# Consolidated and individual interim financial statements

# June 30th 2019

MOZA

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## CONSOLIDATED AND INDIVIDUAL INTERIM INCOME STATEMENT FOR THE PERIOD ENDED ON JUNE 30, 2019

| | Note | Moza Banco | | Group |
|---|---|---|---|---|
| | | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| Interest and similar income | | 2 248 226 | 2 120 776 | 2 431 806 |
| Interest and similar expenses | | (1 076 903) | (1 282 881) | (1 133 839) |
| **Financial margin** | | **1 171 323** | **837 895** | **1 297 967** |
| Income from services and commissions | | 314 388 | 243 654 | 335 957 |
| Service and commission charges | | (44 965) | (40 430) | (47 146) |
| **Services and net commissions** | | **269 423** | **203 224** | **288 811** |
| Net Financial Transactions | | 97 854 | 169 244 | 106 603 |
| **Operating Income** | | **1 538 600** | **1 210 363** | **1 693 381** |
| Net impairment for the year | | (261 584) | (285 043) | (262 038) |
| **Net operating income** | | ***1 277 016*** | ***925 320*** | ***1 431 343*** |
| Personnel expenses | | (595 794) | (542 924) | (710 117) |
| Depreciation and Amortization | | (190 246) | (190 314) | (205 959) |
| Other operating expenses | | (708 597) | (714 553) | (803 921) |
| Other operating gains | | 97 393 | 75 056 | 105 037 |
| Provisions | | (25 000) | - | (25 310) |
| **Pre-tax loss for the year** | | **(145 228)** | **(447 416)** | **(208 927)** |
| Income tax | | - | - | - |
| IRPC - Release Fee | | (128 877) | (47 399) | (136 708) |
| **Loss of the year** | | ***(274 105)*** | ***(494 814)*** | ***(345 635)*** |
| | | | | |
| Losses per share | | | | |
| Basic | | | (0,89) | (0,62) |
| Diluted | | | (0,89) | (0,62) |

Accounting Technician

Board of Directors

*OCAM n° 888/CC/OCAM/2013*

*These financial statements should be read together with the notes to the financial statements*

## STATEMENT OF CONSOLIDATED AND INDIVIDUAL INTERIM INTEGRAL INCOME FOR THE PERIOD ENDED ON JUNE 30, 2019

| | **Moza Banco** | | **Group** |
|---|---|---|---|
| | **30 Jun-2019** | **30 Jun-2018** | **30 Jun-2019** |
| Loss of the year | (274 105) | (494 814) | (345 635) |
| Weighted average number of ordinary shares | 559 445 | 553 650 | 559 445 |
| **Earnings per share** | | | |
| Basic | (0,49) | (0,89) | (0,62) |
| Diluted | (0,49) | (0,89) | (0,62) |

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STATEMENT OF CONSOLIDATED AND INDIVIDUAL INTERIM FINANCIAL POSITION FOR THE PERIOD ENDED ON JUNE 30, 2019

