We Are
What we do.

Annual Report 2018

MOZA

O valor é teu.

1. Message from the Chairman of the Board of Directors

Dear Shareholders, Customers, Employees and Stakeholders,

Both the business community and households' saving capacity and consumption patterns were significantly affected by a hard and tightening economic environment in 2018.

In the light of the increase in the number of non-performing loans, the financial system was forced to increase its impairments as well as to adopt a much more conservative lending approach. Despite a trend towards reducing tax levels, these have still remained at very high levels which affected clearly the economy in general.

For Moza Banco, 2018 was a year of hard work, which ended by maintaining the path to recovery that we started on some two years ago. It was in fact a year of consolidation. In 2018 Moza saw through its strategy of restoring market confidence, following what was happening in 2017 with the development, growth and consolidation of our market share.

Accordingly, despite the economic environment mentioned earlier, our loan portfolio grew by around 20%, giving us market share of 8.66% in December against the 7.42% market share we enjoyed in December 2017.

Our resources grew 39%, which saw us reach market share in December of about 5.92% against 4.74% in December 2017, consolidating our fifth place position in the ranking of Banks operating in the country.

On the other hand, the Bank's business volume stood at MZN 46,752 million, representing an increase of around 29% on 2017.
We grew in similar fashion in the numbers of customers and transactions. We entered into important agreements with new entities to provide them with very targeted and specific services.

This extraordinary development in our business activity indicators was recognised by KPMG as part of their 20th survey of the 100 largest companies in Mozambique. Moza Banco was recognised as the Institution with the greatest variation in terms of turnover in the financial and insurance sector in 2017.

This award follows other accolades received in 2018, namely the Best Innovation Award in Retail Banking and Best Restructuring Strategy, by 'International Banker' and 'Banker Africa' respectively, two renowned international specialist publications in the Banking and Finance sector.

We are indeed very proud of these awards since they represent an unmistakable sign of the Recovery in Confidence for the market in general and for our Customers in particular. This is the result of the excellent work done by the Bank's employees and management, who with their commitment and dedication have contributed to Moza's consolidation, growth and confidence. This trend also reveals the success of the ongoing business strategy set out by the shareholders, based on our identity as a 'Relational Bank', inspired by the customer as the central focus of its strategic positioning.

Another major event in 2018 was our moving to the new Bank headquarters, reinforcing our increasing determination to position ourselves as:

- A leading national bank;
- A bank with a touch of class and innovation as the digital branch we are launching proves;
- A bank with ambition to grow, as proven by its public commitment to opening 20 new branches under a protocol signed with MITADER;

A bank committed to discipline and quality, in line with best international practices in the fight against fraud and the adoption of policies on compliance and AML ('Anti-Money Laundering').

On 16 June, 2018, Moza Banco celebrated its 10th anniversary and took some very important steps in preparing for its future. It was a decade of development that was not without turbulence. Nevertheless, it was a decade in which the Bank, on its own merits, managed to consolidate its presence and brand in a consistent way, in a very competitive market. It went from being an institution that initially only served the corporate segments and private banking to establishing a clear position as a universal retail bank, offering products and services suitable for all market segments.

Currently, with 55 branches and the third largest network in the country, we are proud to be 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 clear effort to be closer to the population. We reinforced this position in 2018 with the opening of two new branches, including the Lichinga Branch, which means that Moza is now present in all the country's provincial capitals.

Two other events deserve special mention in 2018: A corporate capital restructuring operation, with an increase in the Bank's capital through which a new international leading investor, ARISE B.V., became part of the Bank's shareholding with a 29.8% acquisition of 100% of the capital of Banco Terra Moçambique (BTM).

This capital increase has two very important consequences:

Not only do we welcome a new partner of tremendous credibility and world-wide reputation into the shareholding, it also enhances our ability to grow.
On the other hand, by acquiring BTM we have expanded our status as a truly universal retail bank in covering the full spectrum of the banking business, with a strong national footprint.

A new phase is now beginning for the two institutions that will be merged to build a stronger and more balanced combined entity, leveraging existing synergies and strengths in each of the banks and consolidating its position in the Mozambican financial market.

With institutional firmness stemming from its capital increase operation and the strengthening of infrastructure, human resources and technology that will result from the merger with Banco Terra, the preconditions have been created for Moza Banco to once again take up a greater role within the Mozambican financial system.

Our goals for 2019 are quite ambitious. Our main goal is to keep increasing profitability, efficiency and liquidity by implementing of a series of initiatives to expand turnover, and maintaining a policy of greater cost control and containment.

We will focus on expanding our customer base and, above all, on deepening our relationship with them, since we believe that creating a strong and consolidated relationship with the customer, in addition to engendering loyalty, is synonymous with greater transactional penetration through increased cross-selling opportunities.

We remain committed to predicting market trends and investing in innovation, digital transformation and the creation of unique products and services, in line with the highest standards in the banking sector, both locally and abroad.

Besides, since we are a bank committed to creating value for the environment and for the society of which we are a part, we will increase our contribution in this area, and consolidate the initiatives we have launched throughout the year. We will also expand and develop new projects with the potential to transform the lives of communities and society in general, with a particular focus on the areas of health, education, financial literacy, environmental preservation and the protection of endangered species.

Our greatest asset is human resources; hence we will invest in continuity to provide a favourable environment and working conditions that can stimulate creativity and motivate employees and staff in the performance of their duties. We will focus on training, but also on encouraging career progression based on meritocracy.

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 in regaining the Bank's confidence in and reassurance to the market, especially 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 financial support, and the Supervisory and Government Bodies for all their efforts in carrying through the Bank stabilisation process.

Chairman of the Board of Directors
Dr. João Figueiredo

2. Key highlights

2.1 Key Indicators

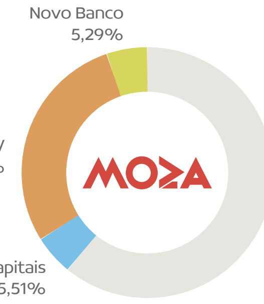
Key indicators (in MZN thousands)	2016	2017	2018	Changes % 2018 - 2017*
Balance Sheet				
Total Assets	27,672,824	26,675,998	36,411,293	36%
Loans to customers (met)[1]	17,146,038	15,281,038	17,985,608	18%
Customer funds	16,058,310	17,960,107	24,893,226	39%
Loan-to-deposit Ratio (Credit/Deposits)	119%	101%	88%	-13 pp
Competitive Position[2]				
Market share in loans to customers	6.75%	7.42%	8.66%	1,23 pp
Market share in deposits	4.52%	4.74%	5.92%	1,18 pp
Market share in assets	5.04%	4.97%	6.06%	1,09 pp
Profitability				
Profit/(Loss) before tax	(5,440,634)	(1,457,316)	(713,403)	51%
Operating income	524,310	2,467,330	2,491,183	1%
Return on Equity (ROE)	-211.33%	-16.85%	-7.79%	9,05 pp
ROA	-19.04%	-5.47%	-2.11%	3,35 pp
Prudent Limits				
Core Tier I	-19.40%	19.96%	25.66%	5,69 pp
Capital Adequacy Ratio - Moza Banco	-98.88%	23.46%	21.70%	-1,76 pp
Liquidity ratio	n.a	36.30%	49.92%	13,6 pp
Asset Quality				
Overdue Loans >90 days	875,924	1,593,292	2,162,766	35.7%
Total Overdue Loans	1,501,812	1,723,065	2,225,883	29.2%
Impairment on Loans	1,980,050	2,947,332	3,872,886	31.4%
Overdue Loans > 90 days / Loans to Customers	4.64%	9.04%	10.21%	1,17 pp
Impairment on loans / Overdue loans > 90 days	226%	185%	179%	-5,9 pp
Impairment on loans / Total overdue loans	132%	171%	174%	2,94 pp
Impairment on loans / loans to customers	10.48%	16.72%	18.29%	1,56 pp
Eficiency				
Operating Expenses	3,464,485	2,445,988	2,777,127	13.5%
Other Operating Expenses	2,459,462	1,502,955	1,638,991	9.1%
Staff Costs	1,005,023	943,033	1,138,136	20.7%
operating Expenses/ Total Assets (%)	12.5%	9.2%	7.6%	-1,5 pp
Cost-to-income ratio[3]	660.8%	99.1%	111.5%	12,3 pp
External supplies & services / Operating income	469.1%	60.9%	65.8%	4,8 pp
Staff costs/Operating income	191.7%	38.2%	45.7%	7,4 pp
Business indicators				
Bank branches	55	53	55	4%
No. of ATMs	108	108	111	3%
No. of POS Terminals	2,623	3,094	2,747	-11%
No. of employees at end of year	731	732	753	3%
No. of customers	102,877	116,105	134,987	16%
Network cards	82,430	89,489	94,158	5%

[1] Net impairment loans and advances from customers
[2] Statistical information from the Bank of Mozambique, December 2018
[3] Excluding amortisations
pp = percentage points

2.2 Key highlights

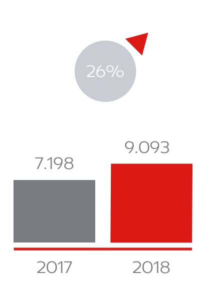
CAPITAL AND STABILITY

Shareholding

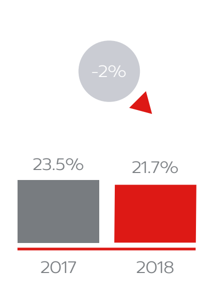


- Moza Banco's strong shareholder structure has now been boosted by the presence of a new global shareholder, Arise B.V. (hereinafter referred to as Arise), which holds a 29.8% stake in the company.
- Arise is a leading investment fund management company in Africa forming sustainable partnerships with financial entities in sub-Saharan Africa. The company was founded by three highly reputable expert investors, Rabobank (a leading Dutch Bank), Norfund (one of the largest investment funds in the world and of Norwegian origin) and FMO (Dutch Investment Fund). It currently manages more than USD 660 million in assets and operates in more than 10 countries.

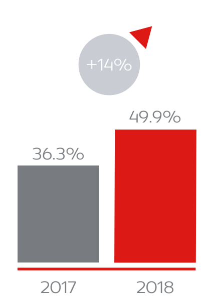
Equity (Millions MZN)



Capital Adequacy Ratio



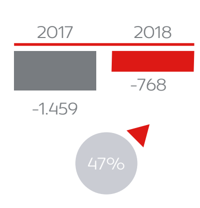
Liquidity Ratio



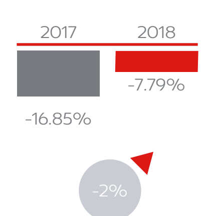
- The Bank's equity increased by 26% compared to the same period in 2017, and Arise's inclusion in Moza's shareholder structure contributed to this development
- Moza continues to show adequate levels of stability, given the Bank of Mozambique's minimum requirements of 11% and market benchmarks.
- The liquidity ratio stood at 49.9%, above the regulatory minimum of 25.0%, showing that the Bank is able to honour and fulfil all its commitments to customers, suppliers or any other stakeholder.

PROFITABILITY

Gross operating income (Million MZN)

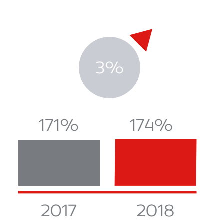


Return on Equity (in %)

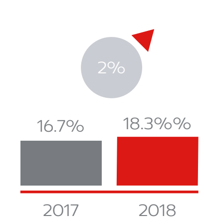


ASSET QUALITY

Credit Impairment/ Total overdue loans



Credit impairment/ Total credit



BUSINESS TRENDS

Indicator	Description
Attracting Customers	18 000 new Customers
Deposit Taking	Increase of 39% compared to the same period in 2017
Loans to customers	Growth of 20% on the previous year
Mobile and Internet	Growth in transactions of 19% on 2017
Bank Branches	Opening of 2 more Bank branches, Moza now with 55 Bank branches
USSD - Moza Já	Growth in transactions of 42% compared to 2017

3. Moza Banco

Brief Description

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 55 bank branches (3rd largest branch network in the Mozambican banking system), offering products and services to a wide range of corporate, private and retail customers.

For the Bank 2018 was a significant year because it celebrated its 10th anniversary and clearly established its position in the financial market as a truly Mozambican Bank. In December 2018, as part of its strategy to acquire an international partnership, the Bank welcomed a new global shareholder, Arise BV, which fully subscribed and paid for the issue of 235,000 new shares at a par value of MZN 5,000, equivalent to MZN 1,175,000,000.

Currently, the Bank's shareholders are KUHANHA - Sociedade Gestora do Fundo de Pensões do Banco de Moçambique, Arise B.V (new shareholder), Moçambique Capitais, S.A., Novo Banco África S.G.P.S, S.A. (Portuguese bank) and Dr. António Almeida Matos.

In December 2018, Moza Banco also acquired 100% of the shares in Banco Terra Moçambique (BTM). The acquisition of BTM will strengthen its position as a truly national bank of considerable size that seeks to meet the needs of all economic operators and contribute to the country's growth.

Competitive Position

The Bank's sound commercial performance in deposit-taking and lending, which outperformed the market, resulted in an increase in its position in the financial sector. Its market share in terms of deposits grew from 4.74% in 2017 to 5.92% in 2018, credit went from 7.42% to 8.66% and assets from 4.97% to 6.06%, thereby consolidating fifth place in the list of the largest financial institutions in Mozambique.

It should be stressed that, following the Bank's successful recapitalisation, which ended the Bank of Mozambique's intervention and the entry Kuhanha, a new majority shareholder, Moza Banco has been recovering and growing. With this the Bank was able to increase its market share. In addition, the fact that deposits reached record levels at the end of 2015, a period prior to the intervention of the Central Bank should be highlighted.

Main Historical Milestones

2010
KPMG rated Moza Banco the fastest growing financial institution in Mozambique in terms of turnover;

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;

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: service excellence, gradual universal positioning, a top ranking and market-aligned profitability;

2014
The prestigious publication 'Global Banking and Finance Review' named Moza the fastest-growing commercial bank operating in Mozambique in 2014;

In early 2015
The prestigious magazine, Banker Africa, regarded 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.

– It should be stressed that throughout the 'intervention' the Bank never failed to honour and fulfil all of its commitments to customers, suppliers, employees and other stakeholders;

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;

In December 2018
Moza Banco also fulfilled its goal of acquiring 100% of the shares in Banco Terra Moçambique (BTM), paving the way for a merger between the two entities in the near future.

The Moza Brand
In 2018, the Mozambican economy once again put in a modest performance, which limited the financial capacity of both companies and households. Notwithstanding the challenges and obstacles brought about by the domestic economic situation, Moza Banco consolidated its market position in 2018 by regaining the confidence of the market in general and its customers in particular. It should be noted that the customer confidence increase 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's market share was able to develop and provide sustainable growth, maintaining adequate stability and liquidity indices and enjoying a considerable improvement in its profitability.

In 2018, yet again Moza Banco's value was once again 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 was recognised by Banker Africa as the 'Most Improved Bank' in the Southern Africa Banking Awards 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 national financial sector.
- In 2018, Moza Banco was recognised by KPMG as the Institution that had the greatest change in turnover in the financial and insurance sector in 2017.

Recognising Moza value

4. Main Events of 2018

4.1 Main Events of 2018

To remain on the path of recovery that the Bank had begun some two years ago, as set out in its new Strategic Plan, the work was hard in 2018. The activities carried out have made remarkable achievements possible, including the following:

JANUARY

Opening of the Lichinga Branch
- Moza started 2018 by reinforcing its network of bank branches, with the opening of the Lichinga Branch in Niassa province. The opening ceremony of the Lichinga Branch meant the Moza Banco became was present in all the country's provincial capitals.

Signing of an agreement with the Transport and Communications Development Fund (FTC)
- As part of its Social Responsibility policy, coupled with the brand's reputation, on 31 January, 2018, Moza signed a partnership agreement with the Transport and Communications Development Fund (FTC), with a view to strengthening the ability of FTC to guarantee that the urban public passenger transport is available and accessible. The agreement also provides for buses circulating in the country's main cities under FTC management now carry the Moza Banco brand.

FEBRUARY

Signing of a Memorandum of Understanding between Kuhanha and Arise B.V
- Moza Banco's leading shareholder, KUHANHA SA, signed a Memorandum of Understanding with ARISE B.V. for this investor, a leader on the African continent, to enter into Moza's share capital, with a minority stake in the shareholding.

Under the terms of the agreement, the parties are to promote sustainable growth at Moza Banco, for the consolidation and growth of the Institution within the Mozambican banking system, increasing its contribution to Mozambique's development.

Opening of the Dondo Branch
- In February, Moza Banco opened another bank branch, this time in the city of Dondo, Sofala province. With the opening of this branch, Moza consolidates its status as the bank with the third largest branch network, currently operating 55 Bank Business Units distributed throughout the country's provinces.

MARCH

'Most Improved Bank' Award
- In recognition of the efforts undertaken by the Bank which resulted in the strong recovery of financial and prudential indicators, the prestigious specialist financial publication, Banker Africa, awarded Moza Bank the Most Improved Bank prize. The prize was awarded in the second half of March as part of the Southern Africa Banking Awards 2018, an annual event that recognises extraordinary performance and excellence in the financial services industry in the Southern Africa region.

JUNE

'Best Innovation in Retail Banking' Award
- Moza was awarded the prize for Best Innovation in Retail Banking Mozambique 2018 by the prestigious publication International Banker for its strong capacity in technological innovation and contribution to financial inclusion, particularly for the digital kiosks that Moza launched for the first time in the country.

10th anniversary
- On 16 June 2018, Moza Banco celebrated its first ten years in business. It was not a decade of stability, but it was undoubtedly a decade in which Moza was able, on its own merits, to consolidate its footprint and brand consistently to become one of the leading banks in Mozambique.

AUGUST

Bid to Acquire the Total Share Capital of Banco Terra S.A.
- As part of the negotiations that Moza Banco was involved in, on 24 August 2018, it put in a bid to acquire the total share capital of Banco Terra S.A.

This is part of a structured transaction, which in addition to the aforementioned acquisition of the entire share capital of Banco Terra S.A, involves a subsequent merger between Moza Banco SA and Banco Terra SA.

SEPTEMBER

Move to the new Head Office
- The year 2018 also saw the Bank move to a new Head Office at Rua dos Desportistas, Edifício JAT 6.2, N . 713. In addition to providing greater convenience for employees and visitors, the new Moza Banco head office aims to provide greater operational and cost efficiency, since it now concentrates all central organisational units, including support facilities, in the same location.

Opening of the digital branch
- In offering innovative solutions to customers, one of Moza Banco's major focuses, we have opened our first 100% Digital Branch located on the ground floor of the Bank's new head office.

This branch is modern and futuristic in design, equipped with innovative solutions and a user-friendly networked service to provide greater value in responding to customer needs.

OCTOBER

Entry into operation of 4th Notary Office, exclusively to serve Bank Employees and Customers
- In order to offer greater proximity, speed and efficiency in access to notary services for our employees and customers, Moza signed a Memorandum with the Ministry of Justice, Constitutional and Religious Affairs in April to open a notary office at the Bank. To this end, the 4th Notary Office started operations at the end of September exclusively to serve the Bank's customers and employees.

Signing of a Memorandum of Understanding with MISAU
- The Bank deepened its partnership with the Ministry of Health (MISAU), to create synergies for the prevention of and fight against malaria, one of the main causes of maternal-infant mortality in the country. Under this partnership, Moza has been supporting MISAU in publicising the 'ZERO MALARIA STARTS WITH ME' campaign through the Bank's communication platforms, including public transport buses. The Memorandum of Understanding also involves granting special access conditions to financial products and services for MISAU employees.

NOVEMBER

Signing of a Memorandum of Understanding with MITADER to open 20 branches in districts by 2020
- To emphasize our Bank is driven by a strong ambition for growth, we have made a public commitment to open 20 new branches under the protocol signed with the Ministry of Land, Environment and Rural Development. This is part of the 'One District, One Bank' project launched by the Government in 2016, which aims to speed up the banking process in rural areas, to minimise the suffering of people who have to travel long distances in search of a banking facility.

Signing of a Memorandum of Understanding between ANAC and RNN
- Moza Banco signed Memoranda of Understanding for the conservation of the country's rich biodiversity with the National Administration for Conservation Areas (ANAC) and the Niassa National Reserve (RNN). Under these partnerships, the Bank will develop and support various initiatives for the wildlife protection and preservation which is a sign of its importance.

DECEMBER

Entry of Arise B.V. into the Moza Banco shareholding
- Moza Banco's strong shareholding is now reinforced by the entry of a new shareholder, Arise, which now holds a 29.8% stake in the company.

This new global shareholder currently has minority interests in nine institutions benefiting from its support in Ghana, Kenya, Mozambique, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe. Currently, it has more than USD 660 million in assets under management and operates in over 10 countries; its goal is to contribute to the economic growth of Africa and Mozambique in particular, and obtain returns on its long-term investments to exceed stakeholder expectations.

Approval by the Bank of Mozambique of the Moza Banco capital increase and acquisition of Banco Terra
• On 14 December, 2018, the Bank of Mozambique approved a structured operation for a reduction and consequent increase in the share capital of Moza Banco and the acquisition by Moza Banco of 100% of the capital of Banco Terra Moçambique (BTM), as part of the understanding between ARISE and Kuhanha, the latter a majority shareholder in Moza Banco. Through this transaction the entire capital increase of Moza Banco was undertaken by Arise.

Award from KPMG - Biggest Change in Turnover in the Financial and Insurance Sector in 2018
• In 2018, Moza Banco was recognised by KPMG as the institution that experienced the greatest change in turnover in the financial and insurance sector in 2017. The award came as part of the ceremony to present the annual survey of the 100 largest companies which took place in Maputo.

5. Shareholding and Corporate Bodies

5.1 Shareholding

In 2018, there were changes in the Bank's shareholding, namely with the entry of Arise B.V. into Moza's shareholding, marking the beginning of a new cycle for the Bank.

Brief background: Operation to restructure Moza Banco's share capital, which resulted in the entry of Arise into the Bank's shareholding and the acquisition of BTM

In order to develop and consolidate its presence in the Mozambican market, Moza Banco included the establishment of a partnership with an international entity of high repute and expertise in the financial sector as set forth in its strategic guidelines. This provided the Bank with high competitive capacity to better serve its customers and the market in general, and also consolidate the Bank's financial and asset structure.

In this context, in February 2018, Kuhanha, the Bank's majority shareholder announced the signing of a Memorandum of Understanding with Arise for their entry as a shareholder into Moza Banco's corporate structure, with the aim of promoting sustained growth and consolidating Moza's position in the Mozambican banking sector.

It is against this background that, at the end of 2018, Arise B.V. became part of Moza's shareholding, with a 29.8% stake, through a combined share capital restructuring operation, which made it possible to:

i. Reduce share capital through the absorption of past losses (MZN -6,472 million), aimed at distributing dividends on future profits and implicit appreciation of Moza's market value;
ii. Reduce the nominal value of shares from MZN 25,000 to MZN 5,000, in order to provide efficiency and flexibility in the Bank's capital structure to pave the way to potential future growth, for example, market capitalisation;
iii. Issue fully subscribed and paid-up shares in Arise B.V., an international partner of high repute and expertise, which will help develop and consolidate Moza in the market, in line with its vision of enhancing economic growth in Africa and in Mozambique in particular;
iv. Acquire BTM with the aim of a subsequent merger of both entities.

It should be noted that this combined operation to restructure Moza's capital was approved by the Bank of Mozambique on 14 December, 2018.

It is important to point out that it was the first time in Mozambique that a Bank had made a transaction of this type, which in itself was a major challenge for Moza Banco, given its complexity in terms of legal, financial and regulatory issues.

In addition, the success of Moza Banco's share capital restructuring operation strengthened the Institution's stability and liquidity ratios. In 2018, the Bank's equity increased by 30% compared to the same period in 2017, and Arise's share in Moza's shareholding contributed to this.

Acquisition of Banco Terra Moçambique (BTM)

As part of the share capital restructuring in December 2018, Moza Banco fulfilled its objective of acquiring 100% of the shares in Banco Terra Moçambique (BTM). This acquisition is intended to make a merger between Moza Banco and BTM possible in the near future. This will build a truly national bank of considerable dimensions that will play a prominent role in the domestic financial system and create synergies so that the new Bank's activities, after merger, are greater than the activities of the two banks separately.

It should also be noted that the entry of a new shareholder, Arise B.V. and the acquisition of BTM represents a clear sign of the trust placed by the Bank's shareholders in the Moza project in particular and in the domestic financial system in general. Moreover, it will reposition Moza amongst the largest banks in the country, making it even more competitive.

The success of the combined capital restructuring operation has allowed the Bank to strengthen its brand and market value, expanding its status as a global bank in covering the banking business spectrum and with strong footprint countrywide. The 55 Moza bank branches have been combined with 10 other BTM branches, thereby consolidating the existing branch network, now the third largest in the country, enabling the Bank to be closer to its customers and offer a wider range of banking services.

Shareholding

Following the simultaneous capital reduction increase, Moza Banco's share capital totals now MZN 3,943,250,000, represented by 788,650 shares all fully subscribed and paid.
As a result of the reduction operations and capital increase, the current shareholding is as follows:

Shareholders	Number Os shares	Par value (In Meticais)	Percent of Share Capital
Kuhanha S.A	468.482	2.342.410.000	59,4030%
Arise B.V.	235.000	1.175.000.000	29,7978%
Moçambique Capitais, S.A	43.435	217.175.000	5,5075%
NB ÁFRICA, SGPS, SA	41.732	208.660.000	5,2916%
António Matos	1	5.000	0,0001%
Moza Banco	**788.650**	**3.943.250.000**	**100%**

With regard to geographical distribution, on 31 December 2018, the proportion of Mozambican Shareholders is clear, representing 64.91% of the total number of shares, showing that Moza remains the only Mozambican financial institution whose share capital is majority owned by national entities.

Source	No. shares (%)
Mozambique	64,91%
Netherlands	29,80%
Portugal	5,29%
Total	**100%**

5.2 Corporate Bodies and Governance Model

The Shareholders' General Meeting, the Supervisory Board, the Board of Directors and the Executive Committee are Moza Banco's corporate bodies. Moza's Corporate Bodies are elected at the Shareholders' General Meeting for three-year terms.
At the Shareholders' General Meeting held on 6 July, 2018, Ms. Yasmin Meherji Patel and Mr. Filipe Pedro Martin Ferreira resigned from their positions as Non-Executive Directors and Mr. Deepak Malik was appointed Non-Executive Director for the three-year period 2017/2019.

At 31 December 2018, the corporate bodies of Moza Banco were composed as follows:

Shareholders' General Meetng	
Chair	Lourenço Joaquim da Costa Rosário
Vice-Chair	Maria Violante Jeremias Manuel
Secretary of the board	Sara Mondego Marques

Supervisory Board	
Chair	Venâncio Matsotsombane Chirrime
Member	Sariel Amosse Nhabinde
Member	Maria de Jesus Matola Langa
Alternate Member	Maria Lúcia Zacarias

Board of Directors	
Chair	João Filipe de Figueiredo Júnior
Executive Member	Manuel Duarte Emauz de Vasconcelos Guimarães
Executive Member	Vítor Manuel Latas Brazão
Non-Executive Member	Deepak Malik

Governance Model

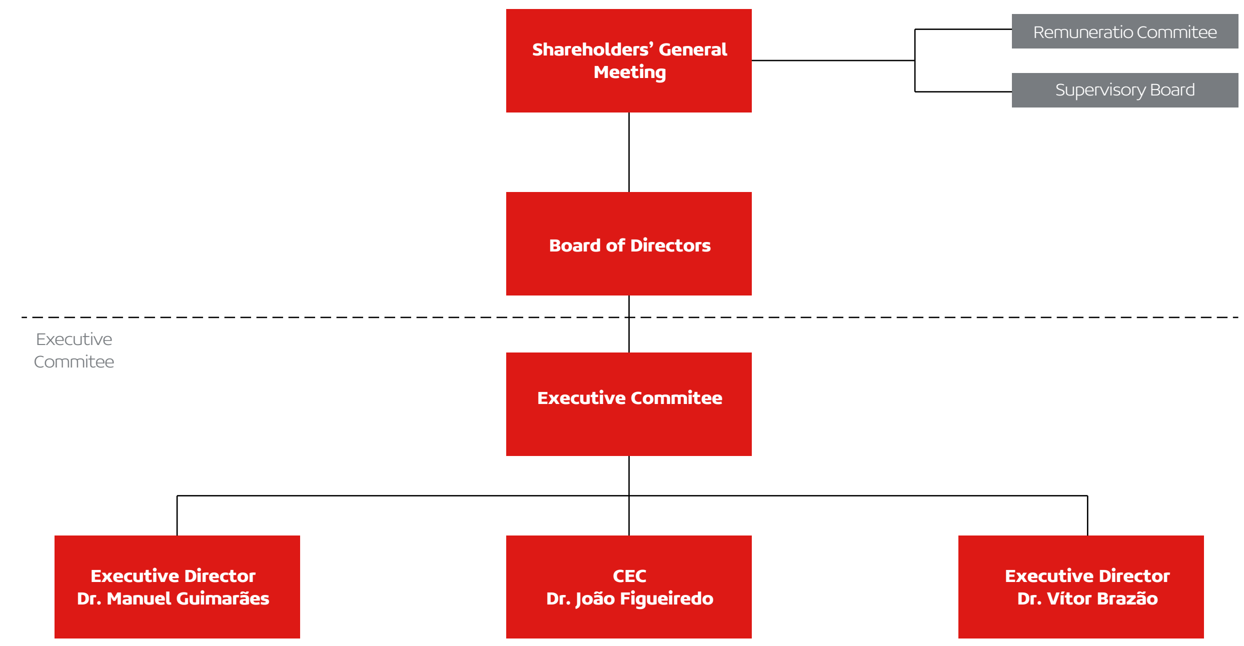
As the Bank's highest body, the General Meeting represents all the Shareholders, and its resolutions are binding on all of them when adopted in accordance with the law and by-laws.

Moza 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 Chairman retains the functions of an executive and also chairs the Executive Committee.

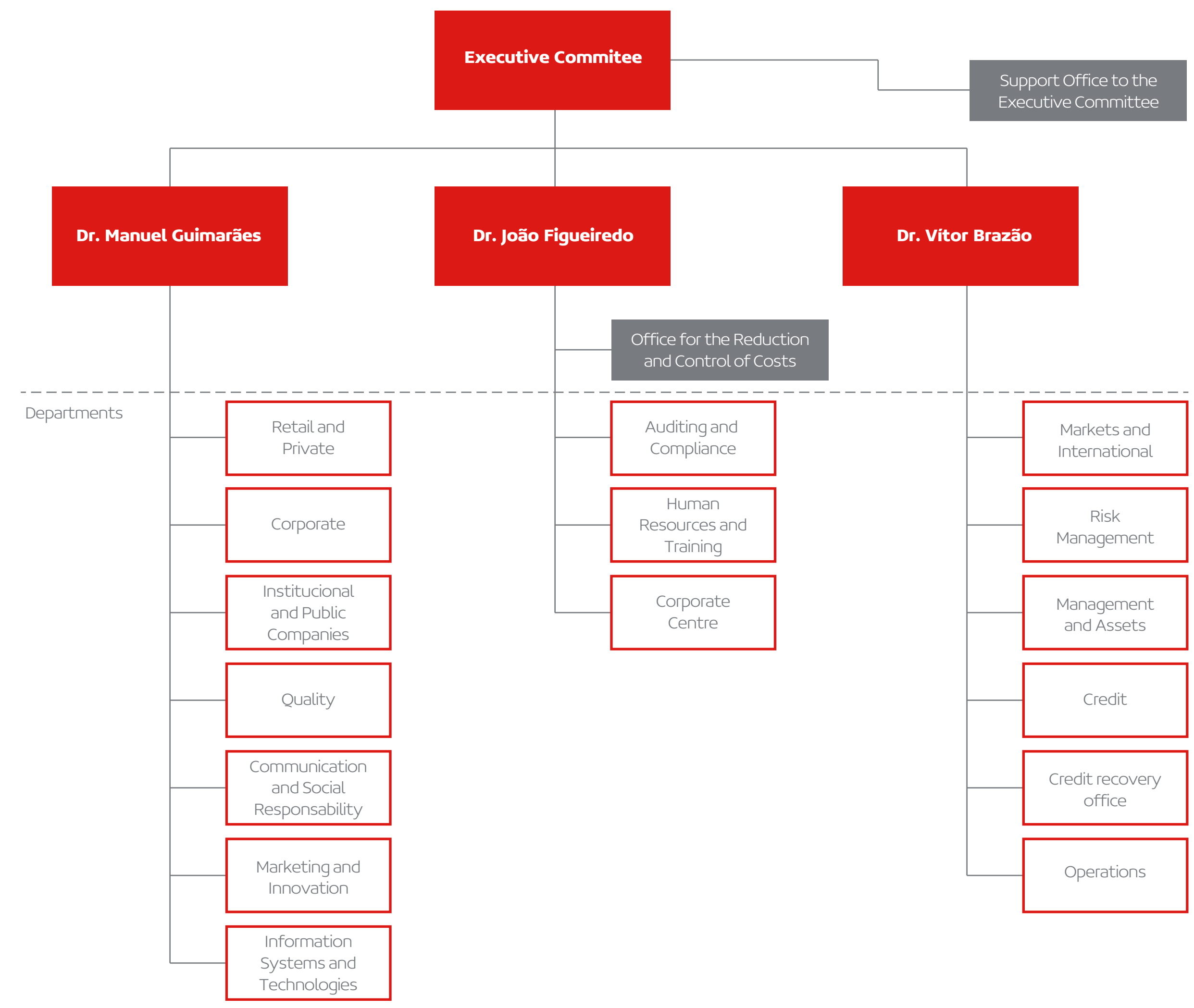
In addition, it is incumbent upon the Board of Directors to appoint the Company Secretary, and the duration of his/her functions matches the mandate of the Board of Directors that appoints him/her. He/she is responsible, among other activities assigned to him/her, to guide and support the Bank's corporate 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 Moza Banco's organisational structure at the end of fiscal year 2018 was as follows:



Throughout 2018 there were no changes in the division of competencies and responsibilities among the members of the Executive Committee by the various Bank Departments. At 31 December responsibilities were divided as follows:



Committees

To support the day-to-day management of the Bank, this Institution had the following functional committees at the end of 2018:

Management Board

A consultative body whose main function is to support the Executive Committee in assessing the performance of Moza'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 2017, within the scope of recapitalising the Institution, Moza Banco presented a new Strategic Plan, divided into two phases to be implemented by 2021. The two phases of the Strategic Plan are as follows:

• In the first stage of the cycle, the adjustment phase (2017 to 2018), the Bank's actions were focused on in-house training and a culture focused on commercial and core objectives, to increase productivity through optimising operations.

• The second stage of the cycle, the growth phase (2019 to 2021), will focus on improving service and quality levels to ensure the retention and loyalty of our customers and consequent profitability.

It should be noted that Moza's growth until 2021 is supported by four pillars, namely:

1. Customer-focused relational model: The Bank will take on a new identity, that of a 'Relational Bank', inspired by the customer as the centre of its strategic positioning.

2. Specialisation-focused offer: Moza will design an approach and differentiated offer around the different market segments.

3. Investment in innovation and technology: Innovation and the use of new technologies should be a permanent aspect of expanding the Bank's activity and service to the customer.

4. Quality and excellence of service: Quality of services is a key pillar that guides the Bank's performance.

Some actions were therefore set out during the first stage of the cycle in order to implement the Strategic Plan, namely:

- Investment in human capital;
- Reduction in outsourcing;
- Increasing productivity (ensuring a culture based on merit and promotion based on professional merit and achievement of objectives);
- Recovery of liquidity levels;
- Revitalisation of the protocol and institutional partnership programme;
- Optimisation of the existing distribution network and channels;
- Cost reduction measures through contractual renegotiation with the various suppliers;
- Reduction of the non-productive asset base;
- Improvement in the quality of the Bank's loan portfolio, without prejudice to adequate levels of credit coverage being set up.

With regard to the Plan's level of performance for the first stage of the 'adjustment' cycle, in general terms, and notwithstanding the persistence of an adverse economic environment, the Bank can be said to have successfully achieved the objectives of consolidating its activity. The growth in the number of customers, increased transactions using remote channels and self-banking, higher growth in turnover in comparison to the market and consequent increase in market share, the trend in costs and promotions held in 2018 showed that the metrics defined had been fulfilled.

It should be pointed out that, in terms of the restructuring of Moza Banco's capital, which resulted in the entry of Arise into the Bank's shareholding and the acquisition of Banco Terra Moçambique (BTM), the current Strategic Plan should be adjusted, taking into account the Moza Banco and BTM merger project, to build a stronger combined entity. However, despite the merger of both entities, Moza Banco will retain its essence as a Universal Retail Bank, with a wide-range offer and a well-defined approach to each of its segments.

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 the many socially responsible activities, attitudes and initiatives the Bank has implemented or supported over the last 10 years.

Based on the above, in 2018 we continued to carry out and support different events and social responsibility initiatives aligned with policies in this area, namely the Social Responsibility Policy, the Volunteer Policy and the Sponsorship Policy. Among the initiatives carried out, the following are of note:

External Audience

Project 'One Godfather, one Child helped'

In early 2018, Moza established a partnership with the Machel Fidus Association to develop sustainable social projects to create impact on communities, with special emphasis on the most vulnerable populations. The project 'One Godfather, one Child helped' involved the two institutions sponsoring 100 children in 2018 and they plan to support more during the next five years, in an initiative to help the disadvantaged children of Quelimane. With this support the children covered received school supplies and uniforms that are crucial to being able to attend school with dignity, giving them the motivation and support necessary to improve their academic performance.

Partnership with the Transport and Communications Development Fund

Moza Banco has entered into a partnership agreement with the Transport and Communications Development Fund (FTC) to support this entity in strengthening its capacity to guarantee that the urban public passenger transport is available and accessible.

The partnership provides for advertising of financial products and services on the side of buses purchased by the FTC with financing from Moza, to alleviate the problem of lack of transportation in the main urban centres of the country.

Art and Sustainability Programme

As part of its social and environmental responsibility programme, Moza Banco held the 'Art and Sustainability' project on 28 July 2018 at the Mateus Sansão Muthemba Secondary School in Maputo. The initiative, which was launched by the Universidade Pedagógica, was sponsored by former football players based in Portugal, Hilário da Conceição and Sheu Han, and aims to promote environmental civic education, with special emphasis on the reuse and recycling of paper and other materials.

