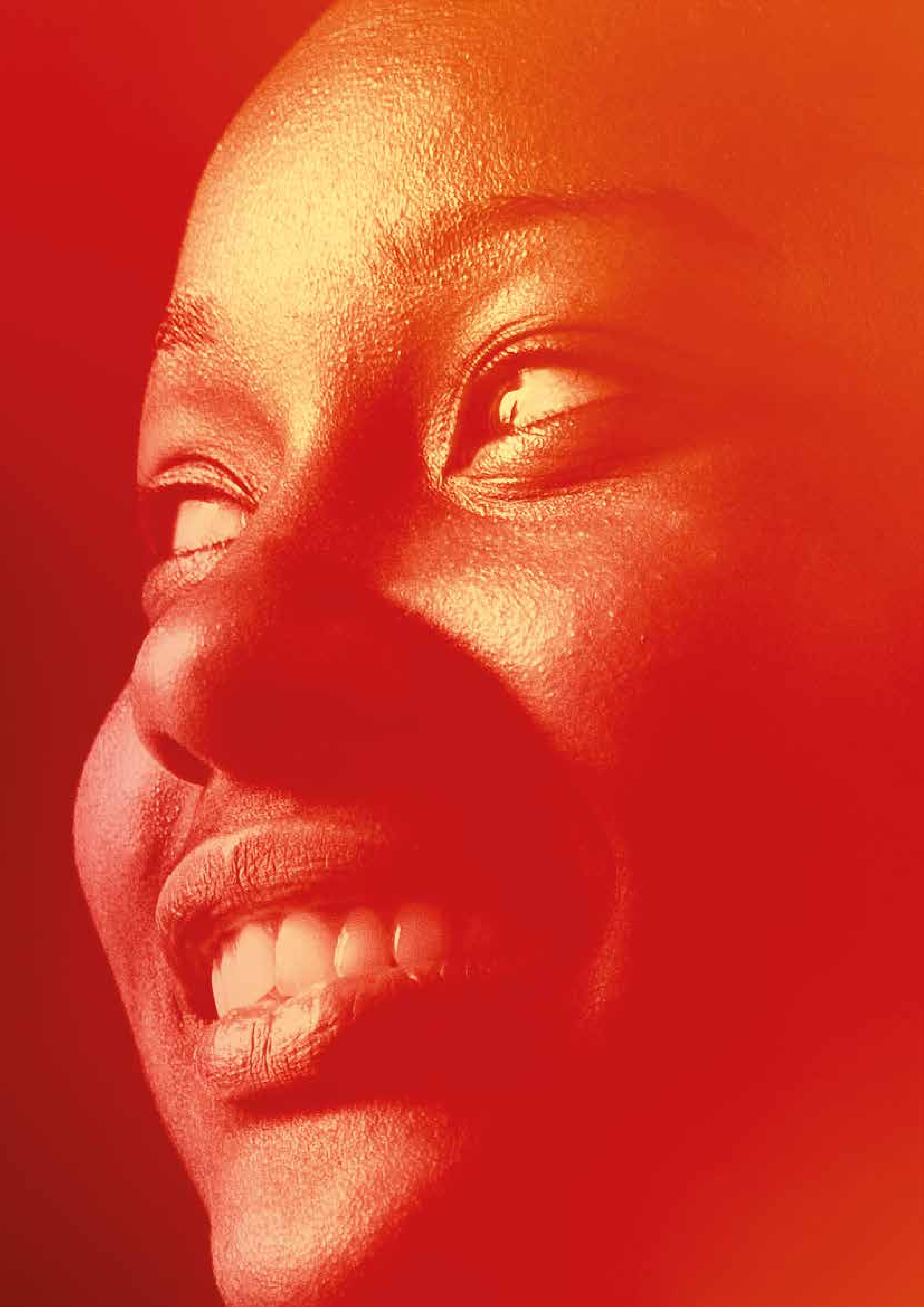
Moza was recognised by Banker Africa as the "Most Improved Bank" in the Southern Africa Banking Award 2018, The Award recognises the strong recovery of the Bank's financial and prudential indicators, supported by an effective recapitalisation strategy.

Moza was also named the most innovative bank by "International Banker",in recognition of its strong capacity for innovation and service quality as a distinctive feature of the Bank in the natural financial sector.

2019

The Banker awarded Moza Banco the prize for "Deal of the Year 2019 for Reestructuring in Africa" in other words, "Best Financial Restructuring Operation of 2019 in Africa".

Moza Banco was honoured by "International Banker", with the award for "The Best Innovation in Retail Banking Mozambique 2018" for its strong capacity for technological innovation and contribution to financial inclusion.



4. Main Events of 2019

4.1 Main Events of 2019

Activities undertaken in 2019 which will go down permanently in the history of the Bank included the following:

MARCH

'Best Innovation in Retail Banking' Award – International Banker
For the second year running, Moza Banco was honoured by "International Banker", with the award "The Best Innovation in Retail Banking Mozambique 2018" for its strong capacity for technological innovation and contribution to financial inclusion.

This award considered Moza's strong capacity for innovation as a distinctive feature, and quality of service as a commitment to market positioning.

Partnership with the Tax Authority
Moza Banco and the Mozambique Tax Authority, AT, signed two Memoranda of Understanding under which Moza Banco will issue tax numbers in all its branches; besides, the Bank commits to promote tax citizenship actions through financial and customs education and tax generalisation.

Signing of an MoU with MJACR
The Bank has signed a Memorandum of Understanding with the Ministry of Justice, Constitutional and Religious Affairs that renews the partnership between the two institutions for more efficient collection management.

This partnership, based on Moza Banco's experience and proven capacity for innovation, is aimed at providing smart and automated solutions for the payment of registry and notary acts by users; this helps to improve the service provided to citizens and provide a more efficient management of collections by entities under the jurisdiction of the MJACR.

JUNE

Official opening of New Headquarters Building
The official opening of the new Head Office on 13 June 2019 will be definite mark in Moza Banco's history as it represents an undeniable and decisive milestone in strengthening the Bank as an institution. The opening ceremony was officiated by His Excellency the President of the Republic in the presence of members of the government, representatives of diplomatic missions, Members of the Board of Directors and Moza's management body, customers, and other partners. The imposing and modern 15-storey building houses all 19 of the Bank's central organisational units.

"Deal of the Year for Restructuring in Africa" Prize – The Banker
Moza Banco's successful financial restructuring operation was recognised by one of the most renowned international publications in the banking and finance sector, "The Banker" magazine, owned by the Financial Times group. The publication awarded it the prize for "Deal of the Year for Restructuring in Africa", in other words, "Best Financial Restructuring Operation of 2019 in Africa". This award recognises the success of the structured capital increase operation that culminated in the entry of a new investor into the shareholding, ARISE, and the acquisition of all the shares of Banco Terra, S.A. (BTM) by Moza Banco for subsequent merger.

AUGUST

Completion of merger between Moza Banco and BTM
On 23 August 2019, after the relevant approval by the Bank of Mozambique and other Legal Entities, the merger between Moza Banco and Banco Terra S.A. was formally completed; this opened a new era in Moza Banco's history and marked a decisive step towards the construction and consolidation not only of our Institution but also of the Financial System itself, which aims to be more robust and truly at the service of the national economy.

Establishment of Partnership with UEM Faculty of Law
As part of its Corporate Responsibility initiative, Moza Banco has been investing in the development of teaching quality in Mozambique, with the creation of partnerships with educational institutions.

As such, a Memorandum of Understanding was signed with FDUEM - Faculty of Law of Eduardo Mondlane University, to help create value for students and teachers and to improve the quality of teaching at the Faculty, which is part of the oldest higher education institution in Mozambique.

One of the added values of this partnership is the award of scholarships to students based on academic merit. This reduces the inherent costs of their education, encouraging them to make the most of their potential. In addition, a grant is available to acquire bibliographical material to equip the institution's library. This initiative aims at fostering the publication of academic work, the preparation of legal opinions and providing joint training courses.

VISA Prizes
In 2018, Moza's debit and credit cards recorded the highest growth in transactions abroad, as well as in purchases online, earning the Bank the prestigious Visa International awards, in the categories "Visa Cross Border Champion Award, E-com Warrior Award, Visa Premium Award 2019".

The awards were announced in Maputo during the annual workshop of the Visa International network and national commercial banks, partners of VISA.
The Visa Cross border champion award - honours Moza as the fastest growing bank in card transactions abroad; the E-Com warrior award – highlights Moza as the bank with the highest growth in the volume of online transactions, and the Visa Premium Award 2019 – honours it as the Bank that recorded the highest growth in issuance and transactions of Platinum cards.

OCTOBER

Opening of 3 new Bank branches in the same number of Districts
On 7 October, the Bank opened 3 new bank branches, one in the Gaza province (District of Mapai), one in the Manica province (District of Machaze) and the third in the Nampula province (District of Nacaroa).

These openings are part of the presidential initiative "One District One Bank", to promote the expansion of the banking network in the country, providing all districts with a bank.

“Poupa o Teu Valor” competition

As part of World Savings Day in October, the Bank held a series of comprehensive and inclusive activities at national level, with particular emphasis on the “POUPA O TEU VALOR” (“Save your Money”) competition, held at Amilcar Cabral Primary School in the city of Lichinga; this was aimed to foster reflection, discussion, sharing of experiences and content to encourage the habit of saving and the transmission of basic knowledge about the use of money.

At the same time, a competition was held on social networks to prioritise the use of digital tools and the application of multimedia resources. Users of social networks took part by sending a short film with tips on how to save.

Partnership with the Mozambican Association of Public Prosecutors (AMMMP)

Moza Banco signed a Memorandum of Understanding with the AMMMP aimed at setting the terms and conditions that will allow MOZA BANCO and the AMMMP to develop a cooperative relationship and commitment through the establishment of mutually beneficial relationships. With this AMMMP members will have access to a wide range of financial services and products on competitive terms.

Support for senior women’s basketball team to participate in the pre-Olympic qualifying tournament for the Tokyo 2020 Olympic Games

As part of its contribution to make sport widespread, within the framework of its Social Responsibility Policy, Moza Banco signed a partnership agreement with the Mozambican Basketball Federation in November to support the participation of the senior national women’s basketball team in the pre-Olympic qualifying tournament for the Tokyo 2020 Olympic Games held in Serbia.

DECEMBER

Book launch for “O Terrorista Elegante e Outras Histórias” by Mia Couto and Angolan writer José Eduardo Agualusa.

As part of its commitment to promoting arts and culture, the Bank joined forces with the Fernando Leite Couto Foundation to launch the work “The Elegant Terrorist and Other Stories” by renowned Mozambican writer Mia Couto and Angolan José Eduardo Agualusa. With this support, we are redoubling our commitment to promoting the arts in Mozambique”.

5. Shareholding and Corporate Bodies

5.1 Shareholding

Shareholding

During 2019, Moza Banco's shareholding remained unchanged, with the share capital set at MZN 3,943,250,000. However, after the acquisition of the former BTM at the end of 2018, on 23 August 2019 the merger between the two institutions took place through the incorporation of the former BTM into Moza Banco's shareholding. With the merger, Moza became stronger and a bank with a comprehensive dimension that intends to compete for a prominent place within the national financial system.

Shareholders	Number of Shares	Nominal Value (In meticais)	Percent of Share Capital
Kuhanha, S.A	468,482	2,342,410,000	59.40%
Arise B.V.	235,000	1,175,000,000	29.80%
Moçambique Capitais, S.A	43,435	217,175,000	5.51%
NB ÁFRICA, SGPS, S.A	41,732	208,660,000	5.29%
António Matos	1	5,000	0.00%
Moza Banco	**788,650**	**3,943,250,000**	**100.00%**

With regard to the geographical distribution of shares in 2019, the proportion of Mozambican Shareholders remains strong, as they represent 64.91% of the total number of shares, showing that Moza remains the only Mozambican bank whose share capital is majority owned by national entities.

Source	Percent of Share Capital
Mozambique	64.9106%
Netherlands	29.7978%
Portugal	5.2916%
Total	**100%**

5.2 Corporate Bodies and Governance Model

Moza Banco's corporate bodies are: General Meeting, Supervisory Board, Board of Directors and Executive Committee. Moza's Corporate Bodies are elected at the Shareholders' General Meeting for three-year terms.

On 9 October 2019, Mrs. Sariel Amosse Nhabinde resigned as a Member of the Supervisory Board.

At 31 December 2019, the composition of the corporate bodies of Moza Banco stood as follows:

Shareholders' General Meeting

Position	Name
Chair	Lourenço Joaquim da Costa Rosário
Vice-Chair	Maria Violante Jeremias Manuel
Secretary of the Board	Sara Mondego Marques

Supervisory Board

Position	Name
Chair	Venâncio Matsotsombane Chirrime
Member	Maria de Jesus Matola Langa
Alternate member	Maria Lúcia Zacarias

Board of Directors

Position	Name
Chair	João Filipe de Figueiredo Júnior
Executive Director	Manuel Duarte Emauz de Vasconcelos Guimarães
Executive Director	Vítor Manuel Latas Brazão
Non-Executive Director	Deepak Malik

Executive Committee

Position	Name
Chair	João Filipe de Figueiredo Júnior
Executive Director	Manuel Duarte Emauz de Vasconcelos Guimarães
Executive Director	Vítor Manuel Latas Brazão

Governance Model

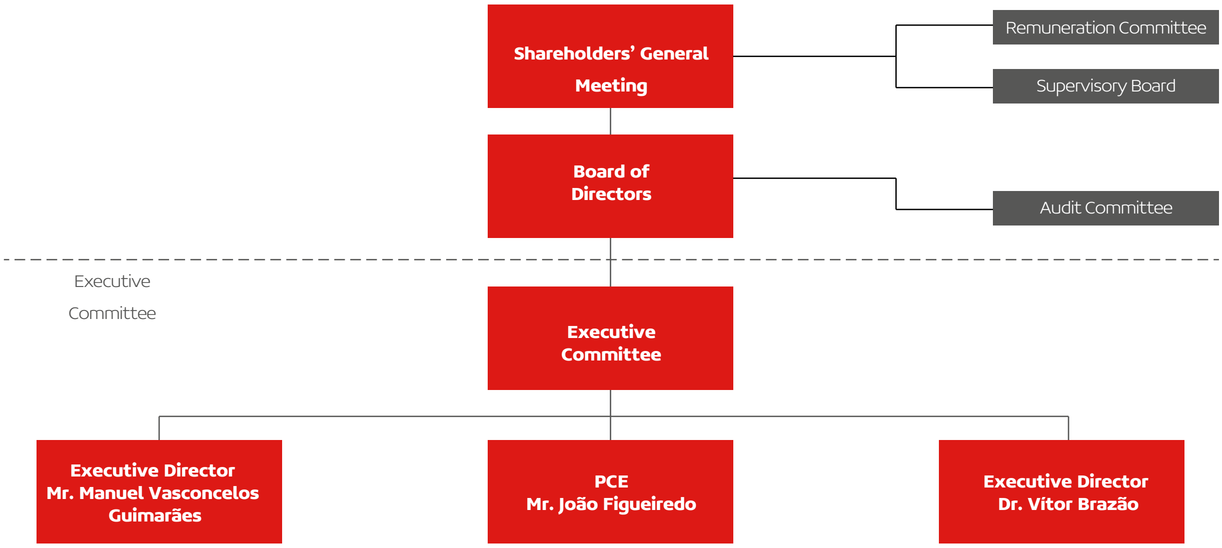
As the Bank's highest body, the General Meeting represents all the Shareholders, and its resolutions are binding on all of them when adopted in accordance with the law and by-laws.

Moza Banco follows a governance model in which responsibility for overseeing the company is assigned to the Board of Directors, which delegates day-to-day management to the Executive Committee, with the Supervisory Board exercising an audit function. Currently, the Chair of the Board of Directors retains the functions of an executive and also chairs the Executive Committee. Under the Bank's by-laws, the Board of Directors meets once a quarter and whenever convened by its chair.

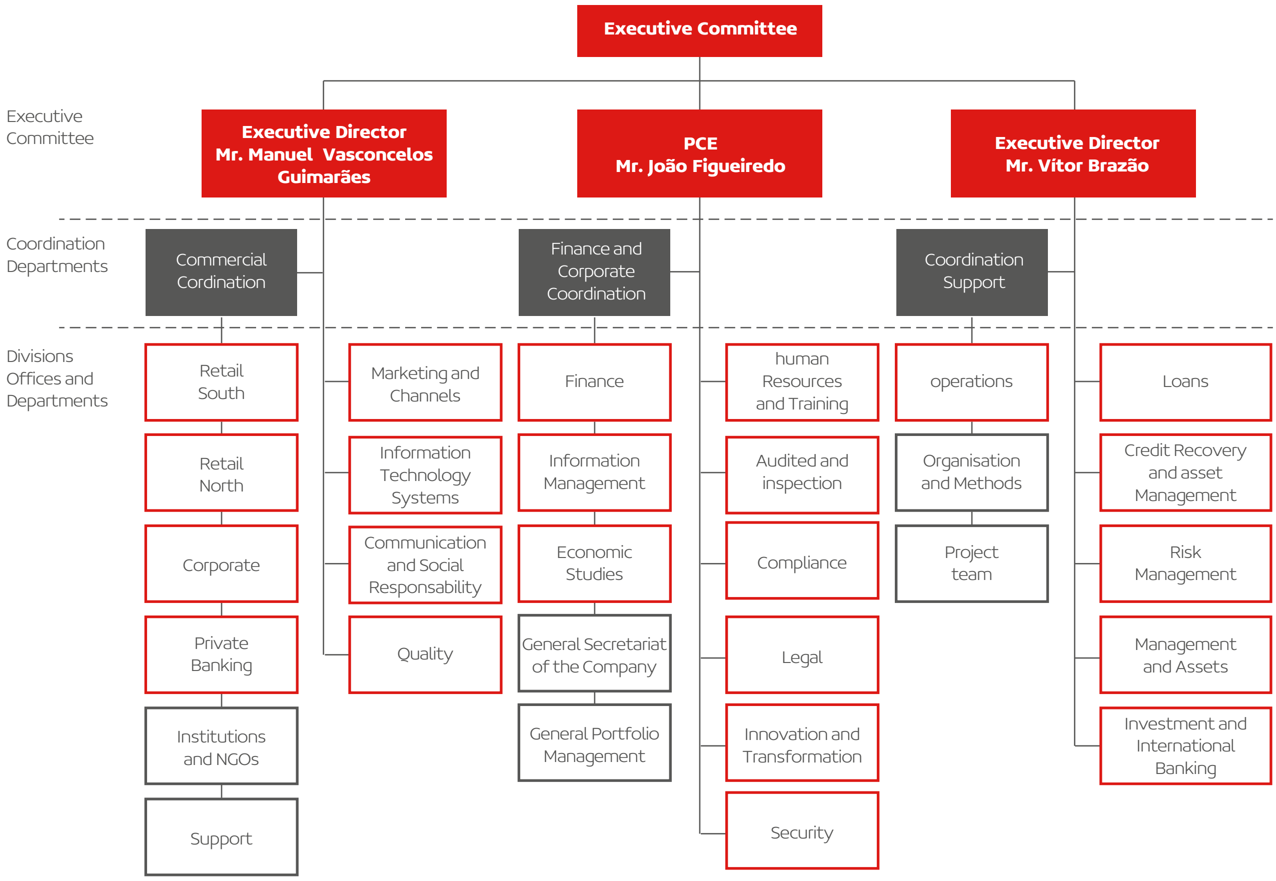
In addition, it is incumbent upon the Board of Directors to appoint the Company Secretary, and the duration of his/her functions matches the mandate of the Board of Directors that appoints him/her. He/she is responsible, among other activities assigned to him/her, to guide and support the Bank's corporate bodies in matters of corporate, legal, and administrative governance, in addition to providing support to the meetings of the Board of Directors and other governing bodies.

The Remuneration Committee has advisory functions in matters of remuneration policy applied to Moza's corporate bodies. The remuneration policy for members of the corporate bodies is reviewed annually.
The organisational structure of Moza Banco at the end of 2019 was as follows:
In 2019, the Bank adjusted its organisational structure as a result of the merger process. The powers and responsibilities of the members of the Executive Committee and senior management were distributed at the end of 2019 as follows:

The Investment Banking unit was created, reinforcing the Bank's commitment to continue to support its customers in their search for financial solutions



by supporting their core business activities. Its main objective is to provide financial advisory services for the structuring of financing adjusted to the needs of large projects, with a focus on Corporate and Project Finance.



Committees

To support the day-to-day management of the Bank, this Institution had the following functional committees at the end of 2019:

Management Board

A consultative body whose main function is to support the Executive Committee in assessing the performance of the Bank's activities, ensuring compliance with set objectives, and proposing appropriate strategic measures for achieving them. This Board comprises the whole of the Bank's senior management, promoting far-reaching, participatory management.

ALCO - Assets and Liabilities Committee

The consultative body of the Executive Committee for the implementation of the Bank's financial policy, its job is to ensure that actions are implemented in accordance with standards and procedures and that market risk (foreign exchange, interest rate and repricing risk) and liquidity risk are managed effectively. It helps formulate pricing policy through timely assessment of national and international macroeconomic developments.

Risk Committee

A consultative body whose main function is to support the Executive Committee in monitoring, assessing, and shaping the Bank's integrated risk profile. It proposes policies, processes, and methods for assessing, managing, and controlling the main risk types involved in the Bank's activity, including both financial and non-financial risks.

IT Committee

Advisory body, whose main function is to monitor the developments requested of the Information Systems and Information Department (DSTI), aligning IT capacity with business requests, and allowing greater control over current developments. It aims to ensure that the Bank's strategic IT priorities are met, to provide status and control of ongoing DSTI actions, to ensure the alignment of actions with portfolio visibility, and to overcome barriers to day-to-day IT management (prioritisation).

Credit Committee

Advisory body responsible for deciding the main credit transactions in which the Bank takes part, in accordance with the risk and credit policies decided in-house by the Bank.

Audit Committee

This is an advisory body with responsibilities delegated by the Board of Directors; it is responsible for certain specific functions of the Board of Directors, as well as reporting to it, with responsibilities for the preparation of the financial statements, including disclosures, internal control, internal and external auditing, and in relation to corrective measures.

6. Vision, Mission and Strategy

Vision and Mission

Moza Banco's vision is to be the leading bank in Mozambique for the provision of high-quality financial services to the Retail, Private Banking, Corporate and Institutional segments in accordance with effectiveness, efficiency and profitability criteria determined by its shareholders and implemented by its management.

Its mission is to provide high-quality financial products and services with high standards of efficiency to its customers, aligning strategies to add value to them, and offering products and services that meet their needs.

The Bank's values are founded on Knowledge, Discipline, Transparency, Customer Orientation, Integrity, Ethics, Innovation, and a Pioneering Attitude.

Strategy

In 2019, as part of the restructuring of the share capital that led to Arise's entry into the Bank's shareholding and the acquisition of Banco Terra, the shareholders approved a new Strategic Plan for the period 2019-2023.

This plan comprises three phases, as follows:

- **Phase I of the cycle, the Integration phase (2019)**, in which emphasis was placed on integrating the former BTM into Moza Banco, leveraging the assets of both banks, namely, human capital, promoting internal capacity building and goal-orientation, in order to foster increased productivity and insourcing of systems and processes, to the detriment of outsourcing, thereby reducing dependence on suppliers. To make the Bank more efficient through process optimisation, a number of actions are planned.

- **Phase II, the break-even phase (2020 to 2021),** in which commercial development will proceed, capitalising on the branch network and internal human capital, providing value-added products and services to the customer, while the Bank keeps optimising its operational structure, processes and systems.

- **Phase III of the cycle, the profitability phase (2022 to 2023).** In this phase the enhancing aspects of rigour, responsibility and culture centred on human capital should be considered, so that subsequent levels of productivity, operational excellence and innovation are consolidated, contributing to the consolidation of customer satisfaction.

Moza's business strategy is based on the following segments:

1. **Retail Banking:** Moza will seek to obtain differentiation in the market, on the one hand by the quality of service provided and the supply of innovative products and services in the private segment, and on the other, by building the loyalty of SMEs and strong fundraising.
2. **Institutional:** Moza aims to increase customer portfolios in the public sector by offering products/services to local government and sector funds.
3. **Corporate:** in this segment, the Bank aims to foster an integrated offer of products and multi-channel services, in order to build a relationship of partnership and proximity.
4. **Investment Bank:** Moza will promote financial advisory services for the structuring of financing adjusted to the needs of large projects.
5. **Debt recovery:** Moza will manage its past-due portfolio in an integrated, proactive, and timely manner, reducing the costs of impairments and enabling the release of capital.

With regard to implementing the Plan for Phase I of the "Integration" cycle, in general terms, and despite the persistence of an adverse economic climate, the Bank has achieved its objectives of integrating the former BTM into its structure, an operation that complied with all the due procedures, including approval by the Bank of Mozambique, the regulator of the Mozambican financial system and other legal entities. This has opened a new chapter in the history of Moza Banco and marks a decisive step towards the construction and consolidation not only of the Bank, but of the Financial System in general.

7. Social Responsibility

7.1 Social Responsibility

Social responsibility has always been a priority for Moza Banco, which is committed to the sustainable social and economic development of Mozambique. This commitment is shown through many socially responsible activities, attitudes, and initiatives the Bank has implemented or supported over the last 11 years. As a bank with the majority of its capital in Mozambique, Moza Banco's responsibility is even greater in this area.

Based on the above, in 2019 the Bank continued to carry out and support different events and social responsibility initiatives aligned with policies in these areas, namely the Social Responsibility Policy, the Volunteer Policy and the Sponsorship Policy. Among the initiatives carried out, the following are of note:

External Audience:

Promoting National Cleanup Day in the fight against malaria
Malaria remains one of the main causes of death in Mozambique, and for this reason the government has been investing in partnerships with private sector entities to eradicate the disease.

Against this background, Moza joined the cause and as part of the "Zero malaria starts with me" initiative it organised a clean-up day in April in the district of Manhiça, in Maputo province.

This initiative, the result of a partnership between the Bank, the Manhiça District Government and health authorities, brought together Moza employees, members of the government and the local community. It involved cleaning the Manhiça District Hospital and collecting rubbish, among other measures to prevent the proliferation of mosquitoes, the main cause of malaria. The day ended in a health and citizenship services provision fair, including opening an account, registering children, and obtaining a tax number (NUIT).

Donation of equipment to Manhiça District Hospital
As part of the celebrations for the 62nd anniversary of Manhiça lifting its status to Municipal Town, Moza Banco provided equipment to Manhiça District Hospital in Maputo province.

The donation, the outcome of the partnership with Manhiça Municipal Council, comprised office equipment including desks, chairs, cupboards and filing cabinets.

Investment in the Sustainability of Hospitals in Nampula and Tete
As part of its Social Responsibility policy, Moza Banco invested in equipping Rural Hospitals in Tete and Nampula provinces, specifically in the districts of **Tsangano, Memba, Murrupula and Malema**, with a range of equipment, comprising mainly cupboards, tables, chairs and filing cabinets, aimed at improving working conditions and care for health professionals and users.

For Tsangano hospital, Moza Banco also provided a power transformer substation, which substantially improved the services offered by the hospital.

Promoting the Sustainability of the Cultural Sector
Moza Banco and Núcleo D'Arte, the Mozambican Cultural Development Association, established a partnership aimed at giving the national cultural sector greater sustainability by developing actions involving artists in addressing issues related to climate change, wildlife preservation and other areas relevant to society.

During the partnership signing ceremony, ANAC - the National Administration of Conservation Areas gave a presentation to around 40 artists from the Núcleo D'Arte outlining the situation of wildlife and animal life in the country and the great challenges they face in terms of fighting poaching, raising awareness of citizenship and preserving the environment.

Financial Education
As part of the celebrations for World Savings Day, Moza Banco carried out a series of comprehensive and inclusive activities at national level, with particular emphasis on the "POUPA O TEU VALOR" ("Save your Money") competition, held at Amilcar Cabral Primary School in the city of Lichinga, which aimed to stimulate reflection, discussion, sharing of experiences and content to encourage savings and the transmission of basic knowledge about the use of money. In addition, a social networking contest was held that called for participants to submit a short, original, and creative film with tips on how to save.

Campaign to preserve biodiversity and fight malaria
Under the Memoranda signed with ANAC and MISAU, aimed at preserving biodiversity and fighting malaria respectively, the Bank boosted its awareness-raising activities in 2019 focussing on the dangers associated with malaria and the dissemination of forms of prevention with a view to its eradication, and on environmental crimes and other threats to biodiversity.

Campaigns were publicised through various means of communication available to the Bank, with particular emphasis on public passenger transport buses, currently operating in the country's districts, cities, and towns.

Clube Moza

Internal Audience:

Main projects in 2019

Sports
In 2019, Moza Club encouraged employees to take part in tournaments hosted by the Bank of Mozambique, the "Metical League", in Futsal and Basketball in Maputo, Maxixe, Nampula and Xai-Xai. It should be noted that in Maxixe and Xai-Xai particularly the Moza teams became futsal champions where tournaments included the participation of other bank teams. Also, the promotion of sports activities help spread the idea that employees have a leisure and health tool to enjoy in their free time.

Operation New Identity
The objective of this campaign was to help employees, their spouses and their children obtain, renew, and update their identity cards. With the support of the National Civil Identification Department, issuing 397 Identity Cards for employees, spouses and their dependants was made possible. With this operation we strengthened the ability of our employees to exercise citizenship, since citizens' lives are restricted without Identity Cards, in view of the importance of the

Identity Card throughout life for anyone wanting to be fully engaged in society and carry out a whole range of transactions using this document.

Moza Voice Show

The Moza Programme Voice Show is an event run by Moza Club whose features are exclusively of a recreational and cultural nature, involving employees on a voluntary and free basis.

The programme successfully encouraged and boosted the artistic creativity among Moza's employees.

Following the incorporation of the former BTM into Moza Banco, Moza Voice acted as a binding agent which managed to integrate employees from various MOZA departments through artistic and cultural activities.

Moza Volunteers Programme

In 2019 the foundations were laid for the establishment of the "Moza Volunteers" Programme. Its aim is to interconnect Moza, the volunteers and society, by seeking to raise awareness, train, facilitate and promote actions to stimulate and support employees in exercising their citizenship, by mobilising them for voluntary activities that help reduce social inequalities.

Moza intends to be a benchmark in employees' voluntary work and act at local level to provide benefits to communities.

7.2. Sponsorship

One of the guidelines in Moza's Social Responsibility policy is to promote engagement with their external customers through sponsorship and social investments, basically in the Culture, Education, Citizenship, Sustainability and Solidarity areas. This is to be carried out primarily in regions where Moza Banco operates.

With this in mind, the following sponsorships were awarded in 2019:

ANJUR Gala

Moza took part in and supported ANJUR - National Association of Mozambican Jurists Fifth Anniversary Gala. The highlight of the event, which was attended by judges and prominent figures from the Mozambican legal scene, were the awards to the two best final year students in 2018 from the Polytechnic University Law course.

Moza was represented at the ceremony by the Chair of the Board of Directors, Mr. João Figueiredo, as part of its Social Responsibility Policy, which has Education as one of the priority areas. He delivered two cheques, worth MZN 25,000.00 each, to the best students on the Law course in recognition of their academic merit.