| | | Moza Banco | | Group | |
|---|---|---|---|---|---|
| | **Note** | **30 Jun-2019** | **31 Dec-2018** | **30 Jun-2019** | **31 Dec-2018** |
| **ASSET** | | | | | |
| Cash and availabilities in Central Bank | 12 | 444 050 | 794 999 | 851 940 | 1 152 270 |
| Availability on credit institutions | 13 | 49 863 | 107 215 | 62 217 | 176 640 |
| Applications in credit institutions | 14 | 4 318 584 | 5 007 735 | 4 769 566 | 5 195 922 |
| Financial assets | 15 | 5 539 344 | 7 902 812 | 5 801 148 | 8 133 192 |
| Investments in subsidiary | 16 | 1 524 587 | 1 524 587 | - | - |
| Loans and advances to customers | 17 | 19 139 527 | 17 985 608 | 20 777 282 | 19 913 636 |
| Other assets | 18 | 1 303 557 | 1 052 459 | 1 319 862 | 1 055 526 |
| Non-current assets held for sale | 19 | 305 387 | 307 657 | 575 972 | 479 342 |
| Investment properties | 20 | 119 818 | 122 391 | 119 818 | 122 391 |
| Tangible assets | 21 | 1 167 152 | 1 135 369 | 1 197 347 | 1 175 639 |
| Goodwill and other intangible assets | 22 | 175 103 | 209 878 | 621 073 | 660 886 |
| Current taxes | 23 | 194 322 | 165 583 | 206 155 | 176 882 |
| Deferred Taxes | 10 | 95 000 | 95 000 | 95 000 | 95 000 |
| **Total Asset** | | **34 376 294** | **36 411 293** | **36 397 380** | **38 337 326** |
| **LIABILITY** | | | | | |
| Credit Institution Resources | 24 | 45 780 | 866 915 | 45 780 | 867 307 |
| Deposits and checking accounts | 25 | 23 920 367 | 24 893 226 | 25 788 626 | 26 596 771 |
| Payroll Resources | 26 | 36 879 | 93 153 | 230 057 | 295 915 |
| Other liabilities | 27 | 676 014 | 586 577 | 714 247 | 612 858 |
| Bond Loans | 28 | 869 963 | 870 026 | 869 963 | 870 026 |
| Deferred Taxes | 10 | 8 839 | 8 839 | 8 839 | 8 946 |
| **Total liabilities** | | **25 557 842** | **27 318 736** | **27 657 512** | **29 251 823** |
| **EQUITY** | | | | | |
| Share capital | 29 | 3 943 250 | 3 943 250 | 3 943 250 | 3 943 250 |
| Reservations | 30 | 4 661 843 | 4 661 843 | 4 661 843 | 4 661 843 |
| Issuance premium | 30 | 1 993 740 | 1 993 740 | 1 993 740 | 1 993 740 |
| Transited results | 30 | (1 506 276) | (737 873) | (1 513 330) | (737 873) |
| Losses from the exercise | | (274 105) | (768 403) | (345 635) | (775 457) |
| **Total equity** | | **8 818 452** | **9 092 557** | **8 739 868** | **9 085 503** |
| **Total equity and liabilities** | | **34 376 294** | **36 411 293** | **36 397 380** | **38 337 326** |

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## INTERIM STATEMENT OF CHANGES IN INDIVIDUAL EQUITY CAPITAL FOR THE END ON 30 JUNE 2019

| | Share Capital (note 29) | Legal Reserves (note 30) | Issuance premium (note 30) | Retained earnings | Loss from exercise | Total equity |
|---|---|---|---|---|---|---|
| **Balance on 1 January 2019** | **3 943 250** | **4 661 843** | **1 993 740** | **(737 873)** | **(768 403)** | **9 092 557** |
| Application of injury | - | - | - | (768 403) | 768 403 | - |
| Capital Increase | - | - | - | - | - | - |
| Loss of exercise | - | - | - | - | (274 105) | (274 105) |
| **Balance as of June 30, 2019** | **3 943 250** | **4 661 843** | **1 993 740** | **(1 506 276)** | **(274 105)** | **8 818 452** |

## INTERIM STATEMENT OF INTERMEDIATE CHANGES IN THE GROUP'S CAPITAL FOR THE END ON 30 JUNE 2019

| | Share Capital (note 29) | Legal Reserves (note 30) | Issuance premium (note 30) | Retained earnings | Loss from exercise | Total equity |
|---|---|---|---|---|---|---|
| **Balance on 1 January 2019** | **3 943 250** | **4 661 843** | **1 993 740** | **(737 873)** | **(775 457)** | **9 085 503** |
| Application of injury | - | - | - | (775 457) | 775 457 | - |
| Capital Increase | - | - | - | - | - | - |
| Loss of exercise | - | - | - | - | (345 635) | (345 635) |
| **Balance as of June 30, 2019** | **3 943 250** | **4 661 843** | **1 993 740** | **(1 513 330)** | **(345 635)** | **8 739 868** |

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## CONSOLIDATED AND INDIVIDUAL INTERIM CASH FLOWS STATEMENT FOR THE PERIOD ENDED ON JUNE 30, 2019