Financial Education

To commemorate World Savings Day, Moza carried out a financial education campaign at the 'One World' Primary School in Maxixe aimed at promoting savings. As part of Moza's financial literacy programme, the campaign included activities such as teacher training on the subject of savings, classroom activities, and lectures and competitions about the importance of saving. The main goals were to make children and students aware of the importance of saving, explain the different ways of saving and promote financial literacy.

Zero Malaria Starts with Me Campaign

Moza Banco and MISAU signed a Memorandum of Understanding in which Moza commits itself to supporting the Zero Malaria Starts With Me Campaign as part of MISAU's efforts to fight malaria which has been a leading cause of death in Africa in general, and in Mozambique in particular. This partnership will enable action to be taken in communities in Maputo, Matola, Manhiça, Xai-Xai, Maxixe, Inhambane, Beira, Tete, Chimoio, Quelimane, Lichinga, Ribawe and Pemba, some of the places where Moza operates.

This initiative seeks to raise the awareness of the population about the dangers of the disease and to disseminate forms of prevention with a view to eradicating it.

Preservation of Biodiversity Campaign

Moza Banco and the National Administration for Conservation Areas (ANAC) signed a Memorandum of Understanding in which Moza commits itself to supporting this entity in its efforts to preserve the country's rich biodiversity. Through this campaign, Moza Banco shows its commitment to environmental sustainability, and includes itself in international efforts to halt deforestation, environmental crimes and other threats.

Distribution of 5,000 Taxi-Cyclist Identification Vests

As part of its strategic partnerships with various social partners, Moza and Quelimane Municipal Council joined forces to set up this project, which aims to bring greater safety and value to taxi drivers' activities.

In November Moza offered about 5,000 numbered vests to identify taxi drivers operating in the city of Quelimane. The vests also have reflective strips, which will increase the safety of taxi drivers and their passengers on public roads, and thereby help to reduce the risk of road accidents.

The main purpose of this project is to contribute to a greater appreciation of this socio-professional group, and to make the activity of transporting passengers and their goods by bicycle formal and disciplined. The project includes a strong financial literacy component to encourage the financial inclusion of this social group.

Partnership with the Ministry of Land, Environment and Rural Development (MITADER)

Combining our ambition to grow with the government efforts to spread banking services across Mozambique, an agreement was signed with the Ministry of Land, Environment and Rural Development, through the National Fund for Sustainable Development, which provides for the opening of another 20 Branches in equal numbers of Districts by 2020, in order to allow more Mozambicans access to the financial system.

These are in the districts of Meluco and Quissanga (in Cabo Delgado); Majune, Chimbonila, Ngauma and Sanga (in Niassa); Liúpo, Memba and Nacarôa (in Nampula); Maríngué (in Sofala); Machaze (in Manica); Chinde, Derre, Ile, Lugela and Mocubela (in Zambézia); Tsangano (in Tete); Chigubo, Guijá and Mapai (in Gaza).

This is part of the 'One District, One Bank' project launched by the Government in 2016, which aims to speed up the banking process in rural areas, to minimise the suffering of people who have to travel long distances in search of a banking facility.

Internal Public

Clube Moza

The mission of Clube Moza is to engage employees through the creation and promotion of initiatives and offer of services that promote the well-being and harmony of individuals with themselves and their bodies. This has an impact on empathy and success levels, and develops employees' relationship with each another.

Through Clube Moza we promote sporting, cultural and recreational activities, as well as basic services of interest to our employees.

Main projects in 2018

Sports

Moza Banco took part in the LIGA METICAL, a major event involving financial institutions across the country. Clube Moza encouraged employee participation in futsal and basketball competitions in the cities of Beira, Maputo and Nampula, noting with satisfaction the results achieved particularly in the men's futsal where Moza took 2nd place in the championship in Maputo.

Operation New Identity Card

This project aims to make it easier for our employees, spouses and dependants to obtain their Identity Card. For this purpose, we worked in partnership with the National Civil Identification Department (DNIC), which sent out a mobile brigade to issue Identity Cards. The event was attended by 376 people.

Commemoration of our first 10 years

On 16 June of this year we celebrated one decade in business. To mark the anniversary, we assembled all Maputo staff for a moment of celebration to share memories and look forward together to the future. As for the other provinces, similar events were held locally, and these reinforced cohesion and team spirit. During the 10th anniversary celebrations, employees with 10 years of service were praised for the value of their work with the Bank since its foundation, and this filled the winners with pride.

Moza Voice Show

This is an event where employees sing their favourite songs on stage along a professional band which identifies with and is committed to the cause.

For the second consecutive year this event was , one of the main factors which has helped boost employees' self-esteem. We then hold galas to promote the best performers at these events. With this project, we were able to celebrate and bring together messages and values, to unite and socialise employees, as well as develop their personality, emotional balance and sociability. All this helped reinforce the idea that Moza Banco is a benchmark Mozambican bank, giving its employees the opportunity to express their cultural identities, which reflect the plurality of dialects and cultures and the enormous talent of our people.

Moza Gala

Moza Gala is the ideal event to present the activities carried out by the Bank and by Moza Club in sport, culture, welfare and recreational activities during the year and to consolidate synergies which provide more benefits to employees. It is also an opportunity for interaction between the Executive Committee and employees in a relaxed atmosphere. At this event, which usually takes place on the eve of the festive season, the year is celebrated, hopes are renewed and perspectives are shared for the following year.

GALA has been a great success and managed to bring together a large number of employees in one place to get together and interact with managers. In 2018 the event also included the esteemed presence of the managers and employees of Banco Terra as part of the ongoing merger process.

Partnerships

In order to make it easier for Moza's employees to have prime access to goods and services, Clube Moza involved a group of companies operating in the areas of Tourism and Leisure, Clothing, Appliances, Gyms, Technology and others. With these partnerships we have provided our employees with the most outstanding experiences, in addition to creating environments to generate expertise and innovation, maintain a healthy working atmosphere, stimulate motivation and encourage employee satisfaction.

Moza Volunteers

Solidarity Walk

As part of Moza Banco's Volunteer Policy - 'We are Volunteers' - we mobilise employees to take part in voluntary activities and as a result strengthen Moza's commitment to society through the direct action of its employees; all this is part of the Bank's sustainability framework and makes its professionals prouder to belong to Moza by motivating them individually. One example is the SOLIDARITY WALK held on 3 March, 2018 in Maputo to raise funds in support of the renovation of the Santo António da Polana Church, an iconic building with striking architecture located in the heart of the capital Maputo.

Make A Child Happy Campaign

As part of the 10th anniversary celebrations and inspired by its solidarity and volunteering spirit that is a feature of the Moza employee throughout the country, we held the Make A Child Happy campaign, which mobilised all employees to demonstrate their sense of charity to the maximum to improve the lives of the most disadvantaged. All employees donated clothing, school supplies and toys. A group of Moza volunteers collected and selected donated materials to deliver to the community of Bairro Luís Cabral which is looking after children whose parents were victims of the EN4 road accident. This initiative helped to alleviate the suffering and bring more smiles to the children's faces, allowing them to do what they know best: play and be children.

Christmas Appeal

To celebrate Christmas, Maputo volunteers chose the Malanga Retirement Home that accommodates hundreds of elderly people who live alone or who come from families that do not have access to basic needs such as health, food and housing. Volunteers carried out a number of integrated activities to promote social inclusion, health and well-being for the elderly. With the support of a health professional, they held a lecture on malaria which has been one of the main causes of death in Mozambique, prepared food, cooked and served meals for close to 100 elderly people. And because music can stimulate the physical, emotional and social life of the elderly, Stewart Sukuma, a prominent singer on the national artistic scene, sang for the elderly. These songs helped the residents to remember moments that, although personal, were also a collective experience and marked a certain phase of their lives.

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 in regions where Moza Bank operates.

With this in mind, the following sponsorships were awarded in 2018:

Sponsorship of the celebrations for Portugal's National Day

Moza supported and took part in the Portuguese Community Festival in Maputo, part of the celebrations for Portugal, Camões and Portuguese Communities Day that took place at the Portuguese School of Maputo in June. At the event, which was free, businesses were represented with small promotional events for attendees, and there was particular emphasis on kids as this was children's month.

UP Lecture Cycle

The Universidade Pedagógica in Maputo received support from Moza Banco and other partners to hold a series of lectures relating to art, sports and environmental conservation that took place in July and August.

Two former Mozambican footballers, Hilário da Conceição and Sheu Han, who played for Sporting Clube Portugal and Sport Lisboa e Benfica respectively, both Portuguese clubs, were in Maputo to give the lecture on sport.

Publication of the book 'Mahanyela – a vida na periferia da grande cidade'

Moza supported the publication of a memoir entitled 'Mahanyela - life on the outskirts of the big city' by Nely Nyaka, a prominent figure in Mozambican society whose values are in line with those of Moza Bank.

This publication was supported in recognition of the value of the arts and culture and their huge contribution to the communication of moral values, knowledge, habits and customs.

In order to make this 'historical' edition possible, Moza Banco made an advance purchase of 300 copies, some of which will be distributed to libraries and public schools in various parts of the country.

VI Nacional Conference on Civil Society 2018

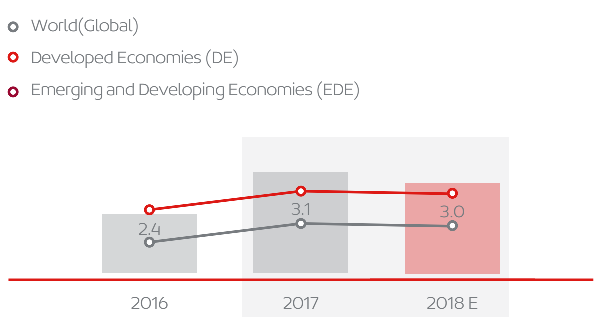
Moza Banco supported the holding of the VI National Civil Society Conference 2018, an event to discuss and strengthen the influence of these organisations in the country. At the two-day meeting, a cooperation protocol was signed with JOINT - the League of Non-Governmental Organisations of Mozambique - for Moza to create facilities for providing financial services to employees of these organisations affiliated to JOINT, thereby contributing to the empowerment and development of civil society.

8. Macroeconomic Background

8.1 Global Economy

Global economic activity (GEA) remains moderate, with global GDP expected to reach 3.0% in 2018, a slowdown of 0.1 pp compared to 2017. The trend to recovery has been steady over the past two (2) years, despite trade tensions between major economies remaining high.

Global Economic Growth (%)



Note: E - Estimate
Source: World Bank - Global Economic Prospects, January 2019

a) Developed Economies

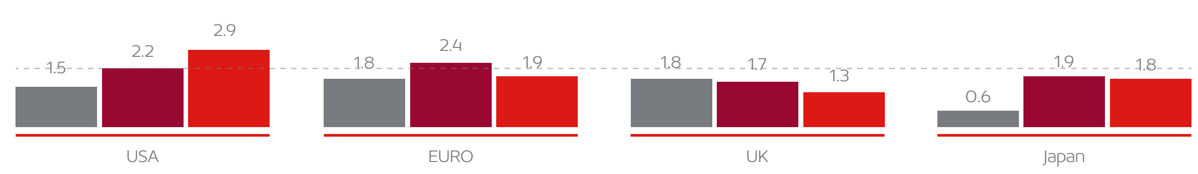
According to the International Monetary Fund (IMF), economic activity in most developed economies has been moderate except for the United States where fiscal stimulus has boosted economic activity and is expected to continue in the short term. It is estimated that in 2018 developed economies will feature a growth rate of 2.2% compared to 2.3% in the same period of last year. This development was basically explained on the one hand by the unemployment rate which continues to decline, while for many countries is below the levels prevailing before the global financial crisis in 2018, and on the other hand by the review of US tax policies.

For the North American economy (representing approximately 24% of the global economy) growth of 2.9% is expected in 2018, an acceleration in GDP of 0.7 pp on 2017. This performance is supported on the one hand by the pro-cyclical stimulus of fiscal policies, thus accommodating monetary policies and, on the other hand, by the reduction in the unemployment rate, keeping the labour market strong. This is contributing to an increase in domestic productivity, clear proof of (short-term) economic recovery for the coming years.

It is estimated that economic growth in the Euro Zone at the end of 2018 stood at 1.9%, a remarkable slowdown when compared to growth of 2.4% in the same period of 2017. The slowdown in exports contributed significantly to this performance, although inflation hit the target, which was revised in October, compared to those objectives set at the beginning of the year.

The UK economy grew by 1.3%, reflecting a 0.4 pp annual GDP slowdown, a trend which is further explained by the uncertainties and risks associated with a No-deal Brexit, internal political instability and an adverse external market.

Economic growth of the DE (%)



Note: DE - Developed Economies; E - Estimate
Source: World Bank - Global Economic Prospects, January 2019

Regional Average 2016 2017 2018 E

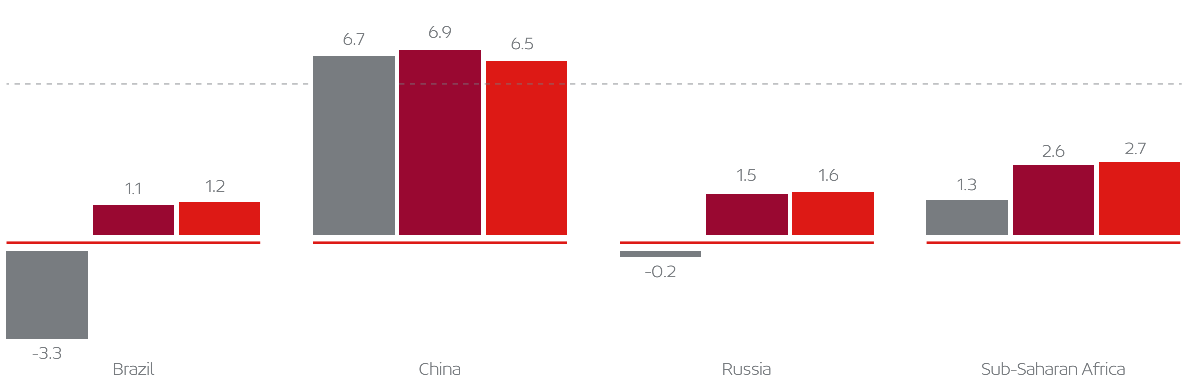
b) Emerging and Developing Economies, and Sub-Saharan Africa

Emerging and developing economies (EDE) have generally experienced a slowdown in their growth rates. These are representative of about 70% of the global economy, and although they are still posting a diverse economic situation, some factors that contributed to this performance should be highlighted: (i) financial stress in some economies with large deficits in their current accounts; (ii) greater exposure to volatile capital flows. These indicators are the result of moderate domestic demand in almost every economy (EMED) and reduced domestic trade flows, becoming more prominent in more vulnerable economies. China, the world's second largest economy (representing around 15% of the global economy) remained strong, although it saw a slowdown in growth levels in 2018 with an estimated GDP of 6.5%, after less recourse to credit and the impact of the trade war with the US. This was reflected in an increase in asset prices (real estate) as well as sovereign bond spreads. Economic activity in 2019 is expected to remain sensitive to these risks.

The Russian economy growth was better than expected, with annual GDP growth of 1.6%, supported in part by oil prices that experienced a significant recovery compared to 2017.

Economic activity in sub-Saharan Africa continues to recover, albeit at a slower pace than in 2017. GDP is expected to reach 2.7% in 2018, corresponding to a significantly slower than expected rise of 0.1 pp, partly due to economic weaknesses in Angola, Nigeria and South Africa, with uncertainty about a cyclical recovery in these major economies for the next three years. However, per capita income growth remains modest, progress on poverty reduction is limited, and the risks that underpin the outlook for the coming years are pessimistic, with external risks such as: (i) an unexpected and sharp decline in commodity prices; (ii) pressure on financial conditions and growing trade tensions involving the main economies and on the other hand, domestic risks such as: (i) political uncertainties; (ii) internal conflicts and (iii) adverse climatic conditions.

Economic Grouth EDE (%)



Note: EDE - Emerging and Developing Economies, E - Estimate
Source: World Bank - Global Economic Prospects, January 2019

Regional Average 2016 2017 2018 E

c) Prices of key commodities

Crude oil prices have been volatile since August 2018, reflecting interruptions to supply including US policy on Iran's oil exports and, more recently, fears of global demand flattening out. In early January crude oil prices were around $55 a barrel, and markets expected prices to remain at that level over the next 4 to 5 years. Prices of metals and agricultural products have declined slightly since August, partly because of weak demand in China. Consumer price inflation has generally remained under control in recent months in the advanced economies with the greatest impact in the United States.

Prices of major commodities are expected to stabilise in 2019, and OPEC (the Organisation of Petroleum Exporting Countries and its allies) is expecting further cuts which will put pressure on the world's oil supply and, as a result, will tend to push up prices. The uncertainty around the resumption of US and China trade negotiations is still very prominent.

Trends in Commodity (2014-2018)

	Real					Δ Annual (%)	
Commodities	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**	**Dec-17**	**Dec-18**
Brent Crude (USD/Barrel)	98.9	52.4	44.1	54.4	71.1	23%	31%
WTI Crude (USD/Barrel)	93.1	48.7	43.2	50.9	64.8	18%	27%
Aluminium (USD/MT)	1,867.4	1,664.7	1,604.2	1,967.7	2,108.0	23%	7%
Gold (USD/Ounce)	1,265.4	1,160.7	1,249.0	1,257.6	1,269.0	1%	1%
Gas (USD/Millions UTB)	4.4	2.6	2.5	3.0	3.2	19%	7%
Thermal Coal (USD/MT)	72.3	57.0	64.1	81.9	97.6	28%	19%
Maize (USD/MT)	192.9	169.8	159.2	154.5	164.4	-3%	6%
Wheat (USD/MT)	245.2	206.4	176.3	178.2	203.9	1%	14%
Rice (USD/MT)	425.2	386.0	380.3	379.9	401.1	0%	6%
Sugar (USD/Kg)	0.5	0.6	0.6	0.6	0.6	2%	-10%
Cotton (USD/Kg)	1.8	1.6	1.6	1.8	2.0	12%	9%
Tobacco (USD/MT)	4,990.8	4,908.3	4,806.2	4,731.6	4,859.5	-2%	3%

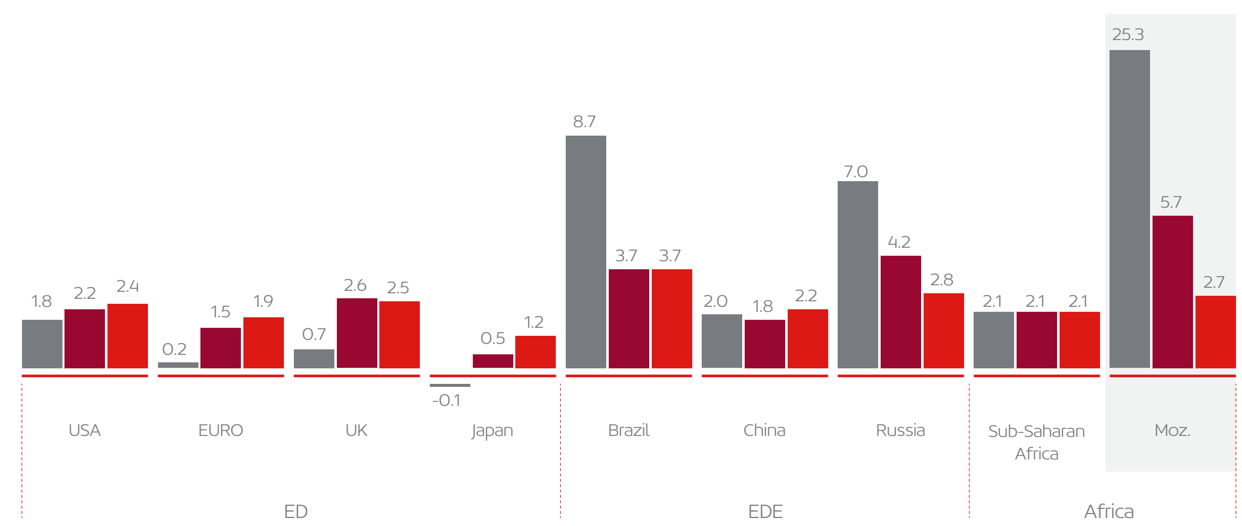
Note: Price Based on annual averages

d) Inflation in Emerging Economies

In 2018, the economies in emerging and developing countries have seen a record inflation fall since 1974, from 17.3% to about 3.5%. This event coincided with an even sharper decline in most advanced economies, evidence of deflation in major economies worldwide in recent times.

The major deflation in the EMEDs was also in line with long-term global inflation trends, of which the following stand out: (i) the widespread adoption of monetary policy frameworks and (ii) the strengthening of global trade and financial integration.

Inflation (%)



Source: Novo Banco - Economic Research, 28 de January 2019
INE - Costumer Price Index, December 2018

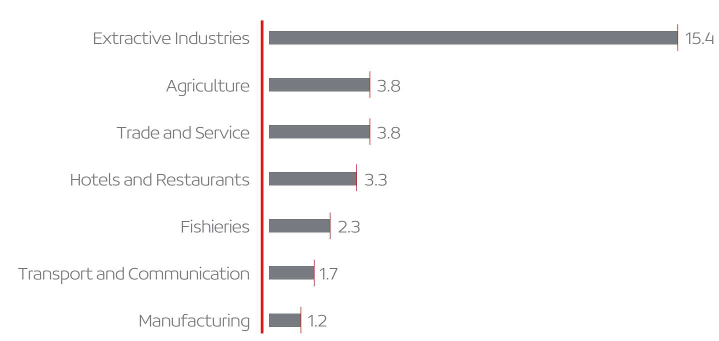
2016 2017 2018 E

8.2 Domestic Economy

a) Economic growth

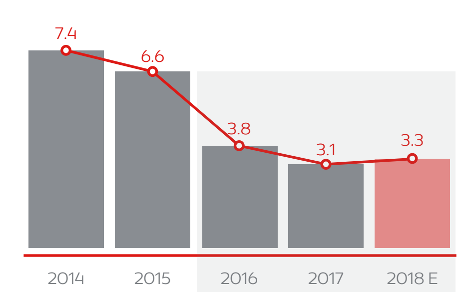
The Gross Domestic Product for 2018 showed moderate growth, with an average 3.3%, compared to 3.1% in 2017. According to the National Statistical Institute (INE), economic performance was led by the extractive industries with annual growth of 15.4%, followed by agriculture with 3.8%, trade and repair services with 3.8%, hotels and restaurants with 3.3%, all contributing together to GDP growth of 2.17 pp.

Contribution to GDP by Activity Sector (%)



Note: Estimate
Source: INE - National Statistical Institute

GDP Growth - Mozambique (%)



Note: E - Estimate
Source: INE - National Statical Institute, national Accounts of Mozambique (4th Quarter 2018)

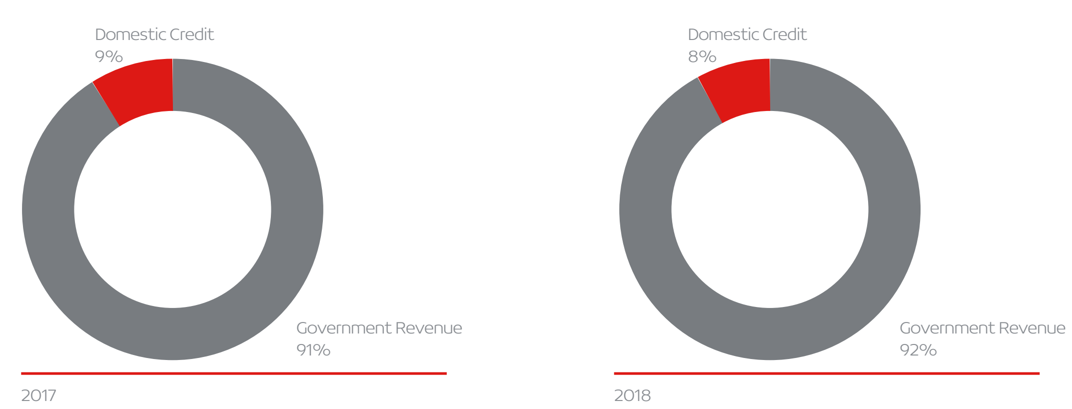
The growth in GDP in 2018 continues to be affected by the following factors: (i) the balance of payments shock linked to the fall in foreign direct investment, (ii) recovery in domestic production caused by the retraction of incentives to agriculture, (iii) the reduction in investment and state consumption as a result of the restrictive fiscal policy implemented after the suspension of foreign aid to the state budget by international cooperation partners. This greatly restricted the performance of the country's economic activity in the last three (3) years.

It is expected that the growth of the Mozambican economy in 2019 will continue to be strongly influenced by the mining industry, agriculture, construction and financial services, where even stronger growth is expected due to continued high levels of direct foreign investment, especially in the mining industry, with the start-up of projects in the natural gas sector.

b) Public Debt

It is estimated that in 2018 the state's internal debt will reach 19,204 million Meticais against 21,200 million Meticais in 2017, corresponding to a variation of -9% per year. Notwithstanding this change, and affected by the suspension of foreign aid to the state budget by international cooperation partners, the state's internal debt contracted in the form of Treasury Bills (BTs and OTs), and advances to the BM under Law 18 of the Organic Law remain high. It should be noted that the issuance of Treasury Bonds amounted to 17,650 million meticais for a target of 19,200 million meticais established in the budget law for 2018.

Internal State Resources (%)



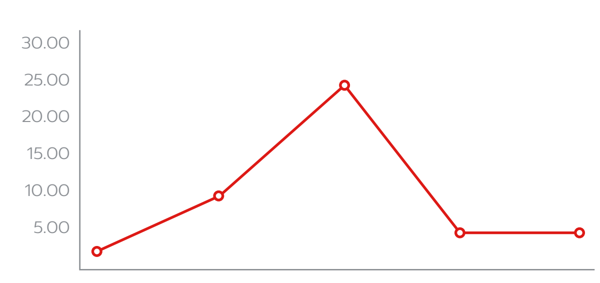
Note: E - Estimate
Source: Proposed PES 2019 - Document Rationale, 28 September 2018

c) Inflation

In 2018, Mozambique recorded accumulated inflation of 3.52% (2017: 5.65%) and average annual inflation of 3.91% (2017: 15,11%), mainly due to the slowdown in the annual rise in the prices of foodstuffs, in particular vegetables. The period was also marked by a favourable trend in the prices of managed products, especially prices of liquid fuels in line with the recent decline in the international price of a barrel of oil in the 1st quarter, combined with the relative stability of the Metical against the US Dollar.

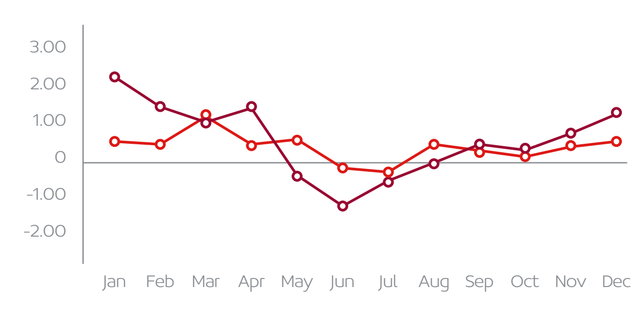
However, inflation for 2019 is constrained by internal and external risks. At the domestic level, the prevalence of uncertainties over the impact of the 2019 electoral cycle, the administrative decentralisation package and demilitarisation, as well as ongoing measures for fiscal consolidation are all significant.

Change in Annual Inflation (%)



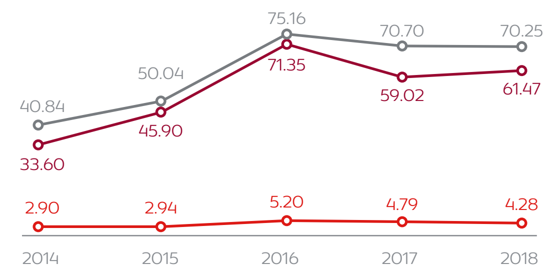
Source: INE - Consumer Price Index, December 2018

Change in Annual Inflation (%)



d) Exchange Rate

The Metical fell slightly against the Dollar in 2018, in contrast to other currencies traded such as the Euro and Rand. From December 2017 to December 2018, the Metical recorded the following relative variations against these currencies: (i) USD/MZN: +4%; (ii) EUR/MZN: -1%; and (iii) ZAR/MZN: -12%.
Exchange rates against the Dollar, Euro and Rand reached the close of the year levels of 61.47; 70.25; and 4.28 Meticais per currency unit respectively.



Source: Bloomberg; Bank of Mozambique and Moza Banco

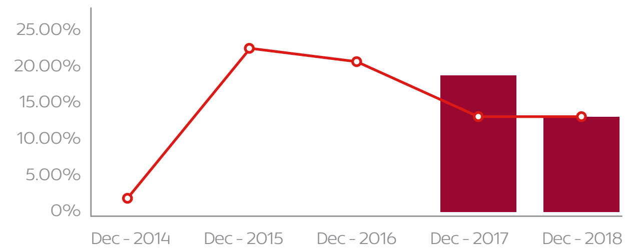
MZN / USD   MZN / EUR   MZN / ZAR

e) Financial Sector

Last year was marked by stability in the financial system, supported by the Bank of Mozambique (BdM) continuous monitoring of economic and financial indicators and risk factors.

In the year under review, money market interest rates declined as operations with overnight maturities matched the MIMO rate in line with the guidelines defined by the BdM, and by the end of December 2018 this monetary policy rate was revised downwards to 14.25% (an annual reduction of 525 bp).

Rates - MIMO & International Money Market

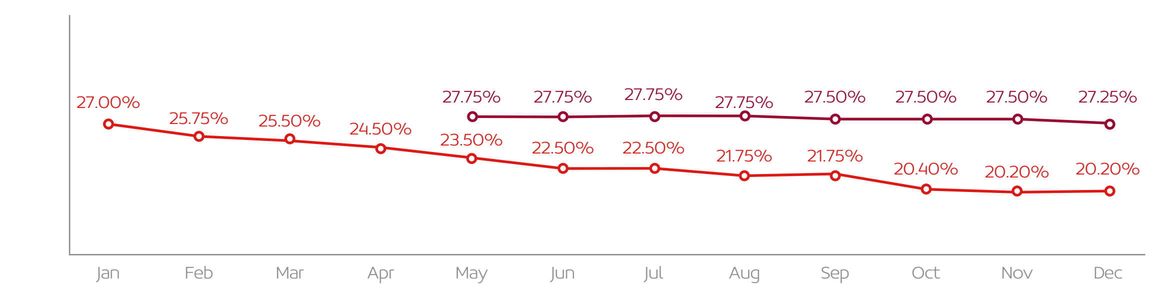


Source: Bank of Mozambique

MIMO   Overnight Interbank Rates

In relation to the Prime Rate of the financial system, the base rate for credit operations, it fell by about 705 bp. standing at 20.20% at the end of December 2018, against 27.25% in the same period of the previous year. Coupled with this factor, retail interest rates on both active and passive operations tended to decline. Available data show that the average interest rate on new loans in 2018 stood at 23.13% (a reduction of 876 bp compared to the rates recorded in 2017). For passive operations, the average of new deposits for the 1-year period was 11.1%, equivalent to a reduction of 821 bp. compared to the same period in 2017.

Changes in Prime Rate



Source: Bank Of Mozambique   2017   2018

In December 2018, the Bank of Mozambique's Monetary Policy Committee decided, including, but not limited to, to revise downwards the interest rate on the Permanent Liquidity-Providing Facility (FPC) to 17.25% and the Permanent Deposit Facility (FPD) rate to 11.25%. During the year, Obligatory Reserves (ORs) in local currency remained at 14.00% and in foreign currency they increased to 27.00%, corresponding to a change of 13 pp compared to December 2017.

In 2019, the BdM will continue to favour an expansionary monetary policy with low interest rates, aimed at favouring credit and consumption, based on the perspective of a low inflation rate.

Trends in Reference Rates (2014 - 2018)

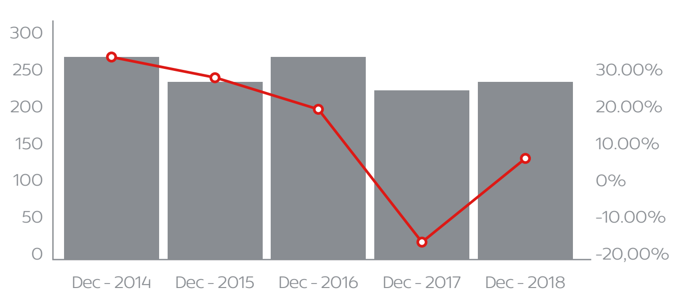
						Δ Annual (%)	
Financial Indicators	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**	**2017**	**2018**
Permanent Liquidity-Providing Facility (FPC)	8.25%	9.75%	23.25%	20.50%	17.25%	-2,75 pp	-3,25 pp
Permanent Liquidity-Absorbing Facility (FPD)	1.50%	3.75%	16.25%	14.00%	11.25%	-2,25 pp	-2,75 pp
Required Reserves MN	8.00%	10.50%	15.50%	14.00%	14.00%	-1,50 pp	0,00 pp
Treasury bills - 91 days	5.37%	7.52%	24.32%	23.75%	13.85%	-0,57 pp	-9,90 pp
Treasury bills - 182 days	6.62%	7.28%	27.47%	24.15%	13.92%	-3,32 pp	-10,23 pp
Treasury bills - 364 days	7.25%	7.55%	28.84%	24.98%	13.58%	-3,86 pp	-11,40 pp
Overnight Interbank Interest Rates	3.11%	5.55%	23.16%	20.90%	14.25%	-2,26 pp	-6,65 pp

source: Bank of Mozambique

In December 2018, banking system assets reached MZN 606 billion, representing an acceleration in annual growth of 13.1%, compared to 6.3% in 2017.

The volume of deposits reached MZN 413 billion, representing an increase of 11.6% compared to 2017 when it saw estimated growth of 5.8%. Similarly, the growth rate of lending to the economy shows a recovery by about 18.9% compared to the same period in 2017, standing at 3% (2017: -15.9%), with a volume of MZN 240 billion at the end of 2018.

Changes in Lending to the economy



Leasing to the Economy   Annual Growth of Lending to the Economy (%)

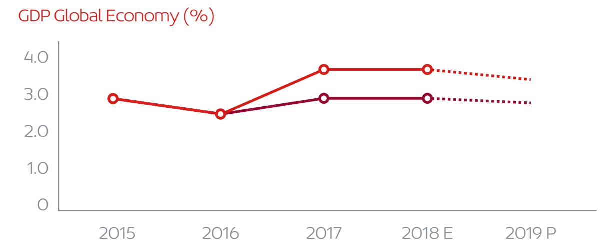
Source: Bank of Mozambique

8.3 Economic outlook for 2019

(a) The International Economy

According to the World Bank, global economic growth in 2019 is forecast to reach 2.9% after a moderate year in 2018, as industrial activity and trade slowed significantly in some developed economies and emerging markets in the second half of the year. Supported by the same factors, the International Monetary Fund (IMF) maintains a more optimistic position, with world economic growth of 3.5% expected by 2019.

GDP Global Economy (%)



World Bank   IMF

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

Moderate growth is expected in advanced economies in 2019, reaching 2.9%, a decline of 0.01 p.p. against the estimated 3.0 p.p. for 2018. This performance is due to downward revisions in most countries in the Euro zone which are explained by the following factors: (i) In Germany, this was due to weak private consumption, weak industrial production after the introduction of revised motor vehicle construction standards and moderate external demand; (ii) in Italy to weak domestic demand and higher borrowing costs as sovereign incomes remain high, and (iii) in France, due to the negative impact of street protests and constrained industrial action. The United States, in turn, will proceed with fiscal stimulus, with monetary policy review and interest rate review, to boost economic activity, thereby sustaining faster growth when compared to 2018.

Stagnation in the Emerging and Developing Economies as a whole is predictable, pointing to 4.2% growth in 2019, sustained by a slowdown in external demand, tighter financial conditions and greater political uncertainties.

Sub-Saharan Africa is expected to grow rapidly in 2019, with GDP expected to stand at 3.4%, compared to 2.7% estimated for 2018. It is also expected that most of the economies in this zone will grow by more than 5% in 2019, having thus a positive impact on the overall regional performance.

GDP Perpesctive - World Economy (%)	**2016**	**2017**	**2018E**	**2019P**
World	**2.4**	**3.1**	**3.0**	**2.9**
Adanced Economies	**1.6**	**2.3**	**2.2**	**2.0**
USA	1.5	2.2	2.9	2.5
Eurozone	1.8	2.4	1.9	1.6
Japan	0.9	1.9	0.8	0.9
Emerging and Developing Economies	**3.7**	**4.3**	**4.2**	**4.2**
Russia	-0.2	1.5	1.6	1.5
Brazil	-3.5	1.1	1.2	2.2
Sub-Saharan Africa	1.3	2.6	2.7	3.4

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

The main sources of risk for the global outlook depend on the outcome of trade negotiations and on the course of financial conditions in the coming months.

If countries are able to settle their differences with no increase in trade barriers, and if market sentiment recovers, confidence and the trade climate can be expected to rise above the 2019 target. Added to this scenario are the uncertainties remaining around the completion of the negotiations on the exit of the United Kingdom from the European Union (Brexit).

(b) Domestic Economy

The fiscal consolidation objective will proceed in 2019, by improving domestic revenues (supported by an increase in domestic production resulting from improvements in agrarian marketing and the expansion of the mining industry), the introduction of structural reforms and the rationalisation/containment of public expenditure (tight fiscal policy with tax increases and weak prices for metals and agricultural produce).

In monetary terms, as a result of continued downward trend of the inflation rate and exchange rate stability, in 2019 the Bank of Mozambique policy is expected to reduce its key rates. Economic activity will thus continue to be affected by the restrictive economic plan and by the continued suspension of support to the General State Budget by international partners.

Some challenges and constraints to the Mozambican economy should be highlighted:

(i) For the 2019 fiscal year, macroeconomic stability will be maintained by correcting fiscal imbalances, with a focus on reducing public expenditure and implementing tax reforms. These will be based on the extension of the tax base for reducing external dependence, through the diversification of sources of revenue collection and intensification of auditing and inspections for companies, with a greater focus on mega-projects;

(ii) The economic growth projected for 2019 is based on the positive performance of mining (14%), fisheries (6%), agriculture (5.5%), health and social work (4.5%), education (5%) and public administration (4.5%);

(iii) As regards the level of inflation, it is expected to continue to improve favourably by around one digit, due to the measures being implemented in the monetary and foreign exchange sector. These aim to restore price stability and increase international reserves to cover imports and reduce inflationary pressures;

(iv) Resumption of the Foreign Direct Investment levels in Mozambique (FDI), with the projection for 2019 pointing to a net injection of funds of USD 5,769 million;

(v) Uncertainties arising from the general elections to be held in October 2019, and the ongoing process of integrating RENAMO's armed men and their demilitarisation (political-military tensions).