Musical show dedicated to Children's Fortnight

On African Children's Day, which is celebrated on the Bank's anniversary, Moza Banco sponsored a musical show for children held by the renowned band "TP50". It took place on 15 June at the CINE Scala and was aimed at children of Moza´s employees and the former BTM. The show was broadcast live on National Radio Mozambique, reaching listeners all over the country.

Book launch of "A Mulher em Maputo: Dimensões Antropológicas de Género e Reprodução"

Clélia Pondja, researcher at the Centre for Public Integrity (CIP), debuted as a writer in 2019, with the release of the book "A Mulher em Maputo: Dimensões Antropológicas de Género e Reprodução". The work deals in depth with her vision of the factors that contribute to the way women think and act in Mozambican society, namely in the city of Maputo. During the research, the author sought to understand women's feelings about the division of labour, obligations, prohibitions, taboos, fears, and silences.

In recognition of the value of the work and its contribution to enhancing the role of women, namely Mozambican women in the construction of society, Moza Banco supported its launch and publication.

Support for the celebrations of Day of Portugal and the Portuguese Communities

A Embaixada de Portugal em Maputo organizou no mês de Junho de 2019, a habitual celebração em Maputo do Dia de Portugal, de Camões e das Comunidades In June 2019, the Portuguese Embassy in Maputo hosted the usual celebrations for Day of Portugal, Camões and the Portuguese Communities, which is an excellent opportunity to raise the profile of Portugal in Mozambique, both in terms of bilateral relations in different fields and the contribution of the Portuguese Community to the development of Mozambique.

Moza Banco has traditionally supported and participated in these celebrations, and 2019 was no exception.

Support for the National Senior Women's Basketball Team

As part of its contribution to make sport popular, Moza Banco signed a partnership agreement with the Mozambican Basketball Federation to support the participation of the senior national women's basketball team in the pre-Olympic qualifying tournament for the Tokyo 2020 Olympic Games. The signing of this agreement, which took place at Moza Banco's head office, was witnessed by members of the government, Moza's Board of Directors, athletes, and representatives of sports clubs.

The pre-Olympic basketball qualifying tournament took place from 14 to 17 November 2019, at the Maxaquene Sports Hall in Maputo and the "Samurais" managed to qualify for the event.

Publication and launch of "O terrorista elegante".

As part of its commitment to promoting arts and culture, the Bank joined forces with the Fernando Leite Couto Foundation to launch the work "O Terrorista elegante e outras histórias" ("The Elegant Terrorist and Other Stories") by renowned Mozambican writer Mia Couto and Angolan José Eduardo Agualusa.

The launch ceremony for this book took place at the Fernando Leite Couto Foundation, in Maputo, a day after the pre-launch in the Marrabenta auditorium at Moza Banco.

The work "The Elegant Terrorist and other stories" has the approval of the Fernando Leite Couto Foundation, an entity dedicated to promoting the arts, and its launch had the support of various partners, including Moza Banco.

8. Macroeconomic Background

8.1 Global Economy

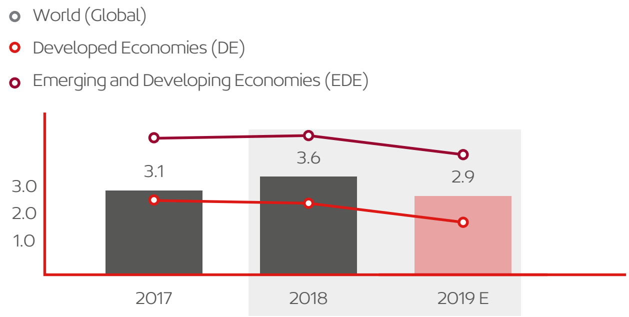
Changes in GDP (Gross Domestic Product)

The global economy growth slowed its pace to 2.9% in 2019, which the lowest growth since the international financial crisis.

Worldwide, 2019 featured two distinct trends: a first half of sluggish economic growth, mainly due to the effects of trade war between China and the United States. In Germany, for example, as a result of the slowdown in demand from China, its main car market, the country's car exports was contracted due to the trade dispute.

In the second half of 2019, the global economic activity accelerated, with greater momentum in emerging markets, although some disruptions were still observed in Argentina, Turkey, and India. This was due to the easing of tensions between China and the United States (although no agreement was reached between the countries in 2019), a reduction in the likelihood of a hard Brexit (exit by the United Kingdom from the European Union without agreement) and the adoption of expansionary monetary policies in the advanced economies of the Euro Zone, the United Kingdom, the United States of America, Japan and China, with the latter also introducing fiscal stimuli.

Global Economic Growth (%)



Trends in Inflation

The global slowdown in economic activity in 2019 boosted the general easing in inflationary pressures. On average, inflation in developed countries fell from 2.0% in 2018 to around 1.5% in 2019. The same deflationary trend was seen in emerging and developing markets, with average inflation falling from 4.8% to 4.7%, and in sub-Saharan African countries, with the index slowing from 8.5% to 8.4% over the period.

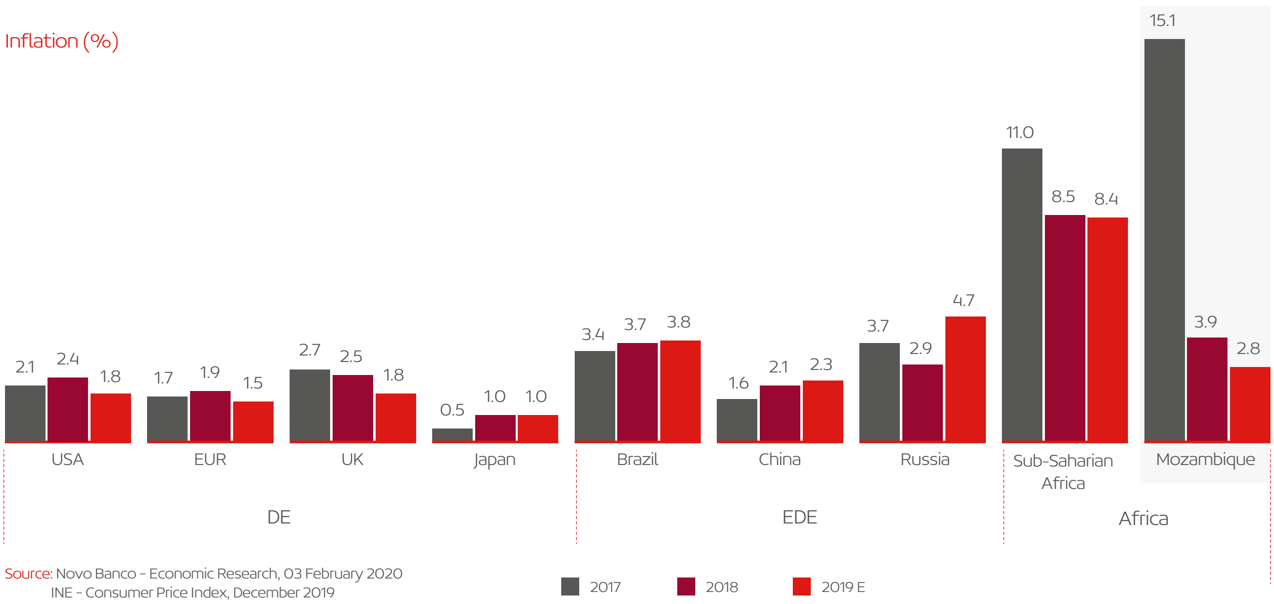
The slowdown in global demand, industrial activity, production, and weakness in energy commodity prices (e.g. coal, oil, and gas) and metals (e.g. aluminium) represent the main factors in easing of inflationary pressures.

This low inflation environment worldwide allowed central banks to adopt expansionary monetary policies both in developed economies and in emerging and developing markets.

In the Euro Zone, monetary policy rates were already in negative territory, with the deposit and lending facility at -0.5% (from 0.4% in 2016) and 0.25%, respectively. However, in the US, the federal target funds rate recorded three cuts in 2019 totalling 75bp for the 1.5%-1.75% band, fully reversing the increases registered in 2018. The decisions to make cuts were taken against the background of favourable economic indicators in the US, notably the low unemployment rate and GDP. However, fears about the impacts of weak world demand and the trade war against China were the main causes of the cuts in the federal target rate funds.

According to the International Monetary Fund, global GDP growth was at least 0.5pp lower than expected in the absence of any monetary stimulus. The implementation of cuts in monetary policy rates has also anchored some constraints on economic growth arising from trade tension between China and the US.

Inflation (%)



Source: Novo Banco – Economic Research, 03 February 2020
INE – Consumer Price Index, December 2019

Developed Economies

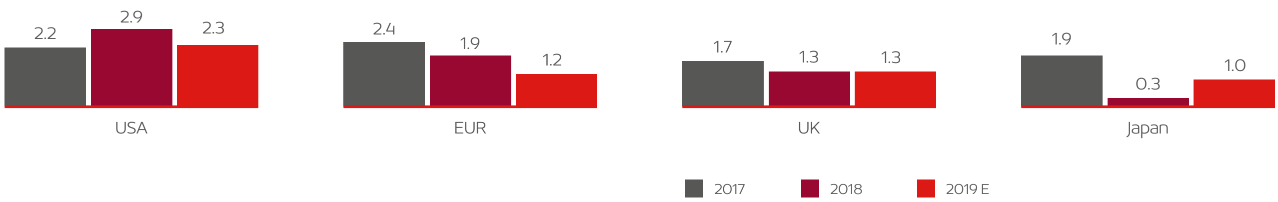
Developed economies continued to post moderate growth potential. In the US, uncertainties over international trade impacted negatively on investment, although employment and consumption remained strong, boosted by expansionary monetary policy.

In the Euro Zone, the weak performance of export activity, partly caused by the fall in demand for car production in Germany, the largest economy in the European bloc, explained the economic slowdown in the region from 1.9% in 2018 to 1.2% in 2019.

In the UK, the change in the Conservative government's leadership is seen as a sign of deep uncertainty in relation to the Brexit process (voluntary withdrawal of the UK from the European Union).

The developed economies of Asia also slowed down in 2019. The economies of Hong Kong Special Administrative Region, Korea and Singapore slowed down mainly because they were affected by the economic downturn in China and the China-US trade war.

Economic Growth of Developed Economies (%)



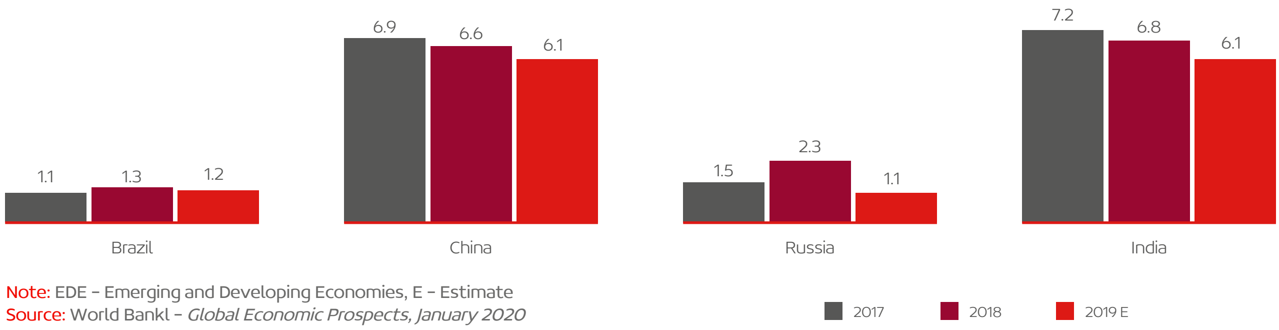
Emerging Economies and Developing Economies

Economic activity in emerging countries slowed substantially from 4.5% in 2018 to 3.7% in 2019. This group of economies was the largest contributor to the slowdown in economic activity in 2019.

In emerging Asian countries, India experienced a slowdown in activity due to specific factors in some sectors. For example, there was reduced global demand for cars, shrinking real estate business over regulatory uncertainties and concerns about the health of the non-banking financial sector.

In Brazil, the reduction in coal-mining production explained the slow pace of economic activity. In Russia, geopolitical tensions in Crimea had a negative impact on oil production and income generation.

Economic Growth in Emerging and Developed Economies (%)

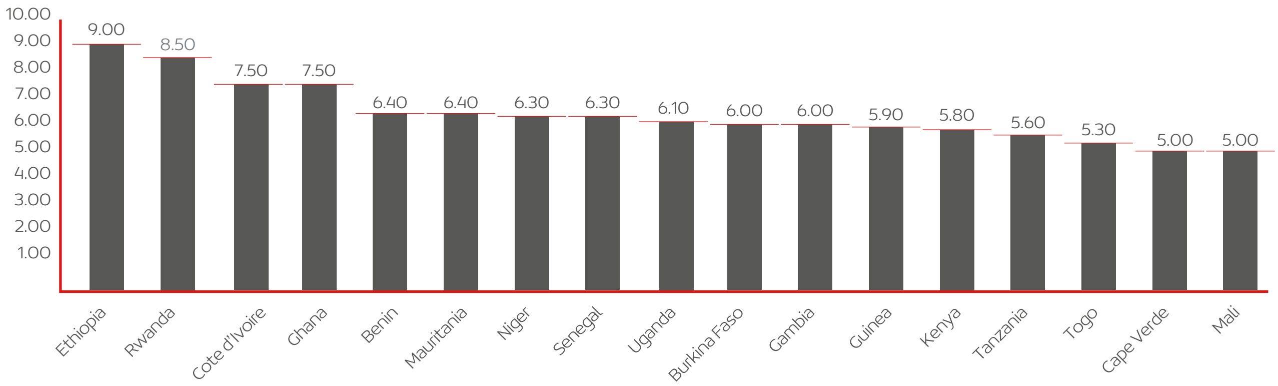


Note: EDE – Emerging and Developing Economies, E – Estimate
Source: World Bankl – *Global Economic Prospects, January 2020*

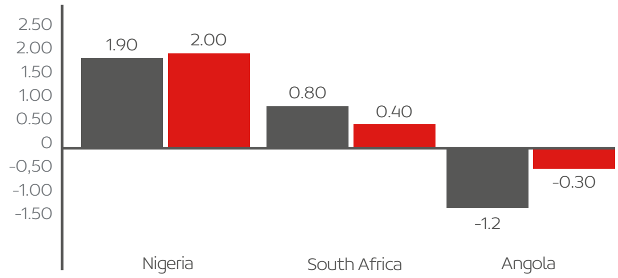
8.2 Regional Economy

The economies of Sub-Saharan Africa saw an improvement in their level of economic growth between 2018 and 2019, rising from 3.2% to around 3.3%. Some 17 economies in the region, which constitute approximately 45% of GDP and 34% of the regional population, grew above 5% in 2019.

Côte d'Ivoire (7.4% to 7.5%) and Ghana (6.3% to 7.5%) are among the strongest economies in Africa. They saw an improvement in economic performance during 2019, a milestone also attributable to the diversity of their economic activities (Ghana) and low or no dependence on mining and energy export products (Côte d'Ivoire), which tend to see greater volatility in international markets.



On the other hand, growth in three of the most robust economies in sub--Saharan Africa - South Africa, Angola, and Nigeria - was below expectations. In Angola, a significant reduction in oil production (from around 2 million barrels to 1.4 million currently) restricted the country's export revenues, causing a contraction in activity in both 2018 (-1.2%) and 2019 (-0.3%). The reduction in production in the country is due to the fall in foreign investment of some supermajors such as Total, arising from the general fall in international oil prices. In neighbouring South Africa, economic growth was influenced by political and social tensions (strikes in the mining sector), energy supply constraints and low agricultural production.



Commodities

Between 2018 and 2019, average commodity prices fell particularly energy products (e.g., oil, coal, and gas) and metals. The fall in metal and coal prices was primarily due to a reduction in demand from China (the world's largest importer of the two products) due to reduced growth prospects for the economy as a result of trade disputes with the US. China's partial adherence to international regulations for environmental conservation and pollution reduction has also been contributing to the downward trend in coal prices. Oil and natural gas prices also fell due to increased shale gas production in the US (the world's largest oil producer) and increased oil production by OPEC (Organization of Petroleum Exporting Countries).

Total cereal production reached a new record of 2,715 million tonnes in 2019, some 2.3% above the 2018 harvest. However, prices of cereals, the main group of food goods imported by Mozambique, had a mixed performance.

Commodities	**Real**					**Δ Annual (%)**	
	Dec-15	**Dec-16**	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-18**	**Dec-19**
Brent Crude (USD/Barrel)	52.4	44.1	54.4	71.1	64.0	31%	-10%
WTI Crude (USD/Barrel)	48.7	43.2	50.9	64.8	57.0	27%	-12%
Aluminium (USD/MT)	1,664.7	1,604.2	1,967.7	2,108.0	1,794.5	7%	-15%
Gold (USD/Ounce)	1,160.7	1,249.0	1,257.6	1,269.0	1,392.5	1%	10%
Gas (USD/million UTB)	2.6	2.5	3.0	3.2	2.6	7%	-19%
Thermal Coal (USD/MT)	57.0	64.1	81.9	97.6	71.9	19%	-26%
Maize (USD/MT)	169.8	159.2	154.5	164.4	170.1	6%	3%
Wheat (USD/MT)	206.4	176.3	178.2	203.9	211.3	14%	4%
Rice (USD/MT)	386.0	380.3	379.9	401.1	393.5	6%	-2%
Sugar (USD/Kg)	0.6	0.6	0.6	0.6	0.6	-10%	3%
Cotton (USD/Kg)	1.6	1.6	1.8	2.0	1.7	9%	-15%
Tobacco (USD/MT)	4,908.3	4,806.2	4,731.6	4,859.5	4,715.2	3%	-3%

Note: Prices based on annual averages
Source: World Bank – *Commodity Price Data, January 2020*

8.3 National Economy

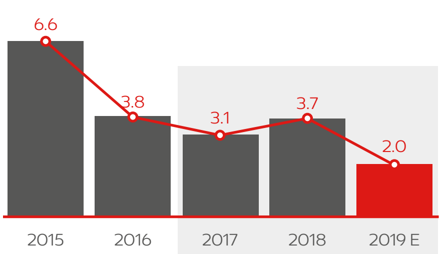
GDP Growth

The most recent data published by INE (National Statistics Institute) indicates that by the 3rd quarter of 2019 Mozambique's gross domestic product grew by 2.3%, a slowdown compared to the 3.6% recorded in the same period of 2018. A deeper analysis reveals that the Transport, Storage, Information and Communications sectors accounted for a greater proportion of GDP growth, of around 32%. Agriculture (15%), Real Estate Rental & Services to Companies (13%) Manufacturing (12%), Financial Services (10%) and Trade (8%) also contributed more significantly to Mozambique's GDP growth.

On the other hand, some sectors of the economy performed particularly unfavourably and even made a negative contribution to GDP growth. The Mining and Quarrying industry showed the largest fall in economic activity, down -8%, followed by the Electricity, Gas and Water sector (-3%).

The GDP growth forecast for 2019 should be around 2.0%, below the average for Sub-Saharan Africa.

GDP Growth - Mozambique(%)



Note: E - Estimative
Fonte: INE - National Statistical Institute, National Accounts of Mozambique (4th October 2019)

This less favourable GDP growth is mainly the result of the impacts of climate shocks and the worsening of military hostilities in central Mozambique, with the two events being more predominant in the central and northern provinces of the country. Cyclones Idai (in Sofala province) and Kenneth (in Cabo Delgado province) caused not only the destruction of public and private infrastructure, but also restricted the country's productive capacity (especially in Agriculture), leading to inflationary pressures.

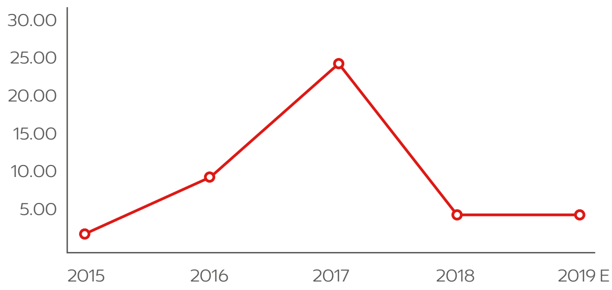
Mozambique has had financial support from its international partners suspended since 2016. This has reduced the Mozambican state's budget allocation and execution ability, severely restricting economic growth in an economy that is deeply dependent on public funds. GDP growth in 2019 is expected to be the lowest since the first half of the 1990s.

Inflation

As predicted, annual inflation for 2019 remained low and stable at around 3.50%, interestingly at the same level as at the close of 2018 (3.52%) and in line with the Monetary Authority's objective of maintaining the indicator in single digits over the medium term.

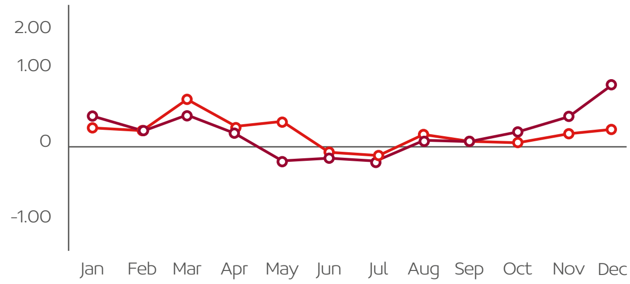
In Mozambique, annual inflation was in line with the SADC (Southern African Development Community) macroeconomic convergence target for this indicator, of 3% to 7%; besides, it also remained below reported annual inflation in Sub-Saharan Africa, at approximately 8.96%.

Change in Annual inflation (%)



Source: INE - Consumer Price Index, December 2019
Note: E - Estimate

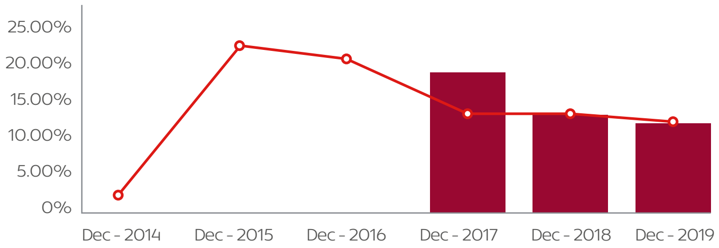
Change in the Monthly inflation (%)



Money market

Based on the stability of the general price level over the year, the Bank of Mozambique (BM) cut the monetary policy rate (MIMO) twice, from 14.25% to 12.75%. As a result, the PRSF (Prime Rate of the Financial System) fell in the same period, from 20.20% to 18%.

Rates - MIMO & Interbank Money Market



Source: Bank of Mozambique , December 2019 ■ MIMO ○ Overnight Interbank Interest Rates

The trend to cut the level of commercial interest rates applied by the banks, as a result of cuts in the monetary policy interest rate, fostered an increase, albeit cautious, in credit to the economy. Credit to the economy increased by about 3% in 2019, mainly for credit to the private sector in local currency.

Public spending and domestic demand, despite strong recovery signs credit to the private sector are still restricted due to the lack of the government's financial capacity.

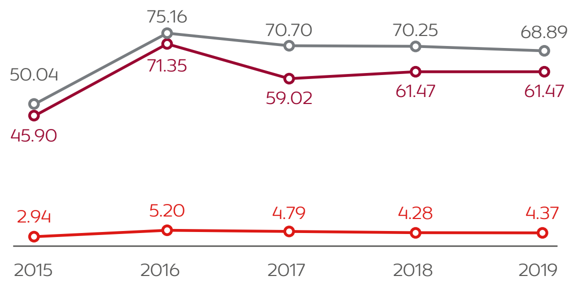
Foreign Exchange Market

In the first half of the year, given the widening of imbalances in the current account, resulting from the poor performance of export activity and the consequent reduction in foreign exchange supply, the metical was under strong pressure to depreciate. As the prices of the country's main export commodities, such as coal and aluminium, which amounted to around 60% of the total value of exports, tended to fall in international markets, the flow of foreign currency to the Mozambican economy was reduced.

However, the new rules for the operation of the foreign exchange market laid down by BM - suspension of operations using forward exchange rates in the purchase and sale of foreign currency, reinforcement of restrictions on payments in foreign currency in domestic transactions, setting criteria for movements in foreign currency accounts and a significant increase in the coefficient of compulsory reserves in foreign currency from 27% to 36% - somewhat support the metical and ensured greater exchange rate stability in subsequent months.

The 2019 closing exchange rate for the USD/MZN pair was 61.47, exactly the same as the exchange rate on the last working day in 2018.

The country's international reserves increase to approximately USD 3.6 billion, equivalent to around 6 months of import coverage, above the minimum standards (3 months), excluding large project transactions, also gave the Bank of Mozambique greater ability to act in the foreign exchange market.



Source: Bank fo Mozambique

○ MZN / USD ○ MZN / EUR ○ MZN / ZAR

Financial Stability

According to the BM, the main vulnerability of the Mozambican financial system is the high level of indebtedness in the public sector and low economic growth. In addition, the quality of the banks' credit portfolio shows signs of risk, because the most recent data point to a default level of 11% (June 2019), significantly above the 5% limit, which is the recommended international benchmark.

On the other hand, at the end of June 2019, credit institutions' own funds represented a significant increase in cumulative (6%) a year-on-year (25%) terms, also reflecting the robustness of the solvency ratio, which stood at 24%, above the minimum regulatory requirement of 12%. This is an indication that Mozambican banks are currently well capitalised.

Financial stability is also supported by a strong, reliable, efficient, and secure payment system. The systematic disruptions in the operation of the national payment system occurred in 2018 and 2019 still represent some weakness in the financial system. This substantially damaged the confidence of users in general, and the authorities should commit to revert this state of affairs.

Fiscal Policy

On November 7, Fitch Ratings announced upward adjustments to Mozambique's risk rating from RD to CCC for long-term foreign currency operations and from CC to CCC for long-term local currency operations.

On 22 November 2019, rating agency S&P Global Ratings upgraded the rating for Mozambique from SD to CCC in the case of foreign currency in short- to long-term operations, and also awarded the B-/B rating for short- and long-term operations in local currency. Basically, according to S&P Global Ratings, Mozambique's economic prospects are now rated as "stable".

The country's risk rating was revised after the Mozambican government restructured the Eurobond debt (international issue of securities to finance EMATUM) which was in default, for a new USD 900mio issue, with an interest rate of 5% in the first 5 years and 9% in subsequent years. However, some risks still remain in the macroeconomic environment as the country continues to post deficits in its fiscal balance and balance of payments.

On 29 November 2019, the listing of Suppliers Treasury Bonds 2019 on the Mozambique Stock Exchange's Official Listed Market, with an overall value of MZN 3,602.11 million, was greeted with satisfaction and helped the government to settle a portion of late payments to its suppliers.

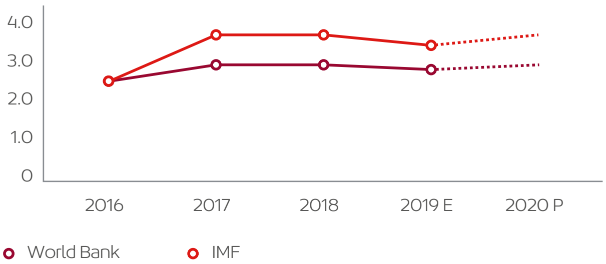
However, in the context of fiscal policy management, the government's greatest challenge still lies in reverting the current high level of debt, which according to the IMF (International Monetary Fund) stands at approximately 117% of GDP.

8.4 Economic outlook for 2020

a) Global Economy

The IMF forecasts that in 2020 growth in the global economy should accelerate from 2.9% in 2019 to 3.3% in 2020. However, such performance shows an adjustment of the IMF outlook in line with heightened commercial and geopolitical uncertainties and the prospect of a slowdown in industrial production in advanced and emerging economies.

GDP Global Economy (%)



Note: E - Estimate, P - Projection
Source: World Bank - *Global Economic Prospects, January 2019*
IMF - World Economic Outlook, October 2019

Positive developments in the global economy will depend heavily on efforts undertaken by China and the US to ease trade tensions between them and the ability to control both geopolitical hostilities (e.g. between Iran and the US) and the escalation of the Coronavirus epidemic (Covid 19).

China is likely to show some slackening in its productive activity due to the Covid-19, which is affecting its economic growth. This may also lead China to cut its demand for commodities, thus helping to force commodity prices down which would affect exchange rate stability of the most dependent exporting economies. In addition, the problems posed by travel restrictions, especially on Chinese citizens, may help to worsen growth expectations, namely in the neighbouring Asian countries, which depend heavily on China's tourism (e.g.: Hong Kong, Thailand, Philippines, Cambodia, Vietnam, Japan, Taiwan). According to Fitch Solutions, China is the market for about 40% of exports from other Asian countries and the destination for 80% of trips in Asia. Moreover, countries in the region with very weak health systems tend to be more exposed to the spreading and increase in the disease and subsequent negative impacts on the economy (e.g.: Cambodia, Myanmar).

Developed Economies

Economies in emerging markets are forecast to grow to 4.7% for 2020 (against 4.4% in 2019). This forecast also reflects a downward revision in the performance of this group of economies. On the one hand, the slowdown in economic activity in emerging countries results from the Chinese performance, mainly due to the negative impact of the trade war with the USA. On the other hand, if this growing trend, albeit weak, is to proceed, it will mainly be supported by expectations of recovery in economies that had weak performance in 2019, as in the case of Brazil, which will benefit from the elimination of disruptions in the mining sector.

GDP Outlook - World Economy (%)	**2017**	**2018**	**2019 E**	**2020 P**
World	**3.1**	**3.0**	**2.4**	**2.5**
Advanced Economies	**2.3**	**2.2**	**1.6**	**1.4**
USA	2.2	2.9	2.3	1.8
Eurozone	2.4	1.9	1.1	1.0
Japan	1.9	0.8	1.1	0.7
Emerging and Developing Economies	**4.3**	**4.3**	**3.5**	**4.1**
Russia	1.5	2.3	1.2	1.6
Brazil	1.1	1.3	1.1	2.0
Sub-Saharan Africa	2.6	2.6	2.4	2.9

Source: World Bank - *Global Economic Prospects, January 2020*
Note: E - Estimate, P - Projection

b) Regional Economy

The sub-Saharan African economies are forecast to post a slight upturn in economic growth from 3.3% in 2019 to 3.5% in 2020. The weak outlook for economic development in the region is due to disruption in the productive capacity of the main economies. However, although expansionary monetary policies have led them to post a livelier behaviour during a period of contained inflation, the worsening public finances in South Africa and almost zero margin for further cuts in the repo rate present a poor investment climate. In Ethiopia, the public sector needed consolidation to contain any weaknesses promoted by high debt levels, and this puts economic growth at risk. Angola is expected to proceed with its negative GDP growth, due to a reduction in investments in the oil sector in recent years.

c) Domestic Economy

According to the latest data from INE, a slowdown in GDP to 2% in the 3rd quarter of 2019 is forecast. Hence, and as a result of cyclones Idai and Kenneth and the escalation of military confrontations in the central and northern regions of the country, the economy is still expected to slowdown in 2019 (to around 2%). The economic outlook for 2020 is more optimistic as the economy is expected to grow to 5.5%, mainly due to an increase in investments in Oil & Gas projects that are in the initial phase of infrastructure construction in the district of Palma, Cabo Delgado province. Post-cyclone reconstruction initiatives, a larger state budget allocation and greater credit expansion to the economy add to the prospects for more significant economic activity in 2020.