| | Moza Banco | | Group |
|---|---|---|---|
| **Cash Flow Statement** | **30 Jun-2019** | **30 Jun-2018** | **30 Jun-2019** |
| Loss before tax | (274 105) | (494 814) | (345 635) |
| **Adjustments of:** | | - | - |
| Depreciation and Amortization | 190 246 | 190 314 | 205 959 |
| Credit impairment losses | 261 584 | 130 707 | 262 348 |
| Fair value adjustment | - | 200 280 | (241) |
| Currency revaluation | - | - | (8 749) |
| Gains on disposal of tangible assets | - | 104 770 | (96) |
| | **177 725** | **131 257** | **113 587** |
| | | | - |
| **Movements in:** | | | - |
| Loans and advances | (3 918 474) | 139 176 | (3 618 585) |
| Financial assets | 1 478 337 | (1 735 104) | 1 086 124 |
| Other assets | (37 638) | (1 170 714) | (43 914) |
| Current tax assets | 53 079 | (32 396) | 52 979 |
| Non-current assets available for sale | 5 222 | 98 779 | 5 222 |
| Credit Institution Resources | 30 938 | (638) | 127 325 |
| Deposits and checking accounts | 1 964 308 | 3 995 951 | 2 032 233 |
| Other liabilities | 102 078 | 157 969 | 95 435 |
| Net cash flow from operating activities | **(322 151)** | **1 453 023** | **(263 180)** |
| Investing Activities | 5 148 | (93 105) | - |
| Acquisition of tangible assets | (132 031) | (115 904) | (132 742) |
| Acquisition of intangible assets | (42 183) | (30 972) | (42 183) |
| Disposal of tangible and intangible assets | - | 6 044 | 96 |
| Investment in subsidiaries | (1 524 587) | - | (1 524 587) |
| Net cash flow from investing activities | **(1 693 652)** | **(233 937)** | **(1 694 268)** |
| Financing Activities | - | - | - |
| Increase in share capital | (9 898 000) | - | (9 898 000) |
| Reservations | 12 087 201 | - | - |
| Repayment of payroll funds | (114 632) | (56 740) | (114 632) |
| Repayment of bond loans | 500 | - | 500 |
| Net cash flow from financing activities | **2 075 068** | **(56 740)** | **2 074 399** |
| Cash increase and cash equivalents | 236 991 | 1 293 603 | 230 538 |
| Cash and cash equivalent at beginning of year | 4 575 506 | 3 281 903 | |
| Cash and cash equivalent at end of year | **4 812 497** | **4 575 506** | **5 232 740** |

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## 1. Introduction

Moza Banco, S.A. (hereinafter Moza Banco or the Bank) is an Universal Retail Commercial Bank, established in 2007, with its registered office in Maputo, held by the following shareholders: KUHANHA- Central Bank of Mozambique Pension Fund Management Company, ARISE B. V, Moçambique Capitais, S.A., Novo Banco Africa S.G.P.S. S, S.A. (Portuguese Bank) and Dr. António Almeida Matos.

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 Executive Committee approved on July 25, 2019 the Moza Banco S.A consolidated and individual interim financial statements for the period ended June 30, 2019.

### 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.

## 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 December 21, 2018, Moza Banco acquired 100% of Banco Terra Moçambique (BTM) shares and, by this way; the Bank implements the IFRS 10 consolidated financial statements. In this context, the consolidated and individual interim financial statement includes both Moza Banco financial statements and its subsidiary BTM's for the period ended June 30, 2019.
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 at the measurement date under the prevailing market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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) <u>Financial assets</u>*

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:

| | Anos |
|---|---|
| Imóveis | 25 |
| Edifícios arrendados | 10 |
| Equipamentos | 10 |
| Outros | 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 inf 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.

## Changes in accounting policies

The individual interim income’s statement for the period ended on June 30, 2018 was prepared in accordance with IAS's 39's Financial Instruments while the individual interim income’s statement for the period ended in 30 June 2019 was prepared in accordance with the Financials’ Instruments - IFRS. 9.

Except for the differences in the treatment of IFRS 9 and IAS 39, the Group and the Bank have consistently applied the accounting policies for all periods considered in these Consolidated and Individual Interim Financial Statements.

**2. Accounting standards issued but not implemented.**

A number of other new regulations were effective from January 1st, 2019, but they did not have a material impact on the consolidated and individual interim financial statements of the Bank and group..

**IFRS 16 – Leases:**

This standard replaces NIC 17 leases and its related interpretations.

Summary of requirements: establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parts of a contract, i.e. the customer (“tenant ") and the supplier (“lessor "). IFRS 16 presents a model for tenants that will result in almost all locations being included in the balance sheet. No significant changes were included for the lessors.
The standard is effective for annual periods beginning on or after January 1st, 2019; however, the group has not yet completed the implementation process of IFRS 16 and the impacts have not yet been determined in the Consolidated and Individual Interim Financial Statements of the Bank and the Group.