Indicators	**2016**	**2017**	**2018 E**	**2019 P**
GDP (%)	3,30	3,10	3,50	4,70
Inflation (%)	25,27	5,50	5,65	6,50
Exports (millions USD)	3,328	4,725	4,913	5,160
NIR (millions USD)	1,875	3,038	4,725	3,100
Months import Coverage (months)	3,60	7,30	6,00	6,00
FDI (millions USD)	3,093	1,271	2,563	5,769

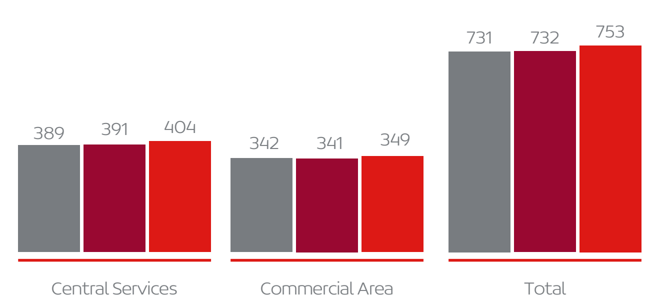
Source: Proposed PES 2019 - Document Rationale, 28 September 2018
Note: E - Estimate, P - Projection

9. Business Support Activities

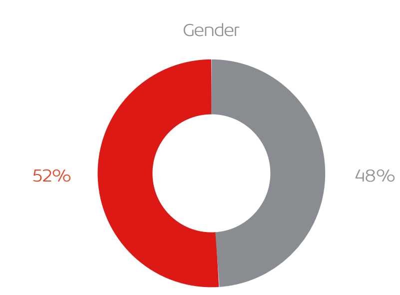
9.1 Human Resource Management

The path of recovery and consolidation for the Bank's activity which marked the 2018 fiscal year was essentially based on the specific dimension of Human Capital Management. This involved prudent staff growth, investment in vocational training and the promotion of growth initiatives, and the professional development of employees based on meritocratic criteria.

Thus, in terms of size and composition, the workforce of Moza Banco increased from 732 to 753 employees (a 3% increase on the same period in 2017). Of these, 52% were allocated to Central Services and 48% to the Commercial Services.



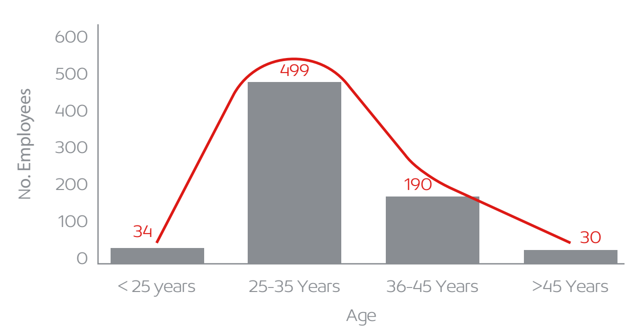
2016   2017   2018 E



Women   Man

By following the principle of balance and equality of gender opportunities, a position complies with its corporate values, Moza has a very balanced structure, in which 48% of its staff is female and the remaining 52% male.

The majority (around 66%) of its staff are young, in the 25-35 age bracket, with an average age of 33 years. This shows that management is bold enough to focus on valuing people who are willing to promote innovation associated with the use of new information and communication technologies, in order to respond to new business trends and encourage processes to reduce operating costs.



Training

Professional training is a crucial tool to increase motivation, professional growth and increase the productivity of Moza Banco employees.

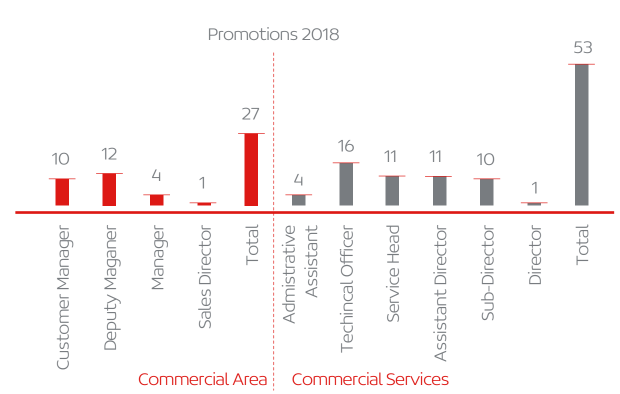
In the macroeconomic context which leads to specific investment cautions, it is worth highlighting the continued commitment of the Bank's Management Committees to the training of their employees. In 2018, 162 training sessions were held, focusing primarily on important and urgent areas of its business activity. These sessions were attended by 287 participants, equivalent to 8,375 hours of training on different topics such as regulatory compliance, improving skills and abilities in the field of applications, process, service provision and reinforcement of a culture of efficiency based on resource streamlining.

Of note is the Institution's ongoing commitment to involving 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 desired quality and applicability of shared knowledge.

Promotions

At Moza Banco, career progression goes along with the organisation's commitment to launch challenges, provide opportunities and recognise the merit in the contribution of employees and their teams in pursuing the strategic objectives.

Based on widely publicised criteria including qualifications, professional experience, effective contribution, skills proficiency and evidence of potential, 80 employees (equivalent to about 11% of the permanent staff) benefited from promotions by merit, and rose to the positions and functions shown below:

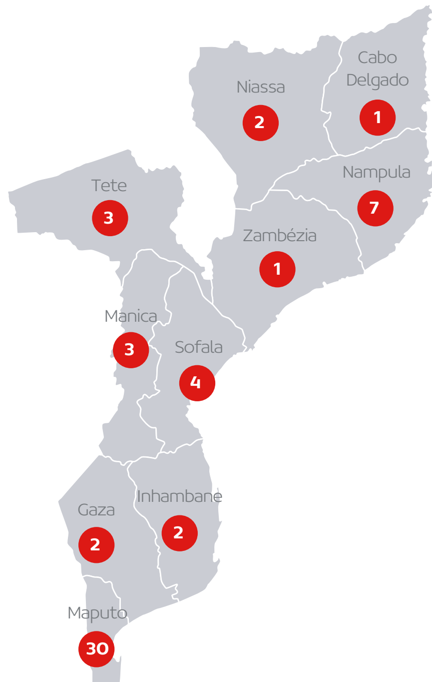


9.2 Distribution Network

At the end of 2018, Moza Banco had a distribution network comprised of 55 Bank Branches, including 53 Retail Branches, 1 Corporate Centre and 1 Private Centre. It should be noted that among the retail branches, eight are informal markets.

In 2018, Moza Banco expanded its network with the opening of branches in Lichinga located in the provincial capital of Niassa and Dondo in Sofala province. At the end of 2018, the distribution network totalled 55 banking branches.

With the opening of two of these branches, Moza consolidates its status as the bank with the third largest branch network, with a presence in all of the country's provinces. In terms of geographical coverage, there are 34 branches in the south, 11 branches in the central area and 10 in the northern part of the country.



In terms of bank system ranking, Moza Banco ended the year 2018 with a market share of approximately 8.3%, ranking as the third (3rd) largest Mozambican bank in terms of branch network.

In strategic terms, in 2019 the Bank will resume the expansion of the bank branch network, with the opening of 20 new branches in the districts in the next 24 months, as part of the 'One District, One Bank' programme in partnership with the Ministry of Land, Environment and Rural Development (MITADER). This stance shows that Moza Banco has been 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 Business Activity

Business activity in 2018 was marked by a continuation on the path to recovery that the Bank started about 2 years ago. This year saw the consolidation of business activity, a result of the positive results achieved through the implementation, starting from the last quarter of 2016, of measures leading to the recovery of market confidence levels in general, and of Bank customers in particular.

With customer and market confidence recovered and stable, the focus of the Bank's business activity was to develop strategies for retention, loyalty and closer ties with existing and new customers, in line with its new Relational Banking approach.

In 2018, Moza Banco set out the following as its main priorities for business activity:

1. Diversifying the customer retention strategy;
2. Establishing deep relationships with customers;
3. Structuring the supply of products for each customer segment, in order to enhance and improve customer involvement with the Bank;
4. Designing a Segment Approach Plan, supported by automated tools and periodic performance reports;
5. Developing initiatives that promote customer linkage, supported by a policy of regular proactive contacts as part of a relational banking model;
6. Automating and optimising tools and devices to support the network in order to enhance commercial challenges;
7. Granting of credit with universal conditions, easy access and easy processing;
8. Offering savings and investment products with attractive arrangements and interest rates.

The beginning of 2018 was also marked by the priority of fundraising through specific campaigns to boost and promote Moza products. These campaigns had a positive impact, allowing the Bank to set out a credit growth strategy at the beginning of the second quarter, and move the focus of its business activity to the granting of credit and simultaneously reducing interest rates on remuneration paid on deposits.

Along with the offer that was proposed to the Bank's customers in 2018, its motivation and incentive strategy proceeded by the commercial teams by way of the Objectives and Incentives System which rewards the commercial teams on merit as witnessed by their commitment to the Bank and meeting the objectives set.

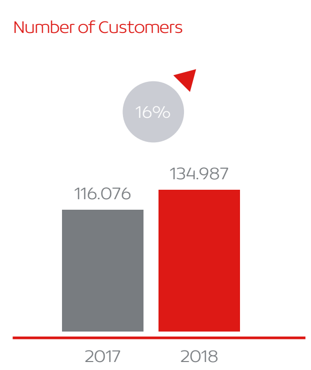
As a result of the success of the strategies described above, there was a notable increase in turnover, customer acquisition, liquidity, equipment fees and transactions carried out through Bank channels.

Number of Customers

In 2018, Moza Banco recorded 16% growth in customer numbers compared to the same period of 2017, which corresponded to 18,911 new customers. The level of customer concentration in the Private Retail segment was unchanged, with growth of approximately 94% in the number of customers, reflecting Moza's position as a universal bank.

In 2018, the Bank identified a group of customers whose reduced involvement with the Bank led to the closure of their accounts, and around 4,000 accounts were closed.

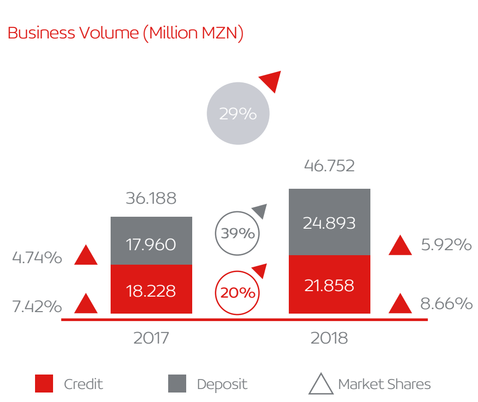
In the second half of 2018, the inclusion of a 'Customer Capture' variable in the business challenges was defined as a customer acquisition strategy. This enabled branches and managers to reach their defined objectives, offsetting the reduction in accounts that were closed.



Turnover and Competitive Position

Turnover in 2018, measured through customer loans and customer deposits, grew by 29% over the same period in the previous year, totalling MZN 46,752 million at the end of 2018. In this period, the highlight was the retail segment, which contributed most to the growth in the Bank's turnover when compared to the same period of 2017. This shows that the business strategy was successfully implemented. In addition, this growth reflects the success rate in adhering to the Bank's proposed solutions and reaffirms Moza's focus on universal banking.

Further to the business, it is worth underlining that the growth in Moza Banco's turnover in 2018 was well above the growth rate in the national banking system, where overall growth was 8.5 % (credit: 3.3% and deposits: 11.8%), revealing the Bank's commitment to taking a leading position in offering solutions that its customers in particular, and the market in general prefer. The above-market growth of Moza's business activity is a clear sign that the market has regained confidence in the Institution.



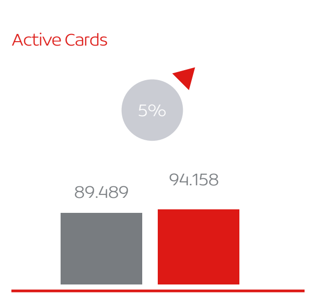
As a result of the growth in turnover in 2018, Moza Banco consolidated its position on the list of the five largest financial institutions in the market, with a market share in terms of Credit Granted of 8.66% (2017: 7.42%), Customer Deposits of 5.92% (2017: 4.74%) and 6.06% Assets (2017: 5.0%).

Moza's performance in the last two (2) years has contributed significantly to the growth of economic activity in the country in general, and the Banking Sector in particular. In 2018, Moza was the financial institution that made the second largest contribution to the credit and deposit growth in the banking sector, with a contribution of 16.9% and 15.7%, respectively.

Cards

In 2018, in order to ensure the continued growth of transactions, as well as Moza cards, the Bank carried out a number of initiatives, including:

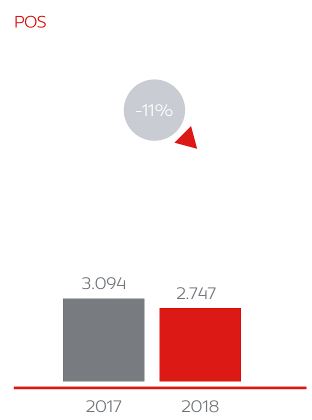
– Campaign to encourage the use of Moza cards abroad which resulted in an increase in the number and volume of transactions by approximately 40% and 50%, respectively, and rewarded customers with a trip to Dubai;
– Campaign to issue pre-approved credit cards for customers who did not have this means of payment. The result reached 99% execution in terms of issuance;
– Optimisation of users and services in the MasterCard network that resulted in a reduction of MasterCard network costs;
– Reduction in the costs of electronic cards giving them a better competitive position and making them an attractive offer for customers.

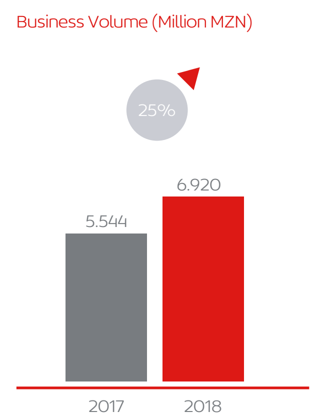


As a result of the initiatives described, cards grew by 4,669 units (+5%) compared to the same period in 2017, totalling 94,158 cards on the network at the end of 2018. It is expected, however, that the impact of the actions implemented will be more visible in fiscal year 2019, since a proportion of them were carried out in the second half of 2018.

POS

In 2018, the Bank recorded a reduction of approximately 11% (-347 units) in its POS stock compared to 2017. The reduction in the number of POS is the result of the strategy implemented at the beginning of 2018, to ensure greater profitability in this service. Two (2) combined activities were carried out, namely, an analysis of POS profitability and action to check the non-use of POS for over 30, 60 and 90 days.





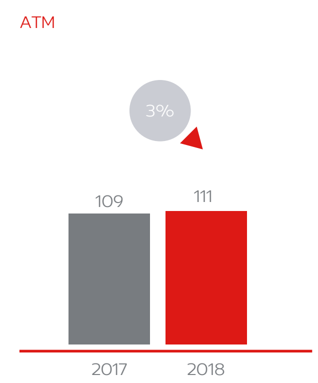
With this strategy implemented, a total of 1,600 non-used POS equipment being withdrawn in 2018; these POS were later reallocated to customers with higher inflow and turnover.

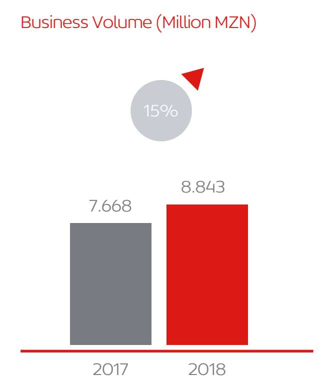
The positive results of the strategy carried out by the Bank (raised awareness of the use of Moza POS and collection of terminals from shopkeepers with no transactions or who had ceased trading) are remarkable, resulting in a significant increase in the volume of transactions which increased 25% compared to 2017, totalling MZN 6,920 million (2017: MZN 5,544 million).

ATMs

With regard to equipment associated with remote banking, namely ATMs, 2018 was marked by the maintenance of an efficient management policy. Thus, activity in 2018 focused on strengthening the strategy set out in 2017, optimising the current ATM stock, resulting in a process of withdrawing less profitable equipment for their reallocation in spaces with greater potential for transactions. 11 new installations and 8 withdrawals were carried out during the year, making a total of 111 ATMs installed in 2018, reflecting a growth of 3% on the same period last year.

As a result of the strategy implemented, there was an increase in use of the Bank's machines, with an annual volume of transactions at the end of 2018 reaching 15% on 2017 despite the reallocation made in the year.





Channels

A survey was carried out on the need for improvements to channels; besides work was done to raise awareness of the commercial network, to ensure a higher use of customer equipment and greater convenience for the customer by allowing transactions to be carried out remotely that would otherwise be performed by a bank manager. As a result, there was increased use of remote channels, as follows:

– There was an increase of about 20% in internet banking service sign-ups, against a growth rate of around 18% in the same period of 2017.

– With regard to the USSD (Moza Já service), the equipment rate for this channel is around 45% and has become one of the main channels used by customers for their day-to-day transactions, both financial and non-financial, especially for the purchase of Credelec, MCEL and Vodacom top-ups.

In the 2018 fiscal year, the Bank recorded growth of 19% in Internet & Mobile Banking and 42% in USSD.

In addition, among the changes/improvements implemented in the channels, it is important to highlight:

- Start of review and standardisation of all website fields;
- Review and implementation of new features:

o Internet:
- Payment of Salaries and Suppliers;
- Account and Credit Card Statements;
- Transaction confirmation email;

o Mobile:
- Providing a new version, with a more accessible image and a greater set of features.

Kiosks

As part of the automation project for the payment of fees and emoluments, Moza Banco has a protocol with the Ministry of Justice, Constitutional and Religious Affairs and Ministry of the Interior, with a view to reducing/eliminating long queues and providing greater security and convenience in transactions for customers of these ministries.

These machines were optimised in 2018, and the Bank decided to implement a series of improvements to ensure that processes and responsibilities were aligned and that operation of these machines was uninterrupted.

In 2018, the Bank closed the year with a total of 21 active kiosks.
The volume of transactions was approximately MZN 302 million (2017: MZN 110 million). An increase in the volume of transactions is expected as a result of an increase in the customer base. This takes into account the benefits associated with the use of this channel, namely the reduction/elimination of queues, greater security and convenience of transactions.

CRM (Customer Relationship Management)

With a view to improving Moza's relationship with its customers, monthly alerts and leads (likely customers for potential products) were launched, distributed by Managers and Branches. Leads were launched in support of the Business Challenge Objectives and also as specific campaign objectives (Pre-Approved Credit Card, among others), supported by a greater potential for use of CRM tools.

Call Center

The Call Centre has been closely monitoring complaints, requests for support and suggestions from customers through this channel, ensuring that the responses given to them are within the service levels set out by the Regulator, and provide sufficient information.

With a focus on ensuring greater proximity to our customers, making Moza a customer-oriented bank, continuously measuring satisfaction levels and always being visible and accessible to the customer, different measures were implemented through this channel to strengthen the Bank's relationship with its customers.

New business areas

a) Civil Servant Loan

At the end of 2018, the Bank, in partnership with ProSales, launched a loan product aimed at civil servants covering the whole country, from urban centres to remote locations.

This new line of business is bringing very promising results, in view of the demand in 2018.

b) Mukuru Service

The Bank, in partnership with Mukuru, the largest South African securities transfer company, launched a service that enables its South African-based users to send amounts in South African Rand to beneficiaries in Mozambique, who in turn can withdraw them in Meticais at Moza's Business Units, regardless of their relationship with the Bank (at this moment, 24 Business Units are part of this pilot phase) and will soon enter cruise mode.

Products

In 2018, supply strategy reinforced the focus on universal solutions, with easy access and high competitiveness, as well as optimisation of the internal customer response and monitoring processes.

The following initiatives are of note:

a) DP 3 out of 3

Term Deposit with a 3-month term and interest rates that increase monthly, reaching a 12% gross nominal interest (GNIR). The purpose of this deposit was to withhold funds on maturity, as well as to collect new deposits.

Having had successful sales, this product saw its term extended for another 3 months, and was in force until the end of the first quarter of 2019.

b) Double your Money Campaign

To attract new deposit accounts with direct payment of salary, the 'Double your Money' campaign was created and ran from 1/12/2018 and 24/12/2018. During this period, 972 new accounts were opened and at the end 30 customers received the value of their declared and paid income in Moza as a prize, totalling around MZN 382,000.

c) Boas Festas Credit

This product has been offered since 2017 and customers are constantly demanding it, so the campaign has been repeated several times. Similar to this product/campaign, the Bank has launched offers associated with national events throughout the year.

d) Implementing measures imposed by the Bank of Mozambique in Notices 13 and 19

- Implementation of common nomenclature for all fees and commissions charged to Customers;
- Implementation of free financial services introduced by the Bank of Mozambique (BdM) in the different channels (ATM, USSD, Mobile, Internet & Mobile Banking and in the Business Units);
- Implementation of prohibitions and obligations imposed by the Bank of Mozambique;
- Implementation of the complete and simplified price list using the BdM template.

9.4 Information Systems and Technologies

In 2018, within the management of information systems and technology, the Bank proceeded with reinforcing 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

As part of reducing and streamlining costs, several training processes were started with Bank teams, in order to reduce costs incurred in outsourcing maintenance services.

In line with the skills insourcing, the Bank started training its employees and replacing resident outsourcing teams with local staff.

By the end of 2018, and with the success of the insource skills programme, it was possible to speed up the replacement of the main services provided. At present, maintenance of infrastructures and other application services are undertaken by the local Bank team, which shows how successful the implementation of measures leading to cost reduction were.

Further, while developing applications and software, the other technologies that will be replaced were identified. Content production capacity was enhanced with the local team and some products were launched onto the market, for example the 'Public Employee Loan'.

Technical Training of Teams

In view of the difficulties and lack of knowledge of some technologies and systems managed by the Information Systems and Technologies Division (DSTI), a technical training plan was drawn up for the internal teams, in line with the insourcing programme. Under this plan, 70 training initiatives were identified and approved, of which 37 were carried out in 2018. The remainder will be implemented during the first quarter of 2019.

Further to the implementation of the training plan, six employees were awarded certification in various skills and the level of proficiency was raised in several DSTI areas.

Processes and Procedures

The IT Committee was established in 2017, to ensure greater control and alignment of priorities between the Bank's business and IT. Its main function is to monitor developments and technological projects. In 2018, three committees were set up. With these came a gradual increase in the capacity of internal development teams and a gradual reduction in projects outsourced, in line with the strategy of reducing costs and insourcing skills.

Role Switch

The proactive approach to secure information within organisations aims to avoid or reduce the consequences of existing risks. This strategy includes a risk analysis, incident response plan and disaster recovery plan, all with the sole purpose of ensuring business continuity. In August, for the first time in five years, the Bank successfully carried out a 'Role Switch' test, where primary operations (in CORE banking, in this case) were run from the DR site in the Matola Municipality.

Following the success of the Role Switch test, the procedure and action plan to be followed for partial activation of the services at the DR site was drawn up. In other words, primary services (Banka) were transferred to the secondary machine at the disaster recovery site.

Updating of IBM Infrastructure

From its establishment up to the present, Moza Banco's data volume and performance requirements have grown. In February 2018, the entire IBM infrastructure that supports CORE banking was overhauled, to ensure better processing, storage and data replication times.

This overhaul made it possible to reduce closing of business operations by 6 hours, and by the end of 2018 this process took an average 3.5 hours.

VIP - JAT Data Centre Migration

As part of the move to the Bank's new headquarters, in order to ensure greater operational and cost efficiency by bringing together all Moza Bank central services into a single building, the communications and systems services housed in the former data centre located on the VIP Maputo Hotel premises were relocated to the new head office (JAT VI building, Floor 6). In spite of the various constraints faced, this operation was successfully completed, and fully complied with the initial planning.

This process was carried out mainly by the Moza team, which is yet another sign of the skills insourcing process.

9.5 Image and Communication Management

For Moza Banco, 2018 was a time of consolidation. This was a year in which the Bank's actions were directed into substantiating its DNA as a relational Bank. With this the customer is at the centre of its strategic positioning, with the clear purpose of regaining its prominent position among the leading banks in the country.

Hence, the Bank aligned its communication strategy with its new cycle, reinforcing its activity in the area of customer proximity. It established and strengthened partnerships with key players, encouraging savings, providing financing for initiatives of various kinds to promote financial literacy and projects with high social and environmental impact, namely in the areas of education, citizenship and environmental sustainability, across all segments of Mozambican society.

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.

9.5.1 Main Campaigns of 2018

Using the Bank's media (corporate website, e-mail contacts, ATMs, TVs and digital screens inside the branches), and social networks (Facebook, Twitter, YouTube and Instagram), the following campaigns were run in 2018:

#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.

#Moza Always

In terms of the proximity we enjoy with customers and partners, we continued to focus on this campaign in which Moza's partners explain in short videos why Moza is the best option for them to grow and expand.

#Don't underestimate the Value of Water

Considering that water is an important natural resource which is essential for life, and the growing scarcity of this precious liquid, especially in the metropolitan area of Maputo, we launched an awareness campaign in March on the value of water, which has as its motto: 'Don't underestimate the Value of Water'. It involves the broadcasting of different videos and posts with tips on ways to save water, thereby promoting the rational and sustainable use of this resource.

#Transport Safety Campaign

With the alarming levels of road accidents that the country is experiencing, we took advantage of road safety week to launch the road safety communication campaign aimed at both internal and external audiences. It involves the dissemination of messages aimed at promoting good practices and exemplary behaviour by motorists and pedestrians when they are on the public highway.

#10 Years of Moza always

The Bank celebrated its 10 years in business in 2018.

As a result, communication in the second half of the year sought to highlight this important milestone in the Bank's rich history. From June onwards, we shared videos on the Bank's various communication platforms showing the Bank's main milestones on this journey, praising employees commitment and the trust of customers and other stakeholders who have been with Moza, Always!

#Using Cards Abroad

Aimed at encouraging the use of bank cards given the numerous benefits that electronic payment brings, particularly in terms of convenience, privacy and security in banking operations, and ease of access to the Bank through a wide network of ATM and POS infrastructures, a campaign was launched in partnership with VISA. The slogan was 'Now it is simple to win a dream trip, using the Bank card that gives you full value'.

The campaign ran from 15 August to 15 October and was targeted at private customers who use Debit Cards (Custom Electron, Electron Gold) and Credit Cards (Classic, Gold, Platinum).

The three (3) prizewinners were awarded a trip to Dubai with an accompanying person, on a package that included flight, accommodation and food during their stay.

On the supply side, the following products were offered throughout 2018 using digital media and print advertising (posters and leaflets):

- DP Instant income
- Moza Já (*247#)
- Moza Cards
- Auto Leasing
- Personal Credit
- Double your Money
- Luxury Estate
- Solution 24/24 (Digital Channels)
- Bonus Value

9.5.2 In-house Communication

With regard to internal communication, we remain committed to proactive, regular and dynamic communication with all Bank employees, providing first-hand knowledge of the Bank's main objectives, projects, achievements and events, strengthening internal cohesion, values and principles.

9.5.3 Strategic Participation in Trade Fairs and Events

International Tourism Fair – FIKANI

November 2018

The Ministry of Culture (MICULTUR), in partnership with the Mozambican Federation of Hotel and Tourism (FEMOTUR), through the National Tourism Institute (INATUR), hosted the 4th International Tourism Fair of Mozambique from 22 to 24 November, called 'FIKANI', whose motto was 'TOURISM AS A CULTURE BOOSTER'.

In recognising the role of the tourism sector in leveraging the country's social and economic development and boosting national culture, Moza Banco sponsored and took part in the event as an exhibitor, with a modern corporate stand, assisted by a dedicated team of managers. Participants' concerns and financial needs were addressed and they could open an preliminary account at the event.

Justice and Citizenship Fair

December 2018

On 10 December, 2018 the 70th anniversary of the proclamation of the Universal Declaration of Human Rights was celebrated. In Mozambique, celebrations were coordinated by the Ministry of Justice, Constitutional and Religious Affairs (MJCR) through the National Directorate of Human Rights and Citizenship (DNDHC), as the government body responsible for interministerial and intersectoral coordination in Human Rights matters. A number of civic, legal and advocacy initiatives were launched, including the Justice and Citizenship Fair (with legal assistance, issuing of identity cards and NUIT birth registration available), a Health Fair and various exhibitions.

Moza Banco took part in the event, with a dedicated team of managers to promote financial education and provide advice to those present on the best financial solutions available to invest their current and future assets.

9.6 Service Quality and Efficiency - A commitment from the Bank to its Customers

Service Quality - Market Differentiation

The importance of financial institutions in the economy and their growing globalisation, coupled with the internationalisation of capital, has led to a growing diversity in banks and their services. Given this competitive environment, banks have sought mechanisms to provide greater profitability by finding the common ground between perceived customer satisfaction and the products/services that should be designed and offered, as well as the form in which they are delivered.

Since the customer's perception of service quality is not a static but a dynamic and complex concept, dependent on a diversity of individual and market interpretations, it has become necessary to identify effective and responsive methods and tools to meet these challenges.

Market Differentiation

In order to respond to the challenges above, the PDCA (Plan; Do; Check; Act) cycle was implemented at Moza, through which continuous improvement has become the Moza culture. The mark of success for this methodology is that improvements also occur from previous ones, resulting in a process of continuous improvement in quality and efficiency. (See figure below).

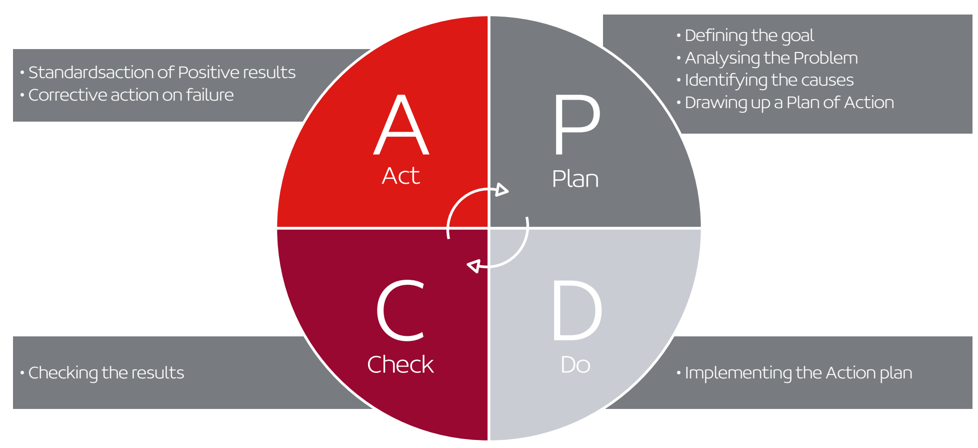


Image Source: Quality Management System, 1st Edition

Activity Planning and Monitoring

By adopting the PDCA cycle as a basis for continuous improvement, the first cycle corrective actions are taken as a baseline. Therefore, at the end of each complete cycle - the resumption of the next - there is an increasingly specific improvement in processes and their stages.

In the first phase of the PDCA cycle, the Bank spotted any possible opportunities for improvement and set out associated goals. To ensure that planning would maintain a customer-oriented strategy, there is also continuous monitoring of the Key Performance Indicators (KPIs). To this end, the following routine tools and activity pillars were developed and consolidated in 2018:

- Continuous monitoring of service levels for the main processes with a direct impact on customer service;
- Customer-facing complaint management and design of corrective actions;
- Continuous monitoring of customer satisfaction and dissatisfaction factors (through satisfaction surveys);
- Monitoring of customer service routines for the business units.

Checking of results obtained via Customer Feedback Channels through the dissemination of communication channels

In addition to monitoring the performance of internal processes through the monitoring of KPIs, Moza Banco seeks to ensure that the established numerical targets are adjusted to customer expectations; besides it formally publicises the existing channels so that customers can get their feedback, which are:

- Moza Banco corporate website (www.mozabanco.co.mz);
- All Moza Business Units;
- Email address: qualidade@mozabanco.co.mz;
- Call Centre, on: 82 2020; 84 2020 or +258 21 342020.

While the aforementioned channels provide verification and consolidation of the results obtained with the corrective actions implemented, the fact that feedback from customers on services and products sold is continuous allows the process of continuous improvement to be uninterrupted, and does not necessarily need a completion.

9.7 Compliance and Anti-Money Laundering

In 2018, Moza's Compliance Department proceeded with its mission to promote compliance with its legal, regulatory, operational, ethical and conduct obligations and duties. These are applicable at all times to the Bank, as well as to its governing 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. To this end, and due to the publication of various, in 2018 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 and putting into operation of internal regulations and a compliance risk analysis of the new Products and Services.

With regard to regulations published during the year 2018, we list below the regulations that had a significant impact on the Bank on implementation.

#	Description
1	Ministerial Instrument n.º 23/2018, of 2 February, approving the Regulations for the Management of State Bank Accounts
2	Notice No. 02/GBM/2018 - Code of Conduct for Credit Institutions and Financial Companies
3	Notice No. 03/GBM/2018 - Regulation on Advertising of Financial Products and Services
4	Notice No. 04/GBM/2018 - Conditions for Transactions on a Specific Account for Export Revenue
5	Notice No. 08/GBM/2018 - Conversion of Revenue from Export of Goods and Services from Investment Income Abroad and from Other Funds Received from Abroad
6	Notice No. 11/GBM/2018 - Sale, withdrawal, entry and exit limit of foreign currency

Taking into account 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.

10. Risk Management

10.1 Introduction

For Moza Banco, quality is a cornerstone of risk management, in line with the best international practices in the sector. Prudent risk management, coupled with the use of advanced management techniques, has been a decisive and differentiating factor for the Bank.

In the course of its business, the Bank bears risks that may adversely impact on its results or even on its capital. With this in mind, Moza Banco adopts strict risk management policies and principles with the means required to ensure that the Bank's business model and strategy are viable and sustainable. In order to cover the different risks associated with the business, management is geared to implementing control and reporting principles, procedures and measurement methodologies adjusted to the size and complexity of the Bank.

Moza's risk management model is based on a series of processes which enable it to identify, assess, measure, control, monitor and report all the material risks to which the Institution is subject, both internally and externally, so as to ensure that these risks are maintained at appropriate and acceptable levels, in line with the strategy defined.

Risk management is implemented on an ongoing basis through:

- Active follow-up by the Board and top management bodies;
- The definition and dissemination of policies, procedures and limits;
- Measurement, monitoring and information management systems;
- A comprehensive internal control system.

10.2 The Bank's Risk Profile

Moza Banco's Risk Profile underpins its degree of exposure to each of the nine regulatory risks (operating risk, credit risk, liquidity risk, interest rate risk, reputational risk, information technology risk, strategic risk, compliance risk and foreign exchange risk) the management of which is essential for the development, profitability and sustainability of the business; this is aimed at ensuring compliance with legal and prudential requirements and definitions, namely the correct assessment of equity and adequate liquidity management for exposure to risks arising from the business.

Moza has been developing an organisational structure for managing and monitoring the various risks, following the regulatory requirements and good international practice, by gradually equipping the organisational units with the technical and human resources required at any given time to manage the risks to which the Bank's activity is exposed.

Among the various projects and actions carried out in 2018, the following stand out:

- Completing the implementation of the model for impairment calculation, adjusted to the requirements of the IFRS 9 standard, issued by the IASB and adopted by the Bank of Mozambique as a mandatory standard within the Mozambique financial system, as of 1 January, 2018. The new impairment calculation model introduces significant changes in the risk management process, leading to the early recognition of potential credit losses, depending on the remaining term of the various financial instruments. It also offers effective reflection on the likely occurrence of adverse events, recognition of the value of money over time and the impact of relevant macroeconomic factors;

- Consolidation of the internal restructuring process within the Risk Management Department, with specialisation of the teams per cluster of risk type and gradual convergence for the effective implementation of the provisions arising from the Bank of Mozambique's risk management guidelines (Notice no. 4/GBM/2013);

- Completion of the design and approval process, within the Executive Committee, of the new conceptual models of risk management for Liquidity, Exchange Rate, Reputation and Information Technologies.

The Mozambican economy returned to poor performance in 2018, which brought limitations on the financial capacity of companies and available income of households. This adverse situation resulted in a consequent increase in the levels of credit claims within the banking system in general. In the face of systemic setbacks, Moza Banco followed a more conservative stance in the granting of new credits, while at the same time reinforcing the provision for impairments. In addition, a bold recovery programme for overdue loans was adopted which effectively combined the institutional, commercial and legal aspects. This had significant results both from the point of view of a recovery in value and the rehabilitation of borrowers' creditworthiness.

10.3 Risk Management Responsibilities

Risk management is key in all institutions and comprises a series of activities that affect its risk profile. In line with this principle, the management bodies ultimately bear responsibility for the level of risk taken by the Bank, in approving overall business strategies and policies, including those related to risk taking and risk management.

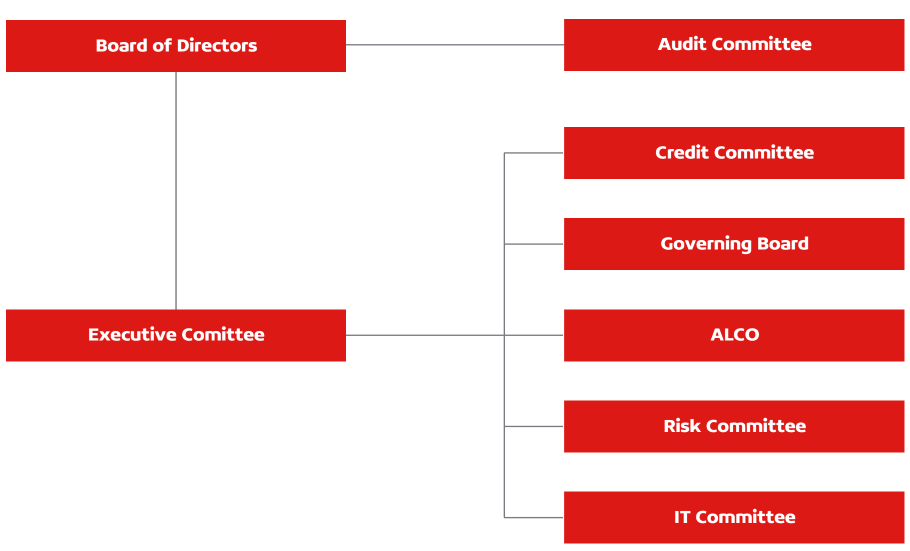
These bodies are also responsible for providing clear guidance on the acceptable exposure levels for the Institution and for ensuring that top management implements the procedures and controls required to comply with defined policies and limits.