The economy may also be supported by the effects of the monetary stimuli undertaken in 2019 and the continuation of the process that the government started with a view to settle domestic arrears payments to suppliers, totalling approximately MZN 4 billion. Nevertheless, economic growth in 2020 will still be affected by certain risks, mainly military instability, climate shocks (e.g. the forecast of above-normal rainfall in the first 3 months of the year) and external factors. The worsening of political and commercial tensions between the USA and China, Iran and Europe, and the uncertainties related to the Brexit settlement may cause different international markets, with impacts on Mozambique as well, to become somewhat volatile. The recent outbreak of the Coronavirus epidemic in China will affect the growth of the second largest world economy and its main trading partners.

South Africa is China's main trading partner in Africa. Trade between the two countries accounts for around 20% of South Africa's combined export and import activity. The fall in export revenues as a result of the slowdown in Chinese demand could damage the country's economic outlook, with Mozambique likely to be affected as well.

Given the risks listed above, it is expected that the country's economic growth forecast for 2020 will be adjusted downwards. Although single-digit inflation is still anticipated for 2020, a number of internal and external factors which could lead to intensified pressures on inflation remain. As a matter of fact, the expected upturn in economic activity is a structural factor putting upward pressure on general price levels.

The current account is expected to worsen as a result of the steep increase in imports and payment of services abroad by companies linked to Oil & Gas and post-cyclone reconstruction projects, causing incremental pressure on the metical to depreciate against foreign currencies. In addition, following the success of the Mozambican government in reaching an agreement to restructure the external debt incurred by Empresa Moçambicana de Atum (EMATUM), the resumption of repayments to investors in 2020 was possible; this is another exchange risk factor on the metical.

With regard to budget implementation, it is anticipated that the deficit will be reduced and the strategy of mobilising domestic resources to finance government expenditure will be kept. The budget balance will improve by around 16%, as a result of the weighed increase in expenditure depending on whether Mozambique is still excluded from international capital markets due the external debts incurred by EMATUM, PROINDICUS and MAM. We note that the government's revenue collection capacity will also be substantially influenced by variations in the prices of the main export products (aluminium and coal). The effective start of investments in Palma, Cabo Delgado Province, to build infrastructure to support natural gas exploration in the Rovuma Basin, will take place in 2020. The infrastructure construction phase covers the period between 2020 and 2023/4, with an expected increase in credit for private Mozambican companies subcontracted directly and/or indirectly by the concessionaires. Credit will also be leveraged by the ongoing post-cyclone reconstruction projects in the country.

INDICADORES	2017	2018	2019 E	2020 P
GDP (Annual Growth %)	3.70	3.30	1.80	5.50
GDP ($m)	12,600	14,400	15,093	16,695
Annual Inflation (%)	5.65	3.52	3.50	5.00
Private Consumption (% GDP)	67.20	73.60	79.70	81.90
Public Consumption (% GDP)	25.50	27.00	28.20	28.50
Investment (% GDP)	39.24	48.67	76.76	88.30
Exports ($m)	4,725	5,196	5,465	5,763
Imports ($m)	5,223	6,169	7,971	8,394
Services, Balances ($m)	-2,324	-3,431	-6,504	-8,468
Current Account, Balance ($m)	-2,512	-4,371	-8,748	-11,142
Balance of Payments ($m)	701	-726	-546	-132
Budget balance, before grants (% GDP)	-5.40	-7.30	-13.10	-9.70
Public Debt (% GDP)	110.40	110.50	117.00	111.40
Credit to the Economy (%)	-15.90	3.40	3,00*	9.30
MIMO Rate (%)	19.50	14.25	12.75	12.25
USD/MZN	59.02	61.47	61.47	66.00
RIL ($m)	3,038	4,725	3,100	2,991
RIL (months of import cover)***	6.80	5.50	6.00	5.10
IDE ($m)	1,271	2,563	1 991*	5,769

Source: World Bank – Global Economic Prospects, January 2020
Bank of Mozambique – Monthly Summary of Statistical Information 2019
* INE and Bank of Mozambique
**Fitch Solutions
*** International Liquid Reserves

Note: E – Estimate, P - Projection

9. Business Support Activities

9.1 Human Resource Management

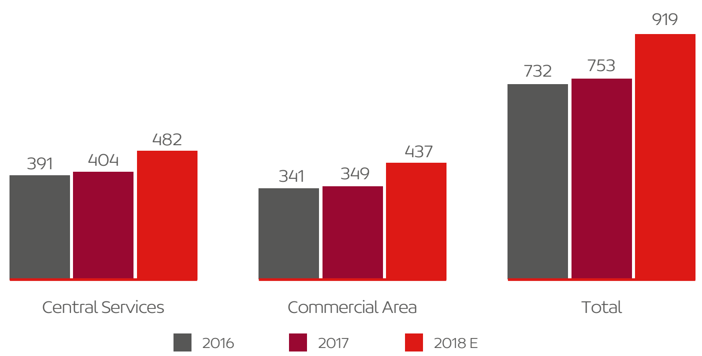
Despite the challenges, 2019 posted good opportunities and continued strengthening in the marketplace, while keeping its uniform structure in line with the Bank's strategic guidelines. 2019 was largely marked by the merger of Moza Banco and Banco Terra de Moçambique. This operation required a swift and effective response from Human Resources in the processes that led to the successful completion of the operation.

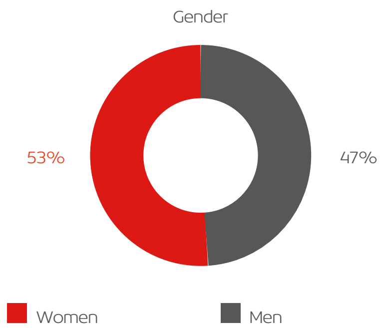
Following the success of the merger, it is worth highlighting some milestones that were achieved during this process:

- Approval of the Internal Regulations;
- Approval of the new Organisational Structure;
- Approval of the Health Care and Drugs Policy;
- Approval of the Remuneration and Benefits Policy;
- Implementation of the Functional Framework for all Employees (Moza and BTM);
- Successful delivery of Socio-Educational Lectures on different topics.

Efficiency gains were obtained with the reorganisation of the internal structure. The new Moza identity has leveraged and broadened the segmentation of the Bank to include Agribusiness as one of the lines in which we intend to invest, in line with the government's five-year plan "One District, One Bank" and a focus on Agriculture as a key sector for the country's development.

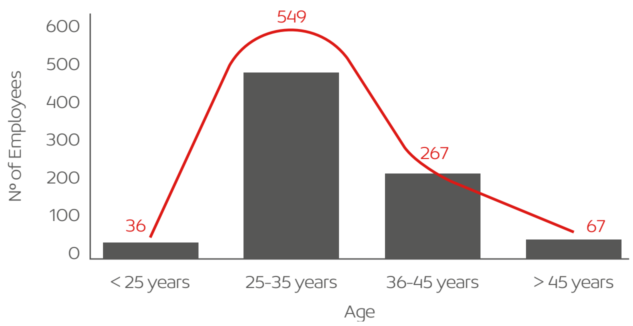
In December 2019, Moza Banco had 919 employees, representing an increase of 22% compared to last year, with around 52% allocated to Central Services and 48% to the Commercial Network.





Note: 171 employees of the former BTM were integrated.

By respecting the principle of balance and equality of gender opportunities in its policy of attracting and retaining human capital, a position that is in line with its corporate values, Moza has a very balanced structure, of which 47% of their staff are female and the remaining 53% male.



On the other hand, the irreverence of its action in the market, which combines with a strong predisposition to promote innovation, associated with new technologies, is a distinguishing feature of Moza Banco. The overwhelmingly young profile of its staff reflects this, as shown in the chart above. In fact, the highest concentration of its employees (about 60%) is in the 25-35 age bracket, with the average age of employees being 35 years old.

Training

Moza Banco considers the professional training of its employees an indispensable tool for increasing their motivation, professional growth, and productivity (doing more with less). In a particularly adverse macroeconomic environment, where rationalisation of investment has strong appeal, training which was specific and urgent, focusing on issues relevant to their work, was given priority.

Thus, despite the fact that the Bank implementing internal rationalisation and economic measures, it was able to conduct 80 training sessions totalling around 7,434 hours. These training sessions focused on complying with the strategic guidelines to foster cost optimisation and rationalisation, regulatory compliance, and the improvement of skills in applications and processes.

Of note is the Bank's ongoing commitment to training in-house trainers, who have increasingly taken up a greater role in monitoring a significant number of these sessions, combining their experience and in-depth knowledge of the Bank's needs with the suitable quality and applicability of shared knowledge.

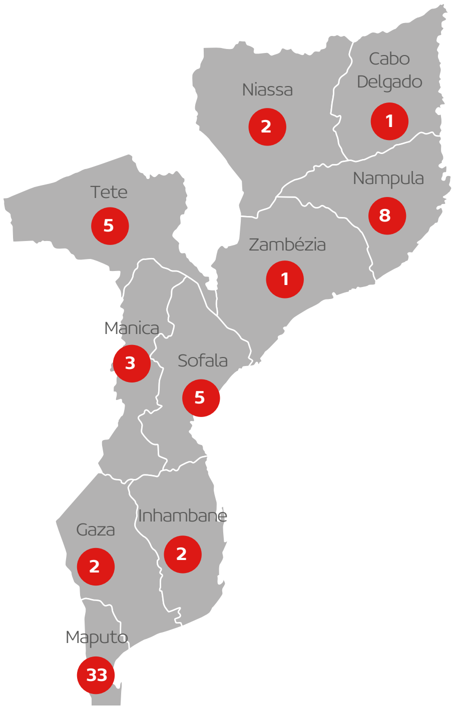
9.2 Distribution Network

At the end of 2019, Moza Banco had a distribution network comprised of 62 Bank Branches, including 60 Retail Branches, 1 Corporate Centre and 1 Private Centre. It should be noted that among the retail branches, eight are informal markets.

In 2019, after the merger with Banco Terra, Moza Banco expanded its network of Business Units, welcoming a total of seven branches: Samora Machel, 24 de Julho Cortiço, Matola João Mateus, Serpa Pinto, Ulónguè, Nhkame and Malema.

At the end of 2019, the geographical coverage of the branch network was as follows:

- South: 37 Branches
- Centre: 14 Branches
- North: 11 Branches



In strategic terms, in 2020 the Bank will proceed with the expansion of the bank branch network, with the opening of 16 new branches in the districts as part of the 'One District, One Bank' programme in partnership with the Ministry of Land, Environment and Rural Development (MITADER), in addition to 4 conventional branches in Vilankulos, Namialo, Xipamanine and Manica. This stance shows that Moza Banco continues once again to be one of the banks in the forefront of this expansion process. Hence it is helping to improve levels of availability and accessibility of financial products and services in the country in general, and for the rural population in particular.

9.3 Commercial Activity

2019 was a year filled with challenges resulting from the economic environment described above, combined with the new legal and regulatory requirements, as well as the need to reorganise the Bank's teams, namely the commercial teams that were created as a result of the acquisition and merger process between Moza and Banco Terra.

Despite the constraints, in 2019 the Bank's commercial balance sheet kept growing, with the outstanding loan portfolio growing by approximately 33% (22% excluding the portfolio transferred from the former BTM), allowing the Bank to outperform the internally-define goals. The Bank posted the highest growth in the sector, which is translated into an increase in its market share to 11.27% (2018: 8.66%) which demonstrates the Bank's commitment to maintaining ongoing support for Mozambican households and companies, both in terms of the rigorous granting of credit and through the provision of a financial advisory service whose objective is to adjust its offer to the needs of each customer.

In terms of Customer Funds, the Bank posted growth of 18% (12% excluding the former BTM's transferred portfolio). In annual terms, Moza Banco's Customer Fund portfolio outperformed the sector, which clearly reflects the market's increased loyalty and confidence in Moza.

With regard to means of payment and channels, the number and volume of transactions of the Bank is still on the rise. This stems from the strategy underway to ensure greater customer loyalty, the extension of its value proposition with regard to digital and traditional banking, coupled with the optimisation and profitability policy of existing means of payment and channels, in line with the guidelines contained in the Bank's Strategic Plan 2019-2023

As a result of the measures implemented, Moza Banco was recognised by Visa International for its outstanding performance in the use of credit and debit cards by its customers, with prizes in the following 3 categories:

- Visa Cross border champion award
- E-Com warrior award
- Visa Premium award

II – Business model

In 2019, the Bank devised a new model of commercial organisation to maximise and incorporate the experience of the former BTM in rural banking and agribusiness into its business model, providing specialised financial advisory services in order to cope with the current and future size of the Moza Distribution Network.

Consequently, Moza developed its commercial strategy in the business areas of Retail Banking (including individuals and companies), Institutional Banking, Private Banking, Corporate Banking, and Investment Banking. With a view to provide advice and support to the various business areas involved in Rural Banking and Agribusiness, a specialised agribusiness unit was created.

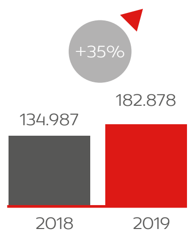
III - Commercial Activity

Customers

In 2019, the number of Bank customers rose from 134,987 to 182,878, corresponding to an annual increase of 35% (excluding customers migrated from the former BTM, the increase would be around 11%). It should be noted that in 2019, the Bank closed inactive accounts which did not generate any income for the institution.

The Retail Segment makes a greater contribution to the Bank's total Customer base, 99%, reflecting the essence of the Bank, which is a Universal Retail Bank.

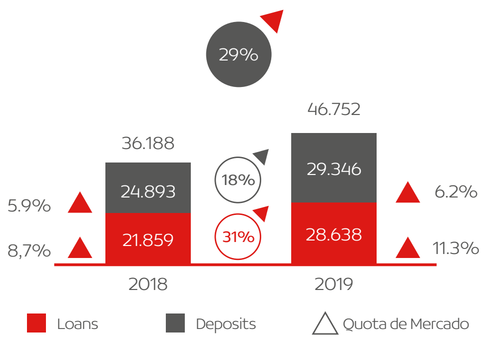
Moza's commercial activity continues to develop in the "Relational Banking" business model, focused on the relationship of trust, proximity, and transparency with the customer. This is reflected in the increase in new customers and corresponding loyalty.



Turnover and Market Share

The Bank's turnover, measured by adding its customer funds portfolio and credit per disbursement, increased by 24% over the same period in 2018, standing at MZN 57,984 million. This performance reflects Moza Banco's vigour as a result of its efforts to ensure a diversified offer of financial and non-financial solutions adjusted to market needs.

As a result of the growth in turnover, Moza Banco's market share, in terms of loans, rose by 2.6 p.p. year-on-year to 11.3% at the end of 2019. With the strengthening of its market share, the Bank consolidated its status as one of the five (5) largest institutions in the domestic financial sector.



Funds
At the end of 2019, customer funds totalled MZN 29,346 million, equivalent to a year-on-year increase of 18%, basically as a result of the increase in new funds raised over the course of 2019. Of note is the increase in deposits which is a sign of the amount of customer transactions with Moza Banco.

Given the growth in the customer funds portfolio, the Bank strengthened its position in the banking market, reaching a 6.2% share, compared with 5.9% last year. The positive performance in market share in recent years stems from the trust customers place in our Bank; with this the growth of the resources portfolio outperformed the market, 19% against the 11.5% in the sector.

Loans
In December 2019, the loan portfolio totalled MZN 28,638 million, an increase of 31% over the same period the previous year. In recent years Moza has recorded higher growth in credit than the market, which is a sign that the Bank is committed to contributing to the sustainable development of the national business sector and the well-being of households, with a consequent impact on economic aggregations as a whole.

At the end of 2019, the Bank's market share stood at 11.3%, in terms of credit, corresponding to annual growth of 2.6%. As a result of this growth, the Bank strengthened its position in the banking market, joining the list of the four largest banks in terms of credit.

Electronic cards
In 2019, the Bank proceeded with several actions it has undertaken in recent years to ensure continued growth in its card portfolio, as well as growth in card transactions. For 2019, the following initiatives are worth highlighting:

- **Campaign to stimulate the use of cards,** held between October and December, with three (3) customers being awarded a trip to the Anantara Bazaruto Island Resort of great international prestige;
- **Campaign to issue pre-approved credit cards** to a number of Customers with growth potential in their involvement with the Bank, who did not have this means of payment;
- **Issue of cards to replace the former BTM card portfolio after the merger;**
- **Review of card offer,** culminating in changes to the features of non-personalised debit cards, the Txapo Txapo prepaid card, the credit card for companies, Business and Platinum, alignment of the layout of all Moza cards by featuring the card identifier and product name, and change in charges for non-personalised debit cards and the Txapo Txapo prepaid card;

As a result of the actions described above, together with the Bank's continued focus on card portfolio growth and transactions, in 2019 Moza was recognised by Visa International for its outstanding performance in terms of card use by the Bank's customers.

It should be noted that Moza was honoured in the following 3 important categories:

- **Visa Cross border champion award** for the fastest growing bank in terms of card transactions abroad;
- **E-Com warrior award**, for the bank that has grown the most in terms of online transactions;
- **Visa Premium award** for the Bank with the highest growth in the Platinum/Eternity card portfolio as well as in the volume of transactions with this type of card;

As a result of the actions described and in recognition of the prize awarded by Visa, cards posted growth of 22,678 units, a year-on-year increase of 19%, with 116,836 active cards at the end of 2019.

It is expected that the impact of the actions taken will extend into the 2020 period, since a proportion of them were carried out in the last quarter of 2019.

POSs
In 2019, the Bank added approximately 502 POS terminals to its portfolio, with 3,249 POS at the end of 2019. It should be noted that this increase in the number of POS considered the incorporation of the 221 POS from the former BTM.

The growth in the number of POS in 2019 reflects the Bank's strategy to ensure greater optimisation and profitability of its equipment. Hence, throughout 2019, the Bank proceed with its 2018 activities, namely reviewing the POS profitability and the process of taking action and controlling POS dormant for more than 30, 60 and 90 days.

As a result of the above strategy, the volume of transactions on Moza's POS posted a year-on-year growth of 6%, and the number of annual transactions also grew by 9%.

ATMs
At the end of 2019, the Bank had 123 ATMs, and year-on-year increase of 12 units. This increase results basically from the incorporation of the ATMs belonging to the former BTM as a result of the merger process.

The number of transactions at Moza ATMs grew by 1%, mainly as a result of the downtime of some ATMs, mostly remote ATMs. Therefore, for 2020, with a view to ensure an increase in transactions, the Bank will continue to work to minimise the levels of downtime.

It is also important to stress that in 2020, and as a result of the implementation of the project with SIMO, which aims to share installation and maintenance costs for ATMs, the Bank is expected to increase the level of transactions for ATMs.

Kiosks
The equipment optimisation carried out in 2019 led the Bank to invest in a number of software and hardware improvements to enhance operating performance, resulting in increased transactions.

It should be noted that the number of active kiosks remained unchanged compared to 2018, with further installations of this type of equipment planned for 2020 through partnerships with public entities. A proportional increase in the number of transactions at Moza kiosks is therefore expected.

Channels

Internet & Mobile Banking
In 2019, the Bank kept its focus on technological development, allowing it to streamline processes and increase its digital offer to customers. Some of the features and content of Moza's channels underwent enhancements. This means the Bank is now able to provide a better response to the financial needs of its customers, in a simple, fast, convenient, effective, and safe manner.

The improvements made to channels made available new features on Mobile IOS aiming at giving more transaction options to the customer. As far as remote channels are concerned, the Internet Banking features were replicated for the IOS and Android versions. Hence, customers will be able to access their accounts simply by installing the relevant app.

The impact of the improvements made to the Moza channels is expected to more visible in 2020, because part of them were made at the end of 2019, and the process of informing the Bank's customers is under way.

In terms of transactions on Moza channels, the number of transactions in 2019 was 144,059, in line with 2018.

Moza Já - USSD
"Moza Já" is a solution that allows the Bank's customers to carry out a range of transactions via mobile phone. To foster the use of the "Moza Já" service, the Bank launched a campaign in the last quarter of 2019 to use USSD and a total of 9 Customers won prizes. This is a type of campaign that has been held on a regular basis in recent years, which shows that the Bank is committed to increasing the digital offer to its customers, and the quality of their banking experience.

As a result of these actions, the number of transactions at "Moza Já" increased considerably in 2019, representing a year-on-year growth of around 22%, totalling 2,558,760 transactions.

IV - Offer

In 2019, the Bank kept its focus on simple solutions, common to the needs of different customers and geared towards day-to-day management and savings.

In terms of innovation and differentiation the highlight was the launch of the Express Bill, a business-oriented treasury support solution which allows customers to make invoice discounts. This is an automatic process in which the Bank advances the amount expected to be received from the provision of services or sales of goods by customers. With this service not only can customers with issued invoices request an advance from Moza, but also large companies with multiple suppliers can sign an agreement with the Bank to enable them to receive transfers from their suppliers with ease;

In terms of non-financial offers, the personal accident insurance - domestic services was launched; this insurance is intended to cover the risks of domestic servant activity which includes the following jobs: cooks, cleaning staff, housekeepers/butlers, employees specialising in child care/babysitters, drivers, gardeners and security guards. With annual, affordable premiums, and without the need of an employment contract, this insurance covers all accidents occurring while travelling to and from the workplace, as well as while performing their duties.

With regard to occupational accident insurance, Moza now covers domestic activities (nannies, cooks, drivers, security guards, etc.). With this coverage, a policy can be issued for up to 15 insured persons, and the premiums are calculated based on the gross annual salary.

In line with the campaign plan, the following solutions were also worthy of note in 2019:

Instant Yield Deposit Account
With this term deposit, customers had access to extremely attractive rates and payment of all interest on the day after it was set up. In addition to this advance payment, the Bank offered reduced terms and affordable subscription amounts.

DP 3 em 3
The "3 em 3" term deposit offered Moza's customers investments of only 3 months' duration, with interest rates growing monthly and reaching a maximum of 16% (TANB).

"Plus" Deposit Account
In 2019, Moza provided a Term Deposit with a credit facility attached which was quick to activate and simple to use.

Credit with grace period
Moza provided a credit product with a grace period on the capital of one (1) month, at fixed and attractive interest rates.

NUIT (tax number) issuing service
With the support of the Mozambique Tax Authority, Moza has, since the 1st quarter of 2019, been issuing NUITs to its customers.

Payment of Municipal Taxes and Charges at Moza
In March 2019, in partnership with the Municipality of Maputo, Moza offered the public a service for the payment of municipal taxes and fees, such as IPA, IAV, TAE and IPRA.

POS with simplified licences
Private Customers who hold a license to carry out a commercial activity (simplified licence) now have access to the POS Moza;

Sale of Shares
In its capacity as stock exchange financial intermediary and member of the IPO Placement Union, Moza Banco participated in the offer of Hidroeléctrica de Cahora Bassa (HCB) shares with its interested customers, through its branch network distributed throughout the country.

Advantages of joining the Salaries and Suppliers Payment Service
All customers who joined this service in a given period benefited from a special remuneration valid for 12 months.

Within the supply area, as a result of the integration of the former BTM, Moza Banco increased its offer in the agribusiness and rural banking component:

Credit to Agribusiness (FSA-Kuwait Fund)
As a result of the incorporation of the former BTM, a new credit line (inherited from the former BTM) was opened for the agribusiness value chain (Food Security Fund). This special line, funded by the Kuwait Fund through the Mozambican government, offers customers funding to support their agricultural activity at subsidised rates.

9.4 Innovation and Transformation

Innovation and transformation were the cornerstone in the building and consolidating Moza Banco. An Innovation and Transformation Office was set up in 2019, attached to the Bank's Executive Committee. The aim was to boost the portfolio of products and services provided by Moza, bringing strategic partnerships and innovative concepts to the Bank.

a) MITADER - "One district, one bank" project
Under the agreement between MOZA and the FNDS (National Fund for Sustainable Development) to support banking in the country, MOZA undertook to help with the construction of 21 bank branches in an equal number of districts (in addition to 4 already operational) to provide millions of Mozambicans, who to date

have no bank branch near them, with access to financial services.
Under this same project, in 2019, Moza opened branches in Guijá, Chigubo and Mapai (all in Gaza), Machaze in Manica, Tsangano in Tete, Memba and Nacaroa in Nampula.

Moza will proceed with the opening of more bank branches as part of this project, namely in Chimbonila and Majune (Niassa), Derre and Ille (Zambézia) and Zumbo (Tete) in the first quarter of 2020.

It should be noted that together with the opening of these branches, monitoring and support work on financial literacy issues is taking place, to promote good practices on security and a savings culture.

b) Strategic expansion
In 2020, MOZA will proceed with the expansion of its financial services, leveraging strategic partnerships wherever possible to grow its branch network. The opening of the Vilankulo branch was a result of a partnership with the local Municipal Council; in this case MOZA will become the main bank for the Municipality's main activity, providing support in collecting and managing Municipal revenues. MOZA's contribution may also extend to social areas, with a view to help the municipality to develop in a sustainable manner.

Since education is seen by MOZA as one of the key sectors in developing the country, the Bank is committed to helping develop this area. In this context, MOZA signed the Memorandum of Understanding with the SEI Group (ISCIM, IPCI, IQRA and Oriente), whereby, in addition to the construction of a bank branch that will serve students and teaching staff, MOZA will actively contribute to the life of the institution.

It is worth mentioning that in 2019 an agreement was signed with FDUEM aimed at cooperating in the areas of Law, Sports, Social Responsibility and Human Resources.

All educational institutions with protocols established with MOZA will be covered in MOZA's internship programme, which will offer opportunities for students as a whole.

With the opening of Namialo (Nampula) and Manica Branches - considering the challenge set by customers in extending our services to these areas, MOZA responded positively, ensuring greater proximity; these branches are planned to open in 2020.

Worth of note is the fact that in 2019 MOZA inherited a network of former BTM branches, which allows us to be closer to our Customers and Partners.

c) Civil Servant Loan
In 2019, MOZA deepened its involvement with the "Civil Servant" segment by increasing the credit portfolio and attracting new customers. For 2020, the Bank has plans to deepen its relationship with this segment and create an innovative offer of products and services, thereby moving ever closer to this segment.

d)Collection of municipal taxes and charges (CMCM)
In partnership with Maputo City Council, the Bank has enabled residents to pay their municipal taxes and charges in a convenient and safe way at selected branches in the Moza network. Demand has been satisfactory and MOZA intends to strengthen the important role it plays in supporting the municipality by improving the collection and management of its revenues.

9.5 Information Systems and Technologies

In 2019, within the management of information systems and technology, the Bank reinforced the technical and technological infrastructure that supported all of the Bank's operations.

In order to continue improving its information systems, the Bank engaged in a series of structural initiatives during this period, some of which are integrated into cost reduction and rationalisation, including:

Skills and Services Insourcing
By the end of 2018, and with the success of the insourcing skills programme, it was possible to speed up the replacement of the main services provided. In 2019, maintenance of infrastructures and other application services were primarily undertaken by the local Bank team, which shows how successful the implementation of measures leading to cost reduction were.

Migration of former BTM Infrastructure
As part of the merger project between the former BTM and Moza Banco, the communication services and systems housed in the former BTM head office data centre were relocated to Moza Banco's head offices. The operation complied fully with the initial planning made.
Once again, following the migration of the Moza Banco data centre in 2018, this process proved the success of the skills insourcing process, and was fully implemented by Moza's team.

Data Security
With regard to information security, a Department was set up in 2019 to deal with related issues; this included the publication of the Information Security Policy. As a result of analysing the financial sector regulator's IT risk management guidelines, access review programs and process controls were implemented, culminating in continuous process improvement.

In addition, intrusion tests on Internet and Mobile Banking apps were performed in order to identify weaknesses in the systems and make corrections and improvements before being used.

9.6 Image and Communication Management

The new Moza, with the values received from the former BTM, has undoubtedly a new DNA, and it is a Bank whose activity is inspired by the essence of its customers' real needs.

In 2019, the Customer remained the main focus of our communication strategy, which is to say that most efforts, investments, and activities were designed and implemented with the customer in mind. As a Relational Bank, we sought to establish a progressive connection with our partners, winning and repaying their trust and, consequently, their preference.

The aim of this approach was to achieve consistency and reinforce the brand's reputation, through a series of actions, namely:

- Establishment of relational ties with customers through targeted communication;
- Cross communication of products and services;
- Promotion and support of social responsibility programmes for internal and external audiences.

Brand Awareness
The popularity of the Moza Banco brand has grown steadily. This means we are linked with our customers and with the market, which is a sign of recognition and trust.

As a result of this trust, the Bank once again stood out in 2019, winning several distinctions at international level, namely:

'Best Innovation in Retail Banking' Award – International Banker
For the second year running, Moza Banco was honoured by "International Banker", with the award for "The Best Innovation in Retail Banking Mozambique 2018" for its strong capacity for technological innovation and contribution to financial inclusion.
This award considered Moza's strong capacity for innovation as a distinctive feature, and quality of service as a commitment to market positioning.

"Deal of the Year for Restructuring in Africa" Prize – The Banker
Moza Banco was honoured by the renowned international financial specialist publication, "The Banker", owned by the Financial Times group, with the "Deal of the Year for Restructuring in Africa" award, i.e. "Best Financial Restructuring Operation of 2019 in Africa". This award recognises the success of the structured capital increase operation that ended in the entry of a new investor into the shareholding, ARISE, and the acquisition of all the shares of Banco Terra de Moçambique (BTM) by Moza Banco for later merger.

VISA Prizes
The international VISA network recognised the huge growth in the volume of transactions using Moza cards and awarded the following prizes: "Visa Cross Border Champion Award, E-com Warrior Award, Visa Premium Award 2019".

This recognised Moza Banco's high ability to provide secure and reliable transactions to its customers; it stood out from other banks because it increased the volume of transactions on its card offer inside and outside Mozambique, physically or through the Visa network's online platforms.

The Visa Cross border champion award - honours Moza as the fastest growing bank in card transactions abroad; the E-Com warrior award – highlights Moza as the bank with the highest growth in the volume of online transactions, and the Visa Premium Award 2019 – honours it as the Bank that recorded the highest growth in issuance and transactions of Platinum cards.

In 2019, the Bank also boosted brand awareness with an increase in the number of public passenger transport buses circulating in the country's main cities and towns bearing the Moza brand, as part of a partnership with the Transport and Communications Fund. By December 303 buses were in circulation.

9.6.1 Main Campaigns of 2019

Using the Bank's media (corporate website, e-mail contacts, ATMs, TVs and digital screens inside the branches and digital branches), and social networks (Facebook, Instagram, YouTube, and Twitter), the following campaigns were run in 2019:

#Crescemos com Valor
Although in pure arithmetic, one plus one equals two, for us, Moza Banco, the merger with Banco Terra was much more than simply the sum of the two Banks. This operation has had a multiplying effect on the value we want to offer our customers and the banking business for the economic and social development of Mozambique. Besides to highlight the value that this merger offered, we developed the campaign "Crescemos com Valor/We Grow with Value" to announce it to the customers of both banks and the market.

With the merger, we are closer to the general public and continue to grow, bringing more value to every corner of Mozambique.