**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 30 June 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:

| | Moza Banco | | Group |
|---|---|---|---|
| **Credit risk exposure for balance sheet items** | **30 Jun-19** | **31 Dec-18** | **30 Jun-19** |
| Cash and availabilities in Central Bank | 444 050 | 794 999 | 851 940 |
| Availability of credit institutions | 49 863 | 107 215 | 62 217 |
| Applications in credit institutions | 4 318 584 | 5 007 735 | 4 769 566 |
| Financial assets | 5 539 344 | 7 902 812 | 5 800 483 |
| Loans and advances to customers | 19 139 527 | 17 985 608 | 20 777 282 |
| Other assets | 117 387 | 528 627 | 117 951 |
| | **29 608 755** | **32 326 996** | **32 379 439** |
| **Off-balance sheet credit risk exposure** | | | |
| Guarantees | 6 985 746 | 5 774 739 | 7 134 451 |
| Letters of credit | 505 422 | 931 567 | 505 976 |
| | **7 491 168** | **6 706 306** | **7 640 427** |

## *Credit Quality:*

In order to disclose the Bank's credit quality, the financial instruments were-analyzed as follows:

| **30 Jun-2019** | **Stage 1** | **Stage 2** | **Stage 3** | **Amount** |
|---|---|---|---|---|
| Cash and availabilities in Central Bank | 444 050 | - | - | 444 050 |
| Availability of credit institutions | 49 863 | - | - | 49 863 |
| Applications in credit institutions | 4 318 584 | - | - | 4 318 584 |
| Financial assets | 5 539 344 | - | - | 5 539 344 |
| Loans and advances to customers | 11 634 541 | 4 239 060 | 3 265 926 | 19 139 527 |
| Other assets | 117 387 | - | - | 117 387 |
| | **22 103 769** | **4 239 060** | **3 265 926** | **29 608 755** |

| **31 Dec -2018** | **Stage 1** | **Stage 2** | **Stage 3** | **Amount** |
|---|---|---|---|---|
| Cash and availabilities in Central Bank | 794 999 | - | - | 794 999 |
| Availability of credit institutions | 107 215 | - | - | 107 215 |
| Applications in credit institutions | 5 007 735 | - | - | 5 007 735 |
| Financial assets | 7 902 812 | - | - | 7 902 812 |
| Loans and advances to customers | 10 768 056 | 3 400 490 | 3 817 062 | 17 985 608 |
| Other asset | 528 627 | - | - | 528 627 |
| | **25 109 444** | **3 400 490** | **3 817 062** | **32 326 996** |

In order to disclose the group's credit quality, the financial instruments were analyzed as follows:

| **30 Jun-2019** | **Stage 1** | **Stage 2** | **Stage 3** | **Amount** |
|---|---|---|---|---|
| Cash and availabilities in Central Bank | 851 940 | - | - | 851 940 |
| Availability of credit institutions | 62 217 | - | - | 62 217 |
| Applications in credit institutions | 4 769 566 | - | - | 4 769 566 |
| Financial assets | 5 801 148 | - | - | 5 801 148 |
| Loans and advances to customers | 12 716 139 | 4 333 612 | 3 727 531 | 20 777 282 |
| Other asset | 117 951 | - | - | 117 951 |
| | **24 318 961** | **4 333 612** | **3 727 531** | **32 380 104** |

| **31 Dec-2018** | **Stage 1** | **Stage 2** | **Stage 3** | **Amount** |
|---|---|---|---|---|
| Cash and availabilities in Central Bank | 1 152 270 | - | - | 1 152 270 |
| Availability of credit institutions | 176 640 | - | - | 176 640 |
| Applications in credit institutions | 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 asset | 524 302 | - | - | 524 302 |
| | **36 787 186** | **2 465 395 -** | **4 156 619** | **35 095 962** |

The Bank's gross credit distribution according to period was- analyzed as follow:

| 30 Jun-2019 | Stage1 | Stage2 | Stage3 | Amount |
|---|---|---|---|---|
| In compliance | 11 003 303 | 4 466 353 | 8 279 | 15 477 935 |
| In default but without impairment | 805 749 | 397 686 | 8 085 | 1 211 520 |
| In default | 971 | 264 950 | 6 279 332 | 6 545 253 |
| | **11 810 023** | **5 128 989** | **6 295 696** | **23 234 708** |

| 31 Dec-2018 | Stage1 | Stage2 | Stage3 | Amount |
|---|---|---|---|---|
| In compliance | 10 753 120 | - | - | 10 753 120 |
| In default but without impairment | - | 4 387 170 | - | 4 387 170 |
| In default | - | - | 6 718 204 | 6 718 204 |
| | **10 753 120** | **4 387 170** | **6 718 204** | **21 858 494** |