Controlling and managing the material risks to which the Bank is exposed is therefore the responsibility of the Board of Directors, Executive Committee, Audit Committee, Risk Committee, IT Committee, Assets and Liabilities Committee, Credit Committee, Risk Department, Markets and International Department, Internal Audit and Compliance Office, together with the Bank's collective bodies.

The Audit Committee is the Bank's in-house oversight body, and the Credit Committee, the Risk Committee, the Assets and Liabilities Committee and the IT Committee are the risk management bodies.

Risk Management Governance

The figure below shows the risk management governance carried out by several of the Bank bodies:



In short, Moza Banco follows a risk management and control model supported by three key pillars:

- The business units and the units that generate risk exposures - are the first line of defence against risks in which the Bank is involved. In order to discharge their duties, they must have the means to identify, measure, deal with and report the risks taken;
- Risk Management and Compliance Departments - these are the second line of defence which ensure the effective control of risks and manage them according to the level of appetite defined by the Directors;
- Internal Audit Department - this is the third line of defence. When discharging its duties, this organisational structure periodically assesses policies, methods and procedures, and checks whether they have been effectively implemented.

The last two lines have a level of separation and independence sufficient for the discharge of their duties and have direct access to the Board of Directors.

11. Financial Analysis

11.1 Introductory Note

The Moza Banco Financial Statements for the fiscal year 2018 incorporate the impact of the new IFRS 9 - financial instruments, which was introduced on 1 January, 2018, replacing IAS 39 - financial instruments. This standard sets forth new rules for recognising financial instruments and introduces significant changes in the methods for calculating impairments, using the expected loss model.

The adoption of this standard had an impact on the structure of Moza Banco's Financial Statements as of 31 December, 2017, largely dictated by the adjustments associated with the transition, and did not materially influence the 2018 Income Statement.

As permitted by the transitional provisions of IFRS 9, and in line with IAS 8 (accounting policies, changes in estimates), Moza Banco opted not to restate the comparative balances from the previous fiscal year. The adjustments to the book values of the financial assets and liabilities at the transition date were recognised in Equity with reference to 1 January, 2018, and consequently the changes resulting from the application of IFRS 9 were applied only to the fiscal year 2018.

It should be noted that the differences resulting from the adoption of IFRS 9 resulted in an increase in balance sheet impairments of MZN 728.4 million and MZN 9.5 million for the loan and securities portfolio, respectively. The application was prospective, affecting only the opening balance of the Bank's Equity.

Activity and Results

In 2018, the Bank proceeded with its adjustment phase, focusing on cost reduction, improvements in liquidity levels and optimisation of the existing business structure.

Notwithstanding the continued difficult economic environment, with a direct impact on the lives of companies and households, in 2018 the Bank maintained the path to recovery that it had begun about two (2) years ago. The credit and deposit portfolio grew by 20% and 39%, respectively, reflecting greater capture of market share. This trend clearly translates the recovery of our customers' confidence levels, and is a sign that the market once again believes in Moza Banco.

In 2018, despite the economic situation described, Moza continued to see a significant improvement in financial, economic and prudential results overall. The net result, although negative at MZN 768.4 million, compares favourably with the negative results of MZN 1,458.8 million recorded in the same period of 2017. This is the result of the approach followed by the Bank's Management Bodies in ensuring sustainable growth of the Institution's profitability, so as to add value for its customers, employees and shareholders in the medium and long term.

In 2018, the Bank's assets recorded significant growth, 36% more than in the same period of 2017, reflecting positive trends in its loan portfolio and MMI (Interbank Money Market) investments resulting from the application of surplus cash.

The Bank's liabilities increased compared to the same period in 2017, from MZN 19,478 million to MZN 27,319 million, as a result of the Bank's strong capacity to attract new deposits and new depositors. With this growth, Moza Banco consolidated its position on the list of the 5 largest Mozambican banks in the market, in terms of deposits, with a market share of 5.92% (2017: 4.74%).

In 2018, the Bank's equity increased by 26% compared to the same period in 2017, and Arise's entry into Moza's shareholding contributed to this.

On a prudential basis, the capital adequacy ratio stood at 21.70% at the end of 2018, 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 stands at 11.0% and in the future at 12.0%. In addition, Moza Banco's liquidity ratio stood at 49.92% (2017: 36.3%), 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

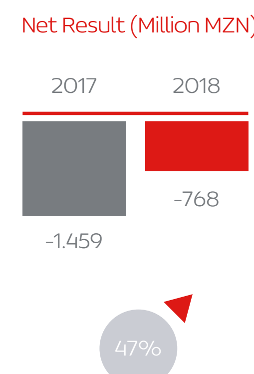
In 2018, Moza Banco's net income improved significantly to a negative MZN 768 million, compared to negative MZN 1,459 million in the same period of 2017, reflecting a 47% improvement.

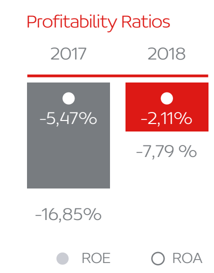
It should be noted that the positive trend in the result for the 2018 fiscal year compared to last year is due, on the one hand, to the increase in net fee and commission income resulting from the provision of banking services, and on the other, to lower loan impairment costs.

The improvement in net income in 2018 contributed to the favourable change in profitability ratios. Return on equity (ROE) and return on assets (ROA) stood at -7.79% (2017: -16.85%) and -2.11 (2017: - 5.47%), respectively, demonstrating increasing recovery in operational efficiency.

in MZN thousands

Income Statement	2017	2018	Chg.
Interest and similar income	4,002,726	4,413,360	10%
Interest expense and similar charges	-2,034,775	-2,555,828	26%
Net Interest income	**1,967,951**	**1,857,532**	**-6%**
Net fee and commission income	324,362	460,791	42%
Net financial operations	175,017	172,860	-1%
Operating income	**2,467,330**	**2,491,183**	**1%**
Staff costs	-943,033	-1,138,136	21%
Other operating expenses	-1,502,955	-1,638,991	9%
Other operating income	412,246	208,238	-49%
Gross Operating income	**433,588**	**-77,706**	**-118%**
Amortisations	-393,740	-381,112	-3%
Impairment and Provisions for the year	-1,497,164	-254,585	-83%
Profit before tax	**-1,457,316**	**-713,403**	**51%**
Tax	-1,520	-55,000	> 100%
Net Profit	**-1,458,836**	**-768,403**	**47%**



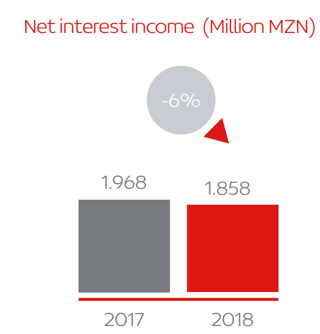


Net Interest Income

Net interest income stood at MZN 1,858 million, a decrease of 6% when compared to the MZN 1,968 million recorded in the same period of 2017. The year-on-year increase in net interest income is due to greater growth in customer deposits compared to loans granted, 39% and 20%, respectively. This reflects the Bank's strategy of ensuring gradual alignment of its transformation ratio (the ratio that evaluates the relation between credit and deposits) to the market.

At the end of 2018, Moza had a transformation ratio of 88%, which compares favourably with the 101% that occurred in 2017.

It should be noted that in the course of 2018, there were successive cuts in the prime rate of the financial system, the base rate for credit operations, which fell by around 705 bp. to 20.20% at the end of December 2018. 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.

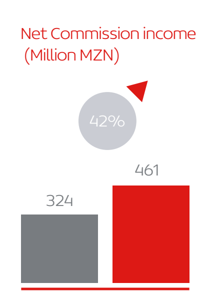


The unfavourable trend in the commercial net interest income was mitigated by growth in the margin on financial investments in the Interbank Money Market (MMI). This was due to an increase in the MMI investment portfolio by 69% compared to 2017, reflecting the Bank's strategy of applying the excess to liquid assets with a low risk.

Net fee and commission income

In 2018, net fee and commission income amounted to MZN 461 million, an increase of 42% on the MZN 324 million for the same period of 2017.

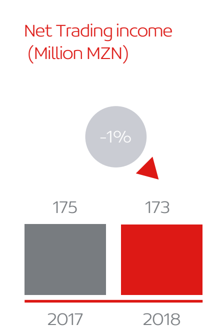
The growth of net fee and commission income reflects the favourable trend in commissions associated with disbursement and subscription credit, derived from the increase in new credit production, and by the significant increase in transactions in direct channels and self-banking by the Bank's customers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



Operating costs

Operating costs, which aggregate foreign exchange results and trading and hedging operations, totalled MZN 173 million in 2018, which compares with MZN 175 million in 2017. Notwithstanding the significant increase in exchange gains and losses (trading), the unfavourable trend in operating costs is explained by the recognition of fair value of derivative financial instruments held for trading, in the amount of negative MZN 95 million (2017: MZN 190 million).

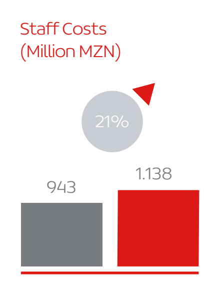
For the fiscal year under review, Operating Income totalled MZN 2,491 million, compared to MZN 2,467 million in the same period of 2017.



The trend in Operating Income mainly reflects the increase in net fee and commission income.

Staff costs

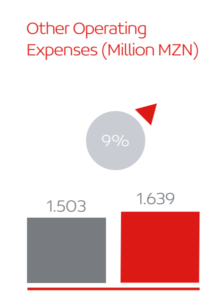
Staff costs increased by 21% compared to the same period of 2017, reaching MZN 1,138 million. The increase in costs is associated with the reinforcement of the employee framework to cope with the growth in the Bank's activity (+21 employees), salary adjustments throughout the year resulting from the changes in employees' professional career (merit promotions of a total 80 employees), updates to the annual salary table and employees performance-based awards.



Other Operating Expenses

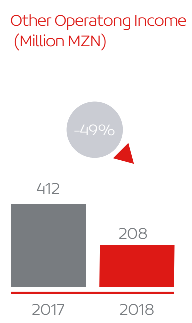
Other operating expenses totalled MZN 1,248 million in 2018, reflecting an increase of 9% over the same period of 2017. Changes in other operating expenses are mainly due to the increase in tax deducted at source on interest from MMI (Interbank Money Market) investments, reflecting an increase in MMI investments in 2018 compared to the previous year.

Expect for such effect, it appears that the increase in costs would be below 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.



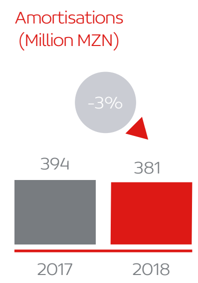
Other Operating Income

Other operating income mainly includes adjustments to the accounts for previous years. In 2018, other operating income totalled MZN 208 million, representing a reduction of 49% compared to 2017. The reduction mainly reflects the reversal of the provisions for interest payments made in 2016 relating to the financing obtained from the Bank of Mozambique to cope with the deterioration of the Bank's liquidity position after the intervention.



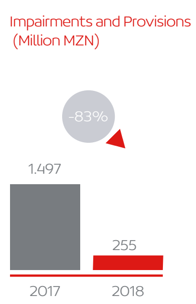
Amortisations

In 2018, amortisations for the year decreased 3% compared to the previous year. This decrease is a result of the gradual termination of the amortisation cycle and the useful life of the investments made in previous years.



Impairment and Provisions for the fiscal year

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 charges and provisions amounted to MZN 255 million, a decrease of 83% compared to the same period of 2017, mainly reflecting the lower need for credit impairment as a result of the greater provisioning effort made in previous years.

In MZN Millions	2017	2018	Chg.
Overall Impairments and Provisions	1,497	255	-83%
Credit Impairment	1,597	289	-82%
Available-for-sale financial assets	(206)	(35)	-83%
Other assets	15	-	-100%
Provisions	91	1	-99%

Credit impairment

In 2018, 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 289 million at the end of 2018 (2017: MZN 1,597 million). This was in line with the strategy set out by the Bank's Management Bodies in 2018 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 increased impairment previously described, the impairment ratio increased from 16.72% to 18.29%, an annual increase of 156 basis points.

	Annual trend		
Quality of Loans to Customers	**2017**	**2018**	**Charge**
Impairment on loans/Total overdue loans	171.1%	174.0%	2,94 pp
Impairment on loans/ Overdue loans > 90 days	185.0%	179.1%	-5,91 pp
Average impairment charge	8.6%	1.4%	-7,10 pp
Overdue loans/Total loans	9.8%	10.5%	0,73 pp
Acumulated impairment provisions on the balance s	16.7%	18.3%	1,56 pp

At the end of 2018, the credit-to-risk ratio stood at 10.5%, compared with 9.8% in 2017. 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 financial institutions in general for lending.

The coverage ratio of overdue loans by impairment remains at adequate levels, 174.0%, 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 2018, as in 2017, there was a partial reversal of the impairments recorded in 2016 on the securities held by Moza in the amount of MZN 35 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 1 million, in order to cover potential future legal charges.

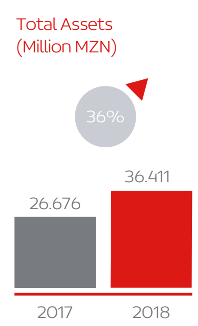
11.3 Balance Sheet Review

Total Assets

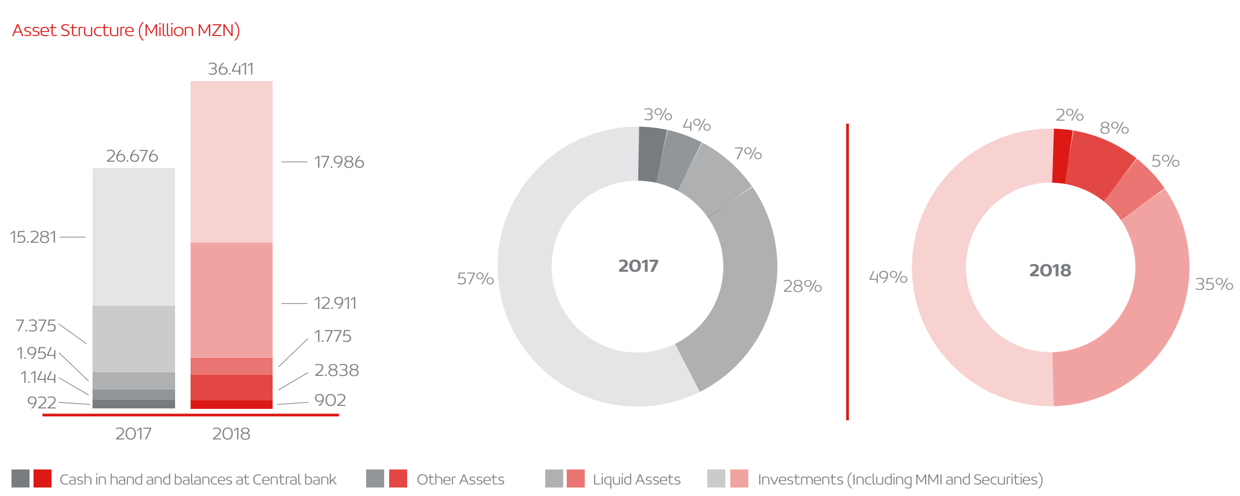
The year 2018 was marked by the continued unfavourable macroeconomic environment, affecting the business community in general. In this period, the monetary policy measures adopted by the Bank of Mozambique throughout the year, in particular the approach to reducing interest rates, in the context of monetary policy management, retains some dynamism.

With regard to the banking sector, the activity undertaken in 2018 continued to be constrained by the unfavourable trend in non-performing loans as a result of the current economic situation. This was reflected in a greater willingness by the Banks to apply the surplus cash on Public Debt securities and in the Market Interbank.

In 2018, Moza Banco's assets increased significantly, a 36% increase compared to 2017, reflecting the positive trends in the customer loan portfolio and in MMI (Interbank Money Market) investments, resulting from the application of surplus cash from the business on the capital increase and new deposits.



At the end of 2018, Moza Banco was listed as the fifth top largest financial institution in Mozambique in terms of assets, with a market share of 6.1% (2017: 5.0%). It should be noted that in 2018, Moza recorded a 36% and 13% increase in its assets, above market share, respectively, reflecting a larger market share.



In terms of asset structure, in 2018 the balance of interest-earning assets represented 85% of total assets, which was in line with the same period of 2017. The (net) customer credit component decreased its relative weight in the asset structure to 49% of the total assets (2017: 57%), 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 20% more than in the same period in 2017, showing the Bank's commitment to making the country's economy larger and more dynamic.

The investment portfolio (including MMI and Securities) increased its weight in the asset structure by accounting for 35% of total assets (2017: 28%).

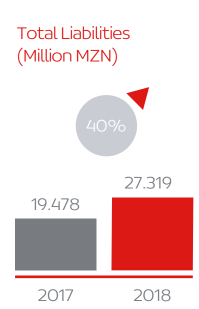
In 2018, other assets also recorded growth, as a result of the acquisition of Banco Terra Moçambique (BTM).

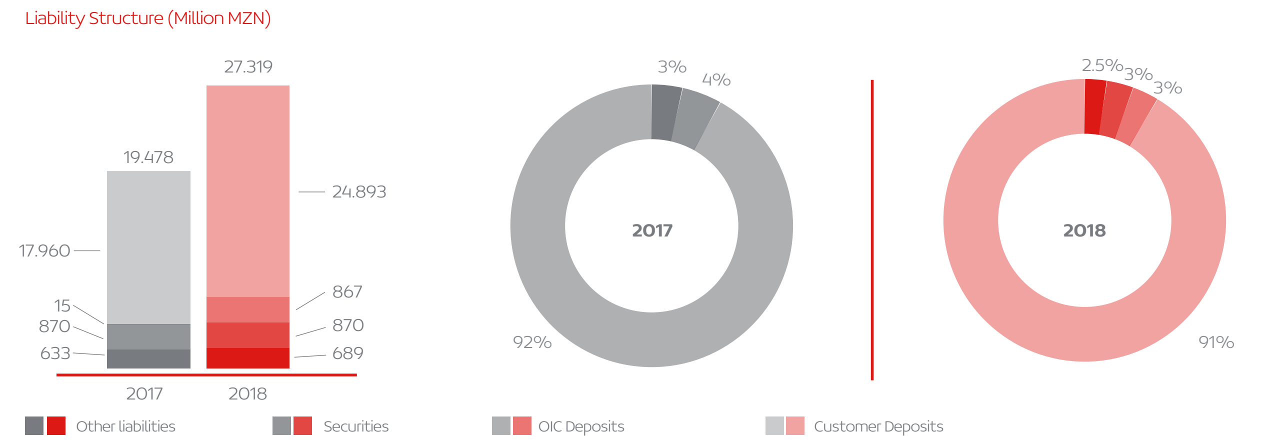
The composition of the Bank's assets shows the strategy carried out by Moza Banco Management Bodies to ensure that diversification of funds and maturities is properly carried out, with a view to ensuring that a high level of liquidity is maintained in order to cope with possible market imbalances.

Total Liabilities

In 2018, the Bank's Liabilities amounted to MZN 27,319 million, which compares with MZN 19,478 million in the same period of 2017. 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 5 largest institutions in the market.

In the year under review, customer deposits remained the main source of financing for the Bank's business, representing 91% of total liabilities. In 2018, customer deposits amounted to MZN 24,893 million, representing an increase of 40% over the same period of 2017, a sign of the customers' trust in the Bank. It should be noted that Moza's deposit growth is well above the market average, with Moza taking up the status of an institution with a new credibility.





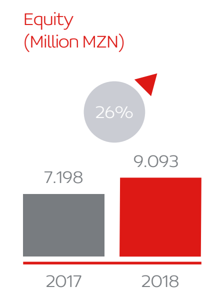
The subordinated liabilities portfolio remained at MZN 870 million. However, its proportion of total liabilities decreased, from 4% in 2017 to 3% in 2018.

Other liabilities, which include deferred tax assets, current and deferred taxes and other liabilities, stood at MZN 689 million, which compares with MZN 633 million recorded in the same period of 2017.

Deposits from other credit institutions stood at MZN 867 million (2017: MZN 15 million). The annual trend is basically a result of the need to diversify the sources of financing for the Bank's activity, with their proportion of total liabilities standing at 3%.

Equity

In 2018, shareholders' equity, which includes capital stock, reserves, retained earnings and net income for the year, totalled MZN 9,093 million, compared to MZN 7,198 million in 2017. The positive trend in equity largely reflects the capital increase occurring at the end of 2018, which strengthened the Bank's stability and liquidity indices.



Capital Adequacy

In 2018, as a result of the planned restructuring of Moza Banco's share capital, which resulted in a capital increase, regulatory capital was positive compared to 2017, showing that comfortable level of stability was kept. At 31 December 2018, Moza Banco had a Tier 1 ratio of 25.66%.

Throughout 2018, Moza Banco continued to post adequate solvency, with its capital adequacy ratio at 21.70%, above the required Regulatory Limit now and in the future of 11.0% and 12.0% respectively, which allows for the sustained development of the business.

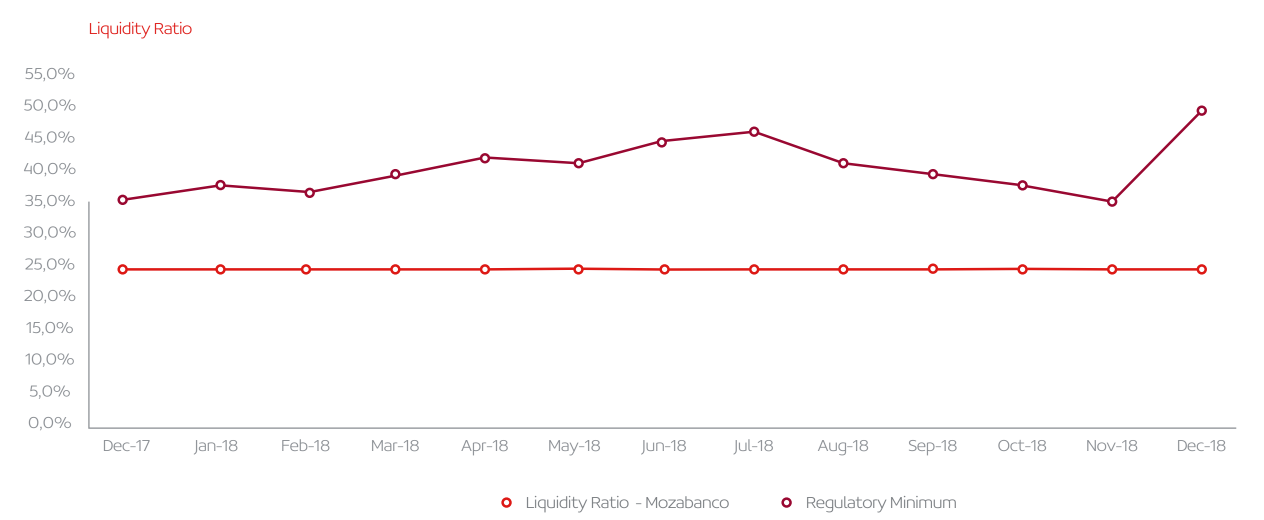
It should be noted, however, that total Regulatory Shareholders' Equity includes the deduction of 100% of Moza's stake in Banco Terra Moçambique (BTM), in line with the rules for calculating the capital requirements laid down by the Regulator.

In MZN millions	2017	2018	Change
Total Regulatory Equity	4,254	4,853	14%
Basic Equity (Tier I)	3,618	4,519	25%
Complementary Equity	726	566	-22%
Other deductions	-91	-231	155%
Risk Weighted Assets	**18,130**	**22,365**	**23%**
Core Capital Ratio(Tier I)	**19.96%**	**25.66%**	**5.7%**
Solvency ratio	**23.46%**	**21.70%**	**-1.8%**

Liquidity

With a more stringent regulatory framework and the need to daily monitor liquidity levels within the domestic financial system, the Bank of Mozambique issued Notice 14/GBM/2017 in June 2017 on the liquidity requirements of credit institutions, in which they must comply with a continuous and permanent level of liquidity ratio of at least 25.0%.

At the end of 2018, the credit-to-risk ratio stood at 49.92%, compared with 36.30% in 2017. This trend represents a marked reinforcement of the Bank's liquidity position, due to greater deposit-taking against credit. This translates into a significant improvement in the transformation ratio (the ratio that assesses the relation between credit and deposits) and at the end of 2018 stood at 88% (2017: 101%).



Moza Banco's liquidity ratios show 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.

PROPOSED ALLOCATION OF RESULTS

Taking into account the legal and statutory provisions in force, the Board of Directors of Moza Banco proposes, for the approval of the General Meeting, that the loss calculated for the fiscal year 2018 totalling Seven Hundred Sixty-Eight Million Four Hundred and Three Thousand Meticais (MZN 768,403,000) shall be allocated to retained earnings.

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

2018	Balance at 31 Dec 2018 (before proposed allocation)	Legal Reserve	Dividends	Accumulated Earnings	Balance at 31 Dec 2018 (after proposed allocation)
Share Capital	3 943 250 256	-	-	-	3 943 250 256
Legal Reserve	4 661 842 592	-	-	-	4 661 842 592
Share issue premium	1 993 740 000	-	-		(1 993 740 000)
Profit/(loss) for the previous year	(737 872 991)	-	-	(768 403 000)	(1 506 275 991)
Profit/(loss) for the year	(768 403 000)	-	-	768 403 000	-
		-	-		
	9 092 556 858	-	-	-	9 092 556 858

Maputo, 14 March 2019

[Illegible signature]
(Chairman of the Board of Directors)

MOZA BANCO, SA
Board of Directors

[Illegible signature]
(Director)

Statement of Board of Directors' Responsibility

The Directors are responsible for preparing and properly presenting the Consolidated and Individual Financial Statements of Moza Banco, SA, which comprise the statement of Consolidated and Individual financial position, as at 31 December 2018, the Consolidated and Individual income statement, the Consolidated and Individual statement of comprehensive income, the Consolidated and Individual statement of changes in equity, the Consolidated and Individual statement of cash flows for the year then ended, as well as the notes to the Consolidated and Individual financial statements, which include a summary of the main accounting policies and other explanatory notes, in accordance with the International Financial Reporting Standards.

The Directors are also responsible for the internal control system relevant to the preparation and proper presentation of these Consolidated and Individual Financial Statements which are free from material misstatements due to fraud or error, and for maintaining proper accounting records and an effective risk management system.

The Directors have evaluated the Group's and the Bank's ability to continue to operate with due observance of the going concern assumption and found no reason not to believe that the Group and the Bank will continue to operate under this assumption in the near future.

The auditor is responsible for reporting on whether the Consolidated and Individual financial statements are properly presented in accordance with International Financial Reporting Standards.

Approval of Consolidated and Individual Financial Statements

The Consolidated and Individual Financial Statements, as referred to in the first paragraph above, were approved by the Board of Directors on 16 March 2019 and signed on its behalf by:

Board Director
Dr. Victor Brazão

Chairman of the Board of Directors
Dr. João Figueiredo

CONSOLIDATED AND INDIVIDUAL INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 port on the Financial Statements

	Note	Mozabanco 2018	Mozabanco 2017	Group 2018
Interest and similar income	4	4,413,360	4,002,726	4,414,700
Interest expense and similar charges	4	(2,555,828)	(2,034,775)	(2,560,174)
Net interest income	4	**1,857,532**	**1,967,951**	**1,854,526**
Fee and commission income	5	556,798	412,867	558,560
Fee and commission expenses	5	(96,007)	(88,505)	(96,633)
Net fee and commission income	5	**460,791**	**324,362**	**461,927**
Net financial operations	6	172,860	175,017	172,566
Operating income		**2,491,183**	**2,467,330**	**2,489,019**
Net impairment charge	15,17,18	(253,819)	(1,405,806)	(243,395)
Net operating income		**2,237,364**	**1,061,524**	**2,245,624**
Staff costs	7	(1,138,136)	(943,033)	(1,139,302)
Depreciation and amortisation	20,21,22	(381,112)	(393,740)	(381,112)
Other operating expenses	8	(1,638,991)	(1,502,955)	(1,656,147)
Other operating income	8	208,238	412,246	211,246
Provisions	9	(766)	(91,358)	(766)
Losses for the year before tax		**(713,403)**	**(1,457,316)**	**(720,457)**
Income taxes	10	(55,000)	(1,520)	(55,000)
Loss for the year		**(768,403)**	**(1,458,836)**	**(775,457)**
Losses per share				
Basic	11	(1.37)	(5.60)	(1.39)
Diluted	11	(1.37)	(5.60)	(1.39)

STATEMENT OF CONSOLIDATED AND INDIVIDUAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Mozabanco 2018	Mozabanco 2017	Group 2018
Losses for the period		(768,403)	(1,458,836)	(775,457)
		-	-	-
Other comprehensive income to be reclassified to profit or loss in subsequent years		-	-	-
Available for sale financial assets	15	-	(333,277)	-
Deferred tax	10	-	53,324	-
			(279,953)	-
Total Comprehensive Income		(768,403)	(1,738,789)	(775,457)

STATEMENT OF CONSOLIDATED AND INDIVIDUAL FINANCIAL POSITION AS OF 31 DECEMBER 2018

	Note	Mozabanco 2018	Mozabanco 2017	Group 2018
ASSETS				
Cash and balances with Central Bank	12	794,999	806,636	1,152,270
Deposits with banks	13	107,215	115,484	176,640
Loans and advances to banks	14	5,007,735	2,359,783	5,195,922
Financial assets	15	7,902,812	5,015,702	8,133,192
Investments in subsidiaries	16	1,524,587	-	-
Loans and advances to customers	17	17,985,608	15,281,038	19,913,636
Other assets	18	1,052,459	833,562	1,055,526
Non-current assets held for sale	19	307,657	409,388	479,342
Investment Property	20	122,391	33,814	122,391
Tangible assets	21	1,135,369	1,212,439	1,175,639
Goodwill and other intangible assets	22	209,878	298,147	660,886
Current tax	23	165,583	115,775	176,882
Deferred tax	10	95,000	194,230	95,000
Total assets		**36,411,293**	**26,675,998**	**38,337,326**
LIABILITIES				
Deposits from Banks	24	866,915	15,480	867,307
Deposits from customers	25	24,893,226	17,960,107	26,596,771
Assigned funds	26	93,153	208,251	295,915
Other liabilities	27	586,577	415,913	612,858
Debt securities issued	28	870,026	869,519	870,026
Deferred tax	10	8,839	8,839	8,946
Total liabilities		**27,318,736**	**19,478,108**	**29,251,823**
SHAREHOLDERS' EQUITY				
Share capital	29	3,943,250	13,841,250	3,943,250
Fair value reserve	15	-	(232,203)	-
Reserves	30	4,661,843	61,548	4,661,843
Share issue premiums	30	1,993,740	-	1,993,740
Retained earnings	30	(737,873)	(5,013,869)	(737,873)
Losses for the year		(768,403)	(1,458,836)	(775,457)
Total equity		**9,092,557**	**7,197,890**	**9,085,503**
Total shareholder's equity and liabilities		**36,411,293**	**26,675,998**	**38,337,326**

STATEMENT OF CHANGES IN INDIVIDUAL EQUITY

	Share capital (note 29)	Legal reserves (note 30)	Fair value reserve (note 30)	Share issue premiums (note 30)	Retained earnings	Loss for the year	Total Equity
Balance at 01 January 2017	**2,129,200**	**61,548**	**47,750**	-	**254,329**	**(5,268,198)**	**(2,775,371)**
Application of loss	-	-	-		(5,268,198)	5,268,198	-
Share Capital Increase	11,712,050	-	-	-	-	-	11,712,050
Fair value of financial assets available for sale	-	-	(333,277)	-	-	-	(333,277)
Deferred tax	-	-	53,324	-	-	-	53,324
Loss for the year	-	-	-	-		(1,458,836)	(1,458,836)
Balance at 31 December 2017	**13,841,250**	**61,548**	**(232,203)**	-	**(5,013,869)**	**(1,458,836)**	**7,197,890**
Adjustments to initial application of IFRS 9	-	-	232,203	-	(737,873)	-	(505,670)
Balance restated on 1 January 2018	**13,841,250**	**61,548**	-	-	**(5,751,742)**	**(1,458,836)**	**6,692,220**
Application of loss	-	-	-	-	(1,458,836)	1,458,836	-
Share Capital Increase	1,175,000	-	-	-	-	-	1,175,000
Absorption of Loss	(6,472,705)	-	-	-	6,472,705	-	-
Reduction in nominal value	(4,600,295)	4,600,295	-	-	-	-	-
Share issue premiums	-	-	-	1,993,740		-	1,993,740
Loss for the year	-	-	-	-	-	(768,403)	(768,403)
Balance at 31 December 2018	**3,943,250**	**4,661,843**	-	**1,993,740**	**(737,873)**	**(768,403)**	**9,092,557**

STATEMENT OF CHANGES IN GROUP EQUITY

	Share capital (note 29)	Legal reserves (note 30)	Fair value reserve (note 30)	Share issue premiums (note 30)	Retained earnings	Loss for the year	Total Equity
Balance at 31 December 2017	**13,841,250**	**61,548**	**(232,203)**	-	**(5,013,869)**	**(1,458,836)**	**7,197,890**
Adjustments to initial application of IFRS 9	-	-	232,203	-	(737,873)	-	(505,670)
Balance restated on 1 January 2018	**13,841,250**	**61,548**	-	-	**(5,751,742)**	**(1,458,836)**	**6,692,220**
Application of loss	-	-	-	-	(1,458,836)	1,458,836	-
Share Capital Increase	1,175,000	-	-	-	-	-	1,175,000
Absorption of Loss	(6,472,705)	-	-	-	6,472,705	-	-
Reduction in nominal value	(4,600,295)	4,600,295	-	-	-	-	-
Share issue premiums	-	-	-	1,993,740	-	-	1,993,740
Loss for the year	-	-	-	-	-	(775,457)	(775,457)
Balance at 31 December 2018	**3,943,250**	**4,661,843**	-	**1,993,740**	**(737,873)**	**(775,457)**	**9,085,503**

STATEMENT OF CONSOLIDATED AND INDIVIDUAL CASH FLOWS AS OF 31 DECEMBER 2018

	Mozabanco		Group
Statement of cash flows	**2018**	**2017**	**2018**
Losses before tax	(713,403)	(1,457,316)	(720,457)
Adjustments for:			
Depreciation and amortisation	381,112	393,740	381,112
Impairment losses	287,842	1,597,177	332,119
Reversal of financial assets impairment	(72,338)	(191,371)	73,602
Reversal of impairment/provisions of other assets	38,315	89,286	38,315
Adjustment of fair value	-	(333,277)	-
Gains on disposal of tangible assets	(10,300)	4,485	130,973
	(88,772)	**102,723**	**235,664**
Movements in:			
Loans and advances	(3,453,852)	267,823	(20,605,908)
Financial assets	(2,814,772)	(237,938)	(8,206,794)
Other assets	(257,211)	(60,345)	(1,093,841)
Current tax assets	(49,808)	(23,610)	(176,882)
Non-current assets available for sale	8,627	(5,636)	(479,342)
Deposits from Banks	6,933,119	(17,237)	867,307
Deposits from Customers	851,435	1,901,797	26,596,771
Other liabilities	170,664	(313,993)	471,804
Cash flow from operating activities	**1,299,431**	**1,613,584**	**(2,391,221)**
Investing activities			
Acquisition of property, plant and equipment	(275,094)	(47,780)	(1,553,449)
Acquisition of intangible assets	(29,088)	(8,873)	(126,918)
Disposal of tangible and intangible assets	103,235	92,203	(790,633)
Investment in subsidiaries	(1,524,587)	-	-
Cash flow from investment activities	**(1,725,534)**	**35,550**	**(2,471,000)**
Financing activities	-	(12,067,219)	10,221,112
Share capital increase	3,168,740	11,712,050	-
Reimbursement of assigned funds	507	(231,402)	295,915
Repayment of bond loans	(115,098)	(325,819)	870,026
Cash flow from financing activities	**3,054,149**	**(912,391)**	**11,387,053**
Increase in cash and cash equivalents	2,628,046	736,743	6,524,832
Cash and cash equivalents at beginning of the year	3,281,903	2,545,159	-
Cash and cash equivalents at end of the year	**5,909,949**	**3,281,903**	**6,524,832**

Cash and Cash Equivalents are as follows:

	2018	**2017**	**2018**
Cash and balances with Central Bank	794,999	806,636	1,152,270
Deposits with banks	107,215	115,484	176,640
Loans and advances to banks	5,007,735	2,359,783	5,195,922
	5,909,949	**3,281,903**	**6,524,832**

1. Introduction

Moza Banco, S.A. (hereinafter "Moza Banco" or "Bank") is a Universal Private Retail Bank, established in 2007 with headquarters in Maputo, whose shareholders are KUHANHA-Sociedade Gestora do Fundo de Pensões do Banco de Moçambique, Moçambique Capitais, S.A., ARISE B.V (new shareholder), Novo Banco Africa S.G.P.S, S.A. (Portuguese bank) and Dr. António Almeida Matos.

On 21 December 2018 Moza Banco, SA acquired 100% of the shares in Banco Terra Moçambique (BTM) against payment of MZN 1,524,587,377. The acquisition of BTM aims at building a truly national bank of considerable size that seeks to meet the needs of all economic operators and contribute to the country's growth.

These Consolidated and Individual Financial Statements include the Consolidated and Individual Financial Statements of Moza Banco, S.A and its subsidiary Banco Terra, S.A.

In compliance with the resolution of the Extraordinary Shareholders' Meeting of Moza Banco adopted in December 2018, the Bank reduced its Share Capital from the previous MZN 13,841,250,000 to MZN 2,768,250,000, with a view to absorb accumulated losses as well as reducing the par value of shares from MZN 25,000 per share to MZN 5,000 per share.

In December 2018, the Bank welcomed a new shareholder, ARISE B.V, who fully subscribed and paid for the issue of 235,000 new shares at a par value of MZN 5,000, equivalent to MZN 1,175,000,000.

Moza Banco is governed by its articles of association and all the relevant legislation applicable to the financial sector in Mozambique.

The Group provides banking services throughout the country, based on a network of 65 branches (2017: 53 branches) of which 55 Banco Moza branches and 10 Banco Terra branches offer products and services to a wide range of Business, Individual and Retail Customers.

1.1 Basis of presentation

The Consolidated and Individual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

The Consolidated and Individual Financial Statements of Moza Banco, SA for the year ended 31 December2018 were approved by the Annual Shareholders' Meeting held on 20 March 2019.