 # O Valores Moza
In order to offer the best financial value, it is crucial to convey good human values to customers and society in general. Based on this principle, we sought to share the values that inspired and moved us throughout 2019: Relationships; Innovation; Integrity; Discipline; Proximity.

#MozaExplains
To encourage financial literacy, especially amongst the younger generation, animated videos with explanations of banking products and services, their features, advantages, and forms of membership were developed and shared on social media.

On the supply side, the following products were offered throughout 2019 using digital media and print advertising (posters and leaflets):

- Moza Cards
- Back to School Credit
- Moza Woman Credit
- Worker Credit
- Super Moza Credit
- Boas Festas Credit
- Junior Credit
- Corporate Value Credit
- Bonus Value Credit
- DP Instant income
- DP 3 out of 3
- Express Bill
- Moza Já
- Moza Mobile
- Moza Net
- Travel Insurance

9.6.2 In-house and external communication

The prominence of Moza Banco in 2019 was featured in a series of communication contents that had a great impact on the public, making people more involved and, consequently, more loyal to the brand. This is clear when reviewing the Bank's performance in traditional media and digital channels. It should be noted that the Bank significantly increased the number of followers on its Facebook page (+33,448), to a total of 173,355, making the Moza page the third most popular among banking institutions.
In the traditional media, there were dozens of positive stories throughout the year, mainly related to the signing of several memoranda of understanding and agreements between Moza and other partner institutions. These showed the Bank's concern to actively participate in the transformation and development of the country.

In terms of internal communication, the Bank stood to its commitment to ongoing and regular communication with all its employees, to ensure the Bank's main objectives, achievements and milestones were known at first hand, focusing on the process of merger and integration with BTM.

It is worth highlighting Moza News - the Bank's monthly newsletter, whose main purpose is to keep Employees and Customers informed of the institution's most important events and developments, as well as to make the Bank's offer, security tips and other information known.

9.6.3 Strategic Participation in Trade Fairs and Events

MARCH

Annual Private Sector Conference

As a key player in the financial sector, Moza Banco took part in the **XVI CASP**, Annual Private Sector Conference promoted by CTA, whose motto in 2019 was "IMPROVING THE BUSINESS ENVIRONMENT TO ACCELERATE ECONOMIC GROWTH: AGRIBUSINESS AS AN ACCELERATOR!" This event included interaction between the government and the Private Sector on the priorities of reforms aimed at improving the business environment and a forum to promote investments by facilitating meetings between project implementers and potential funders and investors.

Jantar.COM

As a member of the Mozambique Portugal Chamber of Commerce (CCMP), Moza Banco took part in the 5th "Jantar.COM" event which took place on 12 March 2019 in Maputo.

"Jantar.COM" consists of regular themed dinners behind closed doors organised by the CCMP for members and guests to network and promote business opportunities between Mozambique and Portugal.

Tourism Gala

JULY

In recognition of the role of Tourism in diversifying the economy and as a catalyst for local and national development, Moza Banco took part in the FEMOTUR (Mozambican Federation of Tourism and Hospitality) Gala, which took place on 11 July 2019, at the Joaquim Chissano International Conference Centre. Under the slogan "Tourism is us", the event brought together about 500 individuals, including members of the Government, Ambassadors and Heads of diplomatic missions accredited in Mozambique, Tour Operators, Travel Agents and various entrepreneurs linked to the tourism sector, to address the challenges and prospects in the sector, and proved to be an excellent opportunity for networking and raising the profile of the Bank.

NOVEMBER

Participation in the world's largest technology conference
Several areas of performance have been improved by technological innovation and has therefore deserved the attention of various institutions, especially financial ones. It was in this context that Moza Banco participated in the largest technology conference in Europe and the world, intitled Web Summit, which has been held annually since 2009.

The event was held from 04 to 07 November in the Portuguese capital, Lisbon, and brought together over 70,000 people from 163 countries and 2,000 start-ups from different areas particularly technology, finance and business, to find solutions for the current technological challenges that companies and the world face.

9.7 Service Quality and Efficiency - A relational bank focussed on its Customers

With regard to the factors that marked 2019 in terms of challenges, we should highlight the merger of Moza Banco and Banco Terra (BTM), which strengthened the Bank's structure and posed additional challenges with the arrival and integration of former Banco Terra Customers. This required greater involvement in understanding the customer concerns and exceeding customer expectations, by offering them products and services appropriate to their real needs, as well as responding quickly and efficiently to all requests with an increasing professional and relational involvement between employees and Customers.

Strategic importance of Service Quality
As with other areas, Service Quality is becoming increasingly important, not only for its operational but also its strategic importance, in the financial sector. Consequently, providing Customers with a good experience in terms of the service provided and the relationship between the Bank and the Customer has produced increasingly better results in customer loyalty and retention, as well as in defining preferences when identifying their business partner.
In order to respond to the current market trend, Moza Banco applied the continuous monitoring of Key Performance Indicators (KPIs) throughout 2019, with the following pillars of activity:

- Complaints Management (total number of complaints handled/closed vs. number of complaints with satisfactory settlement with the Customer) focused on the Customer and on the design of corrective actions;
- Continuous monitoring of SLAs/service levels for processes with a direct impact on customer satisfaction;
- Monitoring of customer service routines;
- Monitoring of Customer Satisfaction (and Customer Dissatisfaction) Factors - Conducting Customer Satisfaction Surveys: in order to match the customer's expectations with the quality of the Bank's service, Moza carried out satisfaction surveys for specific customer segments in 2019. The results of feedback were satisfactory.
- Discussion and definition of the corrective and preventive actions for any situations identified as well as for the potential occurrences.

In addition, as planned, once the maturity expected in the consolidation of the previous pillars had been reached, in 2019 Moza Banco proceeded with updating the operating pillars of the Quality Management System and continuous improvement; then the Bank included the "definition of Corrective Actions" as one of the pillars of activity.

How the continuous improvement cycle works

In order to achieve better results on a permanent basis in the Bank's products, services, and service quality, or in its internal processes, the PDCA Cycle methodology (plan, do, check, act) was once again used throughout 2019. Throughout 2019, the foundations were laid for this continuous improvement methodology to become a permanent part of the working culture of employees in all Moza Banco's Departments and Business Units. We present the methodology in simplified form below.
In the first phase of the PDCA cycle, the Bank identified any possible opportunities for improvement and set out associated goals to ensure that planning would maintain a customer-oriented strategy.

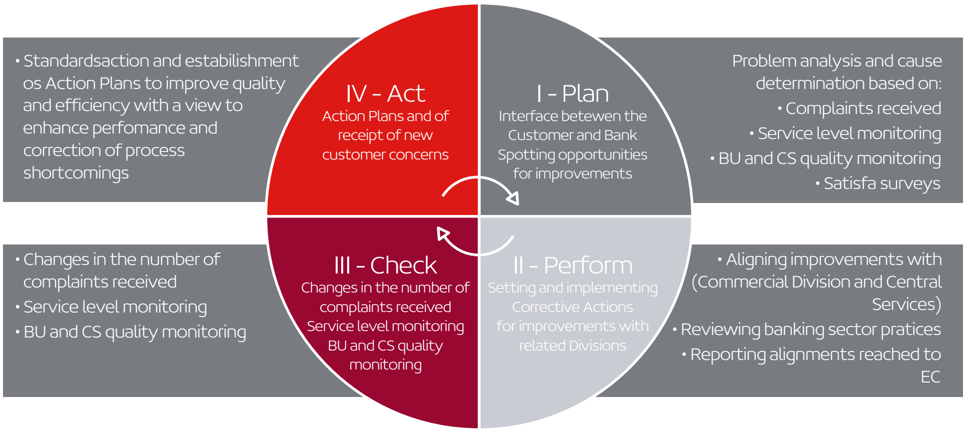


Image source: Sistemas de Gestão da Qualidade, 1ª edição, 3ª impressão, 2011.

However, being in a competitive environment, where Customers have different options in their portfolios, Moza has once again prioritised not only the process of continuous internal improvement, but also uses the inputs from its customers and different stakeholders in the market as its important work tool in relation to the improvement opportunities to be suggested, complaints and business examples. For this purpose, different channels are available:

- All Moza Business Units - throughout the country;
- Moza Banco's corporate website(www.mozabanco.co.mz) where feedback can be sent remotely – available 24 hours a day;
- Direct email address: qualidade@mozabanco.co.mz - available 24 hours a day;
- Call Centre, on: 82 2020; 84 2020 or +258 21 342020;

9.8 Compliance and Anti-Money Laundering

In 2019, Moza's Compliance Department proceeded with its mission to promote compliance with its legal, regulatory, statutory, operational, ethical and conduct obligations and duties. These are applicable at all times to the Bank, as well as to its corporate bodies, officers, and employees as part of the control and institutional supervision environment laid down by the competent regulatory authorities and the legal regulations to which they are subject.

As part of the merger, the management was restructured with a view to creating more dynamics, harmony and focus on the activities developed. As a result, the management structure was reassessed with a view to organising employee activities by processes, thereby optimising daily tasks and allowing them to respond better to legal requirements.

Due to the enactment of different laws, in 2019 Compliance engaged in a cross-departmental effort to internally adapt to the new legal and regulatory requirements applicable to the Bank. This was achieved through aligning internal processes and putting them into operation, a review of internal regulations and a compliance risk analysis of the new Products and Services.

With regard to regulations published during the year 2019, the regulations that had a significant impact on the Bank in terms of implementation include:

#	Description
1	Law no. 19/2018, of 28 December, which approves the legal Framework for the Use of Movable Assets as a Guarantee of Compliance with Obligations and creates the Central Securities Registry.
2	Notice no. 01/GBM/2019, which approves the Regulation on Reporting Duties in relation to the Receipt of Bank Deposits.
3	Notice no. 02/GBM/2019 of 18 January, which approves the Regulation on Interbank Clearing and Settlement Subsystem.
4	Notice no. 03/GBM/2019 of 29 January, which approves the Regulation on Intraday Credit.
5	Notice no. 04/GBM/2019, which approves the Regulation on the Real Time Wholesale and Transfer Subsystem Settlement (MTR) - MTR Operations Manual.
6	Notice no. 05/GBM/2019, of 25 March, setting out the Legal Framework applicable to the Conditions for Purchase and Sale of Foreign Currency.
7	Notice no. 06/GBM/2019, of 22 April, which approves the Legal Framework for Investment Fund Ratios and Prudential Limits.
8	Notice no. 07/GBM/2019 of 22 April, which revokes paragraph 3 of Notice no. 5/GBM/2018 of 6 June on Prudential Limits to Risk Concentration.
9	Notice no. 08/GBM/2019 of 17 January, which approves the Regulation on Calculation and Creation of Mandatory Reserves.
10	Notice no. 09/GBM/2019 of 13 November, which revokes the Regulation of the State Funds Transfer System approved by Notice no. 06/GBM/2005 of 23 March.
11	Notice no, 11/GBM/2019 of 22 November, which revokes Notices no. 04/GBM/2018 of 13 April and no. 08/GBM/2018 of 18 October, and also revokes Articles 105 and 106 of Notice no. 20/GBM/2017 of 27 December.

Considering the growing importance of combating money laundering and/or terrorist financing, the Compliance Department also reinforced its activities in terms of instruments to detect and prevent the Bank being used as a vehicle for activities linked to these phenomena.
To this end, greater care was taken in identifying weaknesses and areas of greater exposure for the Bank, in order to ensure that adequate methods to control and mitigate risks inherent to transactions and counterparties are put in place, in conjunction with PEPs and Actual Beneficiaries.

9.9 Control and Rationalisation of Costs

In response to one of the pillars of the Strategic Plan, the Bank needed to control and reduce costs, which ended in the creation in June 2017 of the current Cost Control and Rationalisation Department (DCRC). The main objective includes devising and implementing measures and actions with financial and organisational impact.
In 2019, this unit assisted the Bank in containing costs by analysing and implementing different measures to reduce costs, contribute to sustainability and protect the environment, with emphasis on the following action:

a) Improvements in energy efficiency
In an effort to use environmentally recommended and efficient solutions, the headquarters and branches have successfully adopted the following measures:

- Use of movement sensors to turn on lights in corridors, toilets, archives and elsewhere;
- Lighting control by schedules and days of the week;
- Equipment turned off on weekends and public holidays;
- Use of timers and/or photocell equipment for signs and illuminations, including detailed monitoring of energy costs;
- Replacement of lighting by LED systems, a gradual process at the branch level, which in the meantime has already made it possible to contain costs, despite the tariff increase in 2019.

b) Rationalisation of paper consumption
Regular monitoring of paper consumption led the Bank to look for new ways to contain the high consumption of paper; with this in mind a tool was created to control prints and send alerts to departments with the highest consumption and printing.

In addition, announcements were sent on a regular basis to encourage the reuse of paper for drafts, as well as encouraging a preference for digital archiving over the physical (paperless), which also contributes to ecological sustainability.

c) Insourcing of external services
An insourcing policy and preventive maintenance services for safety equipment and means of payment were adopted to replace the full outsourcing of these services. This measure helped significantly to improve efficiency in the results sought by the organisation, which led to a significant reduction in the Bank's costs.

10. Risk Management

10.1 Introduction

Risk management is a crucial discipline for Moza Banco and comprises activities that affect its risk profile. To this end, Risk Management takes up increased importance around the principle of Corporate Governance. Devising, monitoring, and implementing the Bank's risk management policy relies on the involvement of all areas in the management of materially relevant risks with a view to support the Management Bodies.

To achieve a better combination of risk and results, Moza Banco has a prudent approach to risk management, in line with the regulations laid down by the Regulator and best international practices. This results in the design of policies, principles, procedures, methodologies and limit definitions which guide the Bank's activity across its various business segments: Retail, Private, Corporate, and Institutional including activities carried out by the Market Room in the Foreign Exchange, Money and Capital Markets.

In order to meet its strategic objectives and given the profile of the risks to which it is exposed, Moza Banco manages them in line with the Risk Management model, which aims to identify existing or potential risks, measure and control them, and calculate their impact on results or capital.

Moza Banco's risk management conceptual framework comprises the nine types of risk, namely: Credit Risk; Liquidity Risk; Interest Rate Risk; Exchange Rate Risk; Operational Risk; Strategic Risk; Reputational Risk; Compliance Risk and Information Technology Risk, including the processes, systems and procedures for their management, as well as the tasks and responsibilities of the bodies involved.

In general, risk management is performed on an ongoing basis through:

- Monitoring by the Board of Directors and Top Management and by the Risk Committee;
- The definition and dissemination of policies, procedures and limits;
- Measurement, monitoring and information management systems;
- Internal Control System.

10.2 The Bank's Risk Profile

While monitoring the various risks, Moza Banco keeps in mind those that are considered material and relevant to its risk profile; their management is considered crucial to ensuring the development, profitability and sustainability of the Bank's business and activity while ensuring compliance with regulatory requirements.

In an ongoing and prudent fashion, Moza Banco monitors its risk profile and compliance with the limits defined related to business risks.

Changes in the financial system and the design of new technologies require more sophisticated risk mitigation techniques to be adopted, some of which are embodied in good international practice and others issued by the Regulatory Body. Moza Banco is not unaware of this phenomenon, and therefore, in its actions, seeks to equip itself with tools and procedures adjusted to the risks to which the Bank's business is exposed.

In order to respond to the increasingly demanding regulations and follow the environment conditions in which it operates, in 2019 the Bank carried out several projects and restructuring plans in 2019:

- The implementation of an Operational Risk Management Framework aimed at spreading the culture to manage this risk throughout the Bank;
- The creation of the Operational Risk Committee to better boost and address the issues discussed with a view to finding practical solutions that minimise losses and maximise results;
- A TAB was created on the Bank's risk management intranet containing a presentation on the criteria and objectives of operational risk management. At the same time, fortnightly alerts on sources of operational risk were sent to the Bank as a whole. FAQs on operational risk were prepared and training content on operational risk was made available to be included in the Bank's e-learning platform;
- Completion of the internal restructuring process of the Risk Management Division, ending in the setting up of 2 Departments (Financial and Non-Financial Risks) and 5 areas, namely: (i) credit and strategic risk, (ii) market risk (interest rates, exchange rates and liquidity), (iii) operational and reputational risk and compliance, (iv) information technology and business continuity and (v) internal control. The first 2 areas are assigned to the Financial Risks Department and the last 3 to the Non-Financial Risks Department;
- "Credit Risk Monitoring" was created to reduce overdue credit as well as guarantees not yet lodged ("promises"). As regards Credit Risk, an intermediate closing of accounts was introduced (10 days before the final closing) in order to ensure that customers remain at levels compatible with the tolerance to pre-defined risk. This enables commercial areas identify more clearly and more precisely the type of customer (individual, company, other), and a thorough knowledge of the risk profile of the borrower or the respective counterparty;
- As regards Market Risk, the Risk Management Department introduced new indicators and models for quantifying risks, in particular the LCR Basel III (Liquidity Coverage Ratio). This checks whether net assets can fully cover operating expenses and liabilities outflows in 30 days under stress scenarios.

Following the formal merger between Moza Banco and Banco Terra in August 2019, the Bank now has a more business units and, consequently, a larger loan portfolio that calls for a timelier management approach. This requires greater monitoring of impairments and the validation and acceptance of associated guarantees.

10.3 Risk Management Responsibilities

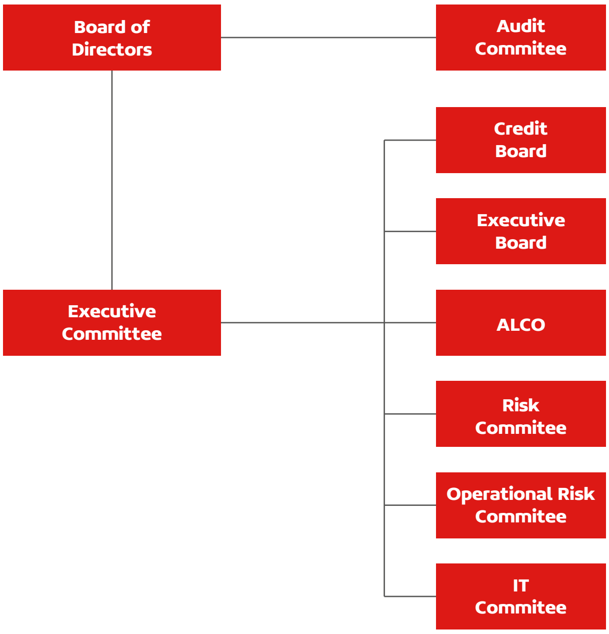
Within the scope of Corporate Governance, the Strategy and Policies at Moza Banco are defined by the Board of Directors within the Strategic Plan; besides powers are delegated to the Executive Committee and the DGR as the Department responsible for Risk Management.

Moza Banco ensures a clear separation of responsibilities between risk takers and risk managers. To this end, and in strict compliance with Notice no.4/GBM/2013 - Risk Management Guidelines, the Bank has complete documentation of the organisation, procedures, methodologies and resources involved in overall risk management, which are implemented by various bodies supporting the Board of Directors (BoD), in particular: Executive Committee (EC); Audit Committee; Credit Committee; Governing Board; Assets and Liabilities Committee (ALCO); Risk Committee; Operational Risk Committee; IT Committee; Commercial and Business Committee; Risk Management Department (DGR), International and Investment Banking Department (DBII), Audit and Compliance Department in conjunction with the Bank's Collegiate Bodies.

As part of their duties, all employees take part in the risk control and management, with each Bank employee is responsible for disseminating the Risk Management Policy, checking whether risk events occurs and sharing information if and when materially relevant facts exist. They are also responsible for working with the Risk Management Department to ensure that Operational and Reputational Risk is adequately identified, assessed, and mitigated.

Risk Management Governance

The scheme below describes the organisational model for the Bank's risk management approach and the various existing Committees:



Moza Banco adopts the three (3) lines of defence model for managing different risks, which ensures transparency as to the responsibilities assigned to each of the parties involved in risk management:

1. The first line of defence is the Business Units and the Units that generate Risk Exposures (risk takers), which have the following responsibilities: to identify, monitor and mitigate business risks while maintaining efficient controls.
2. The second line of defence is comprised of the following Departments:
    - Risk Management Department (DGR), whose main functions are: to protect the Bank's capital from exposure to credit, market (interest rate and exchange rate), liquidity and operational risks, among others, checking at all times that the Bank's risk remains within the defined limits, operating in conjunction with the different Business Units in order to ensure that the first line of business (commercial areas) correctly identifies, assesses and reports the risks of its activities.
    - Compliance Department, whose main mission is to ensure that Moza Banco complies with applicable legal, regulatory, statutory, ethical, good conduct and good banking practices, through institutional control and supervision as defined by the regulator and internal regulations (including issues of preventing and combating money laundering and terrorist financing).
3. The third line of defence is the Audit Department, which is responsible for independently reviewing the internal controls in place, through audits of business processes, identifying areas of greatest risk and assessing the effectiveness, efficiency, and regularity of procedures in structural and support bodies.

11. Financial Analysis

11.1 Introductory Note

Moza Banco's Financial Statements for 2019 include activity resulting from the merger between Moza Banco and Banco Terra, which took place between 23 and 25 August 2019 and is part of Moza's strategy for growth and development. This operation consisted of the incorporation of the assets, liabilities, and contingent liabilities of the former BTM into Moza's structure as the acquiring institution.

To minimise the operating risks attached to the integration process, the Bank drew up a set of plans, including duly synchronised simulation plans to ensure the overall integration of employees, organisational structures, property, processes, customers, products, assets, and liabilities, among others.

As a result of this process, this strategic objective for the Bank was achieved quite satisfactorily. The migration of data from the former BTM took place within the defined and approved scope, in all aspects. It should be noted that all the problems encountered during the process were duly regularised.

Adoption of IFRS 16

IFRS 16, International Financial Reporting Standard, supersedes IAS 17, with an impact on accounting for lessees. These are now required to recognise a lease liability reflecting future lease payments and a 'right to use' asset for all lease contracts, except certain leases whose term and value are immaterial. The definition of a lease has also been changed and is now based on the "right to control the use of an identified asset". As regards transitional arrangements, the new standard may be applied retrospectively or a modified retrospective approach may be adopted.

Activity and Results

In 2019, the Bank proceeded with its adjustment phase, focusing on cost reduction, improvements in liquidity levels and optimisation of the existing business structure. Upon approval, the bank initiated and concluded Phase I of the new Strategic Plan, with the integration of the former BTM into Moza's structure.

Despite the continued adverse economic environment, exacerbated by the effects of cyclones IDAI and KENNETH, which in March and April devastated the Central and Northern regions of the country, respectively, with a direct impact on the lives of companies and households, in 2019 the Bank was able keep its recovery trajectory. The credit and deposit portfolio grew by 33% and 18%, respectively, reflecting greater capture of market share. This trend clearly translates the consolidation of our customers' confidence levels and provides clear evidence that the market believes in Moza Banco.

In 2019, despite the economic situation described, Moza continued to see a significant improvement in financial, economic, and prudential results overall. The net loss of MZN 776 million was affected by unusual effects, of which the integration costs of the former BTM should be highlighted.

In 2019, the Bank's assets reached MZN 41.8 billion, reflecting year-on-year growth of 15%. This was driven by positive growth of the loan portfolio and the integration into the balance sheet of the Bank of Assets by Right of Use, within the framework of International Financial Reporting Standard 16 (IFRS 16).

The Bank's liabilities also increased compared to the same period in 2018, from MZN 27,319 million to MZN 34,037 million, as a result of the Bank's strong capacity to attract new deposits and new depositors, as well as the incorporation into the Balance Sheet of lease liabilities under IFRS 16. With this growth, Moza Banco consolidated its position on the list of the five largest Mozambican banks in the market, in terms of deposits, with a market share of 6.24% (2018: 5.92%).

On a prudential basis, the solvency ratio stood at 23.84% at the end of 2019, which is considered to be a much higher level than the average for the banking sector, above the requirements set by the Regulator, which currently stand at 12.0%. In addition, Moza Banco's liquidity ratio stood at 34.60% (2018: 49.92%), levels considered adequate in relation to requirements and benchmarks, allowing the Bank to cover the current and future risks to which its business may be subject.

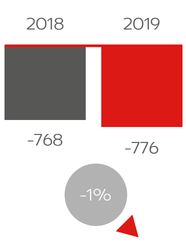
11.2 Profitability Review

Net Profit

In 2019, Moza Banco's net income stood at MZN -776 million, influenced by the Bank's conservative profile with regard to the constitution of Loan Portfolio Impairments.

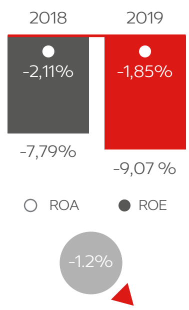
Due to the maturity of some credit transactions, which remain unresolved and whose risk is increasingly high, it became essential to record additional credit impairment, which negatively affected gross operating income.

Net Profit (Million MZN)



The net result in 2019, together with the reduction in Equity after the regularisation of Goodwill, contributed to a reduction in Return on Equity (ROE). ROE and return on assets (ROA) stood at -9.07% (2018: -7.79%) and -1.85% (2018: - 2.11%), respectively, the latter figure

Profitability Ratios



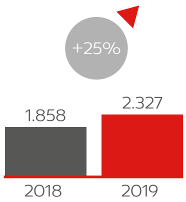
demonstrating increasing recovery in operational efficiency.

Income Statement (in MZN thousand)	**2018**	**2019**	**Chg.**
Interest and similiar income	4,413,360	4,633,960	5%
Interest expense and similiar charges	-2,555,828	-2,306,942	-10%
Net Interest Income	**1,857,532**	**2,327,018**	**25%**
Net free and commission income	460,791	500,554	9%
Net financial operations	172,860	307,681	78%
Operating Income	**2,491,183**	**3,135,253**	**26%**
Staff costs	-1,138,136	-1,295,944	14%
Other operating expenses	-1,471,531	-1,365,726	-7%
Other operating income	208,238	244,417	17%
Gross Operating income	**89,754**	**718,000**	**>100%**
Amortisations	-381,112	-655,198	72%
Impairment and Provisions for the year	-254,585	-633,120	149%
Profit before tax	**-545,943**	**-570,318**	**4%**
Tax	-222,460	-205,315	>100%
Net profit	**-768,403**	**-775,633**	**1%**

Net Interest Income

Net interest income reached MZN 2,327 million in 2019, a growth of 25% when compared to the MZN 1,858 million recorded in the same period. The annual growth of net interest income is the result of higher growth in loans to customers compared to customer deposits, 33% and 18% respectively. This reflects the Bank's strategy of ensuring sustainability, improving results and contributing to the achievement of the objectives set out in the Strategic Plan.

Net Interest Income
(Million MZN)



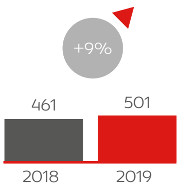
It should be stressed that in the course of 2019, there were continued cuts in the prime rate of the financial system, the base rate for credit operations, which fell by around 220 bp. to 18.00% at the end of 2019. However, in terms of resources, the continuous pressure on their funding meant that the decrease in cost was less marked with negative repercussions on banks' intermediation margins.

Net fee and commission income

In 2019, net fee and commission income amounted to MZN 501 million, an increase of 9% on the MZN 461 million for the same period in 2018.

The growth of net fee and commission income reflects the favourable trend in commissions associated with disbursement and subscription credit, derived from the increase in new credit production, and by the significant increase in transactions in direct channels and self-banking by the Bank's customers and the market.

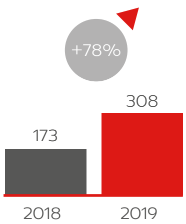
Net fee and commission income (Million MZN)



Operating costs

Operating costs, which aggregate foreign exchange results and trading and hedging operations, totalled MZN 308 million in 2019, which compares with MZN 173 million in 2018, showing impressive growth of 78%. The significant increase in the results of financial operations is explained by the increase in the volume of foreign exchange operations (trading) recorded in 2019 when compared with the same period in 2018.

Operating costs
(Million MZN)

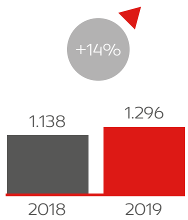


For the period under review, Operating Income totalled MZN 3,135 million, compared to MZN 2,491 million in the same period of 2018. The trend in Operating Income mainly reflects the increase in net interest income.

Staff costs

Staff costs increased by 14% compared to the same period of 2018, reaching MZN 1,296 million. The increase in costs is mainly associated with the growth of the bank's structure after the integration of the former BTM into Moza. In 2019, the Bank also made a number of salary adjustments arising from employees' career development, updating the annual salary table and rewarding employees for their performance.

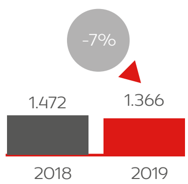
Staff costs
(Million MZN)



Other Operating Expenses

Other operating expenses totalled MZN 1,366 million in 2019, reflecting a significant reduction of 7% over the same period of 2018. Although the reduction was influenced by the impact of the implementation of IFRS 16, the Bank maintained cost control and rationalisation measures throughout 2019. The insourcing of payment services and the concentration of some telecommunications services into a single provider contributed significantly to the reduction in operating expenses.

Other Operating Expenses
(Million MZN)

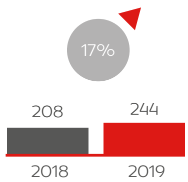


Excluding the impact of IFRS-16, it appears that the increase in costs would be around 4%, in line with the inflation rate, which shows that the Bank is therefore taking a sustainable path to profitability. It also reflects the impact of skills and services insourcing, and greater control and rationalisation of costs.

Other Operating Income

Other operating income mainly includes adjustments to the accounts for previous years. In 2019, other operating income totalled MZN 244 million, representing an increase of 17% compared to 2018.

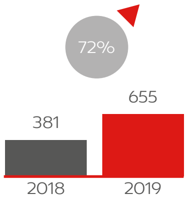
Other Operating Income
(Million MZN)



Amortisations

In 2019, as a result of the obligation to include assets by right of use on the balance sheet, the cost of depreciation for the year registered a significant increase of 72% compared to the previous year, totalling MZN 655 million, compared to MZN 381 million recorded in 2018.

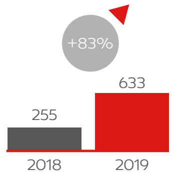
Amortisations
(Million MZN)



Impairment and Provisions for the period

Impairment and provisions include allocations for impairment charges, impairment of available-for-sale assets, impairment of other assets, in particular assets received as a result of termination of contracts with customers, as well as allocations to other provisions.

Impairment and Provisions
(Million MZN)



Impairment charges and allowances totalled MZN 633 million, reflecting an 83% increase over the same period of 2018, a conservative and prudent Moza Banco profile in the establishment of credit impairment. Note the part of the portfolio where maturity increases the risk, making it imperative to reinforce the impairment.

In MZN Million	2018	2019	Chg.
Overall Impairment and Provisions	**255**	**633**	**149%**
Credit impairment	289	737	155%
Available-for-sale-financial assets	(35)	(129)	> 200%
Provisions	1	26	> 200%

Credit impairment

In 2019, Moza Banco increased impairments on a specific group of individually reviewed customers as a result of the continuous assessment of their risk profile, totalling MZN 737 million at the end of 2019 (2018: MZN 289 million). This was in line with the strategy set out by the Bank's Management Bodies in 2019 and shows that a conservative, prudent, and professional policy of risk management carried out by the Bank's Management Bodies was kept.