The Group gross credit distribution according to the period was analyzed as follow:

| 30 Jun-2019 | Stage1 | Stage2 | Stage3 | Amount |
|---|---|---|---|---|
| In compliance | 12 105 766 | 4 466 353 | 8 279 | 16 580 398 |
| In default but without impairment | 805 749 | 499 279 | 8 085 | 1 313 113 |
| In default | 971 | 264 950 | 6 977 327 | 7 243 248 |
| | **12 912 486** | **5 230 582** | **6 993 691** | **25 136 759** |

| 31 Dec-2018 | Stage1 | Stage2 | Stage3 | Amount |
|---|---|---|---|---|
| In compliance | 12 120 604 | - | - | 12 120 604 |
| In default but without impairment | - | 3 656 011 | - | 3 656 011 |
| In default | - | - | 4 137 021 | 4 137 021 |
| | **12 120 604** | **3 656 011** | **4 137 021** | **19 913 636** |

The following table demonstrates the net exposure of the loan portfolio broken down by the Group and Bank internal segments.

| | Moza Banco | | | | Group | | | |
|---|---|---|---|---|---|---|---|---|
| | 30 Jun-2019 | | | 31 Dez-2018 | 30 Jun-2019 | | | 31 Dec-2018 |
| | Gross value | Impairment | Net value | Net value | Gross value | Impairment | Net value | Net value |
| Corporate | 6 886 616 | (1 521 958) | 5 364 658 | 5 639 293 | 7 743 642 | (1 671 504) | 6 072 138 | 6 793 873 |
| Retail Company | 7 901 311 | (1 687 397) | 6 213 914 | 4 889 796 | 8 373 825 | (1 740 132) | 6 633 693 | 5 327 096 |
| Private | 591 125 | (96 815) | 494 310 | 520 676 | 591 125 | (96 815) | 494 310 | 581 163 |
| Public Institutions | 4 674 436 | (9 084) | 4 665 352 | 2 920 589 | 4 674 436 | (9 084) | 4 665 352 | 3 805 420 |
| Retail-Private | 3 181 220 | (779 927) | 2 401 293 | 4 015 254 | 3 753 731 | (841 942) | 2 911 789 | 3 406 084 |
| | **23 234 708** | **(4 095 181)** | **19 139 527** | **17 985 608** | **25 136 759** | **(4 359 477)** | **20 777 282** | **19 913 636** |

The following table shows the net exposure of the loan portfolio broken down by the most significant sectors of the Group and Bank

| | Moza Banco | | | | Group | | | |
|---|---|---|---|---|---|---|---|---|
| | 30 Jun-2019 | | | 31 Dec-2018 | 30 Jun-2019 | | | 31 Dez-2018 |
| | Net value | Impairment | Net value | Net value | Gross value | Impairment | Net value | Net value |
| Governamental | 680 259 | (3) | 680 256 | 769 739 | 680 259 | (3) | 680 256 | 851 713 |
| Retail | 4 407 988 | (637 440) | 3 770 548 | 3 536 314 | 4 765 601 | (660 334) | 4 105 267 | 3 916 099 |
| Civil Construtions | 1 233 092 | (572 725) | 660 367 | 886 941 | 1 329 620 | (598 763) | 730 857 | 981 203 |
| Manufacturing | 2 087 298 | (604 759) | 1 482 539 | 1 702 767 | 2 094 265 | (604 991) | 1 489 274 | 1 885 704 |
| Particular | 3 838 695 | (875 334) | 2 963 361 | 2 843 634 | 3 838 695 | (875 334) | 2 963 361 | 3 151 586 |
| Services | 7 707 875 | (1 093 374) | 6 614 501 | 5 796 010 | 8 268 450 | (1 158 944) | 7 109 506 | 6 414 350 |
| Transport and comunications | 1 569 776 | (125 017) | 1 444 759 | 1 476 763 | 1 888 354 | (202 134) | 1 686 220 | 1 635 175 |
| Others | 1 709 725 | (186 529) | 1 523 196 | 973 440 | 2 271 514 | (258 973) | 2 012 541 | 1 077 806 |
| | **23 234 708** | **(4 095 181)** | **19 139 527** | **17 985 608** | **25 136 758** | **(4 359 476)** | **20 777 282** | **19 913 636** |