These are the first Consolidated and Individual Financial Statements, which were affected by the adoption of IFRS 9: Financial Instruments and IFRS 15 Revenue from Contracts with Customers. The significant changes in the Financial Statements are described below:

1.2 Functional and presentation currency

The Bank's functional currency is the Metical and the Consolidated and Individual Financial Statements are prepared and presented in this currency, rounded to thousands of Meticais, unless otherwise stated.

1.3 Use of estimates and judgements

In the preparation of the Consolidated and Individual Financial Statements the Board of Directors used its judgements and estimates in determining the amounts recognised in the Consolidated and Individual Financial Statements. The associated estimates and assumptions are based on the Bank's past experience and other factors considered to be reasonable in accordance with the specific circumstances and as a basis for judging the amounts of assets and liabilities, where their valuation cannot be taken from other sources. The most relevant judgements and estimates are detailed as follows:

Impairment on loans

Both the Group and the Bank review their performing and non-performing loans on a regular basis to assess whether an impairment allowance should be recognised. In particular, when determining the level of potential impairment, the Board of Directors resorts to estimations of the asset's recoverable value in the calculation of future cash flows. Such estimates are based on past experience and assumptions about a number of factors, and actual results may differ, resulting in future changes to the impairment allowance.

As from 1 January2018, the Group and the Bank began to determine impairment based on the expected credit loss model. No events that indicate losses before recognising impairment are required.

In addition to specific impairment allowances against individual significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although a specific need to recognise the impairment loss has not been identified, have a greater risk of default than when originally granted. This takes into consideration factors such as credit quality, namely the average ratio between the non-performing loans and the total portfolio, for the last three years, supported by statistical models, internationally applied and duly adapted to the Group's and the Bank's circumstances.

The Group and the Bank consider that the periodic assessment of impairment based on the above methodology enables Directors to adequately reflect the risk of their overall credit portfolio.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities entered in the Consolidated and Individual Financial Statements cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Changes in assumptions about the following factors could affect the fair value recognised in Consolidated and Individual Financial Statements:

Level 1: Listed market price (unadjusted) in an active market for an identical instrument;

Level 2: Valuation techniques based on observable data, either directly (i.e. such as prices) or indirectly (i.e. deriving from prices). This category includes instruments valued at listed market prices in active markets for similar instruments; listed prices for identical or similar instruments in markets considered less active; or other valuation techniques in which all input factors are either directly or indirectly observable from market data;

Level 3: Valuation techniques using significant, non-observable input factors. This category includes all instruments whose valuation technique uses any input which is not based on observable data and when non-observable input has a significant effect on the instrument's valuation. This category includes instruments the valuation of which is based on the prices of similar instruments, whenever there is a need for significant, non-observable adjustments or assumptions to reflect the differences between the instruments.

The fair value of financial assets and liabilities traded in active markets is based on listed market prices or retail prices. The Bank assesses the market value of all other financial instruments using valuation techniques.

The valuation techniques include net present value and discounted cash flow and other valuation models. Assumptions and inputs used in risk assessment techniques include free and base interest rates, loan spreads and other premiums used to estimate discount rates, treasury bonds and bills prices and exchange rates. These valuation techniques aim to obtain a fair value assessment which reflects a financial instrument's price and which would have been assessed by market investors operating on a commercial basis at the date of the report.

Income taxes

Income taxes (current and deferred) are determined by the Bank based on tax rules set forth in tax legislation. However, in some situations, tax legislation is not sufficiently clear and objective and may lead to different interpretations. In these cases, book values result from better understanding of the Bank and Group about the proper framework for their operations, which may be questioned by the relevant tax authorities.

The tax authorities have the right to review the Bank's and the Group's tax situation for a period of up to five (5) years, which may result in adjustments due to a different interpretation and/or non-compliance with the applicable legislation, namely, Personal Income Tax (IRPS), Corporate Income Tax (IRPC), Value Added Tax (IVA) and any corrections to the taxable amount.
The Group and the Bank have been presenting tax losses that under the Income Tax Code grant the right to deduct future positive tax results for up to a maximum of 5 years. In the light of International Accounting Standard 12, these losses grant the right to recognise Deferred Tax Assets against income for the year and can be used to meet the Bank's and the Group's future tax obligations in the event of profits.

Although the Group and the Bank's business plans show the reach of the critical point of net results from fiscal year 2019 and positive results in the following years, in a more prudent perspective on managing business activity, the Board of Directors chose not to recognise them in the financial statements, even if the right to recovery in the next five years prevails.

The Board considers that all tax losses will be recovered by using them in the positive results that will be achieved by the Group and the Bank as from the fiscal year 2019.

The Board of Directors considers that it has fulfilled all tax obligations that the Bank is subject to.

Goodwill

Goodwill is annually tested for impairment and is a judgement area of the Group's financial statements. In determining whether goodwill is impaired or not, management makes judgements about the future cash flows and discount rates used

1.4 Accounting policies

a) Consolidation Basis

The Group's and the Bank's accounting uses the acquisition method when control is transferred to the Group and the Bank for a business concentration. The amount transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a low-priced purchase is recognised in profit or loss immediately. Transaction costs are accounted for as incurred, unless they relate to the issuance of debt securities or shares.

The amount transferred excludes any amounts relating to the settlement of pre-existing relationships. These amounts are generally recognised in profit or loss. Any contingent amount is measured at fair value at the date of acquisition. If an obligation to pay the contingent amount which meets the definition of a financial instrument is classified as equity, then it is not measured and the settlement is accounted for within the net position. Otherwise, contingent consideration is measured at fair value on each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

i) Business Concentration
On 21 December2018, Moza Banco acquired 100% of the shares of Banco Terra Moçambique (BTM) and, after such operation, the Bank adopts IFRS 10 Consolidated Financial Statements. The Consolidated and Individual Financial Statements therefore include the Financial Statements of Moza Banco and the subsidiary BTM as of 31 December2018.

Accounting policies have been applied consistently, for the fiscal year covered by these Consolidated and Individual Financial Statements.

Every year the Group tests goodwill resulting from the acquisition in order to assess whether the goodwill value is impaired.

ii) Subsidiary
Subsidiaries are entities (BTM) controlled by the parent company (Moza Bank). The Bank controls an entity if it is exposed to or has variable return rights from its involvement with the entity and has the ability to affect those returns through its power over the entity. On a regular basis the Bank reassesses whether it has control or whether one or more control elements have changed.

The Financial Statements of the controlled entities are included in the Consolidated and Individual Financial Statements at the date control begins until the date on which control ceases.

iii) Transactions eliminated on consolidation
Profits or losses and each component of other comprehensive income are fully assigned to Moza Banco's shareholders since no other entities holding minority interests exist.

Assets, liabilities, equity, revenues, expenses and cash flows relating to transactions between Moza Banco and BTM are eliminated in full in the consolidation process.

A change in the shareholding of a subsidiary without loss of control is accounted for under equity. If the Bank loses control over a subsidiary, it is derecognised from the asset including goodwill, liabilities, minority interests and other components of equity. Gains or losses are recognised in profit or loss for the period.
Any interest held is recognised at fair value at the date of loss of control.

Summary of main accounting policies

The main accounting policies applied in preparing the Consolidated and Individual Financial Statements are set out below. These policies have been consistently applied throughout the fiscal years and are described as follows:

b) Foreign Exchange transactions

The Consolidated and Individual Financial Statements are presented in thousands of Meticais, which is the Bank's and the Group's functional and presentation 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 recognised at the average exchange rate at the balance sheet date.

Unrealised exchange differences are recognised in income in the period to which they relate. Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are converted into the functional currency at the spot exchange rate on 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 effective interest and payments 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 spot rate 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 date of transaction. Foreign currency differences arising on conversion are recognised in the income statement.

Recognition and measurement of financial instruments up to 31 December 2017 (IAS 39):

c) Financial Instruments - Initial Recognition and Measurement

i) Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame generally laid down by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Group and the Bank commit to purchase or sell the asset. Financial instruments are recognised when the Group and the Bank become a party to the contractual provisions of the financial instrument.

ii) Initial recognition of financial instruments
The classification of financial instrument at initial recognition depends on the purpose for which the Group and the Bank acquired it. All financial instruments are measured initially at their fair value plus transaction costs, save in the case of financial assets and financial liabilities at fair value through profit or loss, in which case trade costs are recognised in income.

iii) Day one profit or loss
Where the trade price is different from the fair value of other current market transactions in the same instrument, or based on a valuation technique whose variables include only data from markets, the Bank immediately recognises the difference between the trade price and fair value (a day one profit or loss) in the income statement. In cases where fair value is determined using data which is not available in markets, the difference between the trade price and pricing model is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

d) Financial instruments - classification

The classification of financial assets depends upon the objective for which the asset was acquired and its characteristics. The Board of Directors is responsible for defining the classification and initial recognition.

The Group and the Bank classify their financial assets in accordance with the following categories: financial assets held for trading, available-for-sale financial assets, held-to-maturity financial instruments and loans and accounts receivable.

i) Held-for-trading financial assets
Financial assets held for trading are recognised in the statement of financial position at fair value. Changes in fair value are recognised in the income statement. Interest and dividend income are recognised in the income statement according to the terms of the contract, or if the right to the payment has been established. Included in this classification are debt securities and equities that have been acquired with the main purpose of selling them in the near term.

ii) Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans granted, held-to-maturity investments or financial assets at fair value through profit or loss. Upon initial recognition, available-for-sale financial investments are measured at fair value, save for the equity instruments not quoted in an active market whose fair value cannot be estimated reliably and, therefore, are recognised at amortised cost.

Any gain or loss resulting from an available-for-sale financial asset is recognised directly in equity until the derecognition of the financial asset, at which point the cumulative gain or loss previously recognised in equity is recognised in the income statement. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

iii) Held-to-maturity financial assets
Held-to-maturity financial assets are those which carry fixed or determinable payments and have fixed maturities and which the Group and the Bank have the intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement.

If the Group and the Bank sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire class is reclassified as available-for-sale. Whenever these circumstances exist, the Group and the Bank will not classify any financial asset as held-to-maturity during the following two years. The Group and the Bank have not designated any financial instrument in this class as at the reference date of these Consolidated and Individual Financial Statements.

iv) Loans and accounts receivable
Loans and accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group and the Bank grant loans and provide goods or services directly to a borrower with no intention to trade the receivable.

After initial measurement, amounts due to banks and loans and advances to Customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement. Any losses arising from impairment are recognised in the income statement.

The Group and the Bank classify its financial liabilities in accordance with the following classes: Loans and borrowings and financial liabilities at fair value through profit or loss.

i) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities at fair value through profit or loss. Financial liabilities held for trading are acquired for the purpose of disposal in the near future. This class also includes derivative financial instruments that are not designated as hedging instruments as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.
Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities classified at fair value through profit or loss are recorded at the date of initial recognition, and only if the criterion in IAS 39 is met. The Group and the Bank have not designated any financial instrument in this class as at the reference date of these Consolidated and Individual Financial Statements.

ii) Loans and borrowings
This is the most important class for the Group and the Bank. After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

e) Derecognition of financial assets and liabilities

Financial assets are derecognised when:

i) The rights to receive cash flows from the asset have expired; and
ii) The Group and the Bank have transferred substantially all the risks and rewards associated with their holding or despite retaining a portion, but not substantially all the risks and rewards associated with their holding, the Group and the Bank have transferred control over the assets.

When the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if and to what extent they have kept any retention-linked risk and reward. When it has neither transferred nor retained substantially all of the asset-related risks and rewards, such asset is recognised as long as the Group and the Bank keep their involvement in the asset. In this case, the Group and the Bank also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Bank have retained.

Financial liabilities are derecognised when:

iii) The obligation under the liability is discharged or an existing financial liability is replaced by another, from the same lender, on substantially different terms, and this change or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective book value is recognised in the income statement.

f) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

g) Fair value measurement

The Group and the Bank measure financial instruments at fair value at each reporting date. Fair value assumes that the asset or liability is traded between market participants in an orderly sale of the asset or transfer of the liability :

iv) In the main market for that asset or liability; or
v) In the absence of a main market, in the most advantageous market for such asset or liability.

The main or the most advantageous market must be accessible to the Group and 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.

A fair value measurement of a non-financial asset 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 participants that would use the asset in its highest and best use.

The Group and the Bank resort to valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 Consolidated and Individual 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 for identical assets or liabilities to which the entity has access on the measurement date;
• Level 2 –Fair value based on market inputs that although not included in Level 1 are observable, either directly or indirectly, in the market for assets or liabilities;
• Level 3 – Fair value of assets and liabilities is measured using inputs that are not based on observable market information.

For assets and liabilities whose fair values are measured on a recurring basis in the Consolidated and Individual Financial Statements, 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 as a whole).

h) Impairment of financial assets

At each reporting date, the Group and the Bank assess whether there is any objective evidence that a financial asset or a portfolio of financial assets is impaired. After initial recognition, a financial asset or portfolio of financial assets may be deemed to be impaired if there is objective evidence of impairment as a result of one or more events, and that loss event (or events) has an impact on the estimated future cash flows. Evidence of impairment may include a number of indicators, such as the exposure of each customer to overdue loans, evidence of financial difficulties on the part of the customer and their ability to meet future obligations, and the customer's assets are in liquidation or bankruptcy.

i) Available-for-sale financial assets

An asset recognised in this class is impaired when there has been a significant decline in the fair value for an extended period of time. 'Significant' is evaluated against the original acquisition cost, and 'extended' against the period in which the fair value has been below its acquisition cost.

If impairment is found on an available for sale financial asset, the accumulated loss (measured as the difference between acquisition cost and fair value, excluding impairment losses previously recognised as a charge to the income statement) is transferred from reserves and recognised in the income statement. If, in any subsequent period, the fair value of debt instruments classified as available for sale increases and such an increase may be objectively associated with the occurrence of an event after the recognition of the impairment loss in the income statement, the impairment loss is reversed and the amount of the reversal is recognised in the income statement.

When impairment losses recognised in equity instruments classified as available for sale are reversed, the reversal is recognised in reserves.

ii) Loans and advances to customers
For loans and advances to customers carried at amortised cost, the Group and the Bank first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assess them for impairment.

If there is objective evidence of an impairment loss on loans and advances to Customers, or held-to-maturity investments measured at amortised cost, the impairment loss is measured as the difference between the current value of estimated future cash flows, excluding the original effective rate of each contract and the book value of each credit, and the amount of the loss is recognised in the income statement. The book value of impaired loans is presented in the net balance sheet of accumulated impairment losses.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the current 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, whether or not foreclosure is likely.

Under the terms of IAS 39, the following events are considered to be signs of impairment on financial assets:

• Failure to comply with contractual clauses such as arrears of interest or principal;
• Incidents of defaults in the financial system;
• Any existing operations deriving from credit restructuring or credit restructuring negotiations in progress;
• Borrower or debt issuing entity's significant financial difficulties;
• Existence of a strong likelihood of the borrower or debt issuing entity filing for bankruptcy;
• A decrease in the borrower's competitiveness; and
• Historical records of collections suggesting that the nominal value will never be fully recovered.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that show the borrowers' ability to pay all amounts due according to the contract terms. The Group's and the Bank's collective impairment takes into account the average credit quality for the last two years. The Group and the Bank take into account the credit quality which is obtained from the ratio between overdue loans and the total balance.

Collective impairment losses are determined by taking into account the past experience of losses in portfolios featuring similar risk, knowledge of the economic environment and its influence on the level of historical losses and the estimated period between the occurrence and its identification. The methodology and assumptions used to estimate future cash flows are reviewed regularly to reduce the differences between the estimates and the current level of losses.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from one year to the next (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

iii) Held-to-maturity assets
For held-to-maturity assets, the Group and the Bank assess individually whether objective evidence of impairment exists. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the current value of estimated future cash flows. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement.

If, in the subsequent year, the amount of the estimated impairment loss decreases as a result of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

iv) Renegotiated loans
Whenever possible, the Group and the Bank seek to renegotiate loans rather than enforcing the collateral. This means that the deadline for repaying the loan may be extended. Once the terms have been renegotiated, the loan is no longer considered past due. The Board of Directors continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment valuation, calculated using the loan's original effective interest rate.

v) Collateral valuation
The Group and the Bank seeks to use collateral, where possible, to mitigate its risks on the Consolidated and Individual Financial Statements. The collateral comes in various forms such as sight deposits, securities, letters of credit/guarantees, property, receivables, inventories, other non-financial assets and sureties. In general, the collateral fair value is assessed, at a minimum, at commencement and based on the Bank's quarterly reporting schedule; however, some collateral, for example, sight deposits or securities relating to margining requirements, is valued on a daily basis.

Where possible, the Group and the Bank use active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using valuation models. Non-financial collateral, such as property, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited Consolidated and Individual Financial Statements, and other independent sources.

vi) Repossessed collateral
The Group's and the Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should otherwise be sold.
Assets determined to be useful for internal operations are transferred to their relevant asset class at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined to be sold are transferred to non-current assets held for sale at their fair value less cost to sell at the repossession date, in line with the Group's and the Bank's policy.

Recognition and measurement of financial instruments from 01 January 2018 (IFRS 9):

i) Initial Recognition and Measurement
The Group and the Bank initially recognise loans and advances, deposits, debt securities issued and subordinated liabilities at the date on which they originate. Any other financial instruments (including regular purchases and sales of financial assets) is recognised on the trade date, which is the date on which the Group and the Bank become 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.

ii) Classification

Financial assets - Policy applicable as of 1 January2018

At initial recognition, a financial asset is classified as: amortised cost, fair value through Comprehensive Income or 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 purpose is to maintain assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specific dates, to cash flows that are 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 asset is kept within a business model the purpose of which is reached both by collecting contractual cash flows and by selling financial assets; and
- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are SPPI.

When initially recognising a capital investment that is not held for trading, the Group and the Bank may irrevocably choose to carry out subsequent changes in fair value through 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, upon initial recognition, the Group and the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through profit or loss if this eliminates or significantly reduces the difference that would otherwise result.

iii) Business assessment model
The Group and the Bank assess the purpose of business model in which an asset is held at the portfolio level, considering that this better reflects the way the business is managed and the information is provided to management.
The information considered includes:

• the stated policies and purposes for the portfolio and how these policies operate in practice. in particular, if the management strategy focuses on earning contractual interest income by keeping a specific interest rate profile, combining the duration of the financial assets with the duration of the liabilities that are financing those assets or by making cash flows through the sale of the assets;
• how the performance of the portfolio is evaluated and reported to the Group's and the Bank's management;
• risks that affect the performance of the business model (and the financial assets held within that business model) and their strategy for how those risks are managed;
• and how business managers are remunerated (for example, whether 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 prior periods, the reasons for such sales and their expectations about future sales activity. However, information on sales activity is not considered separately but as part of a general assessment of how the stated objective of the Group and the Bank to manage financial assets is achieved and how cash flows are obtained.

Financial assets that are held for trading or managed and whose performance is measured at fair value are measured at fair value through profit or loss, considering that they are not held with a view to collect contractual cash flows or to collect contractual cash flows or sell assets.

iv) Assessment of whether contractual cash flows are nothing but payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at the initial recognition. 'Interest' is defined as the consideration for the time value of money, the credit risk associated with the outstanding principal amount for a given time period and other risks and costs of basic borrowing (for example, liquidity risk and administrative costs), as well as the profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest (SPPI), the Group and the Bank take into consideration the contractual terms of the instrument. This includes an assessment as to whether the financial asset contains a contractual term that may change the term or amount of the contractual cash flows so that it does not meet this condition. In making the evaluation, the Group and the Bank take into account:

• contingent events that would change the value and timing of cash flows;
• other resources;
• advance payment and extension terms;
• terms limiting the Group's claim to cash flows of specific assets (for example, non-recourse loans); and
• resources that change the consideration of the value of money over time (e.g. periodic redefinition of interest rates).

The Group and the Bank hold a portfolio of variable rate loans for which the Group and the Bank have the option of proposing a review of the interest rate at periodic redefinition dates. These replacement rights are limited to the market rate at the time of review.

The Group and the Bank determined that the contractual cash flows of these loans are SPPI considering that the option changes the interest rate so as to take into account the time value of money, credit risk, other basic loan risks and associated costs of the amount of outstanding capital.

i) Reclassifications

Financial assets are not reclassified after their initial recognition, except in the period after the change in their business model to manage financial assets on behalf of the Group and the Bank.

j) Derecognition

The Group and the Bank derecognise a financial asset when the contractual rights to the cash flows of the financial asset expire, or transfer 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 Group and the Bank do not transfer or retain substantially all the risks and benefits of ownership, nor do they control the financial asset.

In derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated for the part of the derecognised asset) and the sum (i) of the consideration received (including any new asset obtained less any new liabilities assumed) and (ii) any cumulative gain or loss that has been recognised in Comprehensive income is recognised in Profit or Loss.

As of 1 January2018, any cumulative gain/loss recognised in Other Comprehensive Income in respect of equity investment securities designated at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition created or retained by the Group and the Bank is recognised as a separate asset or liability.

The Group and the Bank enter into transactions for which they transfer recognised assets in their statement of financial position but retain all or substantially all the risks and rewards of the transferred assets or a part thereof. In such cases, the transferred assets are not derecognised. Examples of such transactions are lending of securities and repurchase and sale transactions.

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

In transactions in which the Group and the Bank do not retain or transfer substantially all the risks and rewards of ownership of a financial asset and retain control over the asset, the Group and the Bank continue to recognise the asset to the extent of their continued involvement as determined by the extent to which they are exposed to changes in the value of the asset transferred.

In certain transactions, the Group and the Bank are still required to pay the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria.

An asset or liability is recognised for the service contract if the service charge is more than adequate (asset) or is less than adequate (liability) for the provision of the service.

k) Financial liabilities

The Group and the Bank derecognise a financial liability when its contractual obligations are settled or cancelled, or on expiry.

Changes in financial assets and financial liabilities (Policy applicable from 1 January 2018)

i) Financial assets

If the terms of a financial asset are modified, the Group and the Bank assess whether the cash flows of the modified 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 past due. 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 cash flows are modified when the borrower is in financial difficulty, in general such modification aims at maximising the recovery of the original contractual terms rather than to create a new asset with substantially different terms. If the Group and the Bank intend to modify a financial asset in a manner that would lead to debt forgiveness in cash flows, the Group and the Bank initially consider whether a part of the asset should be written off before the modification occurs (see write-off policy below). This approach affects the outcome of the quantitative assessment and means that in general the derecognition criteria are not met in these cases.

If the modification of a financial asset measured at amortised cost or Fair Value through Other Comprehensive Income does not result in derecognition of the financial asset, then the Group and the Bank will initially recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognise the resulting adjustment as gain or loss of change in profit or loss. For floating rate financial assets, the original effective interest rate used to calculate the gain or loss of modification is adjusted to reflect the current market terms at the time of such modification. Any costs or fees incurred and 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 such modification is made due to the financial difficulties of the borrower, the gain or cost is presented together with the impairment costs. In other cases, it is presented as income from calculated interest through the use of the effective interest rate method.

ii) Financial liabilities

The Group and the Bank derecognise 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 remuneration paid includes non-financial assets transferred, if any, and assumption of liabilities, including the new modified financial liability.

If the change in a financial liability is not accounted for as derecognition, then 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 of the modification is adjusted to reflect the current market conditions at the time of the change. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the financial liability as modified by the recalculation of the 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 if, and only if, the Group and the Bank have a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and costs are presented net only when permitted by IFRS, or for income and costs arising from similar transactions of the Group and the Bank in their 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 for which the Group and the Bank have access on that date. The fair value of a liability reflects its risk of non-performance.

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

If no price is quoted in an active market, the Group and the Bank use valuation techniques that maximise the use of relevant observable data and minimise the use of unobservable data. The valuation technique chosen incorporates all the factors market participants would take into account when 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 Group and the Bank determine that the fair value at initial recognition differs from the transaction price and the fair value is not shown by a price quoted in an active market for an identical asset or liability or based on an assessment technique for which any inputs are considered to be insignificant in relation to measurement, the financial instrument is initially measured at fair value, adjusted to vary the difference between the fair value at the initial recognition and the transaction price. Subsequently, this difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but not after the assessment is fully 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 a sale price, then the Group and the Bank measure the assets and long positions at the bid price and liabilities and short positions at the sale price

The portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk, and are managed by the Group and the Bank based on net exposure to market or credit risk, are measured based on a price that would be received to sell a net long position (or paid to transfer a net position sold) to the specific risk exposure. Portfolio level adjustments - for example, adjustment of bids or credit risk adjustments reflecting measurement on the basis of net exposure - are allocated to individual assets and liabilities based on the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand resource (for example, a sight deposit) is not less than the amount payable to the order, discounted from the first date on which the amount could be required.

The Group and the Bank recognise transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

v) Impairment

Policy applicable as of 1 January2018

The Group and the Bank recognise the provisions relating to Expected Credit Loss in the following financial instruments that are not measured at Fair Value through Profit or Loss:

- Financial assets that are debt instruments;
- Leases receivable;
- Financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss was recognised in equity investments.
The Group and the Bank measure the provisions for losses in an amount equal to the expected loss over the lifetime of the credit, except for the following, for which they are measured as an expected 12-month credit loss:

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

Provisions for lease losses receivables are always measured at an amount equal to the expected credit loss over the lifetime.

The Group and the Bank consider that a debt investment security presents a low credit risk when its credit risk classification is equivalent to the overall definition of 'investment grade'. The Group and the Bank do not apply the credit risk exemption to any other financial instruments

Expected Credit Loss within 12 months is the portion of the Expected Credit Loss that results from default events on a financial instrument that are likely to occur 12 months after the reporting date. Financial instruments for which a 12-month Expected Credit Loss is recognised are designated as 'Phase 1 Financial Instruments'.

Expected Long Term Credit Loss is the Expected Credit Loss that results from all possible default events over the expected life of the financial instrument. Financial instruments for which an expected credit loss over a life span is recognised but not impaired are referred to as ´Phase 2 Financial Instruments.

Measurement of Expected Credit Loss

Expected Credit Loss is an estimate weighted by the likelihood of credit losses. These are measured as follows:

- Financial assets that are not credit impaired at the reporting date: such as the current value of all cash shortfalls (i.e. the difference between the cash flows due to the entity under the contract and the cash flows that the Group and the Bank expect to receive);
- Financial assets that are credit impaired at the reporting date: such as the difference between the gross carrying amount and the current value of the estimated future cash flows;
- Unrealised loan commitments: such as the current value of the difference between the contractual cash flows owed to the Group and the Bank if the commitment is made and the cash flows that the Group and the Bank expect to receive;
- Financial guarantee contracts: the expected payments to repay the holder less the amounts that the Group and the Bank expect to recover;

If the change in a financial liability is not accounted for as derecognition, then any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability amortised over the remaining term of the financial liability as modified by the calculation of the effective interest rate on the instrument.

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 due to the borrower's financial difficulties, then an assessment is made as to whether the financial asset is to be derecognised and the Expected Credit Loss is measured as follows:

- If no derecognition of the existing asset occurs from the expected restructuring, then the expected cash flows arising from the modified financial asset are included when calculating the cash flow shortfalls of the existing 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 derecognition. This amount 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.

Impaired financial assets

At each reporting date, the Group and the Bank assess whether the financial assets recorded at amortised cost and the financial assets of the debt are carried at fair value through comprehensive income, and the lease credits are credit impaired (referred to as 'phase 3 financial assets').
A financial asset is 'credit impaired' when one or more events occur that have a negative impact on the estimated future cash flows of the financial asset
Evidence that a financial asset is 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 Group and Bank loan or advance in terms that the Group and the Bank would not otherwise consider;

- the borrower or other financial reorganisation is likely to file for bankruptcy; or
- the disappearance of an active market from a security due to financial difficulties.

A renegotiated loan resulting from deterioration in borrower status was normally considered impaired, unless there was evidence that the risk of not receiving contractual cash flows had significantly reduced and there were no other impairment indicators. In addition, a +90-day overdue retail loan is considered to be credit impaired, even if the regulatory definition of default is different.

In assessing whether an investment in sovereign debt is impaired or not, the Group and the Bank considered the following factors:

- The market credit assessment, as reflected in the bond yield.
- Assessments of agency ratings regarding creditworthiness.
- The ability of the country to access the capital markets for new debt issues.
- The likelihood that the debt will be restructured, resulting in losses to the holders through voluntary or compulsory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as a 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use such mechanisms. This included an assessment of the depth of these mechanisms and, regardless of political intent, whether they were able to meet the required criteria.

Presentation of the provision for Expected Credit Loss in the Statement of Financial Position

Provisions related to Expected Credit Loss 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 collateral contracts: in general, as a provision;
- when a financial instrument includes a disbursed and undisbursed portion of the capital, and the Group and the Bank cannot identify the Expected Credit Loss in the loan commitment component separately from those in the disbursed portion: the Group and the Bank present a combined loss provision for both components. The combined amount is presented as a deduction from the carrying amount of the disbursed portion. Any excess of the provision for losses on the gross amount of the portion disbursed is presented as a provision; and
- debt instruments measured at Fair Value through Other Comprehensive Income: no provision for losses is recognised in the statement of financial position considering that the carrying amount of these assets is their fair value. However, the provision for losses is disclosed and recognised in the fair value reserve.

Derecognition

Loans and debt securities are derecognised (partially or fully) when there is no reasonable expectation of recovering a financial asset in whole or in part. This is generally the case when the Group and the Bank determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to pay the amounts subject to low write-off. This valuation 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 and Loss and Other Comprehensive Income.

Financial assets that are written off may still be subject to supervision to comply with the Group and the Bank procedures for the recovery of amounts owed.

Non-full financial guarantee contracts

The Group and the Bank assess whether a financial collateral arrangement is an integral element of a financial asset that is accounted for as a component of that instrument or is a separately accounted contract. The factors considered by the Group and the Bank when making this evaluation cover:

- the collateral is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by the laws and regulations governing the contract of the debt instrument;
- the guarantee is entered into at the same time and includes the debt instrument; and
- the guarantee is granted by the parent company of the borrower or another company within the borrower group.

If the Group and the Bank determine that the collateral is an integral part of the financial asset, then any premium payable relating to the initial recognition of the financial asset is recognised as a transaction cost for its acquisition. The Group and the Bank consider the effect of the protection when measuring the fair value of the debt instrument and when measuring the Expected Credit Loss.

If the Group and the Bank determine that the guarantee is not an integral element of the debt instrument, then they recognise an asset representing any advance payment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure does not involve credit loss and has not undergone a significant increase in credit risk when the security is acquired. These assets are recognised in 'other assets'. The Group and the Bank present gains or losses on a right of offset in profit or loss under 'impairment losses on financial instruments'.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or investment securities held to maturity. Interest on impaired assets continued to be recognised through the reversal of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying accumulated losses in the fair value reserve in equity for profit or loss. The accumulated loss that was reclassified from equity to profit or loss was the difference between the cost of acquisition, net of any capital reimbursement and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. The changes in impairment attributable to the application of the effective interest rate method were reflected as a component of interest income.

Derecognition

The Group and the Bank derecognise a loan or investment debt security, in whole or in part, and any provision related to impairment losses, when the Banking Credit determines that there is no realistic prospect of recovery.

a) Impairment of financial assets

At each reporting date, the Group and the Bank assess whether there is any objective evidence that a financial asset or a portfolio of financial assets is impaired. After initial recognition, a financial asset or portfolio of financial assets may be deemed to be impaired if there is objective evidence of impairment as a result of one or more events, and that loss event (or events) has an impact on the estimated future cash flows. Evidence of impairment may include a number of indicators, such as the exposure of each customer to overdue loans, evidence of financial difficulties on the part of the customer and their ability to meet future obligations, and the customer's assets are in liquidation or bankruptcy.

The Group and the Bank recognise impairment for expected credit losses (ECL) for the following debt instruments:

- Loans and advances from customers;
- Guarantees provided;
- Import documentary credit;
- Export documentary credit;
- Securities portfolios.

Calculation of Loan Portfolio Impairments

For the calculation of impairments, the portfolio is segregated according to Segment (Retail, Corporate and Private). For each segment a risk weight is assigned depending on the PDs, Life Time PD, Life Time LGD and LGD, which were based on the last 5 years' experience.

The segregation of the portfolio is also carried out in terms of levels of default, broken down as follows:

- Stage 01 - All loans in compliance, which have not fallen due;
- Stage 02 - Loans that have fallen due (from 1 to 90 days overdue)
- Stage 03 - Loans overdue more than 90 days - Non-Performing Loans.

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 stage immediately following.
Restructured credits are all included in Stage 02 and if they have had been paid for an uninterrupted period of 9 months they are treated as settled and included in Stage 01.

For the calculation of total exposures, equity, off-balance sheet exposures and cash flows are expected to be added. A CCF - Credit Conversion Factor for the EAD - Exposure at Default is applied to the total exposure.
To calculate the expected credit loss in each period over the life of the loan, the Loss Given Default and Probability of Default are combined with Exposure at Default. An estimate of the expected balance of an operation at the date of default is therefore required when calculating the expected credit losses.

Collateral

For the calculation of impairments, collateral is also considered. In the case of local government guarantees and financing in National Currency the amounts are weighted at a rate of 100%; for Time Deposits in the same currency and without a maturities mismatch, the risk weight is also 100%. Where housing mortgages are received, a haircut of 25% is applied on the market value of the property, 50% for commercial building mortgage cases and 75% for equipment and vehicles.

Macroeconomic Scenarios

IFRS 9 requires the consideration be given to reasonable and documented projections of future events and economic conditions at the reporting date of the Consolidated and Individual Financial Statements in calculating expected credit losses. This forward-looking macroeconomic information should enable the Group's and the Bank's impairments to be adjusted according to the economic momentum that the Group and the Bank are experiencing, resulting in the following scenarios: Base with a 60% weighting, optimistic, pessimistic each one of them weighted at 20%.

Impairment is an estimate weighted by the probability of credit losses. A credit loss is the difference between the cash flows that are due under the contract and the cash flows that the Group and the Bank expect to receive, discounted at the original effective interest rate. Since the ECL takes into account the amount and date of payments, a credit loss arises even when the Group and the Bank expect to receive the full amount but in a later period than that foreseen in the contract. In this case, the impairment will be the result of the average of the combined 3 scenarios resulting from the economic projections.

Impairment of the Securities Portfolio

To calculate the impairments, the Country Rating is taken into consideration according to Moody's:
- PDs are estimated using the S&P Global Corporate/Sovereign cumulative default;
- PDs are adjusted using the macroeconomic model used for the Corporate Performing credit portfolio;
- LGDs applied are 45% in accordance with the Basel LGDs applied to the sovereign portfolios;
- The loss is expected to occur in the middle of the default period, and is discounted using the Effective Interest Rate.

b) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount recognised in the statement of financial position if, and only if, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

c) Recognition of revenue and expenses

Revenue is recognised when it is likely that future economic benefits will flow to the Group and the Bank and these benefits can be reliably measured. Revenue recognition meets the following criteria by account heading:

- Interest, income and similar expenses

Policy applicable as of 1 January2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that deducts the estimated future payments or receipts over 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 that are not assets acquired or originating with credit loss, the Group and the Bank estimate future cash flows taking into account all the contractual terms of the financial instrument, but not the Expected Credit Loss. For financial assets with loss of credit obtained or arising, an effective interest rate adjusted to the credit is calculated using estimated future cash flows including Expected Credit Loss.

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 arise directly acquiring or issuing a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount by which the financial asset or liability is measured at the initial recognition minus capital repayments, plus or minus the accumulated amortisation using the effective interest rate method of any difference between that amount and the maturity value and, for financial assets, adjusted for any provision for expected credit loss (or impairment loss before 1 January2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before the adjustment of any provision for expected credit loss.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on the initial recognition of a financial asset or financial liability. In calculating income and expense, the effective interest rate is applied to the gross carrying amount of the asset (if the asset is not impaired) or the amortised cost of the asset. The effective interest rate is revised as a result of the new periodic estimate of the cash flows of floating rate instruments to reflect movements in market interest rates. The effective interest rate is also reviewed for fair value hedge adjustments at the amortisation date of the hedge adjustment.

However, for impaired financial assets after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset ceases to be credit impaired, the calculation of interest income reverts to the gross basis.

For financial assets impaired on initial recognition, interest income is calculated by applying the effective interest rate adjusted by the credit to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the asset's credit risk improves. For information on when financial assets are impaired, see Notes 15 and 17.

Presentation

Interest income calculated using the effective interest rate 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 financial leases.
The interest expense presented in the Statement of Profit and Loss and Other Comprehensive Income includes financial liabilities measured at amortised cost.

Interest income and expense on all assets and liabilities held for trading included inadvertently in the Group and the Bank's trading operations and are presented together with other changes in the fair value of the assets and liabilities held for trading under net trading income.

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

• Fee and commission income
The Group and the Bank earn fees and commission income from a diverse range of services they provide to their customers. Fee income can be divided into the following two categories:

• Fee income earned from services that are provided over a certain period of time
Fees earned from the services provided over a period of time are accrued over that period. These fees include commission income charged in the provision of services such as issuance of Bank Guarantees and Letters of Credit.

• Fee income from providing services
Fee and commission income from customer contracts is measured based on the remuneration provided for in any contract with any customer. The Group and the Bank recognise revenue when they transfer control over a service to a customer.

The following table provides information on the nature and timing of performance obligations in customer contracts, including significant payment terms and related revenue recognition policies.

A contract with a customer that results in a financial instrument recognised in the Group's and the Bank's financial statements may fall partially under IFRS 9 and IFRS 15. If this is the case, the Group applies IFRS 9 the first time to separate and measure the portion of the contract that falls under IFRS 9 and then applies IFRS 15 to the remaining portion.

Other fees and commission expenses refer primarily to transaction fees and services, which are accounted for as expenses when services are received.

• Net income from financial operations
Net trading income includes gains and losses arising from transactions in foreign currency and conversion of foreign currency monetary items. In addition, the Group and the Bank recognise fair value gains or losses from their financial assets held for trading.

• Derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

d) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, unrestricted balances held with the Bank of Mozambique and amounts due from other banks and short-term highly liquid investments with maturities of three months or less and measured at amortised cost.

e) Non-current assets held for sale

Non-current assets (or groups for disposal) are classified as held for sale whenever their balance sheet value is essentially expected to be recovered on sale and when this is considered to be highly likely. For an asset (or disposal group) to be classified in this account heading, the following requirements must be met:

1) There should be a strong probability of the sale;
2) The asset should be available for immediate sale in its present state; and
3) The sale should be expected to occur within a year from the asset's classification under the said heading.