As a result of the growth in the loans to customers portfolio, despite the increase in impairment described above, the coverage ratio fell from 18.29% to 16.86%, which translates a reduction of 143 base points.

	Annual trend		
Quality of Loans to Customers	**2018**	**2019**	**Change**
Credit impairment/Total overdue loans	174.0%	132.2%	-41.81 pp
Credit impairment/Overdue loans> 90 days	179.1%	139.9%	-39.22 pp
Average impairment charge	1.4%	2.9%	1.474 pp
Overdue loans/Total loans	10.5%	12.8%	2.24 pp
Accumulated impairment allowance on the balance sheet / Total Loans	18.29%	16.86%	-1.43 pp

At the end of 2019, the credit-to-risk ratio stood at 12.8%, compared with 10.5% in 2018. In addition, this trend is a sign of the economic activity slowdown, while at the banking sector level, there is also a trend towards higher levels of default, which translates into a lower appetite among banks in general for lending.

The coverage ratio of overdue loans by impairment remains at adequate levels, 139.9%, which shows that credit risk exposures have full coverage, and that the loan portfolio to customers is adequately covered.

Impairment from available for sale financial assets

In 2019, as in 2018, there was a partial reversal of the impairments resulting from the securities held by Moza in the amount of MZN 129 million, as a result of the appreciation in their market price.

Other Impairments and Provisions

With respect to provisions, the Bank recorded provisions totalling approximately MZN 26 million, in order to cover potential future legal charges.

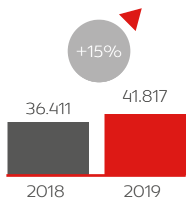
11.3 Balance Sheet Review

Total Assets

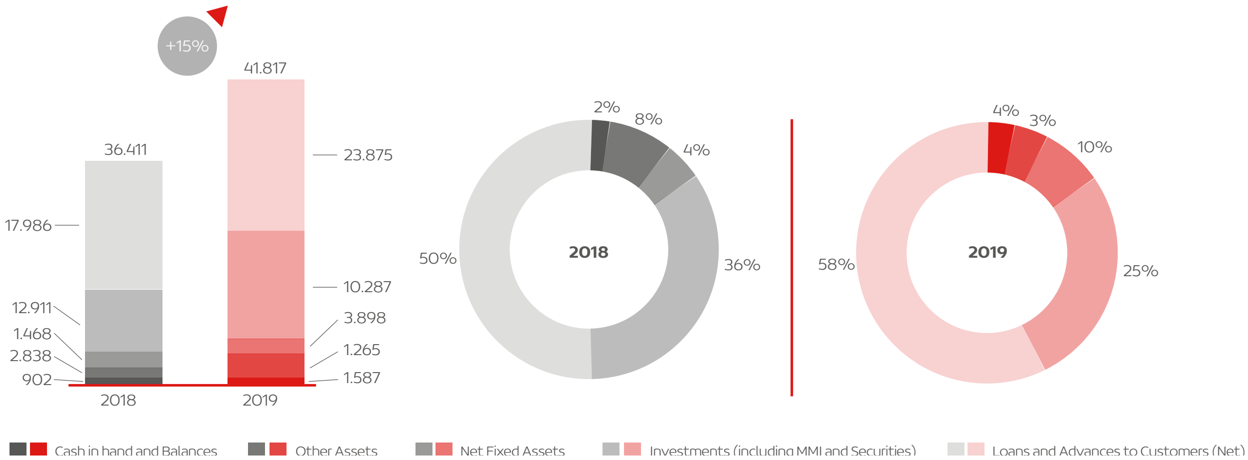
Given the stability of the general price level throughout 2019, the Bank of Mozambique maintained its policy of reducing rates, which boosted the increase in credit to the economy, albeit timidly. Credit to the economy increased by around 3% during 2019, with a greater predominance of credit to the private sector in national currency.

With regard to the banking sector, the activity undertaken in 2019 continued to be constrained by the unfavourable trend in non-performing loans as a result of the economic situation. This was reflected in a greater willingness by the Banks to apply the surplus cash on Public Debt securities and in the Interbank Market.

Total assets
(Million MZN)



Asset structure (Million MZN)



In 2019, Moza Banco's assets posted strong growth of 15% compared with 2018, which is in line with the positive growth of Loans to Customers portfolio and the integration within Moza's Balance Sheet of Assets by Right of Use and the integration of former BTM assets.

At the end of 2019, Moza Banco was listed as the fifth top largest bank in Mozambique in terms of assets, with a market share of 6.3% (2018: 6.1%).

In terms of asset structure, in 2019 the balance of interest-earning assets represented 58% of total assets, which was a change compared with the same period of 2018. The (net) customer credit component increased its relative weight in the asset structure to 58% of the total assets (2018: 50%) and remained the main aggregate of assets.

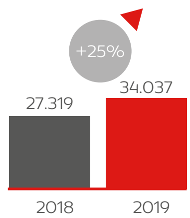
However, it should be noted that, in absolute terms, and despite the economic environment, Moza's customer loan portfolio showed significant growth. This was 33% more than in the same period in 2018, showing the Bank's commitment to making the country's economy larger and more dynamic.

The composition of the Bank's assets shows the strategy carried out by Moza Banco Management Bodies to ensure that diversification of funds and maturities is properly carried out, with a view to ensuring that a high level of liquidity is maintained in order to cope with possible market imbalances.

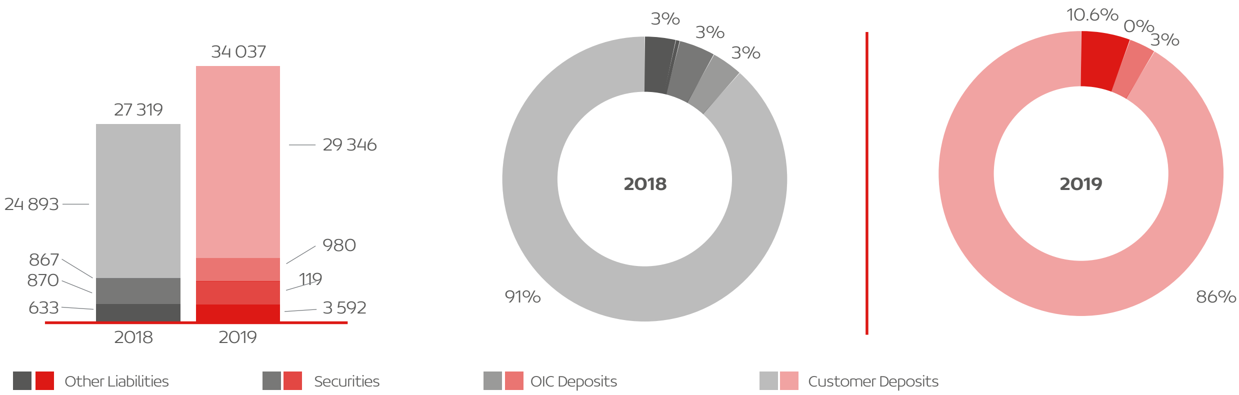
Total Liabilities

In 2019, the Bank's Liabilities amounted to MZN 34,037 million, which compares with MZN 27,319 million in the same period of 2018. The growth in liabilities was largely due to Moza Banco's strong capacity to attract new deposits and new depositors, thereby consolidating its position on the list of the five largest institutions in the market.

Total Liabilities (Million MZN)



Liability structure (Million MZN)



In the year under review, customer deposits remained the main source of financing for the Bank's business, representing 86% of total liabilities. In 2019, customer deposits amounted to MZN 29,346 million, representing an increase of 18% over the same period of 2018, a sign of the customers' trust in the Bank. It should be noted that Moza's deposit growth is well above the market average, bringing market confidence to Moza.

In 2019, the Bank redeemed 7,500,000 subordinated bonds with a face value of MZN 100.00, issued in 2013 and with 10-year maturity, at an annual interest rate of 14.50%. This operation helped reduced 86% of liabilities represented by securities, with MZN 119 million at the end of 2019 (2018: MZN 870 million).

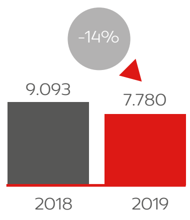
Other liabilities, which include deferred tax assets, lease liabilities (IFRS 16), current and deferred taxes and other liabilities, stood at MZN 3,591 million, which compares with MZN 689 million recorded in the same period of 2018. This development is the result of implementing the new financial reporting standards.

Deposits from other credit institutions stood at MZN 980 million, in line with the levels reached in the same period.

Equity

In 2019, shareholders' equity, which includes capital stock, reserves, retained earnings and net income for the year, totalled MZN 7,780 million, compared to MZN 9,093 million in 2018. The negative growth of equity in 2019 was affected by incorporating the adjustment effect of the Goodwill value arising from the acquisition of BTM, after it was incorporated into the Moza structure.

Equity
(MZN Million)



Capital Adequacy

In 2019, regulatory own funds grew compared to 2018, which enabled a comfortable level of stability to be maintained. At 31 December 2019, Moza Banco had a Tier 1 ratio of 24.54% (2018: 25.66%).

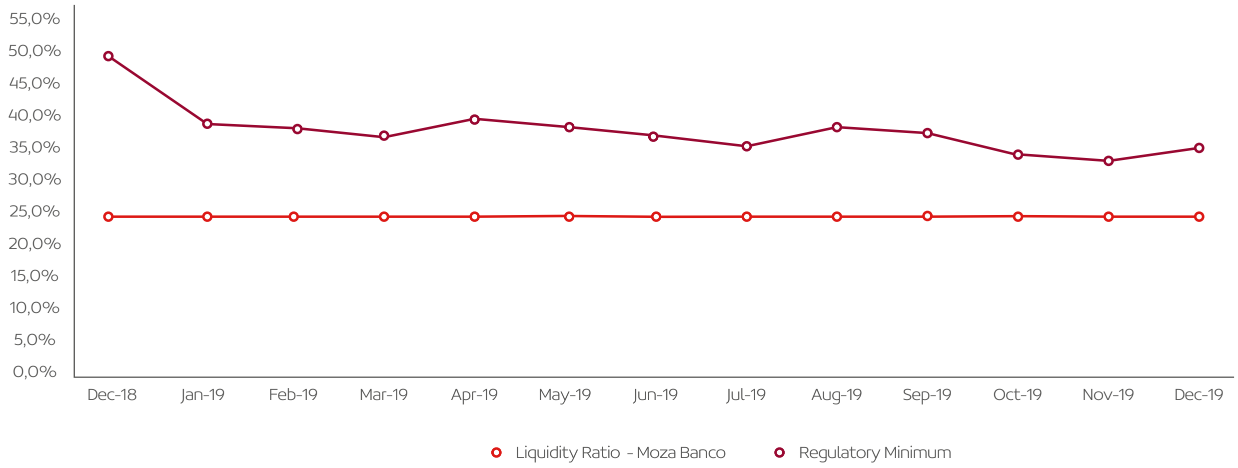
Throughout 2019, Moza Banco continued to post adequate solvency, with its solvency ratio at 23.84%, above the required Regulatory Limit (12.0%), which allows for the sustained development of commercial activity.

In MZN Million	2018	2019	Chg.
Total Regulatory Equity	4,853	6,424	32%
Tier I Equity	4,519	6,614	46%
Supplementary Equity	566	122	-79%
Other Deductions	-231	-312	35%
Risk Weighted Assets	22,365	26,950	21%
Core Capital Ratio (Tier I)	**25.66%**	**24.54%**	**-4.3%**
Solvency Ratio	**21.70%**	**23.84%**	**9.9%**

Liquidity

At the end of 2019, Moza Banco's liquidity ratio stood at 34.60% (minimum: 25%) showing that the Bank holds adequate liquidity in relation to requirements and benchmarks, allowing the Bank to cover the current and future risks to which its business may be subject.

Liquidity Ratio



12. Proposed Allocation of Results

12.1 Proposed Allocation of Results

Having regard to applicable law and the company's articles of association and subject to the approval of the General Meeting, the Board of Directors of Moza Banco, SA proposes that the loss for period 2019, amounting to Seven Hundred and Seventy-Five Million, Six Hundred and Thirty-Two Thousand, Five Hundred and Fourteen Meticais (MZN 775,632,514), be allocated to accumulated losses.

Thus, once the results have been allocated as proposed above, the structure of the shareholders' equity will be as follows:

		Proposal			
	Balance at 31.12.19	Legal Reserve	Dividends	Acumulated profit/(loss)	Balance at 31.12.19
Capital	3 ,943,250,000	-	-		3 ,943,250,000
Legal reserve	4,661,841,392	-	-		4,661,841,392
Share Premium	1,993,740,399	-	-		1,993,740,399
Profit/(Loss) of the previous period	(2,042,906,690)	-	-	(775,632,514)	(2,818,539,204)
Profit/(Loss)	(775,632,514)	-	-	775 632 514	-
	7 780 293 587				**7 780 293 587**

Financial Statements

Statement of Directors' Responsibility

The Directors are responsible for the proper preparation and presentation of the financial statements of Moza Banco, SA, which comprise the statement of financial position at 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards.

The Directors are also responsible for the internal control system set up to ensure that these Financial Statements are free from material misstatement, whether due to fraud or error, and for ensuring that proper accounting records are kept and an effective risk management system is in place.

The Directors carried out an assessment to determine whether the Bank is able to continue as a going concern and have no reasons to doubt that the Bank will continue to operate on that basis in the near future.

The auditor is responsible for reporting whether the Financial Statements are properly presented in accordance with International Financial Reporting Standards.

Approval of the Financial Statements

As Demonstrações Financeiras, conforme mencionado no primeiro parágrafo, foram aprovadas pelo Conselho de Administração em 30 de Março de 2020 e vão assinadas em seu nome, por:

Board Director

Dr. Victor Brazão

Chairman of the Board of Directors

Dr. João Figueiredo

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
Interest and similar income	4	4,633,960	4,413,360
Interest and similar charges	4	(2,306,942)	(2,555,828)
Net interest income	**4**	**2,327,018**	**1,857,532**
Fee and commission income	5	691,923	556,798
Fee and commission expense	5	(191,369)	(96,007)
Net fee and commission income	**5**	**500,554**	**460,791**
Net trading income	6	307,681	172,860
Operating income		**3,135,253**	**2,491,183**
Net impairment charge	17,19,20,21	(606,844)	(253,819)
Net operating income		**2,528,409**	**2,237,364**
Staff costs	7	(1,295,944)	(1,138,136)
Depreciation and amortisation	22,23,24	(655,198)	(381,112)
Other operating expenses	8	(1,365,764)	(1,471,531)
Other operating income	9	244,417	208,238
Provisions	10	(26,238)	(766)
Loss for the period before tax		**(570,318)**	**(545,943)**
Income tax			
Deferred tax	11	-	(55,000)
Corporate income tax - Levy in discharge	12	(205,315)	(167,460)
Loss for the period		**(775,633)**	**(768,403)**
Earnings per share	13	(0.98)	(1.39)
Basic	13	(0.98)	(1.39)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Moza Banco		
	Notes	2019	2018
Loss for the period		(775,633)	(768,403)
		-	-
		(775,633)	**(768,403)**

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

	Note	2019	2018
ASSETS			
Cash and balances with the Central Bank	14	619,563	794,999
Balances with banks	15	967,526	107,215
Placements with banks	16	6,493,273	5,007,735
Financial assets	17	3,794,181	7,902,812
Investments in subsidiaries	18	-	1,524,587
Loans and advances to customers	19	23,875,241	17,985,608
Other assets	20	926,067	1,052,459
Non-current assets held for sale	21	904,884	307,657
Investment properties	22	127,292	122,391
Tangible assets	23	3,602,743	1,135,369
Intangible assets	24	167,868	209,878
Current tax	25	243,677	165,583
Deferred tax	11	95,000	95,000
Total assets		**41,817,315**	**36,411,293**
LIABILITIES	26	979,852	866,915
Deposits from banks	27	29,346,124	24,893,226
Deposits and current accounts	28	293,051	93,153
Consigned funds	29	3,290,599	586,577
Other liabilities	30	118,557	870,026
Debenture loans	11	8,839	8,839
Deferred tax		**34,037,022**	**27,318,736**
Total liabilities			
	31	3,943,250	3,943,250
EQUITY	32	4,661,843	4,661,843
Share capital	32	1,993,740	1,993,740
Legal reserve		(2,042,907)	(737,873)
Share premium		(775,633)	(768,403)
Profit or loss brought forward		**7,780,293**	**9,092,557**
Losses for the period		**41,817,315**	**36,411,293**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Legal reserve	Fair value reserves	Share premium	Profit or loss brought forward	Loss for the period	Total equity
Balance at December 31, 2017	**13,841,250**	**61,548**	**(232,203)**	**-**	**(6,472,705)**		**7,197,890**
Adjustment for first-time application of IFRS 9	-	-	232,203	-	(737,873)	-	(505,670)
Balance at 1 January 2018	**13,841,250**	**61,548**	**-**	**-**	**(7,210,578)**	**-**	**6,692,220**
Increase in share capital	1,175,000	-	-	-	-	-	1,175,000
Absorption of loss	(6,472,705)	-	-	-	6,472,705	-	-
Reduction in par value	(4,600,295)	4,600,295	-	-	-	-	-
Share premium	-	-	-	1,993,740	-	-	1,993,740
Loss for the period	-	-	-	-	(768,403)	-	(768,403)
Balance at 01 January 2019	**3,943,250**	**4,661,843**	**-**	**1,993,740**	**(1,506,276)**	**-**	**9,092,557**
Merger reserve (*)	-	-	-	-	(536,631)	-	(536,631)
Loss for the period	-	-	-	-	-	(775,633)	(775,633)
Balance at 31 December 2019	**3,943,250**	**4,661,843**	**-**	**1,993,740**	**(2,042,907)**	**(775,633)**	**7,780,293**

(*) - Includes the loss for the year of BTM until the date of the merger.

STATEMENT OF CASH FLOWS AT 31 DECEMBER 2019

Cash flows from operating activities	2019	2018
	(775,633)	(713,403)
Loss before tax		
Adjustments to:		
Depreciation and amortisation	655,198	381,112
Impairment losses	606,844	253,819
Gains on disposal of tangible assets	-	(10,300)
	486,409	**(88,772)**
Movements in:		
Loans and advances	(6,626,140)	(3,453,852)
Financial assets	4,095,214	(2,814,772)
Other assets	319,043	(257,211)
Current tax assets	(78,094)	(49,808)
Non-current assets held for sale	(646,798)	8,627
Deposits from banks	112,937	6,933,119
Deposits and current accounts	4,452,898	851,435
Other liabilities	2,704,022	170,664
Net cash from operating activities	**4,819,491**	**1,299,430**
Cash flows from investing activities		
Investment property	(10,082)	-
Acquisition of tangible assets	(3,013,419)	(275,094)
Acquisition of intangible assets	(74,742)	(29,088)
Disposal of tangible and intangible assets	12,781	103,235
Investments in subsidiaries	1,524,587	(1,524,587)
Cash flows from investing activities	**(1,560,875)**	**(1,725,534)**
Cash flows from financing activities		
Increase in the share capital	-	3,168,740
Reserves	(536,631)	-
Reimbursement of consigned funds	199,898	507
Reimbursement of debenture loans	(751,469)	(115,098)
Cash flows from financing activities	**(1,088,202)**	**3,054,149**
Increase in cash and cash equivalents	2,170,414	2,628,046
Cash and cash equivalents at beginning of period	5,909,949	3,281,903
Cash and cash equivalents at end of period	**8,080,362**	**5,909,949**

Cash and Cash Equivalents are presented as follows:

	2019	2018
Cash and balances with the Central Bank	619,563	794,999
Balances with banks	967,526	107,215
Placements with banks	6,493,273	5,007,735
	8,080,362	**5,909,949**

1. Introduction

Moza Banco, S.A. (hereinafter "Moza Banco") is a Universal Retail Commercial Bank, established in 2007, with its registered office in Maputo. Its shareholders are KUHANHA-Sociedade Gestora do Fundo de Pensões do Banco de Moçambique, ARISE B.V, Moçambique Capitais, S.A., Novo Banco Africa S.G.P.S, S.A. (a Portuguese bank) and Mr. António Almeida Matias.

During the year ended 31 December 2019, Moza Banco and Banco Terra de Moçambique (BTM) merged and all BTM's assets, liabilities and contingent liabilities were absorbed by Moza Banco, following a set of synchronized plans aimed at ensuring the full integration of BTM's employees, organizational structure, facilities, processes, customers, products, assets and liabilities. Following the merger, Moza Banco now has 62 branches, consisting of 55 Moza Banco branches and 7 BTM branches (before the merger, the two banks had a combined total of 65 branches).

1.1. Basis of presentation

The Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS).

The Financial Statements of Moza Banco, S.A. for the year ended 31 December 2019 were approved by the Annual General Meeting held on 30 March 2020.

These are the first Financial Statements to be affected by the adoption of IFRS 16, Leases, and the absence of consolidation or group reporting, due to the merger by absorption of BTM into Moza Banco on 23 August 2019.

1.2. Functional and reporting currency

The metical is the Bank's functional currency and the Financial Statements are prepared and reported in this currency, rounded to thousands of meticais unless stated otherwise.

1.3. Use of estimates and judgements

In preparing the Financial Statements, the Management has used judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported values of assets, liabilities, earnings and expenses. Actual results may differ from the estimated results.

The underlying estimates and assumptions are reviewed continuously and any revisions of estimates are recognized prospectively. The main accounting estimates and judgements are as follows:

i) Judgements

The Bank uses judgment in setting the criteria for determining whether the credit risk of a financial asset has increased significantly since initial recognition, in determining the methodology for incorporating forward-looking information in the measurement of expected credit losses (ECL), and in selecting and approving the models used to measure ECL.

Lease term - the Bank is reasonably certain that it will exercise any options to extend lease agreements.

ii) Assumptions

Impairment of financial instruments – measured using the inputs to the ECL measurement model, which include forward-looking information;

Deferred tax assets – deferred tax assets are recognized based on the foreseeable availability of future taxable income against which reportable tax losses may be offset.

- **Notes 32.1** - Fair value of financial instruments;
- **Notes 11 and 12** - Income tax;
- **Note 1.4 (b) (ii)** - Classification of financial assets and the corporate valuation model;
- **Note 1.4 (f)** - Impairment of financial instruments;
- **Note 3.1** - How Moza Banco determines whether the credit risk of financial instruments has increased significantly since initial recognition.

1.4. Changes in accounting policies

i) IFRS 16, Leases

The Bank applied IFRS 16 using the simplified retrospective approach, in which the right-of-use asset is equal to the lease liability (the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application); in addition, there is no need to restate the comparative information.

The Bank applied IFRS 16 only to contracts previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 have not been reassessed to determine whether or not a lease exists under IFRS 16.

ii) Lessee

As lessee, the Bank leases several assets, most notably the premises in which the Bank's branches and headquarters operate.
Before the introduction of IFRS 16, the Bank classified its leases as operating leases under IAS 17, based on their lease value; it used to transfer most of all risks and rewards incidental to ownership of the underlying asset to the Bank.
Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for the lease of branches and offices on the balance sheet.

The Bank has opted not to recognise right-of-use assets and lease liabilities for low-value leases, and recognises the related lease payments as Third-Party

Supplies and Services ("FST") in the operating account.

In the transition, lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the initial application date. The right-of-use asset has been measured at the same value as the lease liability, in accordance with the simplified retrospective approach.

When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Bank used different practical instruments. Namely, the Bank:
- Did not recognise right-of-use assets and liabilities for leases whose term expired within 12 months of the date of initial application;
- Did not recognise right-of-use assets and liabilities for leases of low-value assets;
- Excluded the initial direct costs of measuring the right to use the asset at the date of initial application; and
- Used hindsight when determining the lease term.

iii) As lessor
- The Bank leases certain properties and classifies such leases as operating leases of investment property. Under IFRS 16, the Bank is not required to make any transition adjustments in respect of leases in which the Bank acts as lessor.

iv) Impact on the financial statements

With the adoption of IFRS 16, the Bank recognised right-of-use assets and lease liabilities, with no adjustment to retained earnings and accumulated losses. The transition impact is as follows:

Order	Description	Amount
1	Right-of-use assets	2,456,762
2	Lease liabilities	2,456,762

To measure the lease liabilities for leases that were classified as operating leases, the Bank has discounted lease payments using the incremental borrowing rate as of 1 January 2019.

1.5. Summary of main accounting policies

The main accounting policies applied in preparing the Financial Statements, which have been applied consistently over the years, are as follows:

a) Transactions in foreign currency

Transactions in foreign currency are recognised based on the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate prevailing at the reporting date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for interest, impairment and payments made during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are converted into the functional currency at the exchange rate prevailing on the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are converted using the spot exchange rate on the transaction date. Foreign currency differences arising on conversion are recognised in profit or loss.

b) Financial assets and liabilities

i) Initial recognition and measurement

Initially, the Bank recognises loans and advances, deposits, debt securities in issue and subordinated liabilities at the date on which they originate. Any other financial instrument (including regular purchases and sales of financial assets) is recognised on the trade date, which is the date on which the Bank becomes a party to the instrument's contractual provisions.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, the transaction costs that are directly attributable to its acquisition or issue.

The fair value of a financial instrument at initial recognition is normally the transaction price.

ii) Classification

Financial assets

At initial recognition, a financial asset is classified at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. A financial asset is measured at amortised cost if it meets the following conditions and is not designated at fair value through profit or loss:
- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as fair value through profit or loss:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are SPPI.

At initial recognition of a particular investment in equity instruments that are not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This option is made on an investment-by-investment basis.

Any other financial asset that does not fall into the above classifications is measured at fair value through profit or loss.

Furthermore, at initial recognition, the Bank may irrevocably designate a financial asset that would otherwise meet the conditions for measurement at amortised cost as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

iii) Business assessment model

The Bank assess the purpose of the business model within which an asset is held at the portfolio level, considering that this better reflects how the business is managed and information is provided to Management.
The information considered includes:

- the stated policies and purposes for the portfolio and how those policies operate in practice. In particular, whether the management strategy is focused on earning contractual interest income by keeping a specified interest rate profile, combining the duration of financial assets with the duration of the liabilities that will finance those assets, or on realising cash flows by selling the assets;
- how the portfolio's performance is assessed and reported to the Bank's Management;
- the risks that affect the performance of the business model (and of the financial assets held within that business model) and the strategy for managing those risks;
- how business managers are remunerated (for example, whether the remuneration is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in previous periods, the reasons for those sales and expectations about future sales activity. However, information on sales activity is not considered separately but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how the cash flows are obtained.

The Bank's retail and corporate banking activities cover mainly loans to customers, which are held in order to collect contractual cash flows. In retail banking, loans include housing loans, overdrafts, mortgage-free consumer loans, and credit card facilities. Sales of loans from these portfolios are very rare.

Debt securities are held by the Bank in a separate portfolio with the objective of receiving cash flows over the life of the securities. Although debt securities may be sold, such sales are not common.
The Bank considers that these securities are held within a business model whose objective is to hold assets in order to collect contractual cash flows.

Financial assets that are held for trading or managed and whose performance is assessed on the basis of their fair value are measured at fair value through profit or loss on the grounds that they are not held to collect contractual cash flows nor to collectcontractual cash flows and sell financial assets.

iv) Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is the fair value of the financial asset at initial recognition. 'Interest' consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.
In determining whether contractual cash flows are SPPI, the Bank takes the contractual terms of the instrument into consideration. This involves assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows so that they are not SPPI. In making this assessment, the Bank takes into consideration:

- contingent events that would change the amount or timing of cash flows;
- other resources;
- advance payment and extension terms;
- terms that limit the Bank's claim to the cash flows of specific assets (for example, non-recourse loans); and
- resources that change the time value of money (for example, where the interest rate is periodically defined).

The Bank holds a portfolio of variable-rate loans for which the Bank has the option of proposing an interest rate review at periodic reset dates. This review right is limited to the market rate at the time of the review.

The Bank has determined that the contractual cash flows of these loans are SPPI, as the option changes the interest rate so that it represents consideration for the time value of money, for the credit risk, other basic loan risks and costs associated with the total outstanding principal.

c) Reclassifications

Unless the Bank has changed its business model for managing financial assets, financial assets are not reclassified after initial recognition.

d) Derecognition

i) Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the part derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognised in comprehensive income is recognised in profit or loss.

On derecognition of equity securities designated at fair value through other comprehensive income, any cumulative gain or loss previously recognised in other comprehensive income in respect of those securities is not recognised in profit or loss. Any interest created or retained by the Bank in transferred financial assets that qualify for derecognition is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position but retains all or substantially all the risks and rewards of the transferred assets or part of them. In such cases, the transferred assets are not derecognised. Examples of such transactions include securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to sale and repurchase transactions, on the grounds that the Bank retains all or substantially all the risks and rewards of ownership of the assets.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control of the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, as determined by the extent to which it is exposed to changes in the value of the transferred asset.

An asset or liability is recognised for a service agreement if the service charge is more than sufficient (asset) or less than sufficient (liability) for the provision of the service.

e) Financial liabilities

The Bank derecognises a financial liability when the contractual obligations are discharged or cancelled. or expire.

f) Changes of financial assets and liabilities

i) Financial assets

If the terms of a financial asset are changed, the Bank assesses whether the cash flows of the changed asset are substantially different.

If the cash flows are substantially different, the contractual rights to the cash flows of the original financial asset are considered to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:
- costs that are considered in determining the fair value of the new asset and the costs representing the reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other costs are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows are modified when the borrower is in financial difficulties, the purpose of the change is usually to maximise recovery of the original contractual terms rather than to create a new asset with substantially different terms. If the Bank intends to modification a financial asset in a way that would result in a loss of cash flows, the Bank initially considers whether part of the asset should be written off before the asset is modified (see write-off policy below). This approach affects the outcome of the quantitative assessment and means that the derecognition criteria are generally not met in these cases.

If the modification of a financial asset measured at amortised cost or at fair value through other comprehensive income does not result in derecognition of the financial asset, the Bank initially recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market conditions at the time of the modification. Any costs or fees incurred and any fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If the asset is modified due to financial difficulties of the borrower, the gain or cost is presented together with the impairment costs. In other cases, the gain or cost is presented as interest income calculated using the effective interest rate method.

ii) Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss. The consideration paid includes any non-financial assets transferred and any liabilities assumed, including the new modified financial liability.