The following table shows the movement of impairment losses during the semester of the Group and the Bank.

| | | Moza Banco | | | | | Group |
|---|---|---|---|---|---|---|---|
| | line | Stage 1 | Stage 2 | Stage 3 | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 |
| Opening balance | | 262 593 | 761 035 | 2 849 258 | 3 872 886 | 2 947 332 | 4 156 619 |
| Reinforcement | ( c) | 83 501 | 389 896 | 279 716 | 753 113 | 411 650 | 846 496 |
| Reversal | (d) | (170 612) | (261 002) | (62 742) | (494 356) | (139 176) | (587 286) |
| Regularization | | - | - | (36 462) | (36 462) | - | (56 352) |
| | | **175 482** | **889 929** | **3 029 770** | **4 095 181** | **3 219 806** | **4 359 477** |

*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.

| 30 Jun-2019 | Maximum exposure to credit risk | Deposits | Letters of credit / bank guarantees | Mortgages | Others | Net Guarantees | Net exposure |
|---|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 444 050 | - | - | - | - | - | 444 050 |
| Availability on credit institutions | 49 863 | - | - | - | - | - | 49 863 |
| Applications in credit institutions | 4 318 584 | - | - | - | - | - | 4 318 584 |
| Financial assets | 5 539 344 | - | - | - | - | | 5 539 344 |
| Loans and advances to customers * | - | - | - | - | - | - | - |
| Big companies | 8 328 323 | 248 102 | - | 1 757 416 | 560 811 | 2 566 329 | 5 761 994 |
| Small business | 6 194 949 | 886 147 | - | 4 081 402 | 171 655 | 5 139 204 | 1 055 745 |
| Private | 2 963 362 | 317 977 | - | 1 599 310 | 10 791 | 1 928 078 | 1 035 284 |
| Others | 1 652 893 | 1 531 | - | - | 15 095 | 16 626 | 1 636 267 |
| Other assets | 117 387 | - | - | - | - | - | 117 387 |
| | **29 608 755** | **1 453 757** | **-** | **7 438 128** | **758 352** | **9 650 237** | **19 958 518** |

| 31 Dec-2018 | Maximum exposure to credit risk | Deposits | Letters of credit / bank guarantees | Mortgages | Others | Net Guarantees | Net exposure |
|---|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 794 999 | - | - | - | - | - | 794 999 |
| Availability on credit institutions | 107 215 | - | - | - | - | - | 107 215 |
| Applications in credit institutions | 5 007 735 | - | - | - | - | - | 5 007 735 |
| Financial assets | 7 902 812 | - | - | - | - | - | 7 902 812 |
| Loans and advances to customers * | | | | | | | - |
| Big companies | 8 615 428 | 175 044 | - | 1 627 307 | 959 086 | 2 761 437 | 5 853 991 |
| Small business | 4 872 798 | 555 496 | - | 3 501 569 | 168 499 | 4 225 564 | 647 234 |
| Private | 2 730 147 | 483 566 | - | 1 654 813 | 423 977 | 2 562 356 | 167 791 |
| Others | 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** |

## Analysis of exposure against collateral and other credit guarantees for the group:

| 30 Jun-2019 | Maximum exposure to credit risk | Deposits | Letters of credit / bank guarantees | Mortgages | Others | Net Guarantees | Net exposure |
|---|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 851 940 | - | - | - | - | - | 851 940 |
| Availability on credit institutions | 62 217 | - | - | - | - | - | 62 217 |
| Applications in credit institutions | 4 769 566 | - | - | - | - | - | 4 769 566 |
| Financial assets | 5 801 148 | - | - | - | - | - | 5 801 148 |
| Loans and advances to customers * | - | - | - | - | - | | - |
| Big companies | 9 034 479 | 248 102 | - | 2 112 873 | 616 939 | 2 977 914 | 6 056 565 |
| Small business | 6 596 519 | 892 139 | - | 4 486 002 | 439 676 | 5 817 817 | 778 702 |
| Private | 3 473 858 | 320 977 | - | 2 037 063 | 51 494 | 2 409 534 | 1 064 324 |
| Others | 1 672 426 | 1 531 | - | - | 16 173 | 17 704 | 1 654 722 |
| Other assets | 117 951 | - | - | - | - | - | 117 951 |
| | **32 380 104** | **1 462 749** | **-** | **8 635 938** | **1 124 282** | **11 222 969** | **21 157 135** |
| | - | | | | | | |