Assets recognised under this heading are not depreciated and are valued at their acquisition cost or fair value, whichever the lesser, minus the costs incurred on the sale. The fair value of such assets is assessed based on valuations carried out by specialised entities.

The Board of Directors must make every effort to ensure that the sale takes place within one year from the date of the classification.

Property, plant and equipment are not depreciated once classified as held for sale.

f) Tangible assets

Tangible assets are recognised at their acquisition cost, minus accumulated depreciation and impairment losses. The costs of repairing part of a tangible asset are recognised if they are likely to produce future economic benefits for the Group and the Bank and can be reliably measured.

Maintenance and repair and other associated costs are only recognised in the income statement for the period in which they are incurred.

Depreciation is systematically calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The assets' residual values, useful life and amortisation criteria are reviewed and adjusted prospectively, if appropriate, at each reporting date. The estimated useful lives of assets are as follows:

	Years
Real State	25
Leased Buildings	10
Equipment	10
Others	4-5

On a regular basis, the Group and the Bank perform an adequacy test on the estimated useful lives of their tangible assets. Changes in assets' expected useful lives are recognised by changing the period or depreciation method, as appropriate, and are recognised as changes in accounting estimates.

Expenses on buildings which are not owned by the Bank are depreciated in accordance with a period compatible with their expected use or the rental contract.

Impairment of Non-Financial Assets

Analyses designed to identify signs of impairment on tangible assets are performed periodically. An impairment loss is recognised in the income statement for the period whenever the net book value of tangible assets exceeds their recoverable value. The Group and the Bank reverse impairment losses in the income statement for the period if there is a subsequent increase in an asset's recoverable value.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset is recognised in 'Other operating income' or 'Other operating expense' in the income statement in the year the asset is derecognised.

g) Goodwill and Intangible Assets

i) Intangible assets
Intangible assets include amounts for software (licences) acquired by the Group and the Bank and are stated at cost less accumulated amortisation and possible impairment losses.

Expenditure on in-house developed software is recognised as an asset if the Group and the Bank are able to demonstrate their intention and ability to generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly arising from developing the software, and are amortised over its useful life. In-house developed software is measured at capitalised costs less the accumulated amortisation and impairment losses.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of software, from the date it is available for use. Software has a 3-5 year estimated useful life.

ii) *Goodwill*
Goodwill arising on the acquisition of a subsidiary is measured at cost less impairment losses.

Taxes

1) Current tax
Current tax assets or liabilities are estimated on the basis of the amount expected to be recovered from or paid to the tax authorities. The legal tax rate used to calculate the amount is the rate in force at the date of the balance sheet.

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

2) Deferred tax
Deferred tax is recognised on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business concentration and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, liabilities for deferred tax are recognised the parent company, investor or entrepreneur is able to control the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 profit will allow the deferred tax asset to be recovered.

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, based on tax rates (and tax laws) that have been enacted or significantly enacted at the reporting date.
Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset tax assets against tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

h) 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 employees' short-term benefits are measured on an undiscounted basis and are accounted for as cost when the service is rendered.

A liability is recognised at the amount to be paid in the short term, under cash bonus plans or accrued holidays, if the Group and the Bank have a current legal or constructive obligation to pay such amount as a result of the service rendered in the past by the employee, and if the obligation can be estimated reliably.

ii. Benefits due on termination of contract
Termination benefits are recognised as costs when the Group and the Bank undertake, without realistic possibility of withdrawal and with a detailed formal plan, to terminate the employee's contract before his/her normal retirement date, or provide benefits on termination, as a result of an offer made to encourage voluntary dismissal. If benefits are not expected to be fully settled within 12 months after the reporting date, then these are discounted.

i) Lease agreements

Determining whether an agreement contains a lease is based on the substance of the agreement at commencement date and requires an assessment of whether compliance of the agreement is dependent on the use of a specific asset or assets and whether the agreement conveys a right to use the asset.

Operating leases - Group and Bank as lessee

Leases for which the Group and the Bank do not substantially transfer all the risks and benefits attached to ownership of an asset are classified as operating leases and the relevant payments are recognised as an expense on a straight-line basis over the lease term.

j) Dividends from ordinary shares

Dividends from ordinary shares are recognised as a liability and deducted from Equity after approval by the Group's and the Bank's shareholders. Interim dividends are deducted from Equity when they are declared and are no longer at the discretion of the Group and the Bank.

Dividends for the year approved after the reporting date are disclosed as an event after the reporting date.

k) Provisions

A provision is recognised when the Group and the Bank have a present legal or constructive obligation resulting from a past event and it is likely that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. Provisions are measured based on the present value of the costs that are expected to be incurred to settle the obligation using a pre-tax rate that reflects the current valuation.

Changes in accounting policies

In the Consolidated and Individual Financial Statements as of 31 December2018, the Group and the Bank implemented IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers, which were mandatory for the fiscal year beginning 1 January2018.

The adoption of IFRS 15 did not affect the timing or value of interest and income, commissions on contracts with customers and related assets and liabilities. The impact on comparative information is therefore limited to new disclosure requirements:

i) Increase in impairment losses recognised in financial assets;
ii) Changes in the classification and measurement of financial assets;
iii) Additional disclosures related to IFRS 9.

Except for the changes laid down in IFRS 9 and IFRS 15, the Group and the Bank consistently applied the accounting policies for all the fiscal years considered in these Consolidated and Individual Financial Statements.

Due to the transition method chosen by the Group and the Bank in applying IFRS 9, comparative information has not generally been restated to reflect these obligations.

The Group has not adopted any other International Financial Reporting Standard, interpretation or amendment that has been issued but has not entered into force so far.

IFRS 9 - Financial Instruments

IFRS 9 is mandatory and replaces IAS 39 for fiscal years beginning on or after 1 January 2018. Detail of the impact of implementing IFRS 9 on the Consolidated and Individual Financial Statements.

The differences arising from adopting IFRS 9 were adjusted in the 2018 opening balances and their amount recognised directly in retained earnings from 1 January 2018.

Changes to classification and measurement

To determine the classification and measurement category, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, be analysed based on the combination of the Group and the Bank business model and on the contractual characteristics of the cash flows of assets and instruments.

The measurement categories that were included in IAS 39 for financial instruments were:

i) Fair value through results;
ii) Available for sale;
iii) Held to maturity; and
iv) Amortised cost

These categories were replaced, in accordance with IFRS 9, by the following categories:

i) Financial assets at amortised cost;
ii) Assets at fair value through profit or loss;
iii) Assets at fair value through comprehensive income.

The accounting of financial liabilities remains basically the same as in IAS 39, except for the treatment of gains and losses arising from the entity's own credit risk, related to financial liabilities measured at fair value through profit or loss. These are presented in other comprehensive income without subsequent reclassification in the income statement.

In accordance with IFRS 9, embedded derivatives are no longer separate from the main financial asset but are classified based on the business model and contractual terms.

The impacts of implementing IFRS 9 on 1 January2018 for the Group and the Bank are as follows:

31.12.2018

	Mozabanco			Group
	Classification IFRS 9	Amount in accordance with IAS 39	Amount in accordance with IFRS 9	Amount in accordance with IFRS 9
Cash and balances with Central Bank	Amortised cost	794,999	794,999	1,152,270
Deposits with banks	Amortised cost	107,215	107,215	176,640
Loans and advances to banks	Amortised cost	5,007,735	5,007,735	5,195,922
Securities				
Treasury Bills	Amortised cost	5,086,353	2,219,262	5,310,406
Treasury bonds	Amortised cost	1,786,275	1,786,275	1,786,275
Corporate bonds				
Bonds (A)	Amortised cost	136,906	155,876	155,876
Bonds (B)	Amortised cost	844,718	844,718	844,718
Shares (C)	FV through profit or loss	29,590	29,590	35,918
		7,883,842	5,035,721	8,133,193
Loans and advances to customers	Amortised cost	17,985,608	17,985,608	19,913,636
Total financial assets		**31,779,399**	**28,931,278**	**34,571,661**
Deposits from Banks	Amortised cost	866,915	866,915	867,307
Deposits from customers	Amortised cost	24,893,226	24,893,226	26,596,771
Assigned funds	Amortised cost	93,153	93,153	295,915
Other liabilities	Amortised cost	547,814	547,814	574,095
Derivatives	FV through profit or loss	38,763	38,763	38,763
Debt securities issued	Amortised cost	870,026	870,026	870,026
Total financial liabilities		**27,309,897**	**27,309,897**	**29,242,877**

Changes to impairment calculation

By adopting of IFRS 9 Moza Banco's impairment model was substantially changed as it replaced IAS 39 loss model with the expected loss model (ECL) under IFRS 9.
IFRS 9 establishes that an entity should recognise a provision/impairment for expected credit losses in respect of financial assets that are loans and advances of customers, other debt instruments not recognised at fair value through profit or loss, loan commitments and contracts for financial collateral.

The entity shall measure provision/impairment for losses by an amount equivalent to the expected credit losses within twelve months if there has been no significant increase in credit risk since the initial recognition.

The impact of the adoption of IFRS 9 on 1 January 2018 was as follows:

Credit portfolio

Impact of IFRS 9 implementation on the Bank's Loan Portfolio:

	IAS 39 measurement			IFRS 9	
Financial assets	**Amount**	**Reclassification**	**Remeasurement**	**Amount**	**Category**
Loans and accounts receivable	2 947 332	-	728 388	3 675 720	Amortised cost
for: Financial instruments at amortised cost					
Financial Instruments at amortised cost					
	2 947 332	-	728 388	3 675 720	

Impacts of IFRS 9 implementation on the Group's Loan Portfolio

	IAS 39 measurement			IFRS 9	
	Amount	**Reclassification**	**Remeasurement**	**Amount**	**Category**
Loans and accounts receivable	3 152 592	-	800 731	3 953 323	Amortised cost
for: Financial instruments at amortised cost					
Financial Instruments at amortised cost					
	3 152 592	-	800 731	3 953 323	

Securities portfolio

Impacts of IFRS 9 implementation on the Group's and the Bank's Securities Portfolio

	IAS 39 measurement		IFRS 9
Financial assets	**31.12.2017**	**Remeasurement**	**01.01.2018**
VISABEIRA	152.258	(377)	151.881
CPC	36.742	(7.958)	28.784
AFRISIA	295.100	(1.150)	293.950
for: Financial instruments at amortised cost			
Financial Instruments at amortised cost			
	484.100	(9.485)	474.615

2. Accounting standards issued but not implemented.

A number of other new regulations were effective as of 1 January2018. However, they did not have a material impact on the Consolidated and Individual Financial Statements of the Bank and Group.

IFRS 16 - Leases:

This standard replaces: IAS 17 Leases and related interpretations.

Summary of requirements: This lays down principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 provides for a lease model according to which almost every lease is to be included in the Balance Sheet. No significant changes were included for the lessors.

The standard is effective for annual periods beginning on or after 01 January 2019, with early adoption permitted only if the entity also adopts IFRS 15.

Possible Impact on Financial Statements: Transitional requirements are different for lessees and lessors. The Group and the Bank have begun evaluating the potential impact on the financial statements resulting from the application of IFRS 16 and no significant impact is expected on the Group's and the Bank's financial leases.

For the following changes to the regulations, significant impacts on the Consolidated and Individual Financial Statements of the Bank and Group are not expected:

- Long-term interests in affiliates and joint ventures (amendments to IAS 28);
- Changes to the Plan or Liquidation of the Plan (amendments to IAS 19);
- Changes to the references of the conceptual rules in IFRS regulations;
- IFRS 17 Insurance Contracts;
- Annual improvements in the IFRS cycle 2015 - 2017 standards;
- IFRIC 23 Uncertainty regarding tax treatment.

3. Financial risk management, objectives and policies

Risk management is based on the permanent identification and analysis of exposure to different risks (credit, market, liquidity, operational or other risk), and on the implementation of strategies designed to maximise income in light of risks, pursuant to duly supervised pre-established restrictions.

Due to their activities, the Group and the Bank are exposed to a series of financial risks; such activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's and the Bank's aim is therefore to achieve a balance between risk and return and minimise potential adverse effects on their financial performance.

By their very nature, the Group's and the Bank's activities are mainly related to the use of financial instruments. The Group and the Bank accept deposits from customers at both fixed and floating rates and for various periods and seek to earn above-average interest margins by investing these funds in high-quality assets. The Group and the Bank seek to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

Thus, the Group's and the Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group and the Bank regularly review their risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Risk Department under policies approved by the Board of Directors. This Department identifies and evaluates financial and non-financial risks in close co-operation with the Group's and the Bank's operating units. The Board of Directors provides written principles for overall risk management as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are: Credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate risk and another price risk.
Pursuant to its ALM (asset-liability management) procedures, the Group and the Bank seek prudent management of their liquidity situation, capital expenditure and control of associated financial risks, with special focus on liquidity, interest rate and currency risks.

The Compliance Division covers all of the Group's and the Bank's areas, processes and activities with the aim of aiding prevention activities and mitigating 'compliance risks', which are the risk of legal or regulatory sanctions and financial or reputational losses as a consequence of a failure to comply with laws, regulations, codes of conduct and good banking practice; it must also promote the Group's, the Bank's and their staff's compliance with all applicable standards by means of independent intervention, in conjunction with all of the Bank's organisational bodies.

A qualitative review of risk management at the Group and the Bank is presented below:

3.1 Credit risk

Credit risk is the risk that the Group and the Bank may suffer financial loss should any of the Group's and the Bank's customers or market counterparties fail to honour their contractual obligations to the Group or Bank. Counterparties may include the government, other banks and non-financial institutions. Credit risk may also arise after the Group's and the Bank's credit rating has been downgraded, causing the fair value of their investment to decline. The credit risk faced by the Group and the Bank arises mainly from commercial and retail loans. The Group and the Bank have policies, procedures and processes dedicated to controlling and monitoring risk from all such activities.

While credit exposures mainly arise in loans and advances, the Group and the Bank may be exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, debt securities and other exposures arising in the course of trading activities. Risks are managed in a similar way to those in customer loans and advances, and are subject to the same or similar approval and governance processes.

The exposure to risk based on the credit profile of the Group and the Bank is monitored and managed through the daily tracking of limits and excesses. The Group and the Bank monitor concentrations of credit risk that arise by type of customer in relation to loans and advances to customers by carrying a balanced portfolio.

Maximum exposure to credit risk per class of financial asset

For financial assets recognised in the statement of financial position, the exposure to credit risk is equal to the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the guarantee was called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the undrawn amount of the committed facilities. In terms of guarantees and letters of credit, the Group and the Bank are also exposed to liquidity risk to the same extent if the guarantees and letters of credit were called upon.

The following represents the maximum exposure as of 31 December to credit risk on the statement of financial position and off-balance-sheet financial instruments before taking into account any collateral held. The Group and the Bank hold collateral as security for Loans and advances to Customers in the form of mortgages on property and pledges on equipment:

	Mozabanco		Group
Credit risk exposure relating to items on statement of financial position	**2018**	**2017**	**2018**
Cash and balances with Central Bank	794,999	806,636	1,152,270
Deposits with banks	107,215	115,484	176,640
Loans and advances to banks	5,007,735	2,359,783	5,195,922
Financial assets	7,902,812	5,015,702	8,133,192
Loans and advances to customers	17,985,608	15,281,038	19,9130,636
Other assets	528,627	42,224	524,302
Total	**32,326,996**	**23,620,867**	**35,095,962**
Credit risk exposure relating to items off balance sheet			
Guarantees	5,774,739	2,216,539	5,774,739
Letters of credit	931,567	845,780	931,567
Total	**6,706,306**	**3,062,319**	**6,706,306**
Total amount exposure to credit risk	**39,033,302**	**26,683,186**	**41,802,268**

Credit quality:

For the purposes of the Bank's disclosure regarding credit quality, the financial assets have been analysed as follows:

2018	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	794,999	-	-	**794,999**
Deposits with banks	107,215	-	-	**107,215**
Loans and advances to 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**
Total	**33,973,999**	**2,225,883**	**(3,872,886)**	**32,326,996**

2017	Neither mature nor impaired	Overdue but not impaired	Impaired	Total
Cash and balances with Central Bank	806,636	-	-	**806,636**
Deposits with banks	115,484	-	-	**115,484**
Loans and advances to banks	2,359,783	-	-	**2,359,783**
Financial assets	5,015,702	-	-	**5,015,702**
Loans and advances to customers	16,505,305	1,723,065	(2,947,332)	**15,281,038**
Other assets	42,224	-	-	**42,224**
Total	**24,845,134**	**1,723,065**	**(2,947,332)**	**23,620,867**

For the purposes of the Group's disclosure regarding credit quality, the financial assets have been analysed as follows:

2018	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	1,152,270	-	-	**1,152,270**
Deposits with banks	176,640	-	-	**176,640**
Loans and advances to banks	5,195,922	-	-	**5,195,922**
Financial assets	8,133,192	-	-	**8,133,192**
Loans and advances to customers	21,604,860	2,465,395	(4,156,619)	**19,913,636**
Other assets	524,302	-	-	**524,302**
Total	**36,787,186**	**2,465,395**	**(4,156,619)**	**35,095,962**

For the purposes of the Bank's disclosure regarding credit quality, the financial assets have been analysed as follows:

2018	Amount	Impairment	Net exposure
Outstanding credit	14,590,553	1,469,252	**13,121,301**
Overdue credit	7,267,941	2,403,634	**4,864,307**
Overdue 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**

2017	Amount	Impairment	Net exposure
Outstanding credit	10,320,690	406,158	**9,914,531**
Overdue credit	7,907,680	2,541,173	**5,366,507**
Overdue exposure	1,723,065	553,716	**1,169,349**
Exposure with evidence of Impairment	6,184,615	1,987,458	**4,197,157**
	18,228,370	2,947,332	**15,281,038**

For the purposes of the Group's disclosure regarding credit quality, the financial assets have been analysed as follows:

2018	Amount	Impairment	Net exposure
Outstanding credit	15,980,804	1,498,132	**14,482,672**
Overdue credit	8,089,451	2,658,487	**5,430,964**
Overdue exposure	2,485,044	1,488,900	**996,144**
Exposure with evidence of Impairment	5,604,408	1,169,586	**4,434,822**
	24,070,255	**4,156,619**	**19,913,636**

Overdue loans include the total exposure of customers with overdue instalments and all outstanding instalments of loans that already have overdue instalments. At 31 December 2018, the non-performing exposure amounted to MZN 7,267,000 (2017: 7,907,000 MZN).

The following table shows the net exposure of the loan portfolio broken down by the relevant impairment stage and internal rating of the Group and the Bank.

			Mozabanco		Group	
	Stage 1	**Stage 2**	**Stage 3**	**2018**	**2017**	**2018**
In compliance - Stage 1	10,768,055	-	-	10,768,055	8,744,033	12,120,604
In default but not impaired - Stage 2	-	3,400,490	-	3,400,490	2,871,374	3,656,011
In default - Stage 3	-	-	3,817,063	3,817,063	3,665,631	4,137,021
	10,768,055	**3,400,490**	**3,817,063**	**17,985,608**	**15,281,038**	**19,913,636**

The table below shows the net exposure of cash, cash and deposits at the Bank and on Credit Institutions and Loans at Credit Institutions due to the Group and the Bank's impairment.

			Mozabanco		Group	
	Stage 1	**Stage 2**	**Stage 3**	**2018**	**2017**	**2018**
Cash and balances with Central Bank	794,999	-	-	794,999	806,636	**1,152,270**
Deposits with banks	107,215	-	-	107,215	115,484	**176,640**
Loans and advances to banks	5,007,735	-	-	5,007,735	2,359,783	**5,195,922**
	5,909,949	-	-	**5,909,949**	**3,281,903**	**6,524,832**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges on properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties;

Analysis of exposure to collaterals and other credit guarantees for the Bank.

2018

		Fair value of credit guarantees				Net Guarantees	Net exposure
	Total Exposure to credit risk	**Deposits**	**Letters of credit/ Bank guarantees**	**Mortgages**	**Other**		
Cash and Balances with Central Bank	794,999	-	-	-	-	-	794,999
Deposits woth banks	107,215	-	-	-	-	-	107,215
Loans and advances to 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 and medium enterprises	4,872,798	555,496	-	3,501,569	168,499	4,225,564	647,233
Individual	2,730,147	483,566	-	1,654,813	423,977	2,562,356	167,792
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**

2017

		Fair value of credit guarantees				Net Guarantees	Net exposure
	Total Exposure to credit risk	**Deposits**	**Letters of credit/ Bank guarantees**	**Mortgages**	**Other**		
Cash and Balances with Central Bank	806,636	-		-	-	-	806,636
Deposits woth banks	115,484	-	-	-	-	-	115,484
Loans and advances to banks	2,359,783	-	-	-	-	-	2,359,783
Financial assets	5,015,702	-	-	-	-	-	5,015,702
Loans and advances to customers	-	-	-	-	-	-	
Large enterprises	7,115,461	111,704		2,575,425	2,829,113	5,516,242	1,599,219
Small and medium enterprises	3,752,372	249,123	11,607	2,600,145	118,872	2,979,747	772,625
Individual	2,369,383	214,789		787,474	9,799	1,012,062	1,357,321
Other	2,043,822	-	44,164	-	2,246,323	2,290,487	(246,665)
Other Assets	42,223	-	-	-	-	-	42,223
	23,620,867	**575,616**	**55,771**	**5,963,044**	**5,204,107**	**11,798,538**	**11,822,329**

Analysis of exposure to collaterals and other credit guarantees for the Group:

2018

		Fair value of credit guarantees				Net Guarantees	Net exposure
	Total Exposure to credit risk	**Deposits**	**Letters of credit/ Bank guarantees**	**Mortgages**	**Other**		
Cash and Balances with Central Bank	1,152,270	-	-	-	-	-	1,152,270
Deposits woth banks	176,640	-	-	-	-	-	176,640
Loans and advances to banks	5,195,922	-	-	-	-	-	5,195,922
Financial assets	8,133,192	-	-	-	-	-	8,133,192
Loans and advances to customers	-	-	-	-	-	-	
Large enterprises	9,577,838	175,044	-	2,438,194	1,097,496	3,710,734	5,867,104
Small and medium enterprises	5,311,673	617,401	9,000	4,362,447	356,641	5,345,489	(33,816)
Individual	3,234,892	510,173	-	2,496,777	443,808	3,450,758	(215,865)
Other	1,789,233	24,020	-	-	130,641	154,661	1,634,572
Other Assets	524,302	-	-	-	-	-	524,302
	35,095,962	**1,326,638**	**9,000**	**9,297,417**	**2,028,586**	**12,661,642**	**22,434,321**

Renegotiated financial assets

A customer who has defaulted and temporarily cannot afford to pay the monthly instalment may qualify for an extension period in which to try and remedy the situation. On expiry of the extension period the customer's situation is re-assessed and the settlement of the account or the renegotiation of the terms of the agreement is explored.

Renegotiated assets comprise loans that have moved from the non-performing book into the performing book in the last 12 months after having been restructured. In practice, loans will not be renegotiated more than once in a twelve-month period.

Financial assets that are past due but not impaired

Policy applicable as of 1 January 2018

The Group and the Bank recognise provisions for ECL losses based on the following financial instruments that are not measured in the FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised in capital investments.

The Group and the Bank measure the provisions for losses in an amount equal to the lifetime ECL, for which the following 12-month ECLs are measured:

- Debt investment securities that are determined as having a low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Provisions for losses on lease receivables are always measured at an amount equal to the life-long ECL.
The Group and the Bank consider that a debt investment security has a low credit risk when its credit risk classification is equivalent to the general definition of 'investment grade'.

The Group and the Bank do not apply the low exemption of credit risk to any other financial instruments. The 12-month ECL is the part of the Expected Credit Loss that arises from default events on a financial instrument that are possible within 12 months after the reporting date. Financial instruments for which the 12-month ECL is recognised as 'Phase 1 financial instruments'.
ECL Measurement.

The ECL is an estimate weighted by the probability of credit losses. These are measured as follows:

- Financial assets that are not considered as impairment credits up to the reporting date;
- Financial assets that are credit impaired at the reporting date: such as the difference between the gross book value and current value of the estimated future cash flows;
- Unrealised loan commitments: such as the current value of the difference between the contractual value of cash flows owed to the Group and the Bank if the commitment is withdrawn and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: Expected payments to repay the borrower less any amount that the Group expects to recover.

Restructured financial assets

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

- If the expected restructuring does not result in the derecognition of the existing asset, then the expected cash flows arising from the modified financial

asset are included when calculating the cash flow shortfalls of the existing 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 derecognition. This amount is included when calculating the changes in 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 Group and the Bank assess whether the financial assets carried at amortised cost, the financial assets of the debt carried at FVOCI and the lease credits are credit impaired (referred to as 'Phase 3 financial assets'). A financial asset is 'credit impaired' when one or more events have a negative impact on the estimated future cash flows of the financial asset.
Evidence that a financial asset is 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;
• restructuring of the Group and the Bank loan or advance in cases where the Group and the Bank would not otherwise consider;
• High likelihood of bankruptcy and financial restructuring by the customer;
• The loss of an asset due to financial difficulties.

A loan that has been renegotiated due to the deterioration in the borrower's financial circumstances is generally considered to be a credit loss, unless there is evidence that the risk of not receiving the cash flows has significantly reduced and there are no other impairment indicators. The fact that a loan is overdue for 90 days and has not been considered a credit loss, even if the standard regulatory definition states otherwise, should also be taken into account.
To assess whether an investment in sovereign debt may be considered credit impaired, the Group and the Bank consider the following factors:
• The market assessment of the credit quality is reflected in bond yields.
• Assessment of the institution's creditworthiness;
• The ability of the country to access the capital market for new debt issues.
• The likelihood of debt restructuring results in a voluntary or compulsory loss or forgiveness of debt.
• The international support mechanisms implemented to provide the necessary support as a lender of last resort for that country, as well as the intention, reflected in public statements, of governments and institutions to use such mechanisms. This includes an in-depth assessment of these mechanisms and, regardless of political intent, whether they are able to meet the required criteria.

Presentation of the provision for ECL in the Statement of Financial Position

Provisions 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: in general, as a provision;
• when a financial instrument includes both a drawn and an undrawn component, and the Group and the Bank are unable to identify the ECL in the loan commitment component separately from that in the undrawn component: the Group and the Bank present a combined loss provision for both components. The combined amount is presented as a deduction from the gross carrying amount of the component. Any loss allowance surplus on the gross amount of the drawn component is presented as a provision; and
• debt instruments measured by FVOCI: the provision for losses in the statement of financial position is not recognised because the carrying amount of these assets is their fair value. However, the provision for losses is disclosed and recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (partially or fully) when no recovery of a financial asset in whole or in part is expected. This is generally the case where the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to pay the write-off amounts. This assessment is carried out at the individual asset level.

The recovery of amounts previously written-off are included in 'impairment losses of financial instruments' in the income statement.
Financial assets written-off may also be subject to enforcement orders to follow the Group's procedures for recovering the amounts owed.

Non-full financial guarantee contracts

The Group and the Bank assess whether a financial collateral arrangement is an integral part of a financial asset that is accounted for as a component of such instrument or a contract that is accounted for separately. The factors that the Group and the Bank consider when making this assessment include:

• the collateral is implicitly part of the contractual terms of the debt instrument;
• the guarantee is required by any laws and regulations governing the contract of the debt instrument;
• the guarantee is entered into at the same time and includes the debt instrument; and
• the guarantee is given by the parent company or another company within the borrower group.

If the Group and the Bank determine that the collateral is an integral part of the financial asset, any premium payable relating to the initial recognition of the financial asset is recognised as a transaction cost for its acquisition. The Group and the Bank consider the effect of the protection when measuring the fair value of the debt instrument and when measuring the ECL.

If the Group and the Bank determine that the guarantee is not an integral part of the debt instrument, then they recognise an asset representing any advance payment of the guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure is not credit impaired or has not undergone a significant increase in credit risk when the security is acquired.
These assets are recognised in 'other assets'. The Group and the Bank present gains or losses as a right of offset on profit or loss under 'impairment losses on financial instruments'.

Objective evidence of impairment

At each reporting date, the Group and the Bank assessed whether there was objective evidence that assets not held at fair value through profit or loss were impaired. A financial asset or group of financial assets is considered impaired when the objective evidence shows that a loss event occurred after recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be reliably estimated.

In addition, a loan and advance overdue for 90 days or more may be considered impaired.
Indicators of financial assets were impaired on:

• significant financial difficulty of the borrower or issuer;
• default of the borrower;
• restructuring of the Group's and the Bank's loan or advance on terms where the Group and the Bank had no alternative;
• indicators that the borrower would go bankrupt;
• the loss of an asset due to financial difficulties

A loan that was renegotiated due to a deterioration in the circumstances of the borrower was considered impaired unless there was evidence that the risk of not receiving the cash flows had reduced significantly and no other indicators of impairment existed.

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

The criteria that the Group and the Bank use to determine whether there is objective evidence of an impairment loss include:

• Significant financial difficulty of the issuer or borrower;
• A breach of contract, such as a default on interest or principal payments;
• The likelihood of the borrower becoming insolvent or carrying out a thorough financial reorganisation;
• The disappearance of an active market for that financial asset because of financial difficulties; or
• Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although such decrease is yet to be identified with the individual financial assets in the portfolio, including:

i. Adverse changes in the payment status of borrowers in the portfolio;
ii. National or local economic conditions that are related to depreciation of the assets portfolio;
iii. Deterioration in the collateral value; and
iv. Deterioration of the borrower's position.

The Group's and the Bank's credit policy considers a default to have occurred with regard to a particular borrower when the following events have taken place:

• The Group and the Bank consider that the borrower is unlikely to fulfil its credit obligation in full, without having to actions such as exercising the option on any security held;
• If the borrower breaches any of the terms of the loan agreement, which might include failure to achieve certain financial performance loan covenants.

The Group and the Bank first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

All exposures flagged as being in default are assessed individually for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

The calculation of the current 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, whether or not 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.

Derecognition

The Group and the Bank recognises, through charges against profit, an impairment allowance for the incurred loss attached to the loan portfolio. After an advance has been identified as impaired and is subject to an impairment allowance, it may be concluded that there is no realistic prospect of further recovery.

Derecognition will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable. The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the commencement of insolvency proceedings or other formal recovery action, which makes it possible to establish that part of or the entire advance is beyond realistic prospect of recovery.

Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported credit impairment charge in the income statement.

The analysis of loans and advances to customers assessed as impaired is as follows:

2018

		Mozabanco		Group	
	Carrying amount	Credit impairment	2018	2017	2018
Retail	4,133,497	597,183	3,536,314	2,869,446	3,609,390
Civil construction	1,220,801	333,860	886,941	856,913	963,411
Energy	374,981	1,824	373,157	30,556	373,157
Tourism and hospitality	670,535	140,261	530,274	599,875	563,790
Manufacturing	2,312,998	610,231	1,702,767	1,342,375	1,710,092
Individual	3,660,226	816,592	2,843,634	2,372,866	3,201,157
Services	7,670,831	1,105,028	6,565,803	4,561,180	7,163,246
Transport and communications	1,692,269	215,506	1,476,763	2,465,881	1,840,753
Agriculture and fisheries	101,315	48,731	52,584	62,417	471,269
Other	21,041	3,670	17,371	119,529	17,371
	21,858,494	**3,872,886**	**17,985,608**	**15,281,038**	**19,913,636**

Credit Risk Concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The concentrations of credit exposure described below are not proportionally related to credit loss. Some segments of the Group's and the Bank's portfolio have, and are expected to have, proportionally higher credit charges in relation to the exposure than others.

Analysis of the Bank's credit risk concentrations by industry are as follows:

2018

	Cash and balances with Central Bank	Deposits with banks	Loans and advances to 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 and hospitality	-	-	-	-	530,274	-	530,274
Manufacturing	-	-	-	-	1,702,767	-	1,702,767
Individual	-	-	-	-	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 fisheries	-	-	-	-	52,584	-	52,584
Other	522,436	-	-	-	12,112	1,052,459	1,587,007
	794,998	**107,215**	**5,007,735**	**7,902,812**	**17,985,608**	**1,052,459**	**32,850,827**

2017

	Cash and balances with Central Bank	Deposits with banks	Loans and advances to banks	Financial assets	Loans and advances to customers	Other assets	Other assets	Total
Government	-	-	-	2,219,262	1,450,164	-	-	3,669,426
Insurance	-	-	-	23,262	-	-	-	23,262
Financial	68,956	115,484	2,359,783	87,442	1,077,720	-	-	3,709,386
Oil and Natural Gas	-	-	-	-	-	2,721,161	-	2,721,161
Retail	-	-	-	-	-	922,911	-	922,911
Civil construction	-	-	-	-	-	26,080	-	26,080
Energy	-	-	-	-	-	527,213	-	527,213
Tourism and hospitality	-	-	-	-	-	1,473,322	-	1,473,322
Manufacturing	-	-	-	-	-	2,457,381	-	2,457,381
Individual	-	-	-	-	-	4,583,250	-	4,583,250
Services	-	-	-	-	-	2,389,206	-	2,389,206
Transport and communications	-	-	-	-	-	73,665	-	73,665
Agriculture and fisheries	737,680	-	-	157,852	-	106,849	42,224	1,044,604
Other								-
	806,636	**115,484**	**2,359,783**	**2,487,818**	**2,527,884**	**15,281,038**	**42,224**	**23,620,867**

Analysis of the Group's credit risk concentrations by industry are as follows:

2018

	Cash and balances with Central Bank	Deposits with banks	Loans and advances to banks	Financial assets	Loans and advances to customers	Other assets	Total
Government	-	-	-	7,720,991	769,739	-	8,490,730
Insurance	-	-	-	23,263	93	-	23,356
Financial	535,629	176,640	5,195,922	2,682	5,220	-	5,916,093
Retail	-	-	-	-	3,609,390	-	3,609,390
Civil construction	-	-	-	-	963,411	-	963,411
Energy	-	-	-	-	373,157	-	373,157
Tourism and hospitality	-	-	-	-	563,790	-	563,790
Manufacturing	-	-	-	-	1,710,092	-	1,710,092
Individual	-	-	-	-	3,201,157	-	3,201,157
Services	-	-	-	-	6,393,453	-	6,393,453
Transport and communications	-	-	-	155,876	1,840,753	-	1,996,629
Agriculture and fisheries	-	-	-	-	471,268	-	471,268
Other	616,641	-	-	-	12,113	10,323	639,077
	1,152,270	**176,640**	**5,195,922**	**7,902,812**	**19,913,636**	**10,323**	**34,351,603**

3.2 Liquidity risk

Liquidity risk is the likelihood that an institution faces difficulties in meeting its obligations (especially short-term ones) as they mature, or in the refinancing of the assets held in its balance sheet, without incurring significant costs or losses (funding liquidity risk). If the conditions prevailing in the market in which the institution operates prevent it to dispose of certain assets at market prices, but only below them, the so-called market liquidity risk occurs.

Liquidity policy and strategy management is defined at the level of the ALCO Committee, implemented by the Markets and International Department (DMI) and controlled by the Risk Management Department (DGR), based on the procedures recommended in the guidelines defined by the Central Bank (Notice No. 4/GBM / 2013).

The Executive Committee (CE) appointed the Assets and Liabilities Management Committee (ALCO) for implementing financial policy at the Group and the Bank, the latter being responsible for the ALM (Asset-Liability Management) process, implementing actions within the framework of standards and procedures aimed at effectively managing market risks (exchange rate, interest rate, repricing) and liquidity. It helps formulate pricing policy through timely assessment of national and international macroeconomic developments.

More specifically, the Group's and the Bank's liquidity management process is carried out internally and monitored by a team from the Markets and International

Department and includes:

- Managing daily cash flow in both local and foreign currency by monitoring future cash flows to ensure compliance with obligations to the Bank of Mozambique and to the corresponding local and foreign banks. The replenishment of funds as they mature or are borrowed by Customers. The Group and the Bank have an active presence in local and regional money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing the balance sheet, the financing and investment needs of its cash surpluses, from a strategic point of view in the medium and long term;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting to measure cash flow and projections for all key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.
The Markets and International Department also monitors medium-term assets with different maturities, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Undiscounted contractual maturities of liabilities
The table below summarises the financial liabilities at 31 December based on undiscounted contractual cash flows:

2018

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Cash and balances with Central Bank	794,999	-	-	-	794,999
Deposits with banks	107,215	-	-	-	107,215
Loans and advances to 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
Total undiscounted assets	**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 from customers	7,998,599	8,311,953	8,489,389	93,285	24,893,226
Assigned funds	-	-	-	93,153	93,153
Debt securities issued	-	-	-	870,026	870,026
Other liabilities	586,577	-	-	-	586,577
Total undiscounted liabilities	**8,644,909**	**9,119,135**	**8,489,389**	**1,056,464**	**27,309,897**

2017

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Cash and balances with Central Bank	806,636		-	-	806,636
Deposits with banks	115,484	-	-	-	115,484
Loans and advances to banks	-	1,954,081	405,702	-	2,359,783
Financial assets	-	2.229.781	2,011,930	773,991	5,095,258
Loans and advances to customers	-	2.520.503	1.247.395	11.513.140	15.281.038
Other assets	833,562				833,562
Total undiscounted assets	**1,755,682**	**6.704.365**	**3.665.027**	**12.287.131**	**24.412.205**
Financial liabilities					
Deposits from Banks	3,748	11,732	-	-	15,480
Deposits from customers	7,226,500	4,283,451	6,424,001	26,155	17,960,107
Assigned funds	-	236	2,746	205,269	208,251
Debt securities issued	-	-	-	869,519	869,519
Other liabilities	415,913	-	-	-	415,913
Total undiscounted liabilities	**7,646,161**	**4,295,419**	**6,426,747**	**1,100,943**	**19,469,270**

The table below summarises the Group's financial liabilities at 31 December based on undiscounted contractual cash flows:

2018

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Cash and balances with Central Bank	1,152,270	-	-	-	1,152,270
Deposits with banks	176,640	-	-	-	176,640
Loans and advances to banks	-	4,955,940	239,982	-	5,195,922
Financial assets	-	2,729,163	3,903,007	1,501,022	8,133,192
Loans and advances to customers	-	2,811,353	2,341,520	14,760,763	19,913,636
Other assets	524,302				524,302
Total undiscounted assets	**1,853,212**	**10,496,456**	**6,484,509**	**16,261,785**	**35,095,962**
Financial liabilities					
Deposits from Banks	60,534	806,773	-	-	867,307
Deposits from customers	7,998,599	9,745,855	8,759,032	93,285	26,596,771
Assigned funds	-	-	-	295,915	295,915
Debt securities issued	-	-	-	870,026	870,026
Other liabilities	612,858	-	-	-	612,858
Total undiscounted liabilities	**8,671,991**	**10,552,628**	**8,759,032**	**1,259,226**	**29,242,877**

All amounts relating to 1 year and greater are expected to be recovered or settled more than 12 months after the reporting period.