If the modification of a financial liability is not accounted for derecognition, the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the gain or loss on modification is adjusted to reflect current market conditions at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and is amortised over the remaining term of the modified financial liability using the recalculated effective interest rate on the instrument.

iii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenue and costs are reported net only when International Financial Reporting Standards (IFRS) so permit and when the revenue and costs arise from similar transactions of the Bank in its operating activity.

iv) Fair value measurement

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

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if the frequency and size of the transactions for the relevant asset or liability are sufficient to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is usually the transaction price – that is, the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is shown neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are considered to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not after the assessment is wholly supported by observable market data or the transaction is terminated.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

g) Impairment allowances

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date;
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the credit risk exemption to any other financial instruments

12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL allowance is recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which lifetime ECL are recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and which are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

Expected credit losses are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity 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: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as 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 expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The following rates are used to discount future cash flows:

- Other financial assets that are not credit-impaired at the reporting date or at initial recognition, financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- Unused loan commitments: the effective interest rate, or an approximation thereof, that would be applied to the financial asset resulting from the loan commitment;
- Financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows; and
- Credit-impaired financial assets: the credit-adjusted effective interest rate.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced by a new one because of financial difficulties of the borrower, the Bank assesses whether the financial asset should be derecognised and the ECL are measured as follows:

- If the expected restructuring fails to result in derecognition of the existing asset, then the expected the expected cash flows arising from the modified financial assete are included in calculating the cash flow shortfalls of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is recognised as the final cash flow of the financial asset at the time of its derecognition. This value is included when calculating the cash shortfalls of the existing financial asset. These are discounted from the expected derecognition date to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether the financial assets carried at amortised cost, debt financial assets carried at fair value through other comprehensive income and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets').

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank has considered the following factors:

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention,
- reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of the allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; loan commitments and financial guarantee contracts: generally, as an allowance;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Derecognition

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial guarantee contracts held

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

h) Recognition of revenue and expenses

Revenue is recognised when it is probable that future economic benefits will flow to the Bank and those benefits can be reliably measured. The criteria for revenue recognition for each account item are as follows:

i) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

j) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

k) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

l) Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Other interest income presented in the statement of profit and loss and other comprehensive income includes interest income on lease receivables.

Interest expense presented in the statement of profit and loss and other comprehensive income includes financial liabilities measured at amortised cost.

Interest income and expenses on other financial assets and liabilities at fair value through profit or loss are presented in net income from other financial instruments at fair value through profit and loss.

Fee and commission income

- The Bank earns fee and commission income from the various services it provides to its customers. Fee and commission income can be divided into the following two categories:

Fees charged for the services that are provided over a certain period of time

- The income is earned as the services are provided is recognised as income in the period in which the services are provided. It includes amounts charged for services such as the issuance of bank guarantees and letters of credit.

Fees charged for the provision of services

- Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when the service is provided.
- Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

- Net trading income includes gains and losses arising from transactions in foreign currency and conversion of monetary items in foreign currency. The Bank also recognises fair value gains and losses.

m) IFRS 16 - Leases (policy effective from 1 January 2019)

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At commencement of a contract, the Bank assesses whether a contract is, or contains, a lease, based on the definition of a lease in IFRS 16: a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

i) Bank acting as lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank uses in general its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) Bank acting as lessor

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to Moza Bank. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:
- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

n) Cash and cash equivalents

Cash and cash equivalents, as presented in the statement of cash flows, comprise cash, current accounts with the Central Bank and other banks and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

o) Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their balance sheet value is expected to be recovered mainly through a sale transaction and a sale is considered highly probable. For an asset (or disposal group) to be classified as held for sale, the following requirements must be met:

1) The sale is considered highly probable;
2) The asset is available for sale in its current state;
3) The sale is expected to take place within one year of the asset's being classified as held for sale.

Assets recognised as held for sale are not depreciated but are measured at the lower of cost and fair value less costs to sell. The fair value of these assets is determined based on valuations carried out by specialised bodies.

Management undertakes to make every effort to ensure that the sale takes place within one year of the date of classification in this category.

p) Tangible assets

- Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Ongoing repairs and maintenance are expensed as incurred. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. The estimated useful lives of property and equipment are as follows:

	Years
Buildings	25
Leased buildings	10
Equipment	10
Other	4-5

The Bank regularly assesses the appropriateness of the estimated useful lives of its property and equipment. Changes in assets' expected useful lives are recognised by changing the depreciation period or method as appropriate and are recognised as changes in accounting estimates.

- **Investment property**

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss within other income. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

q) Intangible assets

Intangible assets, which include software (licences) acquired by the Bank, are recorded at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate that: the product is technically and commercially feasible, its intention and ability to generate future economic benefits, and it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software is three to five years.

r) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes and therefore has accounted for them under IAS 37.

i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years.

The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received. It is measured using the legal tax rate in force at the reporting date.

Current tax is calculated on the basis of the taxable profit for the year, which differs from accounting profit owing to adjustments to taxable income resulting from expenses or income that is not relevant for tax purposes or that will only be considered in other accounting periods.

Current tax assets and liabilities may be offset if certain conditions are met.

ii) Deferred taxes

Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, using tax rates (and tax laws) enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if certain conditions are met.

s) Employee benefits

i) Short-term benefits

Short-term benefits include salaries, accrued holiday pay, variable pay, gratuities and other non-monetary benefits such as contributions to medical care. Obligations to pay short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid, under cash bonus plans or accrued holidays, if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Termination benefits

Termination benefits are expensed when the Bank is committed to terminating the employment of current employees, before their normal retirement date, according to a detailed formal plan without possibility of withdrawal, or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

t) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments.

u) Deposits, debt securities in issue and subordinated liabilities

Deposits, debt securities in issue and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the consideration received is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits, debt securities in issue and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss (FVTPL).

When the Bank designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in other comprehensive income (OCI) as a liability credit reserve.

On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in the fair value of instruments whose characteristics are economically related to the characteristics of the liability.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

v) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under predetermined terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

w) Share capital and reserves

i. Other equity instruments

The Bank classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

ii. Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

x) Common control transactions

The Bank accounts for common control transactions using book value accounting (transfer basis). This method is also applied in the separate financial statements of the acquirer if it acquires assets and liabilities that constitute a business under IFRS 3 (from an entity under common control), rather than acquiring shares in that business.

When applying book value accounting, an adjustment to equity may be required to reflect any difference between the consideration paid and the capital of the acquiree. The following approaches are possible for recognising the adjustment:

- Reflect the adjustment in an equity account called "Merger" or similar;
- Reflect the adjustment in retained earnings.

The Bank has opted to reflect the adjustment in an equity account called "Merger reserve".

2. Accounting standards issued but not implemented.

A number of other new standards were effective from 1 January 2019 but had no material impact on the Bank's financial statements.

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3).
- IFRS 17 Insurance contracts

3. Risk management, objectives and policies

Risk management is a crucial in all institutions and comprises a series of activities that affect their risk profile. It consists of continually identifying and analysing the exposure to different types of risk (credit, liquidity, interest rate, exchange rate, operational, IT, compliance and strategic) and implementing strategies designed to maximise profit in the face of those risks, within pre-established and duly supervised restrictions.

In carrying out its day-to-day activities, the Bank is exposed to different financial and non-financial risks. Having a management structure capable of optimising the relationship between maximising returns and minimising risks is therefore a primary objective for the Bank, essentially with a view to preserving its soundness.

The Bank's risk management policies cover the definition, management structure, management responsibilities, overall risk management strategy, operational model and monitoring mechanism for the various risks, with the aim of setting limits to risk and establishing controls in line with the limits set by the regulator. The Bank reviews its risk management policies and systems regularly to reflect changes in markets, products and best practice.

Responsibility for risk management lies with the Risk Department, subject to the policies approved by the Management and the regulations issued by the regulator. The Risk Department follows the Risk Management Guidelines (Notice 04/GBM/2013) in establishing the risk management methodology for defining, identifying, measuring and monitoring financial and non-financial risks, in coordination with the business units. The Management approves the overall risk management principles and policies. It also approves the risk appetite to which the Bank must adhere.

The most important risks the Risk Department analyses and controls are credit risk, liquidity risk, market risk (interest rate risk, exchange rate risk) and operational risk.

The following sections provide a qualitative overview of the Bank's risk management:

3.1. Credit risk

Credit risk is the possibility of adverse impacts on earnings or capital due to a counterparty's failure to meet its financial commitments to the institution. Credit risk exists mainly in credit loan exposures, credit lines, financial assets, guarantees and derivatives. It arises from the Bank's relationship with individuals, companies, financial institutions and sovereigns.

While credit exposures arise from loans and advances, the Bank may also be exposed to other credit risks. These other risks relate to loan commitments, contingent liabilities, debt securities and other risks arising in the course of trading activities. These risks are managed in much the same way as the risks of loans and advances to customers and are subject to the same or similar approval and control processes.

The Bank has policies, procedures and processes for controlling and monitoring credit risk.

Maximum exposure to credit risk per class of financial asset

For financial assets recognised in the statement of financial position, the credit risk exposure is equal to the assets' carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee were called. For loan commitments and other credit-related commitments that are irrevocable during the life of the facility, the maximum exposure to credit risk is the undrawn amount of the committed facility.

The following table shows the maximum exposure as of 31 December in relation to credit risk on the statement of financial position and off-balance-sheet financial instruments, without taking any collateral into account. The Bank only holds collateral for loans to customers (loans and advances to customers, guarantees provided and letters of credit) and the collateral consists mainly of mortgages on properties, pledges of deposits (demand and term deposits) and pledges of equipment.

	Moza Banco	
	2019	**2018**
Credit risk exposure of on-balance-sheet items		
Cash and balances with the Central Bank	619,563	794,999
Balances with banks	967,526	107,215
Placements with banks	6,493,273	5,007,735
Financial assets	3,794,181	7,902,812
Loans and advances to customers	23,875,241	17,985,608
Other assets	64,267	528,627
	35,814,051	**32,326,996**
Credit risk exposure of off-balance-sheet items		
Guarantees	5,977,485	5,774,739
Letters of credit	555,366	931,567
	6,532,851	**6,706,306**
	42,346,902	**39,033,302**

Credit quality:

To disclose the Bank's credit quality, the financial instruments have been classified as follows:

2019	Stage 1	Stage 2	Stage 3	Total
Cash and balances with the Central Bank	619,563	-	-	619,563
Balances with banks	967,526	-	-	967,526
Placements with banks	6,493,273	-	-	6,493,273
Financial assets	3,794,181	-	-	3,794,181
Loans and advances to customers	14,105,166	5,679,743	4,090,332	23,875,241
Other assets	64,267	-	-	64,267
	26,043,976	**5,679,743**	**4,090,332**	**35,814,051**

2018	Stage 1	Stage 2	Stage 3	Total
Cash and balances with the Central Bank	794,999	-	-	794,999
Balances with banks	107,215	-	-	107,215
Placements with banks	5,007,735	-	-	5,007,735
Financial assets	7,902,812	-	-	7,902,812
Loans and advances to customers	19,632,611	2,225,883	(3,872,886)	17,985,608
Other assets	528,627	-	-	528,627
	33,973,999	**2,225,883**	**(3,872,886)**	**32,326,996**

In relation to loans and advances to customers, the Bank's credit quality is presented as follows:

2019	Gross amount	Impairment allowance	Net exposure
Performing loans	19,183,875	(560,222)	18,623,653
Past-due loans	9,412,548	(4,160,960)	5,251,588
Past-due exposure	3,603,457	-	3,603,457
Exposure with evidence of impairment	5,809,091	-	5,809,091
	28,596,423	**(4,721,182)**	**23,875,241**

2018	Gross amount	Impairment allowance	Net exposure
Performing loans	14,590,553	(1,469,252)	13,121,301
Past-due loans	7,267,941	(2,403,634)	4,864,307
Past-due exposure	2,225,883	(1,469,252)	756,631
Exposure with evidence of impairment	5,042,058	(934,382)	4,107,676
	21,858,494	**(3,872,886)**	**17,985,608**

Non-performing loans include the total exposure to customers with past-due balances, both the performing and the non-performing exposures.

Expected credit losses

The table below shows the movements in the loss allowances for credit impairment over the year:

Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	2019	2018
Balance at 1 January 2019	**262,589**	**761,036**	**2,849,261**	**3,872,886**	**2,947,332**
Transfer to Stage 1	(13,739)	(94,408)	(40,950)	(149,097)	-
Transfer to Stage 2	113,879	(193,087)	(70,160)	(149,368)	-
Transfer to Stage 3	100,606	418,010	222,792	741,409	-
Increases	435,871	1,058,172	979,657	2,473,700	1,060,507
New additions	366,408	-	-	366,408	-
Reductions	(766,129)	(886,346)	(236,567)	(1,889,042)	(771,403)
Write-offs	-	-	(102,770)	(102,770)	(91,938)
Impact of IFRS 9	-	-	-	-	728,388
Balance at 31 December 2019	**298,739**	**932,862**	**3,489,581**	**4,721,182**	**3,872,886**

The table below shows the movements in the loss allowances for loan commitments and financial guarantee contracts over the year:

Loan commitments and financial guarantee contracts	2019	2018
Balance at 1 January 2019	**37,881**	**24,117**
Increases	24,479	30,149
Reversals	(20,475)	(16,385)
Balance at 31 December 2019	**41,885**	**37,881**

The table below shows the net exposure of the loan portfolio (loans and advances to customers) by stage of impairment (Bank's internal rating):

2019	Stage 1	Stage 2	Stage 3	Valor
Performing	14,105,166	-	-	14,105,166
Non-performing but not impaired	-	5,679,743	-	5,679,743
Non-performing	-	-	4,090,332	4,090,332
	14,105,166	**5,679,743**	**4,090,332**	**23,875,241**

2018	Stage 1	Stage 2	Stage 3	Valor
Em cumprimento	10,768,055	-	-	10,768,055
Em incumprimento mas sem imparidade	-	3,400,490	-	3,400,490
Em incumprimento	-	-	3,817,063	3,817,063
	10,768,055	**3,400,490**	**3,817,063**	**17,985,608**

The table below shows the net exposure of cash, balances with the Central Bank and banks and placements with banks by stage of impairment (Bank's internal rating).

	Stage 1	Stage 2	Stage 3	2019	2018
Cash and balances with the Central Bank	619,563	-	-	619,563	794,999
Balances with banks	967,526	-	-	967,526	107,215
Placements with banks	6,493,273	-	-	6,493,273	5,007,735
	8,080,362	**-**	**-**	**8,080,362**	**5,909,949**

Collateral and other credit enhancements

The amount and type of collateral required depends on the asset offered and/or an assessment of the counterparty credit risk. The main types of collateral taken are as follows:

- Pledge of deposits (demand and term deposits) held at the Bank;
- Guarantees given by the State;
- Guarantees given by other banks;
- Mortgages on property (housing, industrial or commercial buildings, cars, etc.);
- Pledge of equipment;
- Indemnity and/or guarantee of members/shareholders and/or third parties.

Analysis of the exposure to collateral and other credit guarantees for the Bank:

2019	Maximum exposure to credit risk	Deposits	Letters of credit/ bank guarantees	Mortgages	Other	Net guarantees	Net exposure
Cash and balances with the Central Bank	619,563	-	-	-	-	-	619,563
Balances with banks	967,526	-	-	-	-	-	967,526
Placements with banks	6,493,273	-	-	-	-	-	6,493,273
Financial assets	3,794,181	-	-	-	-		3,794,181
Loans and advances to customers							
Large enterprises	11,809,527	52,703	-	2,855,275	621,723	2,188,409	9,621,118
Small enterprises	8,454,710	528,385	4,137	9,673,825	277,721	-	8,454,710
Individuals	3,610,308	423,228	-	1,853,038	15,994	-	3,610,308
Other	696	-	-	-	-	-	696
Other assets	64,267	-	-	-	-	-	64,267
	35,814,051	**1,004,316**	**4,137**	**14,382,138**	**915,438**	**2,188,409**	**33,625,642**

2018	Maximum exposure to credit risk	Deposits	Letters of credit/ bank guarantees	Mortgages	Other	Net guarantees	Net exposure
Cash and balances with the Central Bank	794,999	-	-	-	-	-	794,999
Balances with banks	107,215	-	-	-	-	-	107,215
Placements with banks	5,007,735	-	-	-	-	-	5,007,735
Financial assets	7,902,812	-	-	-	-	-	7,902,812
Loans and advances to customers							-
Large enterprises	8,615,428	175,044	-	1,627,307	959,086	2,761,437	5,853,991
Small enterprises	4,872,798	555,496	-	3,501,569	168,499	4,225,564	647,234
Individuals	2,730,147	483,566	-	1,654,813	423,977	2,562,356	167,791
Other	1,767,235	1,630	-	-	129,563	131,193	1,636,042
Other assets	528,627	-	-	-	-	-	528,627
	32,326,996	**1,215,736**	**-**	**6,783,689**	**1,681,125**	**9,680,550**	**22,646,446**

The table below shows the carrying amounts and the value of identifiable collateral (mainly property) held against loans and advances. For each loan, the stated value of the property is limited to the nominal amount against which the collateral is held:

	2019			2018		
	Carrying amount	Mortgaged property	Pledged deposit	Amount	Mortgaged property	Pledged deposit
Stages 1 and 2	20,657,960	11,111,316	912,811	14,217,585	4,522,911	1,023,645
Stage 3	8,001,364	3,270,823	91,504	6,307,026	2,053,273	26,184
	28,659,324	**14,382,139**	**1,004,315**	**20,524,611**	**6,576,184**	**1,049,829**

Assets acquired through taking ownership of collateral

Details of the financial and non-financial assets acquired by the Bank during the year through taking ownership of collateral held for loans and advances at the end of the year are presented below.

	2019	2018
Buildings	1,114,610	470,184
	1,116,629	**472,202**

Significant increase in credit risk:

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The assessment is aimed at checking whether a significant increase in credit risk has occurred for an exposure 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 (adjusted where appropriate for changes in prepayment expectations).

The Bank uses the following criteria for determining whether there has been a significant increase in credit risk:

- a backstop of 30 days past due.
- Qualitative indicators.

Credit risk grades

The Bank allocates each exposure to a credit risk rating based on different data considered as predictive of the risk of default and applying qualitative credit analysis. The ratings are different depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk rating on initial recognition and subsequently is subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk rating. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes - Data from credit reference agencies, press articles, changes in external credit ratings - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	- Internally collected data on customer behaviour – e.g. use of credit card facilities - Affordability metrics - External data from credit reference agencies	- Payment record – this includes overdue status as well as a range of variables about payment ratios - Use of the granted limit - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

The number of days past due is a primary input in determining the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower segment.
The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

As a general indicator, the credit risk of a particular exposure is deemed to have increased significantly since initial recognition when, for a loan, the asset is 30 days or more past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that a significant increase in credit risk relative to initial recognition no longer exists, then the loss allowance on an instrument returns to being measured at 12-month ECL.

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank establishes a probation period during which the financial asset is required to perform well to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank prepares three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information taken into account covers economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates and by supranational organisations.

The scenario probability weightings applied in measuring ECL are as follows.

	2019			2018		
At 31 December 2019	**High**	**Medium**	**Low**	**High**	**Medium**	**Low**
Probability of scenarios	20%	60%	20%	20%	60%	20%

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least once a year on the design of the scenarios by a panel of experts that advises the Bank's Management.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses
The key drivers for credit risk are: GDP growth and interest rates. The Bank estimates each key driver for credit risk over the 3-year active forecast period.

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding preparation of forward-looking scenarios and how such scenarios are incorporated into the calculations.

The table below shows the loss allowance on loans and advances to corporate and retail customers assuming each forward-looking scenario (e.g. central, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios.

	2019			2018		
	Upside scenario	**Central scenario**	**Downside scenario**	**Amount**	**Mortgaged property**	**Pledged deposit**
Gross exposure	**28,659,324**	**28,659,324**	**28,659,324**	**21,858,494**	**21,858,494**	**21,858,494**
Corporate	8,362,255	8,362,255	8,362,255	7,008,747	7,008,747	7,008,747
Retail-Company	10,630,040	10,630,040	10,630,040	6,554,895	6,554,895	6,554,895
Private	589,599	589,599	589,599	607,763	607,763	607,763
Public body	4,893,000	4,893,000	4,893,000	2,941,182	2,941,182	2,941,182
Retail-Individual	4,184,430	4,184,430	4,184,430	4,745,907	4,745,907	4,745,907
Expected losses	**4,613,174**	**4,634,930**	**4,653,381**	**5,307,682**	**5,330,440**	**5,349,897**
Corporate	1,441,494	1,448,911	1,455,399	2,782,821	2,790,542	2,797,234
Retail-Company	2,048,540	2,060,263	2,070,001	1,655,211	1,665,466	1,674,089
Private	113,328	114,043	114,650	86,170	87,166	88,011
Public body	5,375	5,755	6,090	53,918	56,579	58,926
Retail-Individual	1,004,437	1,005,958	1,007,241	729,562	730,687	731,637

Stage 2 financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- lease receivables; and
- loans and advances

For these instruments, the Bank measures loss allowances at an amount equal to lifetime ECL.

The Bank does not apply the low credit risk exemption to any financial instruments
12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of the estimated future cash flows;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of the

estimated future cash flows;
- undrawn loan commitments and financial guarantee contracts: as 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 the Bank expects to receive.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or if an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

Stage 3 financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset falls in Satge 3 includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or past due event;
- the restructuring loan or advance by the Bank on terms that the Bank would not consider otherwise;
- high probability that the customer will enter bankruptcy or other financial reorganisation; or
- an active market for that financial asset has disappeared because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to fall in Stage 3 credit unless there is evidence that the risk of not receiving contractual cash flows has decreased significantly and there are no other indicators of impairment. In addition, a loan that is 90 days or more past due is considered a Stage 3 credit even when the regulatory definition of default is different.
- In making an assessment of whether an investment in sovereign debt is a Stage 3 credit, the Bank considers the following factors.
- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an in-depth assessment of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of the allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the ECL over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve

Write-off

Loans and debt securities are written off (either partially or wholly) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss as a reversal.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial guarantee contracts held

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:
- the collateral/guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by a company within the borrower's group.

Objective evidence of credit impairment

At each reporting date, the Bank assesses whether there is objective evidence that assets not held at FVTPL are credit-impaired. A financial asset or group of financial assets is considered to be credit-impaired when objective evidence shows that a loss event has occurred since initial recognition of the asset and that the loss event has had an impact on the future cash flows of the asset that can be estimated reliably.

In addition, a loan or advance that is 90 days or more past due may also be considered impaired.
Evidence that financial assets are impaired include:

- significant financial difficulty of the borrower or issuer;
- default of the borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indicators that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Credit-impaired financial assets

The Bank regularly assess whether there is objective evidence that a financial asset or portfolio of financial assets carried at amortised cost is credit-impaired. A financial asset or portfolio of financial assets is credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment, at the reporting date, as a result of one or more loss events that have occurred since initial recognition of the asset and the loss event has had an impact on the estimated future cash flows of the financial asset or portfolio that can be estimated reliably.

The criteria the Bank uses to determine whether there is objective evidence of impairment include:

- financial difficulties of the customer;
- a breach of contract, such as a default;
- the existence strong evidence that the borrower will enter bankruptcy or other major financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicate that there has been a measurable decrease in the estimated future cash flows of a group of financial assets since initial recognition, even though the decrease has not yet been traced to individual assets in the portfolio, including:

  i. adverse changes in the payment status of the borrowers in the portfolio;

  ii. local or national economic conditions related to a depreciation of the portfolio of assets;

  iii. decline in the value of collateral; and

  iv. deterioration of the borrower's position.

Under the Bank's lending policy, a borrower is considered to be in default when in the Bank's judgement:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security held;
- the borrower is in breach of any of the terms of the loan agreement, such as failing to meet certain financial covenants.

The Bank first assesses whether there is objective evidence of impairment at the individual asset level for individually significant financial assets; and at both an individual asset and a collective level for financial assets that are not individually significant.

For loans and advances and held-to-maturity assets, the impairment loss is measured as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, irrespective of whether foreclosure is probable.

The methodology and assumptions used for estimating future cash flows are reviewed periodically to reduce any differences between loss estimates and actual loss experience.

Calculation of impairment of the loan portfolio

To calculate impairment losses, the portfolio is broken down into segments (retail, corporate and private). Each segment is assigned a risk weight according to PD, lifetime PD, lifetime LGD and LGD, which are based on historical data for the last five years.

The portfolio is also broken down by impairment level as described below:

- Stage 01 - All loans between 0 and 30 days past due;
- Stage 02 - Past-due loans (loans between 31 and 90 days past due)
- Stage 03 - Defaulted loans (loans more than 90 days past due - undrawn).

In addition the 'contamination' effect is taken into account: loans are contaminated by the most serious classes, involving the gradual development of the less serious loans to the next lower stage.

Restructured loans are included in Stage 2, but if they remain current for an uninterrupted period of nine months, they are treated as performing and are transferred to Stage 1.

The Bank's total exposure is calculated as the sum of on-balance-sheet positions, off-balance-sheet items and any cash flows the Bank expects to receive. The total exposure is multiplied by a credit conversion factor (CCF) to obtain the exposure at default (EAD).

The ECL for each period in the life of the loan are calculated by multiplying LGD and PD by EAD. Calculating the ECL therefore requires an estimate of the expected balance of a transaction at the date of default.

Collateral

In calculating impairment losses, the Bank also takes collateral into account. Collateral consisting of local government guarantees and financing has a risk weight of 100%. Term deposits in domestic currency with no maturity mismatch also carry a risk weight of 100%. A haircut is applied to the market value of property: 25% on mortgaged residential property, 50% on commercial property and 75% on equipment and vehicles.

Macroeconomic scenarios

Under IFRS 9, the calculation of ECL must include reasonable, documented projections of future events and economic conditions at the reporting date. This forward-looking macroeconomic information should allow the Bank to adjust its impairment losses according to the economic situation, resulting in the following scenarios: central scenario with a 60% weighting, and an upside and a downside scenario, each with a weighting of 20%.

Impairment losses are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows due under the contract and the cash flows the Bank expects to receive, discounted at the original effective interest rate. Since ECL take the amount and timing of payments into account, a credit loss arises even when the Bank expects to receive the full amount but in a later period than stipulated in the contract. In this case, the impairment loss will be the average of the ECL in the three scenarios resulting from the economic projections.

Impairment of the loan portfolio

Impairment losses are calculated using Moody's country classification:

- PDs are estimated using S&P's global corporate/sovereign cumulative default rates;
- PDs are adjusted using the macroeconomic model used for the Corporate Performing credit portfolio;
- An LGD of 45% is applied in line with the Basel LGDs applied to sovereign portfolios;
- The loss is expected to occur in the middle of the default period and is discounted using the effective interest rate.

Derecognition

The Bank recognises an impairment allowance, recorded against profit, for the loss incurred in the loan portfolio. After an advance has been identified as impaired and an impairment allowance has been recorded, the next stage is when it is concluded that there is no realistic prospect of recovery.

Derecognition occurs when all or part of a debt is considered uncollectible. The timing and extent of write-offs may involve an element of subjective judgement. However, a write-off will always be preceded by a specific event, such as the commencement of insolvency proceedings or some other formal recovery action, which confirms that part of all of the debt is beyond any realistic prospect of recovery.

Such assets are written off only when all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a deduction from the credit impairment charge in the income statement.

A breakdown of credit-impaired loans and advances to customers is provided below:

2019	Carrying amount	Impairment losses on loans	Net amount
Retail	5,053,706	723,000	4,330,706
Civil construction	1,463,576	676,930	786,646
Energy	295,636	1,026	294,610
Tourism	686,447	65,649	620,798
Manufacturing	3,592,194	677,906	2,914,288
Individuals	4,754,346	1,164,474	3,589,872
Services	10,397,320	1,123,575	9,273,745
Transport and communications	1,658,670	152,003	1,506,667
Agriculture and fishing	545,813	115,390	430,423
Other	148,715	21,229	127,486
	28,596,423	**4,721,182**	**23,875,241**

2018	Carrying amount	Impairment losses on loans	Net amount
Retail	4,133,497	597,183	3,536,314
Civil construction	1,220,801	333,860	886,941
Energy	374,981	1,824	373,157
Tourism	670,535	140,261	530,274
Manufacturing	2,312,998	610,231	1,702,767
Individuals	3,660,226	816,592	2,843,634
Services	7,670,831	1,105,028	6,565,803
Transport and communications	1,692,269	215,506	1,476,763
Agriculture and fishing	101,315	48,731	52,584
Other	21,041	3,670	17,371
	21,858,494	**3,872,886**	**17,985,608**

Concentrations of credit risk

Credit risk concentration exists when a number of counterparties are engaged in similar activities or have similar economic characteristics, so that their ability to meet contractual obligations could be weakened by the same set of adverse circumstances. The concentrations of credit risk described below are not proportionally related to credit losses. Some segments of the Bank's portfolio have, and are expected to have, proportionally higher credit rates in relation to the exposure than others.

A breakdown of the Bank's credit risk concentrations by industry is provided below.

2019	Cash and balances with the Central Bank	Balances with banks	Placements with banks	Financial assets	Loans and advances to customers	Other assets	Total
Government	-	-	-	3,603,104	1,470,893	-	5,073,997
Insurance	-	-	-	23,263	52	-	23,315
Financial	619,563	967,526	6,493,273	12,655	30,359	-	8,123,376
Retail	-	-	-	-	4,330,680	-	4,330,680
Civil construction	-	-	-	-	786,646	-	786,646
Energy	-	-	-	-	294,610	-	294,610
Tourism	-	-	-	-	620,798	-	620,798
Manufacturing	-	-	-	-	2,914,289	-	2,914,289
Individuals	-	-	-	-	3,589,872	-	3,589,872
Services	-	-	-	-	7,802,656	-	7,802,656
Transport and communications	-	-	-	155,159	1,506,667	-	1,661,826
Agriculture and fishing	-	-	-	-	430,423	-	430,423
Other	-	-	-	-	97,296	64,267	161,563
	619,563	**967,526**	**6,493,273**	**3,794,181**	**23,875,241**	**64,267**	**35,814,051**

2018	Cash and balances with the Central Bank	Balances with banks	Placements with banks	Financial assets	Loans and advances to customers	Other assets	Total
Government	-	-	-	7,717,346	769,739	-	8,487,085
Insurance	-	-	-	23,263	93	-	23,356
Financial	272,562	107,215	5,007,735	6,327	5,220	-	5,399,059
Retail	-	-	-	-	3,536,314	-	3,536,314
Civil construction	-	-	-	-	886,941	-	886,941
Energy	-	-	-	-	373,157	-	373,157
Tourism	-	-	-	-	530,274	-	530,274
Manufacturing	-	-	-	-	1,702,767	-	1,702,767
Individuals	-	-	-	-	2,843,634	-	2,843,634
Services	-	-	-	-	5,796,010	-	5,796,010
Transport and communications	-	-	-	155,876	1,476,763	-	1,632,639
Agriculture and fishing	-	-	-	-	52,584	-	52,584
Other	522,437	-	-	-	12,112	1,052,459	1,587,008
	794,999	**107,215**	**5,007,735**	**7,902,812**	**17,985,608**	**1,052,459**	**32,850,828**

3.2. Liquidity Risk

Liquidity risk is the difficulty that an institution is likely to have in meeting its obligations (especially short-term obligations) as they fall due or in refinancing the assets held on its balance sheet, without incurring significant costs or losses (funding liquidity risk). Market liquidity risk occurs when the market conditions in which an institution operates are such that the institution is unable to dispose of certain assets or only at below market prices.

Liquidity policy and strategy are defined by the Asset and Liability Management Committee (ALCO), implemented by the Investment Banking and International Department (IBID) and controlled by the Risk Management Department (RMD), based on the procedures recommended in the guidelines issued by the Central Bank (Notice No. 4/GBM / 2013).