| 31 Dec-2018 | Maximum exposure to credit risk | Deposits | Letters of credit / bank guarantees | Mortgages | Others | Net Guarantees | Net exposure |
|---|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 1 152 270 | - | - | - | - | - | 1 152 270 |
| Availability on credit institutions | 176 640 | - | - | - | - | - | 176 640 |
| Applications in credit institutions | 5 195 922 | - | - | - | - | - | 5 195 922 |
| Financial assets | 8 133 192 | - | - | - | - | - | 8 133 192 |
| Loans and advances to customers * | - | - | - | - | - | | - |
| Big companies | 9 577 838 | 175 044 | - | 2 438 194 | 1 097 496 | 3 710 734 | 5 867 104 |
| Small business | 5 311 673 | 617 401 | 9 000 | 4 362 447 | 356 641 | 5 345 489 | (33 816) |
| Private | 3 234 892 | 510 173 | - | 2 496 777 | 443 808 | 3 450 758 | (215 866) |
| Others | 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** | **9 297 418** | **2 028 586** | **12 661 642** | **22 434 320** |

*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:

| | Moza Banco | | | | Group |
|---|---|---|---|---|---|
| | 30 Jun-2019 | | | 31 Dec-2018 | 31 Dec-2018 |
| | Gross value | Impairment | Net value | Net value | Net value |
| Government | 680 259 | (3) | 680 256 | 769 739 | 851 713 |
| Retail | 4 407 988 | (637 440) | 3 770 548 | 3 536 314 | 3 916 099 |
| Construction | 1 233 092 | (572 725) | 660 367 | 886 941 | 981 203 |
| Manufacturing industry | 2 087 298 | (604 759) | 1 482 539 | 1 702 767 | 1 885 704 |
| Private | 3 838 695 | (875 334) | 2 963 361 | 2 843 634 | 3 151 586 |
| services | 7 707 875 | (1 093 374) | 6 614 501 | 5 796 010 | 6 414 350 |
| Transport and communications | 1 569 776 | (125 017) | 1 444 759 | 1 476 763 | 1 635 175 |
| Others | 1 709 725 | (186 529) | 1 523 196 | 973 440 | 1 077 806 |
| | **23 234 708** | **(4 095 181)** | **19 139 527** | **17 985 608** | **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:

The analysis of the Bank's credit risk concentration by industry is as follows:

| 30 Jun-2019 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| Governmental | - | - | - | 5 353 819 | 680 256 | - | 6 034 075 |
| Insurance | - | - | - | 23 263 | 30 130 | - | 53 393 |
| Financial | 444 050 | 49 863 | 4 318 584 | 6 327 | 7 420 | - | 4 826 244 |
| Retail | - | - | - | - | 3 770 548 | - | 3 770 548 |
| Construction | - | - | - | - | 660 366 | - | 660 366 |
| Energy | - | - | - | - | 316 905 | - | 316 905 |
| Tourism | - | - | - | - | 817 810 | - | 817 810 |
| Manufacturing industry | - | - | - | - | 1 482 539 | - | 1 482 539 |
| Private | - | - | - | - | 2 963 362 | - | 2 963 362 |
| services | - | - | - | - | 6 584 370 | - | 6 584 370 |
| Transport and communications | - | - | - | 155 935 | 1 444 759 | - | 1 600 694 |
| Agriculture and fishing | - | - | - | - | 53 124 | - | 53 124 |
| Others | - | - | - | - | 327 938 | 117 387 | 445 325 |
| | **444 050** | **49 863** | **4 318 584** | **5 539 344** | **19 139 527** | **117 387** | **29 608 755** |

| 31 Dec-2018 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| Governmental | - | - | - | 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 |
| Construction | - | - | - | - | 886 941 | - | 886 941 |
| Energy | - | - | - | - | 373 157 | - | 373 157 |
| Tourism | - | - | - | - | 530 274 | - | 530 274 |
| Manufacturing industry | - | - | - | - | 1 702 767 | - | 1 702 767 |
| Private | - | - | - | - | 2 843 634 | - | 2 843 634 |
| services | - | - | - | - | 5 796 010 | - | 5 796 010 |
| Transport and communications | - | - | - | 155 876 | 1 476 763 | - | 1 632 639 |
| Agriculture and fishing | - | - | - | - | 52 584 | - | 52 584 |
| Others | 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** |