3.3 Market risk

Market risk can be defined as the potential loss arising from changes in the fair value of future cash flows of financial instruments due to fluctuations in the market variables of the underlying asset or external factors that influence market prices. Examples of such risk factors include risks related to changes in the exchange rate, interest rates, equity prices, and commodities.

3.3.1 Interest rate risk

Interest rate risk is associated with changes in the market value of a given asset as a result of changes in market interest rates, resulting in the possibility of changes in future cash flows or the fair value of financial instruments. The Group and the Bank monitor their exposure to the effects of fluctuating market interest rates on the risk of their financial position and cash flows. Financial margins may increase as a result of such fluctuations, but may also reduce or create losses in the event of unforeseen transactions.

Financial instruments with interest rate risk comprise cash balances and deposits with other credit institutions, loans and advances to Customers, Customers' deposits and current accounts and funds of other credit institutions.

Management of the interest rate policy and strategy is decided by the ALCO Committee, implemented by the Markets and International Department and controlled by the Risk Management Department.

The following table shows the Bank's financial instruments sensitive to interest rates by maturity:

2018

Financial assets	Less than 3 months	3 to 12 months	> 1 Year	Non-interest bearing	Total
Cash and balances with Central Bank	-	-	-	794,999	794,999
Deposits with banks	107,215	-	-	-	107,215
Loans and advances to banks	4,767,754	239,981	-	-	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 undiscounted assets	**11,125,682**	**6,284,105**	**14,646,042**	**794,999**	**32,850,828**
Financial liabilities					
Deposits from Banks	866,915	-	-	-	866,915
Deposits from customers	16,310,549	8,489,389	93,288	-	24,893,226
Assigned funds	-	-	93,153	-	93,153
Debt securities issued	-	-	870,026	-	870,026
Other liabilities	567,434	-	-	19,143	586,577
Total undiscounted liabilities	**17,744,898**	**8,489,389**	**1,056,467**	**19,143**	**27,309,897**

The following table shows the Group's financial instruments sensitive to interest rates by maturity:

2018

Financial assets	Less than 3 months	3 to 12 months	> 1 Year	Non-interest bearing	Total
Cash and balances with Central Bank	-	-	-	1,152,270	1,152,270
Deposits with banks	107,215	-	-	69,425	176,640
Loans and advances to banks	4,955,941	239,981	-	-	5,195,922
Financial assets	2,729,163	3,903,007	1,501,022	-	8,133,192
Loans and advances to customers	2,811,353	2,341,520	14,760,763	-	19,913,636
Other assets	1,052,457	-	-	3,069	1,055,526
Total undiscounted assets	**11,656,129**	**6,484,508**	**16,261,785**	**1,224,764**	**35,627,186**
Financial liabilities					
Deposits from Banks	867,307	-	-	-	867,307
Deposits from customers	17,745,253	8,758,230	93,288	-	26,596,771
Assigned funds	-	-	93,153	-	295,915
Debt securities issued	-	-	870,026	-	870,026
Other liabilities	593,715	-	-	19,143	612,858
Total undiscounted liabilities	**19,206,275**	**8,758,230**	**1,259,229**	**19,143**	**29,242,877**

The sensitivity in the income statement and the impact on interest rate changes, based on the Bank of Mozambique's Monetary Policy rates, is based on financial assets and liabilities whose interest rate is variable. At 31 December it is as follows:

	Moza banco		Group	
	Increase/ decrease in base points	Impact on pre-tax profit	Increase/ decrease in base points	Impact on pre-tax profit
2018	+200 pb	130,650	+200 pb	138,767
	-200 pb	(130,650)	-200 pb	(138,767)
2017	+200 pb	11,898	-	-
	-200 pb	(11,898)	-	-

3.3.2 Exchange rate risk

Exchange rate risk is associated with exchange rate fluctuations as well as volatility. The Bank of Mozambique sets a daily limit of exposure for currency (10%) and aggregate limits (20%) that have been adopted by the Board of Directors. In accordance with the Group policy, exchange positions are monitored on a daily basis to ensure that they are kept within the limits set.

Management of exchange rate risk policy and strategy is decided by the ALCO Committee, and implemented by the Market and International Department under the supervision and control of the Risk Management Department.

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

2018

	MZN	USD	ZAR	EUR	Others	Total
Financial assets						
Cash and balances with Central Bank	683,883	63,405	11,152	36,539	20	**794,999**
Deposits with banks	39,249	15,224	15,670	32,631	4,441	**107,215**
Loans and advances to 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 from customers	21,539,342	3,001,979	222,609	118,005	11,291	**24,893,226**
Assigned funds	93,153	-	-	-	-	**93,153**
Debt securities issued	870,026	-	-	-	-	**870,026**
Other liabilities	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**

2017

	MZN	USD	ZAR	EUR	Others	Total
Financial assets						
Cash and balances with Central Bank	424,625	44,020	318,547	19,424	20	**806,636**
Deposits with banks	22,131	5,117	647	76,050	11,539	**115,484**
Loans and advances to banks	1,703,000	603,247	27,782	-	25,754	**2,359,783**
Financial assets	4,324,553	691,149	-	-	-	**5,015,702**
Loans and advances to customers	13,308,525	1,972,509	4	-	-	**15,281,038**
Other assets	833,562	-	-	-	-	**833,562**
	20,616,396	**3,316,042**	**346,980**	**95,474**	**37,313**	**24,412,205**
Financial liabilities						
Deposits from Banks	15,480	-	-	-	-	**15,480**
Deposits from customers	15,221,629	2,574,029	74,288	64,999	25,162	**17,960,107**
Assigned funds	208,251	-	-	-	-	**208,251**
Debt securities issued	869,519	-	-	-	-	**869,519**
Other liabilities	415,913	-	-	-	-	**415,913**
	16,730,792	**2,574,029**	**74,288**	**64,999**	**25,162**	**19,469,270**
Net exposure	**3,885,604**	**742,013**	**272,692**	**30,475**	**12,151**	**4,942,935**

The following table summarises the Group's exposure to exchange rate risk at 31 December:

2018

	MZN	USD	ZAR	EUR	Others	Total
Financial assets						
Cash and balances with Central Bank	969,868	126,018	14,522	41,842	20	**1,152,270**
Deposits with banks	41,847	24,634	22,934	82,784	4,441	**176,640**
Loans and advances to banks	3,799,452	1,134,990	261,462	18	-	**5,195,922**
Financial assets	7,121,996	1,011,196	-	-	-	**8,133,192**
Loans and advances to customers	16,695,194	3,218,439	2	1	-	**19,913,636**
Other assets	648,645	362,753	4,693	17,923	21,512	**1,055,526**
	29,277,002	**5,878,030**	**303,613**	**142,568**	**25,973**	**35,627,186**
Financial liabilities						
Deposits from Banks	867,307	-	-	-	-	**867,307**
Deposits from customers	23,035,879	3,185,263	240,535	123,803	11,291	**26,596,771**
Assigned funds	295,915	-	-	-	-	**295,915**
Debt securities issued	870,026	-	-	-	-	**870,026**
Other liabilities	573,533	27,837	620	2,463	8,405	**612,858**
	25,642,660	**3,213,100**	**241,155**	**126,266**	**19,696**	**29,242,877**
Net exposure	**3,634,342**	**2,664,930**	**62,458**	**16,302**	**6,277**	**6,384,309**

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

	Moza Banco			Group	
	Impact on USD rate change	Impact on pre-tax profit	Impact on equity	Impact on pre-tax profit	Impact on equity
2018	5.0%	127,540	127,540	133,247	133,247
	-5.0%	(127,540)	(127,540)	(133,247)	(133,247)
2017	+5%	37,101	37,101	-	-
	-5%	(37,101)	(37,101)	-	-

The effects per currency on the results, as well as on equity, are decided independently, which means that there is no economic compensation between them.

The exchange rates used for the conversion of balances denominated in foreign currency are as follows:

	2018	2017
US Dollar	61.47	59.02
Euro	70.25	70.70
South African Rand	4.28	4.79

3.4 Operational risk

Operational risk is the likelihood of negative impacts on results or capital arising from errors or failures in the analysis, processing or settlement of operations, internal and external fraud, business activity being affected due to the outsourcing, insufficient or inadequate human resources, or the inoperability of infrastructures.

Operational risk originates from 4 major sources namely: processes, human resources, information systems and external events and can be triggered by issues around Compliance, Reputation and Information and Communication Technologies.

It should be noted that operational risk should be considered across all processes, products, activities and systems and inherently exists in all Group and Bank Units. The Group and the Bank therefore carry out efforts to mitigate these risks through a strong governance structure and internal controls. These include adequate segregation of functions, access, authorisation and reconciliation processes, staff training and evaluation processes.

The Board of Directors is responsible for introducing, maintaining and operating effective processes and procedures, which are documented in several manuals, reviewed periodically, taking into account the need to adapt to reality. The Audit and Compliance Department reviews whether the internal controls and procedures are effective, recommending improvements to the Board of Directors.

3.5 Capital and solvency risk management

The Group and the Bank carry out active capital management to cover the risks inherent in the business. The capital adequacy of the Group and the Bank is monitored using, among other measures, the ratios established by the Bank of Mozambique.

The main objectives of capital management are those that ensure the Group and the Bank:

- Comply with the capital requirements imposed by the Bank of Mozambique;
- Keep a strong and healthy rating of capital ratios in order to support their business; and
- Present a going concern policy, in order to provide maximum return, and maximise shareholder value.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's and the Bank's Board of Directors, applying techniques based on legislation issued by the Bank of Mozambique on supervision. The required information is presented monthly to the Bank of Mozambique. The Central Bank requires each bank to meet a minimum of risk weighting (capital adequacy ratio) above or at the 9% limit in the first year after the entry into force of new Notice No. 9/GBM/2017.

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

- Tier 1 capital: share capital (net of any book values of treasury shares), retained earnings and reserves; and
- Tier 2 capital: qualifying subordinated capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Risk-weighted assets are measured by means of a hierarchy of five risk weightings, classified according to the nature of the risk and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar process is adopted for off-balance-sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The following table summarises the calculation of the Group's and the Bank's capital adequacy ratio for the fiscal year ended 31 December, as per the requirements of the Bank of Mozambique:

	Mozabanco	
	2018	2017
Basic Equity (Tier I Capital)		
Share capital	3,943,250	13,841,250
Eligible reserves and retained earnings	5 917 710	(4,952,321)
Intangible assets	(209,878)	(298,146)
Credit impairment according to the BdM notice (*)	(3 144 499)	(3,513,474)
Provisional negative results for the year in progress at the end of the month	(768,403)	(1,458,836)
Basic Equity (Tier I Capital)	**5 738 179**	**3,618,473**
Total amount of the stake if more than 10% of the investee's share capital	(1,219,670)	-
Basic Equity (Tier I Capital) - adjusted	**4 518 509**	**3,618,473**
Complementary equity		
Eligible subordinated debt	868,000	723,999
Other	2,498	1,977
Total amount of the stake if more than 10% of the investee's share capital	(304,917)	-
Complementary equity	**565,580**	**725,976**
Other items to be deducted	(231,243)	(90,804)
Basic complementary equity	**4 852 847**	**4,253,645**
Risk weighted assets		
On the balance sheet	17,477,864	14,411,230
Off balance sheet	2,503,725	1,407,154
Operational and market risk	2,383,451	2,311,953
Total risk weighted assets	**22,365,040**	**18,130,338**
Prudential ratios		
CORE TIER 1 CAPITAL	40.66%	40.98%
TIER 1 CAPITAL	25.66%	19.96%
OVERALL RATIO	21.70%	23.46%
Capital adequacy ratio required	11.00%	8.00%

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

4. Net interest income

Net interest income breaks down as follows:

	Mozabanco		Group
	2018	2017	2018
Interest and similar income			
Interest on loans and advances to customers	2.940,177	3.127.926	2.937.964
Interest from loans and advances with banks	286,846	171.802	287.300
Interest from financial assets through profit or loss	1,186,337	702.998	1.189.436
	4.413.360	**4.002.726**	**4,414.700**
Interest expense and similar charges			
Interest on amounts due to customers	2,374,583	1,804,128	2,377,082
Interest on assigned funds	29,363	57,389	31,210
Interest on debt securities	-	39,750	-
Interest on subordinated debt securities	129,477	132,808	129,477
Interest on deposits from central banks and other banks	22,405	700	22,405
	2,555,828	**2,034,775**	**2,560,174**
	1,857,532	**1,967,951**	**1,854,526**

5. Net fee and commission income

This item breaks down as follows:

	Mozabanco		Group
	2018	2017	2018
Fee and commission income			
For guarantees provided	141,790	82,020	141,790
For banking services performed	233,520	181,580	233,528
Other fee and commission income	181,488	149,267	183,242
	556,798	**412,867**	**558,560**
Fee and commission expenses			
For guarantees received	2,193	1,615	2,193
For banking services provided by third parties	17,472	13,538	17,472
VISA and Mastercard	68,424	69,804	69,050
Other fee and commission expenses	7,918	3,548	7,918
	96,007	**88,505**	**96,633**
	460,791	**324,362**	**461,927**

Service type	Nature and timing for meeting performance obligations, including significant repayment terms	Recognition of revenue under IFRS 15 (applicable as of 1 January2018)
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 monthly to the customer's account. Every year, the Bank sets separate rates for retail and corporate customers. Rates charged on transactions based on interbank fees, foreign currency transactions and overdrafts are charged to the customer's account when the transaction occurs. Service charges are billed monthly and are based on fixed rates reviewed annually by the Bank.	The account service's revenue and service charges are recognised over time as services are rendered. Transaction-related revenue is recognised at the time the transaction occurs.
Investment banking services	The Bank's investment banking segment provides a range of services related to finance, including loan administration and agency services, syndicated loan administration, execution of transactions with customers involving exchanges and securities underwriting. Current service fees are charged annually at the end of each fiscal year on the customer's account. However, if a customer terminates the contract before 31 December, a fee will be charged for the services performed up to that time. Transaction-based fees for administration of a syndicated loan, execution of transactions and securities underwriting are charged when the transaction occurs.	Revenue from administrative agency services is recognised over time as services are rendered. Customer receivables as of 31 December are recognised as trade accounts receivable. Transaction-related revenue is recognised at the time the transaction occurs.

6. Net financial operations

Net financial operations break down as follows:

	Mozabanco		Group
	2018	2017	2018
Gains on financial operations			
Foreign exchange gains	8,433,167	8,859,696	8,433,167
Other gains on financial operations	115,175	100,103	114,881
	8,548,342	8,959,799	8,548,048
Trading losses			
Foreign exchange losses	8,375,482	8,784,782	8,375,482
	8,375,482	8,784,782	8,375,482
Net financial operations	**172,860**	**175,017**	**172,566**

7. Staff costs

Staff costs break down as follows:

	Mozabanco		Group
	2018	2017	2018
Salaries and wages	1,099,499	912,271	1,100,665
Social Security Contribution (4%)	38,637	30,762	38,637
	1,138,136	**943,033**	**1,139,302**

Employees

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

	Mozabanco		group
	2018	2017	2018
Central Services	403	391	488
Commercial Area	349	341	435
Total employees	**752**	**732**	**923**

8. Other operating expenses and income

This item breaks down as follows:

	Moza Banco		Group
	2018	**2017**	**2018**
Communications	120,093	124,406	121,020
Professional fees	303,723	391,207	309,658
Consumables	31,524	28,749	32,395
Maintenance and related services	315,304	289,213	316,420
Marketing expenses	28,677	3,276	28,682
Property rentals	327,663	349,772	328,229
Water, energy and fuel	55,496	43,581	56,349
Travelling and representation expenses	20,063	17,027	20,225
Training expenses	7,747	764	7,759
Cost with write-off of fixed assets	-	4,485	-
Reversal of income from previous years	117,082	27,851	116,407
Donations and quotes	4,656	8,324	6,225
Other	306,963	214,300	312,778
Other operating expenses	**1,638,991**	**1,502,955**	**1,656,147**
Gains on property, plant and equipment disposal	10,300	2,072	10,300
Other	197,938	410,174	200,946
Other operating income	**208,238**	**412,246**	**211,246**

The reduction recorded under other operating income in the individual income statement arises from the reversal of interest with the Central Bank Liquidity Assistance Facility in 2017, unlike in 2018.

9. Provisions

Provisions break down as follows:

	Mozabanco		Group
	2018	**2017**	**2018**
Provisions			
Provisions for legal proceedings	766	1,358	768
MITADER case	-	25,000	-
Provisions for Visa and Mastercard	-	65,000	-
	766	**91,358**	**768**

10. Income taxes

Income taxes break down as follows:

	Mozabanco		Group
	2018	**2017**	**2018**
Deferred tax	55,000	1,520	55,000
	55,000	**1,520**	**55,000**

The movements in the Bank's deferred taxes are as follows:

		Income statement		Equity		
	01.01.2018	**Expenses**	**Income**	**Increase**	**Decrease**	**31.12.2018**
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 reduction in deferred tax totalling MZN 55,000,000 is due to a decrease in the expectations the amount being recovered as a result of the accumulation of losses.

		Income statement		Equity		
	01.01.2017	**Expenses**	**Income**	**Increase**	**Decrease**	**31.12.2017**
Deferred tax assets						
Available-for-sale financial assets	-	-	-	53,324	(9,094)	**44,230**
Tax losses	150,000	-	-	-	-	**150,000**
	150,000	-	-	53,324	(9,094)	**194,230**
Deferred tax liabilities						
Tangible assets	(16,413)	(1,520)	-	-	9,094	**(8,839)**
	(16,413)	(1,520)	-	-	9,094	**(8,839)**
		(1,520)			**53,324**	

The movements in the Group's deferred taxes are as follows:

		Income Statement		Equity		
	01.01.2018	**Expenses**	**Income**	**Increase**	**Decrease**	**31.12.2018**
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						
	(8,839)	-	-	(107)	-	**(8,946)**
	(8,839)	-	-	(107)	-	**(8,946)**
		(55,000)			**(44,337)**	

The reconciliation of the effective tax rate for the fiscal year ended 31 December for the Group and the Bank is as follows:

	Moza Banco				Group	
	2018		2017		2018	
	Tax rate	**Amount**	**Tax rate**	**Amount**	**Tax rate**	**Amount**
Losses before tax		**(713,403)**		**(1,457,316)**		**(720,457)**
Income tax using tax rate (32%)	32.00%	(228,289)	32%	(466,341)	32.00%	(230,546)
Tax benefit (16%)	16.00%	114,144	16%	233,171	16.00%	115,273
Fiscal corrections						
Non-deductible expenses	-12.52%	89,337	-5.75%	83,833	-24.04%	173,170
Non-taxable income	32.36%	(230,881)	11.37%	(165,661)	55.04%	(396,542)
Tax loss	**35.84%**	**(255,689)**	**21.61%**	**(314,998)**	**47.00%**	**(338,645)**

11. Earnings per share

Basic and diluted earnings per share

The basic and diluted earnings per share are calculated based on profit attributable to ordinary shareholders in the Bank for the amount of 768,403,000 MZN (2017: Loss: 1,458,836,000 MZN), in the Group (775,457,000 MZN) and the weighted average number of ordinary shares issued in the period ended 31 December 2018, totalling 559,445 (2017: 260,379), is calculated as follows:

	Mozabanco		Group
Loss attributable to ordinary shareholders	**2018**	**2017**	**2018**
Loss for the year	(768,403)	(1,458,836)	(775,457)
Weighted average number of ordinary shares	559,445	260,379	559,445
Earnings per share			
Basic	(1.37)	(5.60)	(1.39)
Diluted	(1.37)	(5.60)	(1.39)

Reconciliation of the average number of ordinary shares for the year 2018

	Number of shares	**Average number**
31 December 2017	553,650	553,650
21 December 2018	235,000	5,795
	788,650	**559,445**

Reconciliation of the average number of ordinary shares for the year 2017

01 January 2017	85,168	85,168
28 June 2017	326,810	163,405
06 December 2017	141,672	11,806
	553,650	**260,379**

12. Cash and deposits with the Central Bank

Cash and deposits with the Central Bank break down as follows:

	Mozabanco		Group
	2018	**2017**	**2018**
Cash	522,436	737,680	616,641
Central bank	272,563	68,956	535,629
	794,999	**806,636**	**1,152,270**

13. Deposits with banks

Deposits with banks break down as follows:

	Mozabanco		Group
	2018	**2017**	**2018**
Local banks	65,963	21,523	68,560
Foreign banks	41,252	93,961	108,080
	107,215	**115,484**	**176,640**

14. Loans and advances to banks

Loans and advances to banks break down as follows:

	Mozabanco		Grupo
	2018	**2017**	**2018**
Deposits with Central Bank of Mozambique	-	203,000	-
Deposits with other banks	5,007,735	2,156,783	5,195,922
	5,007,735	**2,359,783**	**5,195,922**

15. Financial assets

This item breaks down as follows:

	Moza Banco				Group	
	2018		2017		2018	
	Amortised cost	**Through profit or loss**	**Held for trading**	**Available for sale**	**Amortised cost**	**Through profit or loss**
Treasury Bills	5,086,353	-	2,219,262	-	5,310,406	-
Treasury Bond (15.1)	1,748,159	-	-	1,561,612	1,748,159	-
Interest accrued	38,116	-	-	-	38,116	-
Corporate Bonds (15.2)	-	-	-	-	-	-
CPC	-	-	36,743	-	-	-
Visabeira 2015-2018	155,876	-	152,258	-	155,876	-
Afrasia Bank	-	-	-	295,100	-	-
MOZ BOND	883,828	-	-	779,938	883,828	-
Impairment	(39,110)	-	-	(111,448)	(39,110)	-
NPV	-	-	56,293	-	-	-
Shares						
Emose 2013	-	23,263	23,262	-	-	23,263
Simo	-	6,327	-	2,682	-	12,655
	7,873,222	**29,590**	**2,487,818**	**2,527,884**	**8,097,275**	**35,918**
Total		**7,902,812**		**5,015,702**		**8,133,192**

At 31 December, financial assets by maturity for the Group and the Bank, other than holdings in other companies, are as follows:

	Mozabanco		Group
	2018	**2017**	**2018**
Up to 3 months	2,573,845	393,575	2,722,836
From 3 months to 1 year	3,827,945	1,915,762	3,903,007
From 1 to 5 years	1,441,842	2,011,930	1,441,842
More than 5 years	29,590	694,435	29,590
	7,873,222	**5,015,702**	**8,097,275**

Impairment movements of financial assets at 31 December for the Group and the Bank are as follows:

		Mozabanco		Group
	Aline	**2018**	**2017**	**2018**
Initial balance		111,488	316,162	111,488
Impacts of IFRS 9		9,485		9,485
Initial Balance 01.01.2018		**120,973**	**316,162**	**120,973**
Increase	(a)	58,943	17,779	58,943
Reversal	(b)	(132,545)	(222,453)	(132,545)
Adjustments		(8,261)		(8,261)
End balance 31.12.2018		**39,110**	**111,488**	**39,110**

Financial assets movements at 31 December2018 for the Group and the Bank are as follows:

	Mozabanco		Group
	2018	**2017**	**2018**
Initial balance	5,015,702	4,573,076	5,458,183
Acquisitions	5,609,932	2,308,858	6,142,314
Accrued interest	649,563	164,401	742,050
Disposals/reimbursements	(3,372,385)	(1,343,420)	(4,208,751)
Unrealised forex gains	-	(353,936)	-
Gains in fair value	-	(333,277)	(604)
Closing balance	**7,902,812**	**5,015,702**	**8,133,192**

At 31 December 2018, impairment losses for the year were MZN -73,602,000, which represents a reduction of impairment when compared to 31 December 2017 as a result of the appreciation of the price of securities, especially MOZ BOND (2018: 94.71%; 2017: 82.96%). The negative change in impairments is justified by the following items:

a) Reversal of impairments amounting to MZN 132,545,000; and
b) Increase in impairments amounting to MZN 58,943,000.

15.1 Treasury Bonds

Treasury Bonds 2015 – 2nd Issue
These Treasury Bonds have a five-year maturity and ware issued on 28 August 2015 with par value of MZN 100 each. Coupons are paid every six months at a fixed rate of 10.00% per annum, a rate that was established based on market conditions on the issue date. Principal is fully reimbursed at the maturity date unless the call option is exercised by the issuer. The net amount at 31 December, 2017 was MZN 14,468,000.

Treasury Bonds (2015) – 3rd Issue
These Treasury Bonds have a five-year maturity and ware issued on 01 September 2015 with par value of MZN 100 each. Coupons are paid every six months at a fixed rate of 10.00% per annum, a rate that was established based on market conditions on the issue date. Principal is fully reimbursed at the maturity date unless the call option is exercised by the issuer. The net amount at 31 December, 2017 was MZN 19,314,000.

Treasury Bonds (2015) – 6th Issue
These Treasury Bonds have a four-year maturity and were issued on 16 December 2015 with a par value of MZN 100 each. Coupons are paid every six months at a fixed rate of 10.50% per annum, with capital reimbursed when the security matures. The net amount at 31 December2018 was MZN 785,492,000 (2017: MZN 577,768,000)

Treasury Bonds 2016 – 1st Issue
These Treasury Bonds have a three-year maturity and were issued on 23 March 2016 with a par value of MZN 100 each. Coupons are paid every six months at a fixed rate of 11.00% per annum, with capital reimbursed when the security matures. The net amount at 31 December2018 was MZN 323,665,000 (2017: MZN 273,684,000)

Treasury Bonds 2016 – 2nd Issue
These Treasury Bonds have a four-year maturity and were issued on 11 May 2016 with a par value of MZN 100 each. Coupons are paid every six months at a fixed rate of 12.75% per annum, with capital reimbursed when the security matures. The net amount at 31 December2018 was MZN 136,960,000 (2017: MZN 101,292,000)

Treasury Bonds 2018 – 5th Issue
These Treasury Bonds have a three-year maturity and were issued on 08 August 2018 with a par value of MZN 100 each. Coupons are paid on a six-monthly basis at an annual interest rate of 16.00% on the first two coupons. The remaining four coupons are paid at the maturity-weighted average rate and on the amounts of the last six issues of treasury bills exceeding 63 days plus a percentage margin of 1.5%. The net amount at 31 December2018 was MZN 106,311,000.

Treasury Bonds (2018) – 6th Issue
These Treasury Bonds have a three-year maturity and were issued on 22 August 2012 with a par value of MZN 100 each. Coupons are paid on a six-monthly basis at an annual interest rate of 16.00% on the first two coupons. The remaining four coupons are paid at the maturity-weighted average rate and on the amounts of the last six issues of treasury bills exceeding 63 days plus a margin of 1.5%. The net amount at 31 December2018 was MZN 158,731,000.

Reimbursement bonds
These Treasury Bonds have a four-year maturity and were issued on 21 April 2015 with a par value of MZN 100 each. Coupons are paid on a six-monthly basis at a fixed interest rate of 6.0% on the first coupons. The remaining coupons are paid at the maturity-weighted average rate and on the amounts of the last six issues of treasury bills exceeding 63 days plus a percentage margin of 0.5% annually. The principal will be repaid in three annual instalments of 33% each and the remainder according to the outstanding balance. The net amount at 31 December2018 was MZN 274,563,000 (2017: MZN 575,086,000).

15.2 Corporate bonds

Visabeira 2015 - 2018
This Corporate Bond has a five-year maturity and was issued by Visabeira on 23 March 2015, with a par value of MZN 100 per bond. With a total nominal amount of MZN 250 000 000, interest will be paid on a semi-annual basis at a fixed rate of 13% per annum for the first 6 coupon payments (3 years) and a rate pegged to 'Facilidade Permanente de Cedência' (FPC) plus a 4.50% spread for the last 4 coupon payments (2 years).

Moz Bonds 2016 - 2023
These bonds have a seven-year maturity and were issued on 06 April 2016 with a par value of USD 1,000 per bond, despite periodic amortisation of principal starting on November 2015 which generated a shorter weighted average maturity. Semi-annual coupons are paid based on a 4.335% fixed rate. Full responsibilities under this bond issue are covered by a sovereign guarantee issued by Ministry of Finance of the Republic of Mozambique.

Afrasia Bank Ltd. Subordinated loan 2014 - 2020
These bonds have a six-year maturity and were issued in January 2014 with a par amount of USD 100 per bond. They fall under a subordinated debt issue with semi-annual coupons based on a 4.335% fixed rate.

Cooperativa de Poupança e Credito 2014 – 1st Issue
These bonds have a five-year maturity and were issued on 29 October 2014, with a par value of MZN 100 per bond. With a total nominal amount of MZN 100 000 000, interest will be paid on a semi-annual basis at a fixed rate of 13% per annum for the first 6 coupon payments (3 years) and a rate pegged to 'Facilidade Permanente de Cedência' (FPC) plus a 4.75% spread for the last 4 coupon payments (2 years). Principal will be reimbursed fully on last coupon date unless the issuer decides to exercise the early redemption option, which allows full or partial early redemption starting on 4th coupon payment date.

15.3 Derivatives

The Group uses swaps and foreign exchange forwards to manage the liquidity situation either in foreign currency or in Meticais, and for coverage of risk in exchange and interest rate variation. These instruments are traded for both trading and hedging activities and result in an economic exchange of currencies, prices and interest rates. In the case of Exchange Swaps there is always an exchange of notional values. The Bank's credit risk exposure represents the potential cost, at market prices, of replacing the swap contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same technique as for its lending activities.

The notional amounts of financial instruments serve to compare with instruments recognised on the statement of financial position, but do not necessarily indicate the amounts of future cash flows or the current fair value of the relevant instruments; therefore, they do not indicate the Bank's exposure to credit or price risk.

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates as regards their terms.

The breakdown of the derivative financial instruments is as follows:

	Mozabanco		Group
	2018	2017	2018
Derivatives			
FX swaps	-	56,293	-
	-	**56,293**	**-**

15.4 Shares and other variable-yield securities

Empresa Moçambicana de Seguros (EMOSE)
These 1,163,130 common equity shares represent 7.4% of the total of 15,700,000 new shares issued by EMOSE (Empresa Moçambicana de Seguros) in a successful public offering in October 2013. Each share has a par value of MZN 1 and has the same voting rights as the remaining share capital.

Sociedade Interbancária Moçambicana (SIMO)
The SIMO account relates to the equity shares held by the group in the Sociedade Interbancária de Moçambique, a financial entity which is majority owned by the Bank of Mozambique and in which most commercial banks in Mozambique hold an equity interest. SIMO's mission as a financial entity is to provide its shareholders with general access to banking services, through proprietary ATM and POS infrastructure.

Movements of financial assets at 31 December for the Group and the Bank are as follows:

	Mozabanco		Group
	2018	2017	2018
Initial balance	5,015,702	4,573,076	5,458,183
Interest	688,326	164,401	688,326
Acquisitions	5,571,169	2,308,858	5,571,169
Disposals/reimbursements	(3,372,385)	(2,030,633)	(3,584,486)
Closing balance	**7,902,812**	**5,015,702**	**8,133,192**

16. Investments in subsidiaries

Investments in subsidiaries break down as follows:

	Mozabanco		Group
	2018	2017	2018
Investments in subsidiaries			
Banco Terra , SA	1,524,587	-	-
	1,524,587	**-**	**-**

The investment in Banco Terra was made on 21 December 2018, in the amount of MZN 1,524,587,000, which corresponds to 100% of BTM's share capital. As of 31 December2018, the subsidiary's shareholder equity is as follows:

17. Loans and advances to customers

Loans and advances to customers break down as follows:

	Mozabanco		Group
	2018	2017	2018
Corporate	18,680,055	14,788,994	20,847,031
Individual	2,492,691	2,833,561	2,492,691
	21,172,746	**17,622,555**	**23,339,722**
Interest accrual and commissions	685,748	605,815	730,533
	21,858,494	**18,228,370**	**24,070,255**
Expected credit losses	(3,872,886)	(2,947,332)	(4,156,619)
	17,985,608	**15,281,038**	**19,913,636**

Loans and advances by segment to the Group and the Bank are as follows:

	Mozabanco		Group
	2018	2017	2018
Corporate	7,008,747	6,695,064	7,708,369
Retail-Corporate	6,554,895	4,791,856	6,890,959
Private Banking	607,763	504,248	659,600
Public Institution	2,941,182	3,300,555	3,826,477
Retail-Private	4,745,907	2,936,647	4,984,850
	21,858,494	**18,228,370**	**24,070,255**
Credit impairment	(3,872,886)	(2,947,332)	(4,156,619)
	17,985,608	**15,281,038**	**19,913,636**

Analysis of the Group's and the Bank's credit risk concentration by industry is as follows:

	Mozabanco		Group
	2018	2017	2018
Government	769,739	-	851,713
Retail	3,536,314	922,911	3,916,099
Civil construction	886,941	26,080	981,203
Manufacturing	1,702,767	2,457,381	1,885,704
Individual	2,843,634	4,583,250	3,151,586
Services	5,796,010	2,389,206	6,414,350
Transport and communications	1,476,763	73,665	1,635,175
Other	973,440	4,828,545	1,077,806
	17,985,608	**15,281,038**	**19,913,636**

Gross loans and advances by currency to the Group and the Bank are as follows:

	Mozabanco		Group
	2018	2017	2018
Local currency	18,827,235	15,442,822	20,808,999
Foreign currency	3,031,259	2,785,548	3,261,256
	21,858,494	**18,228,370**	**24,070,255**

Loans and advances by stage to the Group and the Bank are as follows:

			Mozabanco		Group	
	Stage 1	Stage 2	Stage 3	2018	2017	2018
In compliance - Stage 1	11,487,492	-	-	11,487,492	8,744,033	12,840,041
In default but not impaired - Stage 2	-	3,052,633	-	3,052,633	2,871,374	3,308,154
In default - Stage 3	-	-	3,445,482	3,445,482	3,665,631	3,765,440
	11,487,492	**3,052,633**	**3,445,482**	**17,985,608**	**15,281,038**	**19,913,636**

The breakdown of loans and receivables to customers by maturity is as follows:

	Mozabanco		Group
	2018	2017	2018
Up to 3 months	3,098,473	3,344,589	3,187,173
From 3 months to 1 year	2,458,995	1,364,553	2,711,870
From 1 to 5 years	10,552,127	9,292,112	12,083,485
More than 5 years	5,748,899	4,227,116	6,087,727
	21,858,494	**18,228,370**	**24,070,255**

Credit impairment

The breakdown of movements in impairment losses is as follows:

					Mozabanco		Group
	Aline	Stage 1	Stage 2	Stage 3	2018	2017	2018
Initial Balance 01.01.2018		215,532	354,002	2,377,798	2,947,332	1,980,050	3,152,592
Impacts of IFRS 9		(70,607)	543,780	255,215	728,388	-	800,731
Increase	(c)	153,124	408,565	498,819	1,060,507	1,778,338	1,226,064
Reversal	(d)	(312,985)	(319,667)	(138,752)	(771,403)	(181,159)	(893,947)
Adjustments		-	-	(91,938)	(91,938)	(629,897)	(128,821)
End balance 31.12.2018		**(14,936)**	**986,680**	**2,901,142**	**3,872,886**	**2,947,332**	**4,156,619**

At 31 December 2018, impairment losses for the year totalled MZN 289,104,000, corresponding to an increase in impairment over the previous year. The positive change in impairments is due to the impairment of MZN 1,060,507,000 (item c)) and an impairment reversal amounting to MZN 771,403,000 (item d)).

The breakdown of impairments according to the internal rating of the Group and the Bank is as follows:

				Mozabanco		Grupo
	Stage 1	Stage 2	Stage 3	2018	2017	2018
In compliance	262,593	-	-	262,593	215,532	300,293
In default but not impaired	-	761,035	-	761,035	354,002	764,676
In default	-	-	2,849,258	2,849,258	2,377,798	3,091,650
	262,593	**761,035**	**2,849,258**	**3,872,886**	**2,947,332**	**4,156,619**

18. Other assets

The other assets account breaks down as follows:

	Mozabanco		Group
	2018	2017	2018
Other receipts	374,650	674,663	374,650
Accruals and deferrals	130,461	42,224	140,784
Inventory	19,570	9,313	19,570
Clearing accounts	23,516	203,045	8,868
Other	757,116	118,856	764,508
Impairment Other Assets	(252,854)	(214,539)	(252,854)
	1,052,459	**833,562**	**1,055,526**

The item 'Other assets' breaks down as follows:

	Mozabanco		Group
	2018	2017	2018
Promovalor Moçambique Promoção Imobiliaria	447,021	-	447,021
ADC, S.A	210,349	-	210,349
Other	60,983	118,856	68,375
Derivatives	38,763	-	38,763
	757,116	**118,856**	**764,508**

The value of Promovalor Moçambique Promoção Imobiliária, ADC, S.A corresponds to the amounts of assets repossessed, which are still awaiting completion of the relevant property registration processes in favour of the Bank.

Impairment of other assets

The breakdown of movements in impairment losses is as follows:

	Mozabanco		Group
	2018	2017	2018
Repossessed property	214,539	214,539	214,539
MOZ BOND interest	38,315	-	38,315
	252,854	**214,539**	**252,854**

During the fiscal year 2018, the Group and the Bank recorded an impairment on MOZ BOND's current interest in the amount of MZN 38,315,000.

19. Non-current assets held for sale

The movements of non-current assets held for sale to the Group and the Bank are as follows:

	Mozabanco		Group
	2018	2017	2018
Properties seized	470,184	571,915	641,869
Impairment	(162,527)	(162,527)	(162,527)
	307,657	**409,388**	**479,342**

The movements of non-current assets held for sale during the fiscal year to the Group and the Bank are as follows:

	Mozabanco		Group
	2018	2017	2018
Initial balance	571,915	566,278	629,734
Increases	-	42,581	113,866
Decreases	(101,731)	(36,944)	(101,731)
Impairment	(162,527)	(162,527)	(162,527)
Closing balance	**307,657**	**409,388**	**479,342**

The positive change in 2018 in the amount of MZN 113,866 thousand in the Group's Financial Statements was due to enforcement orders issued on customers with irregular credits by the subsidiary. In 2018, the parent company also recorded a reduction in the value of repossessed assets as a result of the transfer to the Investment Property account of two properties that the Bank is leasing to third parties for a total amount of MZN 93,104,000.