The ALCO is a subcommittee of the Executive Committee tasked with implementing the Bank's financial policy. It is responsible for asset and liability management (ALM), acting within the framework of standards and procedures designed to ensure effective management of market risks (exchange rate, interest rate, repricing risk) and liquidity risk. It is actively involved in formulating pricing policy through timely assessment of national and international macroeconomic developments.

More specifically, the Bank's liquidity management process is carried out internally and is monitored by an Investment Banking and International Department team in strict coordination with the Executive Committee, whose task is to:

- Ensure that sufficient liquidity is available to finance the Bank's activity while maintaining compliance with all regulatory limits, including minimum reserve requirements under current regulations;
- Ensure that the minimum credit balances required to meet the obligations of the Bank and of its customers are maintained;
- Ensure that a sufficient volume of securities (Treasury Bills and Treasury Bonds) are available for use as collateral for funding transactions in the interbank money market (IMM);
- Ensure that the Bank's asset portfolio is sufficiently diversified to mitigate liquidity risk and that it contains assets which can be used as collateral for funding transactions;
- Maintain overall loan-to-deposit ratios in domestic currency that foster stability in the Bank's liquidity position;
- Work to ensure that customer deposits are the Bank's primary source of funding at all times and that loans to customers are its main form of investment;
- Maintain a range of savings and investment products that fosters a diversity of funding sources in all segments.

Liquidity is monitored based on the principles, limits and metrics defined in the Liquidity Risk Management model, which entails early warning indicators and measurement and evaluation instruments (IBID liquidity reports), issued at daily, weekly and monthly intervals.

This process is supplemented by the liquidity stress tests carried out by the Risk Management Department at monthly, semi-annual and annual intervals. The results of this process are reported to the Bank's Management through the ALCO and the Risk Committee at monthly intervals or whenever relevant changes have occurred, and to the Board of Directors at quarterly intervals.

Contractual undiscounted cash flows of liabilities

The table below shows a maturity analysis of the undiscounted cash flows relating to financial liabilities at 31 December:

2019	On demand	Less than 3 months	From 3 to 12 months	More than 1 year	Total
Cash and balances with the Central Bank	619,563	-	-	-	619,563
Balances with banks	-	967,526	-	-	967,526
Placements with banks	-	6,287,010		206,263	6,493,273
Financial assets	-	1,254,002	1,211,112	1,329,067	3,794,181
Loans and advances to customers	-	3,872,147	2,674,731	17,328,363	23,875,241
Other assets	64,267	-	-	-	64,267
Total undiscounted assets	**683,830**	**12,380,685**	**3,885,843**	**18,863,693**	**35,814,051**
Financial liabilities					
Deposits from banks	-	979,852	-	-	979,852
Deposits and current accounts	10,965,171	9,911,608	8,462,820	6,525	29,346,124
Consigned funds	-	293,051	-	-	293,051
Other liabilities	-	3,290,599	-	-	3,290,599
Debenture loans	-	-	-	118,557	118,557
Total undiscounted liabilities	**10,965,171**	**14,475,110**	**8,462,820**	**125,082**	**34,028,183**

2018	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Total
Cash and balances with the Central Bank	794,999	-	-	-	794,999
Balances with banks	107,215	-	-	-	107,215
Placements with banks	-	4,767,753	239,982		5,007,735
Financial assets	-	2,580,172	3,827,945	1,494,695	7,902,812
Loans and advances to customers	-	2,618,082	2,216,179	13,151,347	17,985,608
Other assets	528,627	-	-	-	528,627
	1,430,841	**9,966,007**	**6,284,106**	**14,646,042**	**32,326,996**
Financial liabilities					
Deposits from banks	59,733	807,182	-	-	866,915
Deposits and current accounts	7,998,599	8,311,953	8,489,389	93,285	24,893,226
Consigned funds	-	-	-	93,153	93,153
Other liabilities	586,577	-	-	-	586,577
Debenture loans	-	-	-	870,026	870,026
	8,644,909	**9,119,135**	**8,489,389**	**1,056,464**	**27,309,897**

All amounts with a maturity of one year or more are expected to be recovered or settled more than 12 months after the reporting date.

3.3. Market risk

Market risk is the risk of loss resulting from changes in the fair value of the future cash flows of financial instruments due to fluctuations in the market for the underlying asset or external factors that influence market prices. Such factors include changes in exchange rates, interest rates, share prices and commodity prices.

3.3.1 Interest rate risk

Interest rate risk is the risk of adverse impacts on profit or loss, or on equity, from adverse movements in interest rates, due to mismatches of maturity or interest rate reset dates, lack of correlation between lending and borrowing rates in different instruments, or the existence of embedded options in on- or off-balance-sheet financial instruments.

The Bank monitors its exposure to the impact of fluctuations in market interest rates on its balance sheet and cash flow risk. Net interest income may increase as a result of such fluctuations; but it may also decrease or become a net expense in the event of unforeseen interest rate movements.

Financial instruments subject to interest rate risk include balances and deposits held with other banks, loans and advances to customers, customer deposits and current accounts, and funds held for other banks.

Interest rate policy and strategy is managed by the ALCO, implemented by the Investment Banking and International Department and controlled by the Risk Management Department.

The following table shows the Bank's interest-rate-sensitive financial instruments by maturity:

2019	Less than 3 months	From 3 to 12 months	> 1 year	Non-interest bearing	Total
Financial assets					
Cash and balances with the Central Bank	-	-	-	619,563	619,563
Balances with banks	967,526	-	-	-	967,526
Placements with banks	6,287,010	-	206,263	-	6,493,273
Financial assets	1,254,002	1,211,112	1,329,067	-	3,794,181
Loans and advances to customers	3,872,147	2,674,731	17,328,363	-	23,875,241
Other assets	64,267	-	-	-	64,267
Total	**12,444,952**	**3,885,843**	**18,863,693**	**619,563**	**35,814,051**
Financial liabilities					
Deposits from banks	979,852	-	-	-	979,852
Deposits and current accounts	20,876,779	8,462,820	6,525	-	29,346,124
Consigned funds	293,051	-	-	-	293,051
Other liabilities	3,290,599	-	-	-	3,290,599
Debenture loans	-	-	118,557	-	118,557
Total	**25,440,281**	**8,462,820**	**125,082**	**-**	**34,028,183**

2018	Less than 3 months	From 3 to 12 months	> 1 year	Non-interest bearing	Total
Financial assets					
Cash and balances with the Central Bank	-	-	-	794,999	794,999
Balances with banks	107,215	-	-	-	107,215
Placements with banks	4,767,753	239,982	-	-	5,007,735
Financial assets	2,580,172	3,827,945	1,494,695	-	7,902,812
Loans and advances to customers	2,618,082	2,216,179	13,151,347	-	17,985,608
Other assets	1,052,459	-	-	-	1,052,459
Total	**11,125,681**	**6,284,106**	**14,646,042**	**794,999**	**32,850,828**
Financial liabilities					
Deposits from banks	866,915	-	-	-	866,915
Deposits and current accounts	16,310,549	8,489,389	93,288	-	24,893,226
Consigned funds	-	-	93,153	-	93,153
Other liabilities	567,434	-	-	19,143	586,577
Debenture loans	-	-	870,026	-	870,026
Total	**17,744,898**	**8,489,389**	**1,056,467**	**19,143**	**27,309,897**

The sensitivity of the income statement and the impact of interest rate changes, based on the Bank of Mozambique's monetary policy rates, for variable-rate financial assets and liabilities at 31 December is as follows:

	Basis point increase/ decrease	Impact on earnings before tax
2019	+100 pb	23,701
	-100 pb	(23,701)
2018	+200 pb	125,914
	-200 pb	(125,914)

3.3.2 Exchange rate risk

Exchange rate risk is the risk that changes in the price of instruments in which the Bank has open positions in foreign currency or changes in the Bank's competitive position due to significant changes in exchange rates will have an adverse impact on earnings or on equity. This involves the settlement risk that arises when an institution incurs financial losses due to foreign exchange positions in both the trading book and the banking book.

Foreign exchange positions are monitored daily to ensure that they remain within the limits set by Management or by the regulator.
Exchange rate risk policy and strategy is decided by the ALCO and is implemented by the Investment Banking and International Department under the supervision and control of the Risk Management Department.

The Bank's exposure to exchange rate risk at 31 December is summarised in the following table:

2019	MZN	USD	ZAR	EUR	Outros	Total
Financial assets						
Cash and balances with the Central Bank	525,619	65,023	11,725	17,176	20	619,563
Balances with banks	281,465	640,037	(10,901)	50,585	6,340	967,526
Placements with banks	4,606,439	1,834,483	31,346	17	20,988	6,493,273
Financial assets	2,941,899	852,282	-	-	-	3,794,181
Loans and advances to customers	20,293,664	3,581,574	2	1	-	23,875,241
Other assets	884,914	6,895	7,234	27,024	-	926,067
	29,534,000	**6,980,294**	**39,406**	**94,803**	**27,348**	**36,675,851**
Financial liabilities						
Deposits from banks	57,863	921,989	-	-	-	979,852
Deposits and current accounts	26,339,038	2,861,085	42,219	82,600	21,182	29,346,124
Consigned funds	293,051	-	-	-	-	293,051
Other liabilities	102,321	3,158,959	1,395	27,036	888	3,290,599
Debenture loans	118,557	-	-	-	-	118,557
	26,910,830	**6,942,033**	**43,614**	**109,636**	**22,070**	**34,028,183**
Net exposure	**2,623,170**	**38,261**	**(4,208)**	**(14,833)**	**5,278**	**2,647,668**

2018	MZN	USD	ZAR	EUR	Outros	Total
Financial assets						
Cash and balances with the Central Bank	683,883	63,405	11,152	36,539	20	794,999
Balances with banks	39,249	15,224	15,670	32,631	4,441	107,215
Placements with banks	3,628,385	1,134,990	244,342	18	-	5,007,735
Financial assets	6,891,616	1,011,196	-	-	-	7,902,812
Loans and advances to customers	14,992,704	2,992,902	2	-	-	17,985,608
Other assets	645,577	362,753	4,694	17,923	21,512	1,052,459
	26,881,414	**5,580,470**	**275,860**	**87,111**	**25,973**	**32,850,828**
Financial liabilities						
Deposits from banks	866,915		-	-	-	866,915
Deposits and current accounts	21,539,342	3,001,979	222,609	118,005	11,291	24,893,226
Consigned funds	93,153	-	-	-	-	93,153
Other liabilities	870,026	-	-	-	-	870,026
Debenture loans	547,404	27,685	620	2,463	8,405	586,577
	23,916,840	**3,029,664**	**223,229**	**120,468**	**19,696**	**27,309,897**
Net exposure	**2,964,574**	**2,550,806**	**52,631**	**(33,357)**	**6,277**	**5,540,931**

The table below shows the sensitivity to possible changes in the USD exchange rate, keeping all other variables constant. The impact on the income statement (before tax) is the same as on equity:

	Change in USD exchange rate	Impact on earnings before tax	Impact on equity
2019	+5%	1,913	1,913
	-5%	(1,913)	(1,913)
2018	+5%	127,540	127,540
	-5%	(127,540)	(127,540)

The impact on results and on equity, by currency, are determined independently, which means that there is no offsetting between the two.

The exchange rates used to convert balances denominated in foreign currency are as follows:

	2019	2018
US dollar	61.47	61.47
Euro	68.89	70.25
South African rand	4.37	4.28

3.4. Operational risk

Operational risk is the risk of adverse impacts on results or on equity as a result of errors or failures in the analysis, processing or settlement of transactions, internal or external fraud, the fact that the business activity is dependent on outsourcing, insufficient or inadequate human resources, or infrastructure failure.

There are four main sources of operational risk: processes, human resources, information systems and external events. Operational risk events can also be triggered by compliance, reputation and IT issues.

Operational risk affects all the Bank's processes, products, activities and systems and all organisational units. Operational risk management is therefore supported by a governance model, risk appetite and risk tolerance levels, and risk awareness and training activities – all of which translates into activities such as loss data collection, risk control and self-assessment (RCSA), scenario analysis, and monitoring of pre-defined indicators for referral to the Specific Committee. The Bank channels its efforts to mitigate these risks through a strong governance structure and internal controls, which include an appropriate division of roles, access, authorisation and reconciliation processes, staff training and assessment processes, and a continually updated business continuity plan to ensure the ability to operate continuously and limit losses in the event of a serious business interruption.
The operational risk framework is implemented throughout the Bank, so as to ensure consistency and integrity in the key elements, namely:

- Governance;
- Risk appetite
- Culture and awareness;
- OR identification:
  - » Loss data collection;
  - » Risk control and self-assessment (RCSA);
  - » Scenario analysis
  - » Key risk indicators (KRIs).
- OR assessment and control;
- Measurement; and
- Reporting and monitoring by a specific committee.

Management is responsible for approving the internal policies that specify the procedures to be adopted in the various processes; such policies are reviewed periodically, taking into account the need to adapt them to current circumstances.

3.5. Capital management and solvency risk

The Bank actively manages its capital to cover the risks inherent in the business. The Bank's capital adequacy is monitored using, among other measures, the ratios specified by the Bank of Mozambique.

The main objectives of capital management are to ensure that the Bank:

- Meets the capital requirements imposed by the Bank of Mozambique;
- Maintains strong, sound capital ratios to support its business; and
- Pursues a going concern policy with a view to maximising return and value for shareholders.

Capital adequacy and regulatory capital levels are monitored regularly by the Bank's Management, using techniques based on the regulations issued by the Bank of Mozambique in matters of supervision. The required information is submitted to the Bank of Mozambique every month. The Bank of Mozambique requires every bank to meet a capital adequacy ratio of 12% or more in the third year after Notice No. 9/GBM/2017 came into force.

The Bank's regulatory capital is managed by the Risk Management Department and is divided into two tiers:

- » Tier 1 capital: share capital (net of the book value of any treasury shares), retained earnings and reserves; and
- » Tier 2 capital: subordinated debt, general provisions, and unrealised fair value gains on available-for-sale financial assets.

Assets are risk-weighted according to a hierarchy of thirteen risk weights and are classified by nature and according to an estimate of credit, market and other risks associated with each asset and counterparty, taking eligible collateral or guarantees into account. Off-balance-sheet items are treated similarly, with some adjustments to reflect the more contingent nature of the potential losses.

The table below sets out the calculation of the Bank's capital adequacy ratio for the financial year ended 31 December in accordance with Bank of Mozambique requirements

	Moza Banco	
	2019	2018
Common Equity Tier 1 capital		
Share capital	3,943,250	3,943,250
Eligible reserves and retained profit or loss	5,225,978	5,917,709
Intangible assets	(167,868)	(209,878)
Impairment allowances under the BdM notice (*)	(1,611,827)	(3,144,499)
Provisional losses for the current period at the end of the month	(775,633)	(768,403)
Common Equity Tier 1 capital	**6,613,900**	**5,738,179**
Total amount of the holding if it exceeds 10% of the investee's share capital		(1,219,670)
Tier 1 capital - adjusted	**6,613,900**	**4,518,509**
Supplementary equity		
Subordinated debenture loans	118,000	868,000
Other	3,512	2,498
Total amount of the holding if it exceeds 10% of the investee's share capital		(304,917)
Supplementary equity	**121,512**	**565,580**
Other items to be deducted	(311,584)	(231,243)
Tier 1 and supplementary capital	**6,423,828**	**4,852,846**
Risk-weighted assets		
On the balance sheet	23,094,706	17,477,864
Off-balance sheet	3,541,095	2,503,725
Operational and market risk	314,604	2,383,451
Total risk-weighted assets	**26,950,405**	**22,365,040**
Prudential ratios		
CET 1 CAPITAL	31.14%	40.66%
TIER 1 CAPITAL	24.54%	25.66%
TOTAL CAPITAL	23.84%	21.70%
Required solvency ratio	11.00%	11.00%

(*) means the difference between the impairment losses calculated based on the BdM notice and on the internal model.

4. Net interest income

Net interest income breaks down as follows:

	2019	2018
Interest and similar income		
Interest from loans and advances to customers	3,504,279	2,940,177
Interest from balances and placements with banks	384,801	286,846
Interest from financial assets at amortised cost	744,880	1,186,337
	4,633,960	**4,413,360**
Interest and similar charges		
Interest on customer funds	1,869,945	2,374,583
Interest on consigned funds	4,895	29,363
Interest on subordinated liabilities	112,502	129,477
Interest on funds of the Central Bank and banks	25,329	22,405
Interest (IFRS 16)	294,271	-
Juros (IFRS 16)	294,271	-
	2,306,942	**2,555,828**
	2,327,018	**1,857,532**

5. Net fee and commission income

This item breaks down as follows:

	2019	2018
Fee and commission income		
For guarantees given	212,064	141,790
For banking services provided	264,993	233,520
Other fee and commission income	214,866	181,488
	691,923	**556,798**
Fee and commission expense		
For guarantees received	3,280	2,193
For banking services provided by third parties	11,476	17,472
VISA and Mastercard	82,904	68,424
Other fee and commission expense	93,709	7,918
	191,369	**96,007**
	500,554	**460,791**

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking services	The Bank provides retail and corporate banking services, including account management, credit in the form of overdrafts, foreign currency transactions, credit cards and service charges. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment banking services	The Bank's investment banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the financial year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.

6. Net trading income

Net trading income breaks down as follows:

	2019	2018
Trading income		
Gains from foreign exchange	8,325,196	8,433,167
Other trading income	149,008	115,175
	8,474,204	**8,548,342**
Trading losses		
Losses from foreign exchange	8,166,523	8,375,482
	8,166,523	8,375,482
Net trading income	**307,681**	**172,860**

7. Staff costs

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	2019	2018
Wages and salaries	1,249,603	1,099,499
Mandatory welfare costs	46,341	38,637
	1,295,944	**1,138,136**

Employees

At 31 December, the number of employees was as follows:

	2019	2018
Central Services	482	403
Commercial Area	437	349
	919	**752**

The increase in the number of employees during the 2019 financial year was due to the merger of BTM with Moza Banco.

8. Other operating expenses

This item breaks down as follows:

	2019	2018
Communications	110,856	120,093
Professional fees	358,755	303,723
Consumables	36,668	31,524
Maintenance and related services	332,701	315,304
Marketing expenses	41,432	28,677
Rents and leases	32,429	327,663
Water, energy and fuel	72,815	55,496
Travel and representation expenses	23,433	20,063
Training expenses	13,148	7,747
Cost of write-offs of fixed assets	851	-
Reversal of prior-period gains	19,564	117,082
Donations and subscriptions	12,615	4,656
Other	310,497	139,503
	1,365,764	**1,471,531**

The significant decrease in rents and leases compared to financial year 2018 is due to the application of IFRS 16 – Leases.

9. Other operating income

This item breaks down as follows:

	2019	2018
Services provided	29,407	10,300
Other gains	215,010	197,938
	244,417	**208,238**

10. Provisions

Provisions break down as follows:

	2019	2018
Provisions for litigation	26,238	766

11. Deferred tax assets and liabilities

Income tax (current and deferred) is determined by the Bank based on the tax rules laid down in tax legislation. In some situations, however, the tax legislation is not entirely clear or objective and may give rise to different interpretations. In these cases, the amounts recorded reflect the Bank's best understanding of the proper tax treatment of its operations, which may be questioned by the tax authorities.

The tax authorities have the power to review the Bank's tax situation for a period of five years and any differences of interpretation or any non-compliance with applicable legislation may result in adjustments to the amount payable in respect of personal income tax (IRPS), corporate income tax (IRPC) and value added tax (IVA).

The Bank has reported tax losses which under the Income Tax Code may be deducted from future taxable income within a period of five years. Under International Accounting Standard 12, these losses give the Bank the right to recognise deferred tax assets, which may be offset against future tax obligations if taxable profit is available.

Although the Bank's business plans envisage profits in subsequent periods, in the interests of prudent business management, the Management chose not to recognise deferred tax assets in the financial statements. Nevertheless, the right to recover the tax losses in the next five years remains.

Management believes that all the tax losses will be recovered by being offset against the taxable profit the Bank will obtain in future periods.

Management considers that the Bank has complied with all its tax obligations.

The income tax line item breaks down as follows:

	2019	2018
Deferred tax	-	55,000
	-	**55,000**

The movements in the Bank's deferred taxes are as follows:

	01.01.2019	Income statement		Equity		31.12.2019
		Expense	Income	Increase	Decrease	
Deferred tax assets						
Tax losses	95,000	-	-	-	-	95,000
	95,000	**-**	**-**	**-**	**-**	**95,000**
Deferred tax liabilities		,				
Tangible assets	(8,839)			-		(8,839)
	(8,839)	**-**	**-**	**-**	**-**	**(8,839)**
		-			-	

	01.01.2018	Income statement		Equity		31.12.2018
		Expense	Income	Increase	Decrease	
Deferred tax assets						
Available-for-sale financial assets	44,230	-	-	-	(44,230)	-
Tax losses	150,000	(55,000)	-	-	-	95,000
	194,230	**(55,000)**	**-**	**-**	**(44,230)**	**95,000**
Deferred tax liabilities		,				
Tangible assets	(8,839)			-		(8,839)
	(8,839)	**-**	**-**	**-**	**-**	**(8,839)**
		(55,000)			**(44,230)**	

The reconciliation of the effective tax rate at 31 December is as follows:

	Tax rate	2019	Tax rate	Amount
Loss before tax		(775,633)		(713,403)
Current tax using tax rate (32%)	32%	(248,203)	32%	(228,289)
Tax benefit (16%)	16%	124,101	16%	114,144
Tax corrections				
Non-deductible expenses	-13%	102,995	-15%	104,718
Untaxed income	22%	(173,230)	36%	(258,311)
Current tax payable	25%	(194,337)	38%	(267,738)
Tax losses to be reported/ (used)	-25%	194,337	-38%	267,738
Tax loss		**(194,337)**		**(267,738)**

12. Current tax

	2019	2018
Corporate income tax - Levy in discharge	205,315	167,460
	205,315	**167,460**

13. Earnings per share

Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the loss attributable to ordinary shareholders of the Bank, in the amount of 775,633 thousand meticais (2018: Loss: 768,403 thousand meticais), by the weighted average number of ordinary shares outstanding during the period ended 31 December 2019, totalling 788,650 (2018: 559,445), as follows:

Loss attributable to ordinary shareholders	2019	2018
Loss for the period	(775,633)	(768,403)
Weighted average number of ordinary shares	788,650	553,650
Earnings per share		
Basic	(0.98)	(1.39)
Diluted	(0.98)	(1.39)

Reconciliation of the weighted average number of ordinary shares for 2019	Number of shares	Average number
31 December 2019	788,650	788,650
Total	**788,650**	**788,650**

Reconciliation of the weighted average number of ordinary shares for 2018	Number of shares	Average number
31 December 2017	553,650	553,650
31 December 2018	235,000	5,795
Total	**788,650**	**559,445**

14. Cash and balances with the Central Bank

Cash and balances with the Central Bank are as follows:

	2019	2018
Cash	474,769	522,436
Balances with the Central Bank	144,794	272,563
	619,563	**794,999**

15. Balances with banks

Balances with banks are as follows:

	2019	2018
Balances with domestic banks	272,227	65,963
Balances with foreign banks	695,299	41,252
	967,526	**107,215**

16. Placements with banks

Placements with banks are as follows:

	2019	2018
Placements with Central Banks	3,306,483	-
Placements with other banks	3,186,790	5,007,735
	6,493,273	**5,007,735**

Placements with by maturity are as follows:

	2019	2018
Up to 3 months	6,287,010	3,627,002
More than 1 year	206,263	1,380,733
	6,493,273	**5,007,735**

17. Financial assets

This item breaks down as follows:

	2019		2018	
	Amortised cost	Through profit or loss	Amortised cost	Through profit or loss
Treasury Bills	2,174,623	-	5,086,353	-
Treasury Bonds (17.1)	621,624	-	1,786,275	-
Corporate bonds (17.2)	-	-	-	-
Visabeira 2015-2018	155,159	-	155,876	-
MOZ BOND	859,384	-	883,828	-
Impairment allowance	(52,527)	-	(39,110)	-
Shares	-	-	-	-
EMOSE 2013	-	-	-	-
SIMO	-	23,263	-	23,263
SIMO	-	12,655	-	6,327
	3,758,263	**35,918**	**7,873,222**	**29,590**
Total		**3,794,181**		**7,902,812**

At 31 December 2019, financial assets by maturity, excluding holdings in other companies, are as follows:

	2019	2018
Up to 3 months	1,254,002	2,573,845
From 3 months to 1 year	1,211,112	3,827,945
From 1 year to 5 years	486,294	1,441,842
More than 5 years	806,855	29,590
	3,758,263	**7,873,222**

The movements in financial assets at 31 December 2019 are as follows:

	2019	2018
Opening balance	7,902,812	5,015,702
Acquisitions	4,181,865	5,609,932
Accrued interest	970,498	649,563
Disposals/ redemption	(9,260,994)	(3,372,385)
Closing balance	**3,794,181**	**7,902,812**

The movements in impairment losses on financial assets at 31 December are as follows:

	2019	2018
Opening balance	39,110	111,488
Impact of IFRS 9	-	9,485
Opening balance at 1 January	**39,110**	**120,973**
Increases	162,350	58,943
Reversals	(148,933)	(132,545)
Adjustments	-	(8,261)
Closing balance	**52,527**	**39,110**

At 31 December 2019, the impairment losses for the year came to 13,417 thousand meticais (2018: reversal of 73,602 thousand meticais), as a result of the fall in the price of securities, especially MOZ BOND (2019: 93.83%; 2018: 94.71%).

17.1 Treasury Bonds

2016 Treasury Bonds – Series II

These Treasury Bonds have a maturity of four years and were issued on 11 May 2016 with a par value of 100 meticais each. Coupons are paid semi-annually at a fixed rate of 12.75% per annum, with capital reimbursed at maturity. The net amount at 31 December 2019 was 136,960 thousand meticais (2018: 136,960 meticais).

2018 Treasury Bonds – Series V

These Treasury Bonds have a maturity of three years and were issued on 8 August 2018 with a par value of 100 meticais each. Coupons are paid semi-annually at a rate of 16.00% per annum on the first two coupons; the remaining four coupons are paid at the maturity-weighted average rate and for the amounts of the last six issues of Treasury Bills with a maturity of more than 63 days, plus a margin of 1.5%. The net amount at 31 December 2019 was 106,311 thousand meticais (2018: 106,311 thousand meticais)

2018 Treasury Bonds – Series VI

These Treasury Bonds have a maturity of three years and were issued on 22 August 2012 with a par value of 100 meticais each. Coupons are paid semi-annually at a rate of 16.00% per annum on the first two coupons; the remaining four coupons are paid at the maturity-weighted average rate and for the amounts of the last six issues of Treasury Bills with a maturity of more than 63 days, plus a margin of 1.5%. The net amount at 31 December 2019 was 158,733 thousand meticais (2018: 158,733 thousand meticais)

2019 Treasury Bonds – Series II

These Treasury Bonds have a maturity of three years and were issued on 13 February 2019 with a par value of 100 meticais each. Coupons are paid semi-annually at a rate of 14.00% per annum on the first two coupons; the remaining four coupons are paid at the maturity-weighted average rate and for the amounts of the last six issues of Treasury Bills with a maturity of more than 63 days, plus a margin of 1.5%. The net amount at 31 December 2019 was 94,795 thousand meticais.

2019 Treasury Bonds – Series III

These Treasury Bonds have a maturity of three years and were issued on 27 February 2019 with a par value of 100 meticais each. Coupons are paid semi-annually at a rate of 14.00% per annum on the first two coupons; the remaining four coupons are paid at the maturity-weighted average rate and for the amounts of the last six issues of Treasury Bills with a maturity of more than 63 days, plus a margin of 1.5%. The net amount at 31 December 2019 was 75,444 thousand meticais.

Treasury Bonds (2019) – 6th Issue

These Treasury Bonds have a maturity of three years and were issued on 08 May 2019 with a par value of 100 meticais each. Coupons are paid semi-annually at a rate of 14.00% per annum on the first two coupons; the remaining four coupons are paid at the maturity-weighted average rate and for the amounts of the last six issues of Treasury Bills with a maturity of more than 63 days, plus a margin of 1.5%. The net amount at 31 December 2019 was 51,011 thousand meticais.

17.2 Corporate bonds

Visabeira 2015 - 2020

These bonds have a maturity of five years and were issued by Visabeira on 23 March 2015 with a par value of 100 meticais per bond. The total amount of the debenture loan was 250,000,000 meticais, of which Moza Banco holds 147,053,000 meticais in its own portfolio. The interest is paid semi-annually at a fixed annual rate of 13% for the first six coupons (three years) and at a variable rate linked to the standing lending facility (FPC) rate + 4.50% for the last four coupons (two years).

Moz Bonds 2019 - 2031

These bonds have a maturity of 12 years and new bonds were issued on 30 October 2019 with a par value of USD 1,000 per bond. The bonds pay interest at a fixed annual rate of 5% and coupons are paid semi-annually. The bonds are fully guaranteed by the Finance Ministry of the Republic of Mozambique.

17.3 Shares and other variable-income securities

Empresa Moçambicana de Seguros (EMOSE)

The shares held in EMOSE (1,163,130) represent 7.4% of the total of 15,700,000 new shares issued by EMOSE in a public offering carried out in October 2013. Each share has a par value of 1 Metical and has the same voting rights as all the other shares.

Sociedade Interbancária Moçambicana (SIMO)

The SIMO account relates to the shares held by the Bank in Sociedade Interbancária de Moçambique, a financial institution majority owned by the Bank of Mozambique in which most commercial banks in Mozambique also hold an interest. SIMO's mission as a financial entity is to provide access to its members' banking services through proprietary ATMs and POS terminals. The increase in the SIMO account in 2019 compared to 2018 is due to the takeover of BTM.

18. Investments in subsidiaries

The investments in subsidiaries are as follows:

	2019	2018
Investments in subsidiaries		
Banco Terra, SA	-	1,524,587
	-	**1,524,587**

In the year ended 31 December 2019, Moza Banco's interest in Banco Terra ceased to exist due to the merger that took place on 23 August 2019.

19. Loans and advances to customers

Loans and advances to customers break down as follows:

	2019	2018
Companies	25,176,270	18,680,055
Individuals	3,074,246	2,492,691
	28,250,516	**21,172,746**
Accrued interest and commissions	345,907	685,748
	28,596,423	**21,858,494**
Expected credit losses	(4,721,182)	(3,872,886)
	23,875,241	**17,985,608**

The breakdown of loans and advances by segment is as follows:

	2019	2018
Corporate	8,361,306	7,008,747
Retail-Company	10,559,138	6,554,895
Private	586,972	607,763
Public body	4,898,964	2,941,182
Retail-Individual	4,190,043	4,745,907
	28,596,423	**21,858,494**
Expected credit losses	(4,721,182)	(3,872,886)
	23,875,241	**17,985,608**

The Bank's risk concentration by industry is as follows:

	2019	2018
Government	1,470,893	769,739
Retail	4,330,680	3,536,314
Civil construction	786,646	886,941
Manufacturing	2,914,289	1,702,767
Individuals	3,589,872	2,843,634
Services	7,833,067	5,796,010
Transport and communications	1,506,667	1,476,763
Other	1,443,127	973,440
	23,875,241	**17,985,608**

The breakdown of gross loans and advances by currency is as follows:

	2019	2018
Local currency	25,033,919	18,827,235
Foreign currency	3,562,504	3,031,259
	28,596,423	**21,858,494**

The breakdown of loans and advances by impairment stage is as follows:

	Stage 1	Stage 2	Stage 3	2019	2018
Performing	14,105,166	-	-	14,105,166	10,768,055
Non-performing but not impaired	-	5,679,743	-	5,679,743	3,400,490
Non-performing	-	-	4,090,332	4,090,332	3,817,063
	14,105,166	**5,679,743**	**4,090,332**	**23,875,241**	**17,985,608**

The breakdown of loans and advances by maturity is as follows:

	2019	2018
Up to 3 months	5,912,222	3,098,473
From 3 months to 1 year	2,883,713	2,458,995
From 1 year to 5 years	13,962,587	10,552,127
More than 5 years	5,837,901	5,748,899
	28,596,423	**21,858,494**

Impairment losses on loans

The movements in impairment losses during the period are as follows:

	Subparagraph	Stage 1	Stage 2	Stage 3	2019	2018
Opening balance		262,593	761,035	2,849,258	3,872,886	2,947,332
Impacts of BTM merger		-	-	256,403	256,403	728,388
Increases	(c)	157,602	169,290	1,110,963	1,437,855	1,060,507
Reversals	(d)	(213,238)	(326,407)	(161,703)	(701,348)	(771,403)
Adjustments		(41,884)	-	(102,730)	(144,614)	(91,938)
		165,073	**603,918**	**3,952,191**	**4,721,182**	**3,872,886**

At 31 December 2019, the impairment losses for the year came to 736,507 meticais, which represents an increase compared to the previous year. The increase in impairment losses is the net result of an increase in impairment losses totalling 1,437,855 thousand meticais (item c) and reversals of impairment losses totalling 701,348 thousand meticais (item d) due to the growth of the loan portfolio.

20. Other assets

The Other assets item breaks down as follows:

	2019	2018
Other receipts	27,306	374,650
Accruals and deferrals	77,284	130,461
Inventories	20,746	19,570
Clearing accounts	36,961	23,516
Recoverable assets*	823,973	757,116
	986,270	1,305,313
Impairment allowance for other assets	(60,203)	(252,854)
	926,067	**1,052,459**

	2019	2018
Promovalor Moçambique Promoção Imobiliária	-	447,021
Companhia de Moçambique, S.A.	285,463	-
Condomínio Maresia	278,207	-
ADC, S.A	210,515	210,349
Other	49,788	99,746
	823,973	**757,116**

The amount reported for Promovalor Mozambique Promoção Imobiliária was reclassified to Non-current assets held for sale.

The movements in impairment losses during the period are as follows:

	Subparagraph	2019	2018
Opening balance		**(252,854)**	**(252,854)**
Increases	e)	(59,378)	-
Reversals	f)	252,029	-
Closing balance		**(60,203)**	**(252,854)**

The impairment losses for the year came to 192,651 thousand meticais, which is the net result of an increase in impairment losses totalling 59,378 thousand meticais and reversals of impairment losses totalling 252,029 thousand meticais on interest receivable on public debt securities due to restructuring.

21. Non-current assets held for sale

The movements in non-current assets held for sale are as follows:

	2019	2018
Foreclosed properties	1,114,610	470,184
Impairment allowance	(209,726)	(162,527)
	904,884	**307,657**

Non-current assets held for sale increased by 644,426 thousand meticais, due to the inclusion of the properties belonging to Banco Terra in the portfolio and the reclassification of the properties belonging to Promovalor and Sommer, which in 2018 were classified as Other assets.

The movements in non-current assets held for sale during the year are as follows:

	2019	2018
Opening balance	470,184	571,915
Increases	670,825	-
Decreases	(26,399)	(101,731)
Closing balance	**1,114,610**	**470,184**
Impairment allowance	(209,726)	(162,527)
	904,884	**307,657**

The movements in impairment losses during the period are as follows:

	Subparagraph	2019	2018
Opening balance		(162,527)	(162,527)
Increases	g)	(59,827)	-
Reversals	h)	10,256	-
Adjustments		2,372	-
Closing balance		**(209,726)**	**(162,527)**

The impairment losses on non-current assets held for sale increased by 49,571 thousand meticais, which is the net result of an increase of 59,827 thousand meticais in impairment losses on the properties received from Banco Terra and a decrease in impairment losses of 10,256 thousand meticais as a result of the sale of some properties.

22. Investment properties

The movements in this item are as follows:

Cost	
At 01 January 2018	35,594
Increases	93,104
At 31 December 2018	**128,698**
Increases	10,082
At 31 December 2019	**138,780**

Depreciation	
At 01 January 2018	1,780
Depreciation for the period	4,527
At 31 December 2018	**6,307**
Depreciation for the period	5,181
At 31 December 2019	**11,488**
Net book value	
At 31 December 2018	**122,391**
At 31 December 2019	**127,292**

23. Tangible assets

The movements in the Bank's tangible assets are as follows:

	Leased buildings	Equipment	Investments in progress	Right-of-use assets	Other	Total
Cost						
01 January 2018	**1,010,294**	**1,027,491**	**176,533**	**-**	**2,088**	**2,216,406**
Increase	53,325	148,786	72,550	-	433	275,094
Write-offs	(55,851)	(7,923)	(40,497)	-	-	(104,271)
Transfers	59,328	38,151	(97,479)	-	-	-
31 December 2018	**1,067,096**	**1,206,505**	**111,107**	**-**	**2,521**	**2,387,229**
Impact of BTM merger	80,349	134,442	-	-	-	214,791
Increase	34,210	28,512	357,717	2,574,184	76	2,994,699
Write-offs	(17,358)	(1,665)	(495)	-	-	(19,518)
Transfers	10,001	37,400	(47,401)	-	-	-
31 December 2019	**1,174,298**	**1,405,194**	**420,928**	**2,574,184**	**2,597**	**5,577,201**
Depreciation						
01 January 2018	**376,691**	**625,188**	**-**	**-**	**2,088**	**1,003,967**
Increase	97,770	161,459	-	-	-	259,229
Disposals/ adjustments	(4,994)	(6,342)	-	-	-	(11,336)
31 December 2018	**469,467**	**780,305**	**-**	**-**	**2,088**	**1,251,860**
Impact of BTM merger	66,035	130,036	-		-	196,071
Increase	108,381	153,424	-	272,311	-	534,116
Disposals/ adjustments	(3,919)	(1,602)	20	-	(2,088)	(7,589)
31 December 2019	**639,964**	**1,062,163**	**20**	**272,311**	**-**	**1,974,458**
31 December 2018	**597,629**	**426,200**	**111,107**	**-**	**433**	**1,135,369**
31 December 2019	**534,334**	**343,031**	**420,908**	**2,301,873**	**2,597**	**3,602,743**

24. Intangible assets

The movements in the Bank's intangible assets are as follows:

	Software	Investments in progress	Total
Cost			
01 January 2018	**761,653**	**17,723**	**779,376**
Increases	6,764	22,323	29,087
Transfers	21,578	(21,578)	-
31 December 2018	**789,995**	**18,468**	**808,463**
Impact of BTM merger	41,535	-	41,535
Increases	12,885	42,671	55,556
Write-offs	(2,551)	-	(2,551)
Transfers	4,812	(4,812)	-
31 December 2019	**846,676**	**56,327**	**903,003**

	Software	Investments in progress	Total
Depreciation			
01 January 2018	**481,229**	**-**	**481,229**
Depreciation for the period	117,356	-	117,356
Write-offs			-
31 December 2018	**598,585**	**-**	**598,585**
Impact of BTM merger	22,349	-	22,349
Depreciation for the period	115,901	-	115,901
Adjustments	(1,700)	-	(1,700)
31 December 2019	**735,135**	**-**	**735,135**
31 December 2018	**191,410**	**18,468**	**209,878**
31 December 2019	**111,541**	**56,327**	**167,868**

25. Current tax

Current tax assets are as follows:

	2019	2018
Corporate income tax paid in advance	38,465	38,365
Corporate income tax withheld	205,212	127,218
	243,677	**165,583**

26. Deposits from banks

Deposits from banks (including the Bank of Mozambique) are as follows:

	2019	2018
Demand deposits	14,471	59,733
Term deposits	965,381	807,182
	979,852	**866,915**

The breakdown of deposits from banks (including the Bank of Mozambique) by maturity is as follows:

	2019	2018
Up to 3 months	979,852	866,915
	979,852	**866,915**

27. Deposits and current accounts

Deposits and current accounts are as follows:

	2019	2018
Demand deposits	10,680,550	8,001,910
Term deposits	18,162,697	16,403,752
Other	502,877	487,564
	29,346,124	**24,893,226**

The breakdown of deposits and current accounts by maturity is as follows:

	2019	2018
On demand	10,965,171	8,368,870
Up to 3 months	9,911,608	7,941,684
From 3 months to 1 year	8,462,820	8,489,389
From 1 year to 5 years	4,460	91,548
More than 5 years	2,065	1,735
	29,346,124	**24,893,226**

28. Consigned funds

	2019	2018
(i) EIB	-	22,269
(ii) Ministry of Industry (PRSP)	8,643	4,593
(iii) AFDB	-	60,375
(iv) FSA - Kuwait Fund	284,085	-
Interest	323	5,916
	293,051	**93,153**

i) Moza Banco has signed an agreement with the European Investment Bank (EIB) for a loan to support Moza Banco's lending to SMEs, as part of its programme to support the private sector in Mozambique. The sectors financed under this programme include agro-industry, tourism, manufacturing and renewable energy. The EUR 5 million loan (MZN 200.4 million) was made available in December 2014 for a 5-year period, with equal semi-annual instalments of principal and interest at a fixed interest rate of 8.9%.

ii) Under an agreement with the Ministry of Industry and Trade giving access to funds granted by the Italian Government, Moza Banco obtained a loan (PRSP - Private Sector Recovery Programme) to support private sector activities directly affected by the natural disasters that occurred in 2000/2001. The loan, disbursed on 31 March 2015, amounts to MZN 120 million, runs for a 5-year period. The coupon is paid every six months at a flat rate of 10.00% per annum.

iii) An agreement was entered into with the African Development Bank (AFDB) for a loan to be used to provide long-term loans to SMEs in various sectors of the Mozambican economy, including farming, agribusiness and manufacturing. It is a five-year USD 9 million loan with floating interest, indexed to 6-Month Treasury Bills, plus a spread.

iv) On 30 May 2012, the Bank signed an agreement with the government of the Republic of Mozambique and the Kuwait Fund for Arab Economic Development, under which it is responsible for managing a fund to be used to finance agriculture and micro-businesses producing food and related services, with no specified repayment term.

29. Other liabilities

This item breaks down as follows:

	2019	2018
Accounts payable	314,098	181,717
Accrued expenses	265,859	208,762
Deferred income	35,878	69,340
Right-of-use liabilities	2,498,448	-
Provisions	148,413	87,995
	3,262,696	**547,814**
Derivatives	27,903	38,763
	3,290,599	**586,577**

30. Debenture loans

Debenture loans are as follows:

	2019	2018
Moza Banco 2013-2023 subordinated loan	-	750,000
Moza Banco 2013-2022 subordinated loan	118,000	118,000
Interest	557	2,026
	118,557	**870,026**

Moza Banco 2016-2022 – subordinated loan

The subordinated loan has a maturity of six years and was issued by Moza Banco on 31 March 2016 with a par value of 100 meticais per debenture. Its par value totals MZN 118 000 000, and relevant interest will be paid on a monthly basis at a fixed rate of 17% per annum. If there is no early redemption by the issuer, which is possible from the fifth year with the prior approval of the Bank of Mozambique, the capital will be repaid at maturity.

Moza Banco 2013-2023 - Subordinated debt

The subordinated loan has a maturity of 10 years and was issued by Moza Banco on 27 December 2013, with a par value of 100 meticais per debenture. The issue totalled MZN 750 000 000, and interest are paid on a semi-annual basis at a fixed rate of 14.5% per annum. Principal will be reimbursed at the maturity date unless the issuer decides to exercise the early redemption option, which is only possible after 5 years and with prior approval from the Bank of Mozambique. The securities were settled during 2019.

The breakdown of the debenture loans by maturity is as follows:

	2019	2018
From 1 year to 5 years	118,557	870,026
	118,557	**870,026**

31. Share capital

At 31 December 2019, Moza Banco's share capital, which is fully subscribed and paid up, is as follows:

2019	Number of shares	Par value	Share capital	% of share capital
Kuhanha	468,482	5,000	2,342,410	59.40%
Arise	235,000	5,000	1,175,000	29.80%
Moçambique Capitais, S.A	43,435	5,000	217,175	5.51%
Novo Banco	41,732	5,000	208,660	5.29%
Dr.António Matos	1	5,000	5	0.00%
	788,650		**3,943,250**	**100%**

2018	Number of shares	Par value	Share capital	% of share capital
Kuhanha	468,482	5,000	2,342,410	59.40%
Arise	235,000	5,000	1,175,000	29.80%
Moçambique Capitais, S.A	43,435	5,000	217,175	5.51%
Novo Banco	41,732	5,000	208,660	5.29%
Dr.António Matos	1	5,000	5	0.00%
	788,650		**3,943,250**	**100%**

32. Reserves

As reservas apresentam-se como se segue:

	2019	2018
Legal reserve	4,661,843	4,661,843
Share premium	1,993,740	1,993,740
	6,655,583	**6,655,583**

Under Mozambican law, the Bank is required to allocate each year at least 15% of its audited net profit to a legal reserve until the reserve is equal to its share capital.

33. Classification of financial instruments

The classification of the Bank's financial instruments is as follows:

2019	Financial assets through profit or loss	Financial assets through other comprehensive income	Amortised cost	Total
Assets				
Cash and balances with the Central Bank	-	-	619,563	619,563
Balances with banks	-	-	967,526	967,526
Placements with banks	-	-	6,493,273	6,493,273
Financial assets	-	35,918	3,758,263	3,794,181
Loans and advances to customers	-	-	23,875,241	23,875,241
Other assets	-	-	64,267	64,267
	-	**35,918**	**35,778,133**	**35,814,051**

	At fair value through profit or loss	Other financial liabilities	Non-financial liabilities	Total
Liabilities				
Deposits from banks	-	979,852	-	979,852
Deposits and current accounts	-	29,346,124	-	29,346,124
Consigned funds	-	293,051	-	293,051
Other liabilities	27,903	3,262,696	-	3,290,599
Debenture loans	-	118,557	-	118,557
	27,903	**34,000,280**	**-**	**34,028,183**

2018	Financial assets through profit or loss	Financial assets through other comprehensive income	Amortised cost	Total
Activo				-
Cash and balances with the Central Bank	-	-	794,999	794,999
Balances with banks	-	-	107,215	107,215
Placements with banks	-	-	5,007,735	5,007,735
Financial assets	-	29,590	7,873,222	7,902,812
Loans and advances to customers	-	-	17,985,608	17,985,608
Other assets			528,627	528,627
	-	29,590	32,297,406	32,326,996

	At fair value through profit or loss	Other financial liabilities	Non-financial liabilities	Total
Liabilities				
Deposits from banks	-	866,915	-	866,915
Deposits and current accounts	-	24,893,226	-	24,893,226
Consigned funds	-	93,153	-	93,153
Other liabilities	38,763	547,814	-	586,577
Debenture loans	-	870,026	-	870,026
	38,763	**27,271,134**	**-**	**27,309,897**

32.1 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Financial Statements cannot be calculated using quoted prices in active markets, the fair value is determined using various valuation techniques, which include the use of the discounted cash flow method. The basic inputs for these models are calculated using available market information, but where no market information is available, weightings have to be used to some extent to determine fair value.

Changes in assumptions about the following factors may affect the fair value recognised in the financial statements:

Level 1 – Quoted market prices (unadjusted) in active markets for identical instruments;

Level 2 – Inputs other than quoted prices that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 - Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments

The fair value of financial assets and liabilities that are traded on active markets is based on quoted market prices or reseller price quotations. For all financial instruments, the Bank measures fair value using valuation techniques.

Valuation techniques include net present value, discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices, Treasury Bills and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy of financial instruments

The Bank measures financial instruments at their fair value at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under prevailing market conditions. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability takes place either:

i) In the primary market for the asset or liability; or
ii) In the absence of a primary market, in the most advantageous market for the asset or liability.

The primary or most advantageous market must be accessible to the Bank.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The measurement of a non-financial asset at fair value takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets to which the entity has access to at the measurement date;
- Level 2 – Fair value based on inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – Fair value of assets and liabilities based on inputs that are unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement).

The fair value of quoted securities is based on price quotations at the reporting date only when there is an active market. The fair value of unquoted instruments, bank loans and other financial liabilities is estimated by discounting the future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturity.

The following table shows the fair value of the Bank's financial instruments by level in the fair value hierarchy:

2019	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with the Central Bank	-	619,563	-	619,563
Balances with banks	-	967,526	-	967,526
Placements with banks	-	6,493,273	-	6,493,273
Financial assets	1,428,481	2,365,700	-	3,794,181
Loans and advances to customers	-	23,875,241	-	23,875,241
Other assets	-	64,267	-	64,267
	1,428,481	**34,385,570**	**-**	**35,814,051**
Liabilities				
Deposits from banks	-	979,852	-	979,852
Deposits and current accounts	-	29,346,124	-	29,346,124
Consigned funds	-	293,051	-	293,051
Other liabilities	-	3,290,599	-	3,290,599
Debenture loans	-	118,557	-	118,557
	-	34,028,183	-	34,028,183

2018	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with the Central Bank	-	794,999	-	794,999
Balances with banks	-	107,215	-	107,215
Placements with banks	-	5,007,735	-	5,007,735
Financial assets	2,630,993	5,271,819	-	7,902,812
Loans and advances to customers	-	17,985,608	-	17,985,608
Other assets	-	528,627	-	528,627
	2,630,993	**29,696,003**	**-**	**32,326,996**
Liabilities				
Deposits from banks	-	866,915	-	866,915
Deposits and current accounts	-	24,893,226	-	24,893,226
Consigned funds	-	93,153	-	93,153
Other liabilities	-	586,577	-	586,577
Debenture loans	-	870,026	-	870,026
	-	**27,309,897**	**-**	**27,309,897**

The following table shows a comparison of the fair value and carrying amounts of the Bank's financial instruments that are not measured at fair value in the financial statements, grouped by class:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with the Central Bank	619,563	619,563	794,999	794,999
Balances with banks	967,526	967,526	107,215	107,215
Placements with banks	6,493,273	6,493,273	5,007,735	5,007,735
Financial assets held for trading	3,794,181	3,794,181	7,902,812	7,902,812
Loans and advances to customers	23,875,241	22,442,727	17,985,608	16,906,472
Other assets	926,067	926,067	1,052,459	1,052,459
	36,675,851	**35,243,337**	**32,850,828**	**31,771,692**
Financial liabilities				
Deposits from banks	979,852	979,852	866,915	866,915
Deposits and current accounts	29,346,124	30,519,968	24,893,226	25,888,954
Consigned funds	293,051	284,258	93,153	90,358
Debenture loans	118,557	124,485	870,026	913,527
Other liabilities	3,290,599	3,290,698	586,577	586,595
	34,028,183	**35,199,261**	**27,309,897**	**28,346,349**
	2,647,668	**44,076**	**5,540,931**	**3,425,343**

Management considers that Cash and Balances with the Central Bank and with banks are close to fair value, given the short maturities of these instruments.

The fair value of financial assets and liabilities are included in the amount at the date of their transaction between interested parties, without any settlement requirement.

The following methods and assumptions were used in determining the fair value estimate:

- The fair value of financial assets is obtained based on prices in active markets and present value models with observable market inputs.
- The Bank presents derivative financial instruments such as swaps.
- The fair value of financial instruments measured at amortised cost, such as placements with banks, loans and advances to customers, deposits from banks, deposit and current accounts and debenture loans, is obtained using discounted cash flow methods.

34. Related parties

Balances with related parties are as follows:

Shareholders		Placements with banks	Loans and advances to customers	Deposits from banks	Deposits and current accounts
Kuhanha	2019	-	-	-	2,433,172
	2018	-	-	-	2,133,344
Arise. B.V	2019	-	-	-	144
	2018	-	-	-	17
Moçambique Capitais	2019	-	4	-	8,410
	2018	-	8	-	6,286
Novo Banco	2019	181,586	-	8,400	-
	2018	-	-	127	-
Almeida Matos	2019	-	104	-	11,389
	2018	-	113	-	23,077

Balances with key management personnel are as follows:

		Loans and advances to customers	Deposits and current accounts	Interest paid	Interest received
Key management personnel					
Senior management	2019	3,581	47,740	290	11
	2018	7,104	43,868	-	-

As transacções com as partes relacionadas apresentam-se como se segue:

		Operating leases	Interest paid	Interest received
Shareholders				
Kuhanha	2019	-	72,906	-
	2018	-	-	-
Arise. B.V	2019	-	-	-
	2018	-	-	-
Moçambique Capitais	2019	7,087	573	-
	2018	6,898	781	-
Novo Banco	2019	-	54	-
	2018	-	-	-
Almeida Matos	2019	-	14	-
	2018	-	-	-

Benefits provided to key management personnel

During financial year 2019, Management salaries amounted to 106,398 thousand meticais.

35. Contingencies and commitments

Contingencies

	2019	2018
Guarantees	5,977,485	5,774,739
Letters of credit	555,366	931,567
	6,532,851	**6,706,306**

Operating leases - Bank as lessee

The Bank rents branch premises and its head office building under operating lease agreements. The lease term of these agreements averages 8 to 10 years, with an option to renew the lease at the end of that term. The value of the agreements is adjusted annually to reflect market inflation. At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Operating leases	2019	2018
Up to 1 year	370,343	321,299
Between 1 and 5 years	1,581,413	503,323
More than 5 years	1,910,938	87,385
	3,862,694	**912,007**

36. Common control transactions

On 23 December 2018, Moza Banco S.A. acquired all the shares (100%) representing the capital of Banco Terra, S.A. (BTM), as a result of the negotiations that had taken place since 24 August 2018 between the Bank and the former shareholders of BTM. This acquisition is part of a growth plan designed by the two institutions to position themselves as a market leader. The intention at the time of the acquisition was to merge the two companies and form a single entity, once the legal requirements were met.

Accordingly, on 23 August 2019, Moza Banco merged the two entities into one. However, in the period from the acquisition date to the merger date the two banks continued to operate separately. After the merger, BTM ceased to exist as a legal entity and its operations were incorporated into Moza Banco.

This transaction was accounted for as a common control transaction and BTM's assets and liabilities were transferred to Moza Banco at their carrying amounts, in accordance with the Bank's accounting policy for this kind of transaction.

A summary of BTM's assets and liabilities at the date of the merger is given below:

	23.08.2019	31.12.2019
Assets		
	379,955	357,272
Cash and balances with central banks	9,208	69,424
Balances with banks	944,687	188,188
Placements with banks	1,639,597	1,928,027
Loans to customers	-	230,380
Debt instruments at fair value through other comprehensive income	270,585	171,685
Non-current assets held for sale	24,762	27,186
Other assets	28,793	40,322
Other tangible assets	18,088	23,975
Intangible assets	12,907	11,299
Current tax assets	**3,328,582**	**3,047,758**
Liabilities	-	1,193
Deposits from banks	1,849,299	1,702,742
Customer funds	248,301	202,762
Other loans	243,025	50,556
Other liabilities	**2,340,625**	**1,957,253**
Equity		
Share capital	2,627,743	2,627,743
Supplementary contributions	-	58,716
Reserves	62,098	3,811
Accumulated losses	(1,701,884)	(1,599,765)
Total equity	**987,957**	**1,090,505**
Total liabilities and equity	**3,328,582**	**3,047,758**

37. Going concern assumption

During the year ended 31 December 2019, the Bank recorded a loss of 775 million meticais (2018: loss of 768 million meticais), which represents a change of 1% compared to the previous year.

Net interest income and net trading income grew significantly, reflecting a clear trend in the Bank's operating results, reaching positive 718 million meticais in the reporting period (2018: negative 77 million meticais). However, factors external to the Bank's performance during the year prevented the break-even from being achieved as envisaged in the strategic plan, most notably: (i) increased allowances for impairment losses due to the deterioration of some customers' risk profile; (ii) implementation of IFRS 16, which had an adverse impact on the Bank's performance estimated at 209 million meticais; (iii) BTM integration costs amounting to 57 million meticais.

Following the integration of BTM into Moza Banco, the Bank's shareholders approved a new strategic plan for the next five years (2019-2023), confirming the commitment to strengthen the Bank's capital whenever necessary.

The strategic plan rests essentially on three key premises aimed at ensuring profitability, as follows:

1. Integration phase (2019), successfully completed with the integration of the former BTM in Moza Banco.
2. Break-even phase (2020 to 2021), in which attention will be focused on:
    - Continued sales development through investment in and expansion of the branch network and the Bank's human capital;
    - Improvement of the ratio of demand deposits to term deposits to bring it into line with market averages, with a view to reducing funding charges;
    - Reduction of structural costs through process optimisation;
    - Diversification of the Bank's liabilities through a line of multilateral financing.
3. Profitability phase (2022 to 2023), in which attention will turn to the following aspects:
    - Growth of the loan portfolio, without abandoning the Bank's prudent risk profile;
    - Reinforcement of credit recovery procedures so as to reduce the size of the past-due portfolio.

38. Events after the reporting period

No events have occurred since the end of the reporting period that would require any adjustments to the financial statements.

However, the following material events must be disclosed in the financial statements:
Covid-19 outbreak On 11 March 2020, the World Health Organisation (WHO) declared the Covid-19 outbreak, caused by the novel coronavirus, a pandemic. Many governments around the world have taken increasingly stringent measures to contain the spread of the virus, including mandatory self-isolation or quarantine for those potentially affected, social distancing, border controls or closure, and 'lockdowns' of cities, regions or even whole countries.

The pandemic is an unprecedented challenge for humanity and the global economy and its effects, as of the reporting date, are subject to significant levels of uncertainty. The impact of the coronavirus will be closely monitored and its impact on business and the economy will be assessed. The Bank has adopted a series of measures and has implemented contingency plans to mitigate the adverse impact of the pandemic. The response plan includes operational and credit risk activities aimed at ensuring that the Bank is able to operate and properly serve its customers. There may, however, be adverse effects on the valuation of some financial instruments, as global equity markets experience negative shocks and volatility.

The Bank is monitoring the markets and will take proactive steps to maintain appropriate capital adequacy and solvency ratios. Nevertheless, there remains a strong chance that continued pressure on global markets as a result of the Covid-19 pandemic will lead to significant unrealised market losses.

Management has therefore reassessed the appropriateness of using the going concern assumption in the preparation of these financial statements. Based on that assessment, Management considers that the significant doubt associated with the current uncertainties surrounding the Covid-19 outbreak does not, at present, entail any material uncertainty relating to events or conditions that could raise significant doubt as to the Bank's ability to continue on a going concern basis. The Board of Directors agrees with this assessment.

Independent Auditor's Report

To the Shareholders of Moza Banco, SA

Opinion

We have audited the financial statements of Moza Banco, S.A. ("the Bank") set out on pages 8 to 89, which comprise the statement of financial position at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements fairly represent, in all material respects, Moza Banco, S.A.'s financial position at 31 December 2019 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility under those standards are further described in the Auditors' Responsibility for the Audit of the Financial Statements section of this report. We are independent of the Bank, in accordance with the International Federation of Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to the conduct of audits of financial statements in Mozambique. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Another matter - how the uncertainties resulting from Covid-19 impact our audit

As disclosed in Note 38 to the financial statements, Covid-19 affects the Bank and gives rise to some uncertainties as to the Bank's financial position and performance. In order to enable our audit of the financial statements to be understood, the uncertainties relating to the potential effects of Covid-19 play an important role. Any audit serves to assess and challenge the estimates made by the Bank, the related disclosures and whether the going concern assumption in the financial statements is adequate. To find whether the going concern assumption is adequate, an assessment of the future economic environment and the Bank's future prospects and performance needs to be carried out. The Covid-19 pandemic poses an unprecedented challenge for mankind and the world economy and, at the time of this report, its effects are very much uncertain. No audit can foresee unknown factors or all possible future implications for a bank, and this is particularly the case with regard to Covid-19.

Other information

The directors are responsible for the other information. The other information includes the statement of directors' responsibility. The other information does not include the financial statements or our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any other form of assurance about it. As part of our audit of the financial statements, we must read the other information; and in doing so, we examine whether the other information is materially inconsistent with the financial statements or our knowledge arising from the audit, or otherwise appears to include material misstatements. If, based on the work we have carried out on the other information obtained prior to the date of this auditor's report, we come to the conclusion that such other information contains a material misstatement, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial statements

The directors are responsible for the proper preparation and presentation of the financial statements in accordance with International Financial Reporting Standards and for an internal control system relevant to the preparation and presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue operating on a going concern basis, disclosing, as applicable, matters relating to the going concern assumption and using the going concern assumption, unless the directors intend to wind up the Bank and cease operations, or have no alternative but to do so.

Auditors' responsibility for the auditing of the financial statements

We aim to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Although reliability assurance is a high level of assurance, it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we have identified during our audit.

KPMG, Sociedade de Auditores Certificados, 04/CA/COM/2014

Represented by:
Abel Jone Guaiaguaia 04/CA/OCM/2012
Partner
27 March 2020

Supervisory Board Report and Opinion for Financial Year 2019

To the Shareholders of Moza Banco, S.A.

As required by law, we submit the Supervisory Board Report and the Board's opinion on the Management Report, the accounts and the proposed allocation of results submitted by Moza Banco's Board of Directors for the year ended 31 December 2019.

To perform its supervisory function, the Supervisory Board monitored the Bank's activity during the year by analysing its quarterly financial statements and management reports.

The Supervisory Board has taken note of and agrees with the Independent Auditor's Report on the financial statements for 2019, which was issued on 27 March 2020 with an unqualified opinion.

As a result of the Supervisory Board's supervisory activity, at the Annual General Meeting of Moza Banco, SA, the shareholders voted in favour of approving, with reference to 31 December 2019:

a. The financial statements submitted by the Board of Directors and other accounting documents required by law or regulations, which had previously been submitted to the Supervisory Board and which are in accordance with the law and comply with the articles of association and the standards issued by the Bank of Mozambique. These financial statements were prepared in accordance with the reporting standards applicable to the year ended 31 December 2019 and give a true and fair view of Moza Banco S.A.'s assets and liabilities, financial position and results.

b. The management report issued by the Board of Directors, which in our opinion explains the main aspects of the Bank's activity in financial year 2019.

c. The proposal submitted by the Board of Directors for the allocation of the net result for 2019 in the amount of (775,633) thousand meticais.

Lastly, the Supervisory Board thanks the Board of Directors of the Bank, the General Secretary of the Company, and the departments it contacted for the excellent cooperation it received in the performance of its duties and acknowledges the efforts made by the Board of Directors to stabilise the losses in the year ended 31 December 2019, given the adverse economic situation in the country and the impact of the common control transactions (Note 36 to the Financial Statements).

Maputo, 27 March 2020

Supervisory Board
Venâncio M. Chirrime
Maria de Jesus Langa
Maria Lúcia Zacaria)