Impairment losses on repossessed assets did not change during the fiscal year 2018, amounting to MZN 162,527,000.

20. Investment Property

This item breaks down as follows:

	Mozabanco	Group
Cost		
At 01 January 2016	35,594	35,594
Increases	-	-
At 31 December 2017	35,594	35,594
Increases	93,104	93,104
At 31 December 2018	128,698	128,698
Amortisation		
At 01 January 2017	356	356
Amortisation for the period	1,424	1,424
At 31 December 2017	1,780	1,780
Amortisation for the period	4,527	4,527
At 31 December 2018	6,307	6,307
Carrying amount		
At 31 December 2017	33,814	33,814
At 31 December 2018	122,391	122,391

21. Tangible assets

The property and equipment item for the Bank breaks down as follows:

	Leased buildings	Equipment	Ongoing investment	Other	Total
Cost					
At 01 January 2017	**1,016,981**	**965,564**	**287,271**	**2,088**	**2,271,904**
Increases	4,453	7,128	36,198	-	**47,779**
Write-offs	(86,428)	(14,366)	(2,483)	-	**(103,277)**
Transfers	75,288	69,165	(144,453)	-	**-**
At 31 December 2017	**1,010,294**	**1,027,491**	**176,533**	**2,088**	**2,216,406**
Increases	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)	-	**-**
At 31 December 2018	**1,067,096**	**1,206,505**	**111,107**	**2,521**	**2,387,229**

	Leased buildings	Equipment	Ongoing investment	Other	Total
Depreciation and impairment					
At 01 January 2017	**284,943**	**467,465**	-	**2,088**	**754,496**
Depreciation for the year	96,433	166,186	-	-	262,619
Disposals/adjustments	(4,685)	(8,463)	-	-	(13,148)
At 31 December 2017	**376,691**	**625,188**	-	**2,088**	**1,003,967**
Depreciation for the year	97,770	161,459	-	-	259,229
Disposals/adjustments	(4,994)	(6,342)	-	-	(11,336)
At 31 December 2018	**469,467**	**780,305**	-	**2,088**	**1,251,860**
Carrying amount					
At 31 December 2017	**633,603**	**402,303**	**176,533**	-	**1,212,439**
At 31 December 2018	**597,629**	**426,200**	**111,107**	**433**	**1,135,369**

The Group's property and equipment item breaks down as follows:

	Leased buildings	Equipment	Ongoing investment	Other	Total
Cost					
At 31 December 2017	**1,094,276**	**1,209,605**	**184,316**	**2,088**	**2,490,285**
Increases	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)	-	**-**
At 31 December 2018	**1,151,078**	**1,388,619**	**118,890**	**2,521**	**2,661,108**

	Leased buildings	Equipment	Ongoing investment	Other	Total
Depreciation					
At 31 December 2017	**444,386**	**765,456**	-	**2,088**	**1,211,930**
Depreciation for the year	97,770	187,105	-	-	284,875
Disposals/adjustments	(4,994)	(6,342)	-	-	(11,336)
At 31 December 2018	**537,162**	**946,219**	-	**2,088**	**1,485,469**
			-	-	
Carrying amount			-	-	
At 31 December 2018	**613,916**	**442,400**	**118,890**	**433**	**1,175,639**

22. Intangible assets

The property and equipment item for the Bank breaks down as follows:

	Software	Ongoing investment	Total
Cost:			
At 01 January 2017	**770,270**	**12,465**	**782,735**
Increases	3,615	5,258	**8,873**
Write-offs	(12,232)	**-**	**(12,232)**
At 31 December 2017	**761,653**	**17,723**	**779,376**
Increases	6,764	22,323	**29,087**
Transfers	21,578	(21,578)	**-**
At 31 December 2018	**789,995**	**18,468**	**808,463**

	Software	Ongoing investment	Total
Amortisation and impairment			
At 01 January 2017	**359,279**	**-**	**359,279**
Amortisation for the period	129,697	**-**	129,697
Write-offs	(7,747)	**-**	(7,747)
At 31 December 2017	**481,229**	**-**	**481,229**
Amortisation for the period	117,356	**-**	117,356
Write-offs	-	**-**	-
At 31 December 2018	**598,585**	**-**	**598,585**
Carrying amount			
At 31 December 2017	**280,424**	**17,723**	**298,147**
At 31 December 2018	**191,410**	**18,468**	**209,878**

The Group's property and equipment item breaks down is as follows:

	Software	Ongoing investment	Total
Cost:			
At 31 December 2017	**941,190**	**17,723**	**958,913**
Increases	11,069	22,323	**33,392**
Transfers	21,578	(21,578)	**-**
At 31 December 2018	**973,838**	**18,468**	**992,305**

	Software	Ongoing investment	Total
Amortisation and impairment			
At 31 December 2017	**628,704**	**-**	**628,703**
Amortisation for the period	129,748	-	129,748
Write-offs		-	**-**
At 31 December 2018	**758,452**	**-**	**758,452**
Carrying amount			
At 31 December 2018	**215,386**	**18,468**	**233,853**
Difference in Consolidation of Banco Terra (Goodwill)			427,033
Total	**215,386**	**18,468**	**660,886**

The Goodwill registered corresponds to the premium for the acquisition of 100% of the shares in Banco Terra. Management analysed the goodwill value as of 31 December2018 and concluded that it is not impaired at the end of the year.

23. Current Tax Assets

Current tax assets break down as follows:

	Mozabanco		Group
	2018	2017	2018
Corporate tax advance payments	38,365	38,265	38,365
Corporate tax at source	127,218	77,510	138,517
	165,583	**115,775**	**176,882**

24. Deposits from Banks

Loans from Credit Institutions including the Bank of Mozambique are as follows:

	Mozabanco		Group
	2018	2017	2018
Current accounts	59,733	3,748	59,733
Deposit accounts	807,182	11,732	807,574
	866,915	**15,480**	**867,307**

Maturity on loans from Credit Institutions including the Bank of Mozambique are as follows:

	Mozabanco		Group
	2018	2017	2018
Up to 3 months	866,915	15,480	867,307
	866,915	**15,480**	**867,307**

25. Deposits and current accounts

Deposits and current accounts break down as follows:

	Mozabanco		Group
	2018	2017	2018
Current accounts	8,001,910	6,787,523	8,923,358
Deposit accounts	16,403,752	11,128,128	17,185,849
Other	487,564	44,456	487,564
	24,893,226	**17,960,107**	**26,596,771**

Maturity of deposits and current accounts breaks down as follows:

	Mozabanco		Group
	2018	2017	2018
On demand	8,368,870	7,270,029	9,289,551
Up to 3 months	7,941,684	4,229,168	8,454,904
From 3 months to 1 year	8,489,389	6,434,755	8,759,033
From 1 to 5 years	91,548	24,787	91,548
More than 5 years	1,735	1,368	1,735
	24,893,226	**17,960,107**	**26,596,771**

26. Assigned resources

	Mozabanco		Group
	2018	2017	2018
Principal	87,237	194,217	231,988
Interest	5,916	14,035	63,927
	93,153	**208,251**	**295,915**

	Mozabanco		Group
	2018	2017	2018
i) BEI	22,269	66,807	22,269
ii) MINISTRY OF INDUSTRY (PRSP II)	4,593	6,172	4,593
iii) AFDB	60,375	121,238	60,375
iv) KUWAIT FUND	-	-	130,639
INTEREST	5,916	14,034	78,039
	93,153	**208,251**	**295,915**

i) Moza Banco has signed a contract agreement with the European Investment Bank (EIB) for the granting of a loan aimed at supporting its financing activities to Small and Medium Enterprises, as part of the Bank's vast programme of support to Mozambican private sector. Activity sectors financed under the programme include agroindustry, 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) Another agreement was entered into with the Ministry of Commerce and Industry to access funds granted by the Italian Government in the form of a loan (PRSP - Programa de Relançamento do sector privado) aimed at supporting private sector activities directly affected by the natural disasters which 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) Finally, an agreement with the African Development Bank (AfDB) was also signed for the granting of a loan to be used for long-term lending to Small and Medium-sized Enterprises (SMEs) in a number of sectors of the Mozambican economy, including agriculture, agribusiness and manufacturing. It is a five-year USD 9 million loan subject to an interest rate pegged to 6-Month Treasury Bills, plus a spread.

iv) On 30 May 2012, the Group signed an agreement with the Government of the Republic of Mozambique and the Kuwait Fund for Arab Economic Development, under which it will manage a fund to finance agriculture and the micro-business production of food and related services, with no defined repayment term. At 31 December 2018, this fund amounted to MZN 130,639,000.

27. Other liabilities

This item breaks down as follows:

	Mozabanco		Group
	2018	2017	2018
Payables	181,717	101,063	198,731
Accrued expenses	208,762	159,144	214,923
Deferred income	69,340	64,171	69,340
Provisions	87,995	91,535	91,101
	547,814	**415,913**	**574,095**
Derivatives	38,763	-	38,763
	586,577	**415,913**	**612,858**

Moza Banco 2013-2023 - Subordinated debt

This Subordinated Bond has a ten-year maturity and was issued by Moza Banco on 27 December 2013 with a par value of MZN 100 per bond. 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.

Moza Banco 2016-2022 - Subordinated debt

This Subordinated Bond has a six-year maturity and was issued by Moza Banco on 31 March 2016, with a par value of MZN 100 per bond. 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. 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.

28. Debt securities issued

Debt securities issued break down as follows:

	Mozabanco		Group
	2018	2017	2018
Eligible Subordinated Debt	868,000	868,000	868,000
Interest	2,026	1,519	2,026
	870,026	**869,519**	**870,026**

The breakdown of debt securities issued by maturity is as follows:

	Mozabanco		Group
	2018	2017	2018
			-
Up to 3 months			-
From 3 months to 1 year	870,026	750,962	870,026
From 1 to 5 years		118,557	-
More than 5 years			-
	870,026	**869,519**	**870,026**

29. Share capital

As of 31 December, the share capital of Moza Banco is fully subscribed and paid up and breaks down as follows:

31.12.2018	Number of shares	Nominal amount	Total share capital	% share capital
Shareholder				
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%**

31.12.2017	Number of shares	Nominal amount	Total share capital	% share capital
Shareholder				
Kuhanha	468.482	25,000	11,712,050	84.62%
Moçambique Capitais, S.A.	43.435	25,000	1,085,875	7.85%
Novo Banco	41.732	25,000	1,043,300	7.54%
Dr. António Matos	1	25,000	25	0.00%
	553.650		**13,841,250**	**100%**

In 2018, the Bank increased its share capital by MZN 1,175,000, equivalent to 235,000 new shares which were fully paid-up by Arise BV in 2018. This reduced the share capital by absorbing accumulated losses and reduced the nominal value in the amount of MZN 6,472,705 and MZN 4,600,295 respectively.

30. Reserves

Reserves break down as follows:

	Mozabanco		Group
	2018	2017	2018
Fair value reserve	-	(232,203)	-
Legal reserves	4,661,843	61,548	4,661,843
Share issue premiums	1,993,740	-	1,993,740
	6,655,583	**(170,655)**	**6,655,583**

In compliance with Mozambican legislation, each year the Group and the Bank must allocate not less than 15% of their prior year profit after tax to the legal reserve, until this reserve equals the share capital amount.

The issue premium amounting to MZN 1,993,000 is the difference between the subscription value of the 235,000 shares of MZN 13,484 and the par value of MZN 5,000.

31. Fair value of Financial Instruments

The Bank's financial instruments classify as follows:

2018	Financial assets through profit or loss	Financial assets through other comprehensive income	Amortised cost	Total
Assets				
Cash and balances with Central Bank	-	-	794,999	794,999
Deposits with banks	-	-	107,215	107,215
Loans and advances to 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
Total assets	-	**29,590**	**32,297,406**	**32,326,996**

	Financial assets through profit or loss	Other Financial Liabilities	Non-financial liabilities	Total
Liabilities				
Deposits from Banks	-	866,915	-	866,915
Deposits from customers	-	24,893,226	-	24,893,226
Assigned funds	-	93,153	-	93,153
Other liabilities	38,763	547,814	-	586,577
Debt securities issued	-	870,026	-	870,026
Total liabilities		**27,271,134**	**-**	**27,309,897**

2017	Financial assets through profit or loss	Financial assets through other comprehensive income	Loans and advances to customers	Total
Assets				
Cash and balances with Central Bank	-	-	806,636	806,636
Deposits with banks	-	-	115,484	115,484
Loans and advances to banks	-	-	2,359,783	2,359,783
Financial assets	2,487,818	2,527,884	-	5,015,702
Loans and advances to customers	-	-	15,281,038	15,281,038
Other assets	-	-	42,224	42,224
Non-current assets held for sale				
Total assets	**2,487,818**	**2,527,884**	**18,605,165**	**23,620,867**

	Financial assets through profit or loss	Other Financial Liabilities	Non-financia liabilities	Total
Liabilities				
Deposits from Banks	-	15,480	-	15,480
Deposits from customers	-	17,960,107	-	17,960,107
Assigned funds	-	208,251	-	208,251
Other liabilities	-	415,912	-	415,912
Debt securities	-	869,519	-	869,519
Total liabilities	**-**	**19,469,269**	**-**	**19,469,269**

The Group's financial instruments classify as follows:

2018	Financial assets through profit or loss	Financial assets through other comprehensive income	Amortised cost	Total
Assets				
Cash and balances with Central Bank	-	-	1,152,270	1,152,270
Deposits with banks	-	-	176,640	176,640
Loans and advances to banks	-	-	5,195,922	5,195,922
Financial assets	-	29,590	8,103,602	8,133,192
Loans and advances to customers	-	-	19,913,636	19,913,636
Other assets	-	-	524,302	524,302
Total assets	-	**29,590**	**35,066,372**	**35,095,962**

	At fair value through profit or loss	Other Financial Liabilities	Non-financial liabilities	Total
Liabilities				
Deposits from Banks	-	867,307	-	867,307
Deposits from customers	-	26,596,771	-	26,596,771
Assigned funds	-	295,915	-	295,915
Other liabilities	38,763	574,095	-	612,858
Debt securities issued	-	870,026	-	870,026
Total liabilities	**38,763**	**27,271,134**	**-**	**29,242,877**

Determination of fair value hierarchy of financial instruments

The Group and the Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Amounts quoted (non-adjustable) in active markets for identifiable assets and liabilities.

Level 2: Other valuation techniques for which inputs that have a significant impact on fair value determination are carried out with observable information, either directly or indirectly.

The Group and the Bank value treasury bonds according to the present value of available-for-sale financial assets only applicable to the fiscal year 2017 and at the amortised cost for the fiscal year 2018. Interest rates used to determine the discount factor are market observable, specifically the average rates at which Treasury Bills and Treasury Bonds are sold in the market, namely, 13.58% to 22.54% (23.45% to 30.15% in 2017).

Level 3: Techniques which use inputs that have a significant effect on the fair value and that are not based on observable market data.

The fair value of quoted securities is based on price quotations at the reporting date only when an active market exists. As regards Treasury Bonds for which no active market exists, the Group and the Bank use the discounted cash flow model. The fair value of unquoted instruments, loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and remaining maturities.

The following table shows a breakdown of financial instruments recorded at fair value by level in the fair value hierarchy for the Bank:

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with Central Bank	-	794,999	-	794,999
Deposits with banks	-	107,215	-	107,215
Loans and advances to 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**
Financial liabilities				
Deposits from Banks	-	866,915	-	866,915
Deposits from customers	-	24,893,226	-	24,893,226
Assigned funds	-	93,153	-	93,153
Debt securities issued	-	870,026	-	870,026
Other liabilities	-	586,577	-	586,577
	-	**27,309,897**	**-**	**27,309,897**

2017	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with Central Bank	-	806,636	-	806,636
Deposits with banks	-	115,484	-	115,484
Loans and advances to banks	-	2,359,783	-	2,359,783
Securities portfolio	2,442,364	2,573,338	-	5,015,702
Loans and advances to customers	-	15,281,038	-	15,281,038
Other assets	-	42,224	-	42,224
	2,442,364	**21,178,503**	-	**23,620,867**
Financial liabilities				
Deposits from Banks	-	15,480	-	15,480
Deposits from customers	-	17,960,107	-	17,960,107
Assigned funds	-	208,251	-	208,251
Debt securities issued	-	869,519	-	869,519
Other liabilities	-	415,912	-	415,912
	-	**19,469,269**	**-**	**19,469,269**

The following table shows a breakdown of financial instruments recorded at fair value by level in the fair value hierarchy for the Group:

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with Central Bank	-	1,152,270	-	1,152,270
Deposits with banks	-	176,640	-	176,640
Loans and advances to banks	-	5,195,922	-	5,195,922
Financial assets	2,630,993	5,502,199	-	8,133,192
Loans and advances to customers	-	19,913,636	-	19,913,636
Other assets	-	524,302	-	524,302
	2,630,993	**32,464,969**	-	**35,095,962**
Financial liabilities				
Deposits from Banks	-	867,307	-	867,307
Deposits from customers	-	26,596,771	-	26,596,771
Assigned funds	-	295,915	-	295,915
Debt securities issued	-	870,026	-	870,026
Other liabilities	-	612,858	-	612,858
	-	**29,242,877**	**-**	**29,242,877**

Set out below is a comparison, by instrument class, of the carrying amounts and fair values of those of the Bank's financial instruments that are not measured at fair value in the Financial Statements:

	Moza Banco				Group	
	2018		2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and balances with Central Bank	794,999	794,999	806,636	806,636	1,152,270	1,152,270
Deposits with banks	107,215	107,215	115,484	115,484	176,640	176,640
Loans and advances to banks	5,007,735	5,007,735	2,359,783	2,359,783	5,195,922	5,195,922
Financial assets	7,902,812	7,902,812	5,015,702	5,015,702	8,133,192	8,133,192
Loans and advances to customers	17,985,608	16,906,472	15,281,038	14,364,176	19,913,636	18,718,818
Other assets	1,052,459	1,052,459	833,562	833,562	1,055,526	1,055,526
	32,850,828	**31,771,692**	**24,412,205**	**23,495,343**	**35,627,186**	**34,432,368**
Financial liabilities	866,915	892,915	15,480	15,944	867,307	893,318
Deposits from Banks	24,893,226	25,888,954	17,960,107	18,678,511	26,596,771	27,660,641
Deposits from customers	93,153	90,358	208,251	202,003	295,915	287,037
Assigned funds	870,026	913,527	869,519	912,995	870,026	913,527
Debt securities issued	586,577	586,595	415,913	415,925	612,858	612,876
Other liabilities	**27,309,897**	**28,372,349**	**19,469,270**	**20,225,378**	**29,242,877**	**30,367,399**
	5,540,931	**3,399,343**	**4,942,935**	**3,269,966**	**6,384,309**	**4,064,969**

The Board of Directors considers that Cash and Balances with the Central Bank and Due from Banks are close to their fair values, largely due to the short-term maturities of these instruments.

The Fair Value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between interested parties, other than in a forced liquidation.

The following methods and assumptions were used to estimate fair values:

- The fair value of financial assets held for trading and available for sale financial assets is based on quoted markets where an active market exists or using the net present value model, based on observable market rates, such as Treasury Bills, with a range of 23.45% to 30.15% (23.16% to 28.84% in 2016).

- The Bank features derivative financial instruments, such as foreign exchange swaps and forwards. The valuation technique used includes forward pricing. The model incorporates inputs such as foreign exchange spot and forward rates, yield curves of the relevant currencies, and currency basis spreads between the currencies' interest rate curves and forward rate curves.

- The fair value of financial instruments that are measured at amortised cost, such as loans and advances to other banks, loans and advances to Customers, deposits from banks, customer deposits and debt securities, is measured at the net present value.

32. Related party disclosures

Balances arising from direct transactions with related parties are as follows:

Shareholders	Loans and advances to banks	Loans and advances to customers	Other assets	Deposits from Banks	Deposits from customers
Kuhanha	2018	-	-	-	2,133,344
	2017	-	-	-	1,789,316
Arise B.V.	2018	-	-	-	17
	2017	-	-	-	-
Moçambique Capitais	2018	-	8	-	6,286
	2017	-	197	-	1,307
Novo Banco	2018		-	127	-
	2017	246,075	-	11,806	-
Almeida Matos	2018	-	113	-	23,077
	2017	-	-	-	14,183
		246,075	**318**	**11,933**	**3,958,530**

Key management staff balances break down as follows:

Key management staff		Loans and advances to customers	Deposits from customers
Board of Directors	2018	7,104	43,868
	2017	99,302	39,151

Transactions with related parties are as follows:

		Operational leases	Interest payable	Interest earned
Shareholders				
Moçambique Capitais	2018	6,868	781	-
	2017	7,137	78	31

33. Contingencies and commitments

Contingencies

	Mozabanco		Group
	2018	2017	2018
Guarantees	5,774,739	2,216,539	5,915,607
Letters of credit	931,567	845,780	931,567
	6,706,306	**3,062,319**	**6,847,174**

Operating leases - Bank as lessee

The Group and the Bank leased a number of branches and office premises under operating lease agreements. Typically, leases run for a period between 8 to 10 years, with an option to renew the lease after that date. Lease payments are revised every year to reflect market rentals. Minimum rentals payable under irrevocable operating leases as of 31 December are as follows:

Operating leases - Bank as lessee	Mozabanco		Group
	2018	2017	2018
Up to 1 year	321,299	249,417	374,570
Between 1 and 5 years	503,323	478,096	616,718
More than 5 years	87,385	361,935	87,385
	912,007	**1,089,449**	**1,078,673**

34. Going concern assumption

In the fiscal the year ended 31 December 2018, the Group and the Bank recorded a loss of MZN 768 million (2017: loss of MZN 1,459 million) and the Group MZN 775,000, corresponding to a performance improvement of 47% over the previous year, which is mainly due to the positive contribution made by net commissions and reduction of impairments due to efforts to contain the deterioration in the Loan Portfolio.

In 2017, within the scope of recapitalising the Institution, Moza Banco presented a new Strategic Plan, divided into two phases (adjustment phase and growth phase) to be implemented by 2021. With regard to the Plan's level of execution for the first stage of the 'adjustment' cycle, in general terms, and notwithstanding the persistence of an adverse economic environment, the Bank successfully achieved the objectives of consolidating its activity.

It should be pointed out that, in terms of the restructuring of Moza Banco's share capital, which resulted in the entry of Arise into the Bank's shareholding and the acquisition of Banco Terra Moçambique (BTM), the current Strategic Plan should be adequate, taking into account the Moza Banco and BTM merger project, to build a stronger combined entity.

35. Events after the balance sheet date

On 15 March 2019, a cyclone (IDAI) occurred in the central region of Mozambique, which significantly affected the city of Beira and surrounding areas where the Bank has four branches. According to information collected, there was no material damage to the Bank's business premises and they are therefore fully operational.

As regards the impact on the credit portfolio, this is not yet possible to quantify, and the Bank is monitoring the facts in order to be able to reliably determine the financial impact of the disaster.

In our view, the impact will not be localised but will affect the whole country, in view of the importance of the central region for Mozambique's economy.

KPMG

KPMG Auditores e Consultores, SA
Edifício HOLLARD
Rua 1.233, Nº 72 C
Maputo, Moçambique

Telefone: +258 (21) 355 200
Telefax: +258 (21) 313 358
Caixa Postal, 2451
Email: mz-fminformation@kpmg.com
Web:www.kpmg.co.mz

Relatório dos Auditores Independentes

Para a Administração do Moza Banco, S.A

Opinião

Auditámos as demonstrações financeiras consolidadas e individuais do Moza Banco, S.A (o grupo e o banco), constantes das páginas 7 a 93, que compreendem a demonstração da posição financeira consolidada e separada em 31 de Dezembro de 2018, e a demonstração de resultados consolidada e individual, demonstração do rendimento integral consolidada e individual, demonstração de alterações no capital próprio consolidada e individual e a demonstração de fluxos de caixa consolidada e individual do exercício findo naquela data, e as notas às demonstrações financeiras consolidadas e individuais, incluindo um sumário das principais políticas contabilísticas.

Em nossa opinião, as demonstrações financeiras consolidadas e individuais apresentam de forma apropriada, em todos aspectos materiais, a posição financeira consolidada e individual do Moza Banco S.A em 31 de Dezembro de 2018, e o seu desempenho financeiro consolidado e individual e fluxos de caixa consolidados e individuais do exercício findo naquela data de acordo com as Normas Internacionais de Relato Financeiro.

Base de Opinião

Realizamos a nossa auditoria de acordo com as Normas Internacionais de Auditoria (ISAs). As nossas responsabilidades nos termos dessas normas estão descritas na secção de *Responsabilidades dos Auditores com relação às Demonstrações Financeiras Consolidadas e Individuais* do nosso relatório. Somos independentes do grupo e do banco de acordo com o *Código de Ética para Revisores Oficiais de Contas da Federação Internacional de Contabilistas (Código IESBA)* e também de acordo com outros requisitos de independência aplicáveis à realização de auditorias de demonstrações financeiras em Moçambique. Cumprimos as nossas outras responsabilidades éticas de acordo com estes requisitos e o Código IESBA. Acreditamos que a evidência de auditoria obtida é suficiente e apropriada para fornecer uma base para a emissão da nossa opinião.

Matérias Relevantes de Auditoria

As matérias relevantes de auditoria são aquelas matérias que, em nosso julgamento profissional, foram mais significativas na nossa auditoria das demonstrações financeiras consolidadas e individuais do período corrente. Essas matérias foram abordadas no âmbito da nossa auditoria das demonstrações financeiras consolidadas e individuais como um todo e na formulação da nossa opinião sobre as mesmas, e não emitimos uma opinião separada sobre essas matérias.

Imparidade de instrumentos financeiros
Consulte as notas 1.3, 1.4h, 1.4K(v), 15 e 17 das demonstrações financeiras
Esta matéria relevante de auditoria é aplicável tanto para as demonstrações financeiras consolidadas como para as individuais.

Matéria Relevante de Auditoria	Como foi abordada a matéria na nossa auditoria
O principal negócio do Grupo e do Banco é conceder empréstimos e adiantamentos a clientes. As actividades do Grupo e do Banco também resultam na aquisição de bilhetes do tesouro e obrigações do governo, que estão reflectidos como investimentos financeiros na demonstração da posição financeira consolidada e individual. Os empréstimos e adiantamentos a clientes nas demonstrações financeiras do Banco e do Grupo totalizaram 18.2 bilhões de Meticais em 31 de Dezembro de 2018 (31 de Dezembro de 2017: 15.3 bilhões de Meticais) e 20.1 bilhões de Meticais (2017: nulo) respectivamente. Os activos financeiros do Grupo e do Banco totalizavam 7.9 bilhões de Meticais (2017: 5 bilhões de Meticais) e 8.1 bilhões de Meticais (2017: nulo) respectivamente. Ao estimar as perdas de crédito esperadas para empréstimos e adiantamentos a clientes e investimentos financeiros, no estágio 3 e estágio 1 e 2, os administradores fazem julgamentos complexos e subjectivos sobre o momento e dimensão das perdas de crédito esperadas a serem reconhecidas. Dada a importância de empréstimos e adiantamentos a clientes e dos investimentos financeiros mensurados pelo custo amortizado nas demonstrações financeiras consolidadas e individuais e a importância dos julgamentos feitos pelos administradores na estimativa das perdas de crédito esperadas em relação às condições de mercado, as perdas de crédito esperadas dos intrumentos financeiros foram consideradas uma matéria relevante de auditoria.	Os nossos procedimentos nesta área incluem, entre outros: • Avaliar e testar o desenho e a eficácia operacional dos principais controlos sobre os cálculos de perdas de crédito esperadas. • Para as perdas de crédito esperadas no estágio 2 e 3: o Comparamos o valor e o momento dos fluxos de caixa futuros, com as evidências externas, quando disponíveis. o Avaliámos o cálculo da imparidade com foco nas exposições a indústrias em dificuldades, tais como empresas de construção que dependem do apoio do governo para a continuação da sua existência. • Para as perdas de crédito esperadas do estágio 1 calculadas numa base modelada: o Obtivemos uma compreensão dos modelos usados para calcular as perdas de crédito esperadas e avaliamos se as mesmas estavam de acordo com os requisitos das NIRF´s. o Os nossos especialistas de Gestão de Risco Financeiro recalcularam de forma independente as perdas de crédito esperadas do estágio 1 usando modelos independentes face ao modelo do cliente. o Avaliamos a razoabilidade do resultado do modelo com base no nosso conhecimento da indústria. • Recalculamos o ajustamento de transição respeitante à adopção da NIRF 9 a 1 de Janeiro de 2018 com auxílio dos nossos especialistas de Gestão de Risco Financeiro. • Avaliamos a adequação das divulgações feitas nas demonstrações financeiras relacionadas com a imparidade de instrumentos financeiros em relação aos requisitos da NIRF 9, *Instrumentos Financeiros*.

KPMG

Exactidão e imparidade do goodwill
Consulte a nota 1, 1.4a e 21 das demonstrações financeiras
Esta matéria relevante de auditoria é aplicável às demonstrações financeiras consolidadas.

Matéria Relevante de Auditoria	Como foi abordada a matéria na nossa auditoria
Durante o ano, o Moza Banco SA adquiriu 100% de acções no Banco Terra SA. A aquisição da subsidiária resultou num goodwill no valor de 427.0 milhões de Meticais, tendo sido reconhecido na demonstração da posição financeira consolidada. O Goodwill é testado anualmente relativamente a perdas por imparidade, sendo uma área de julgamento nas demonstrações financeiras consolidadas. Ao determinar se o Goodwill está em imparidade ou não, a administração faz o julgamentos sobre os fluxos de caixa futuros e as taxas de desconto que devem ser usadas. Dada a importância do Goodwill e dos julgamentos significativos envolvidos na determinação do valor recuperável do Goodwill e da taxa de desconto a ser utilizada, o cálculo do Goodwill e a imparidade do Goodwill foram consideradas matérias relevantes de auditoria.	Os nossos procedimentos nesta área incluem, entre outros: • Recalculámos a exactidão do Goodwill ao concordar o valor de aquisição à acta da reunião, com os extractos bancários e com o contrato de venda e concordamos o justo valor dos activos adquiridos com o balancete e as demonstrações financeiras à data da aquisição. • Avaliamos os ajustamentos relacionados com o justo valor dos activos quanto á sua exactidão e razoabilidade. • Recalculámos a imparidade do *Goodwill* da entidade para determinar a sua exactidão. • Avaliamos a adequação dos pressupostos aplicados aos principais inputs, como a taxa de juro, crescimento do produto interno bruto, custos operacionais e taxa de inflação, que incluíram a comparação desses dados com dados obtidos externamente, bem como a nossa própria avaliação com base no nosso conhecimento sobre o cliente e indústria. • Avaliamos a adequação da taxa de desconto para os fluxos de caixa futuros previstos, concordando com evidências externas e com o nosso conhecimento sobre o banco e a indústria. • Avaliamos a adequação das divulgações do Goodwill efectuadas nas demonstrações financeiras respeitantes aos requisitos da NIC 36, *Imparidade de Activos* e NIRF 3 *Concentrações de Actividades Empresariais*.

Outra Informação

Os administradores são responsáveis pela outra informação. A outra informação compreende a Declaração de Responsabilidade dos Administradores e o Relatório Anual, que obtivemos antes da data do presente relatório. A outra informação não incluí as demonstrações financeiras consolidadas e individuais e o nosso relatório de auditoria sobre as mesmas.

A nossa opinião sobre as demonstrações financeiras consolidadas e individuais não abrange a outra informação e não expressamos uma opinião de auditoria ou qualquer forma de conclusão de garantia sobre a mesma.

Em conexão à nossa auditoria das demonstrações financeiras consolidadas e individuais, a nossa responsabilidade é ler a outra informação e, ao fazê-lo, considerar se a outra informação é materialmente inconsistente com as demonstrações financeiras consolidadas e individuais ou com o nosso conhecimento obtido durante a auditoria, ou se de outra forma parece conter distorções materiais. Se, com base no trabalho que realizamos na outra informação, obtida antes da data do presente relatório do auditor, concluírmos que existe uma distorção material nessa outra informação, somos obrigados a reportar esse facto. Não temos nada a reportar a este respeito.

Responsabilidade dos Administradores em relação às Demonstrações Financeiras Consolidadas e Individuais

Os administradores são responsáveis pela preparação e correcta apresentação destas demonstrações financeiras consolidadas e individuais, de acordo com as Normas Internacionais de Relato Financeiro, assim como pelos controlos internos que a administração determinar como necessários para permitir a preparação das demonstrações financeiras consolidadas e individuais que estejam isentas de distorções materiais, devidas a fraude ou a erro.

Ao preparar as demonstrações financeiras consolidadas e individuais, os administradores são responsáveis por avaliar a capacidade do Grupo e Banco em continuar a operar com base no pressuposto da continuidade, divulgando, quando aplicável, questões relacionadas com o pressuposto da continuidade e utilizando a base da contabilidade operacional, a menos que os administradores pretendam liquidar o grupo ou o banco e cessar as operações, ou não tenham outra alternativa senão proceder dessa maneira.

Responsabilidades dos Auditores para a Auditoria às Demonstrações Financeiras Consolidadas e Individuais

Os nossos objectivos são obter segurança razoável sobre se as demonstrações financeiras consolidadas e individuais como um todo estão isentas de distorções materiais, devidas a fraude ou erro, e emitir um relatório de auditoria que inclua a nossa opinião. A garantia razoável é um elevado nível de garantia, mas não é uma garantia de que uma auditoria conduzida de acordo com as ISAs detecte sempre distorções materiais quando existem. As distorções materiais podem resultar de fraude ou erro e são consideradas materiais se, individualmente ou no agregado, quando se pode razoavelmente esperar que influenciem as tomadas de decisões económicas dos utilizadores com base nessas demonstrações financeiras consolidadas e individuais.

Como parte de uma auditoria de acordo com as ISAs, exercemos o julgamento profissional e mantemos o cepticismo profissional durante a auditoria. E, igualmente:

- Identificar e avaliar os riscos de distorções materiais das demonstrações financeiras consolidadas e individuais, devido a fraude ou erro, desenhamos e efectuamos procedimentos de auditoria que respondam a esses riscos e obtemos evidência de auditoria que seja suficiente e apropriada para fundamentar a nossa opinião. O risco de não detectar uma distorção material resultante de fraude é maior do que para uma resultante de erro, uma vez que a fraude pode envolver colusão, falsificação, omissões intencionais, declarações falsas ou a derrogação do controlo interno.

KPMG

- Obter uma compreensão do controlo interno relevante para a auditoria, a fim de desenhar procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressamos uma opinião sobre a eficácia do controlo interno do Grupo e do Banco.
- Avaliar a adequação das políticas contabilísticas utilizadas e a razoabilidade das estimativas contabilísticas e divulgações relacionadas feitas pelos administradores.
- Concluir sobre a adequação do uso por parte dos administradores do pressuposto da continuidade e com base na evidência de auditoria obtida, se existe uma incerteza material relacionada a eventos ou condições que possam suscitar uma dúvida significativa sobre a capacidade do Grupo e Banco continuar a operar de acordo com o pressuposto da continuidade. Se concluirmos que existe uma incerteza material, somos obrigados a chamar a atenção, no relatório do auditor, para as divulgações relacionadas nas demonstrações financeiras consolidadas e individuais ou, caso tais divulgações sejam inadequadas, modificar a nossa opinião. As nossas conclusões baseiam-se na evidência de auditoria obtida até a data do nosso relatório de auditoria. No entanto, eventos ou condições futuras podem fazer com que o Grupo e Banco deixem de operar segundo o pressuposto da continuidade.
- Avaliar a apresentação geral, a estrutura e o conteúdo das demonstrações financeiras consolidadas e individuais, incluindo as divulgações, e se as demonstrações financeiras consolidadas e individuais reflectem as transacções e eventos subjacentes de forma a obter uma apresentação justa.
- Obter evidência de auditoria apropriada e suficiente referente às informações financeiras das entidades ou actividades de negócio do grupo para expressar uma opinião sobre as demonstrações financeiras consolidadas. Somos responsáveis pelo acompanhamento, supervisão e desempenho da auditoria do grupo. Permanecemos exclusivamente responsáveis pela nossa opinião de auditoria.

Comunicamos com os administradores sobre, entre outros assuntos, o âmbito planeado e o momento da auditoria e as constatações de auditoria relevantes, incluindo quaisquer deficiências significativas no controlo interno que identificamos durante a auditoria.

Fornecemos igualmente aos administradores uma declaração de que cumprimos as exigências éticas relevantes em relação à independência e de reportarmos todas as relações e outras questões que possam ser razoavelmente considerados respeitantes à nossa independência e, quando aplicável, às salvaguardas relacionadas.

Das matérias reportadas aos administradores, determinamos as matérias que tiveram maior importância na auditoria das demonstrações financeiras consolidas e individuais do exercício corrente e, portanto, constituem as matérias relevantes de auditoria. Descrevemos essas questões no nosso relatório de auditoria, a menos que a lei ou regulamento impossibilite a divulgação pública sobre a questão ou quando, em circunstâncias extremamente raras, determinamos que uma questão não deve ser comunicada no nosso relatório considerando que as consequências adversas de fazê-lo seriam razoavelmente esperadas de superar os benefícios de interesse público de tal comunicação.

KPMG, Sociedade de Auditores Certificados, 04/SCA/OCAM/2014
Representada por:

Abel Jone Guaiaguaia, 04/CA/OCAM/2012
Sócio
20 de Março de 2019

Supervisory Board Report and Opinion for Financial Year 2018

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 2018.

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 the Independent Auditor's Report on the financial statements for 2017, with no qualification, on 16 March 2019, with which we agree.

As a result of the Supervisory Board's supervisory activity, at the Annual General Meeting of Moza Banco, SA, with reference to 31 December 2018, the shareholders voted in favour of approving:

a) The financial statements submitted by the Board of Directors and other 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 corporate by-laws and the rules laid down by the Bank of Mozambique. These financial statements were prepared in accordance with the reporting standards applicable to the year ended 31 December 2018 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 2018.

c) The proposal submitted by the Board of Directors for the allocation of the net profit for 2018 in the amount of MZN (748,403,000).

Lastly, the Supervisory Board notes and appreciates the excellent collaboration that the Bank's Board of Directors, the General Secretary of the Company, and the Services extended to us; in addition, it acknowledges the efforts undertaken by the Board of Directors to reduce the negative results compared to those of the 2017 financial year.

Maputo, 16 March 2019

Supervisory Board
(Venâncio M. Chirrime)

(Sarjel A. Nhabinde)

(Maria de Jesus Langa)

(Maria Lúcia Zacaria)