The analysis of the Group's credit risk concentration by industry is as follows:

| 30 Jun-2019 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| Governmental | - | - | - | 5 614 958 | 680 256 | - | 6 295 214 |
| Insurance | - | - | - | 23 263 | 30 130 | - | 53 393 |
| Financial | 851 940 | 62 217 | 4 769 566 | 6 327 | 7 420 | - | 5 697 470 |
| Retail | - | - | - | - | 4 105 267 | - | 4 105 267 |
| Construction | - | - | - | - | 730 856 | - | 730 856 |
| Energy | - | - | - | - | 316 905 | - | 316 905 |
| Tourism | - | - | - | - | 848 264 | - | 848 264 |
| Manufacturing industry | - | - | - | - | 1 489 275 | - | 1 489 275 |
| Private | - | - | - | - | 3 022 630 | - | 3 022 630 |
| services | - | - | - | - | 7 079 374 | - | 7 079 374 |
| Transport and communications | - | - | - | 155 935 | 1 686 220 | - | 1 842 155 |
| Agriculture and fishing | - | - | - | - | 451 424 | - | 451 424 |
| Others | - | - | - | 665 | 329 261 | 117 951 | 447 877 |
| | **851 940** | **62 217** | **4 769 566** | **5 801 148** | **20 777 282** | **117 951** | **32 380 104** |

| 31 Dec-2018 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| Governmental | - | - | - | 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 |
| Construction | - | - | - | - | 963 411 | - | 963 411 |
| Energy | - | - | - | - | 373 157 | - | 373 157 |
| Tourism | - | - | - | - | 563 790 | - | 563 790 |
| Manufacturing industry | - | - | - | - | 1 710 092 | - | 1 710 092 |
| Private | - | - | - | - | 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 fishing | - | - | - | - | 471 268 | - | 471 268 |
| Others | 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** |

The analysis of the Bank's credit risk concentration by region is as follows:

| 30 Jun-2019 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| South Zone | 444 050 | 49 863 | 4 318 584 | 5 539 344 | 15 220 169 | 117 387 | 25 689 397 |
| Central Zone | - | - | - | - | 1 976 625 | - | 1 976 625 |
| North Zone | - | - | - | - | 1 942 733 | - | 1 942 733 |
| | **444 050** | **49 863** | **4 318 584** | **5 539 344** | **19 139 527** | **117 387** | **29 608 755** |

| 31 Dec-2018 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| South Zone | 794 999 | 107 215 | 5 007 735 | 7 902 812 | 15 030 891 | 528 627 | 29 372 279 |
| Central Zone | - | - | - | - | 1 282 913 | - | 1 282 913 |
| North Zone | - | - | - | - | 1 671 804 | - | 1 671 804 |
| | **794 999** | **107 215** | **5 007 735** | **7 902 812** | **17 985 608** | **528 627** | **32 326 996** |

The analysis of the Group's credit risk concentration by region is as follows:

| 30 Jun-2019 | Cash and availability in Central Bank | Availability on credit institutions | Applications in credit institutions | Financial assets | Loans and advances to customers | Other assets | Total |
|---|---|---|---|---|---|---|---|
| South Zone | 851 940 | 62 217 | 4 769 566 | 5 800 483 | 16 354 521 | 117 951 | 27 956 679 |
| Central Zone | - | - | - | - | 2 385 118 | - | 2 385 118 |
| North Zone | - | - | - | - | 2 037 643 | - | 2 037 643 |
| | **851 940** | **62 217** | **4 769 566** | **5 800 483** | **20 777 282** | **117 951** | **32 379 439** |

### 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 30 June based on undiscounted contractual cash flows:

| 30 Jun-2019 | Current | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 444 050 | - | - | - | - | 444 050 |
| Availability about credit institutions | - | 49 863 | - | - | - | 49 863 |
| Applications in credit institutions | - | 4 089 297 | 43 484 | 185 803 | - | 4 318 584 |
| Financial assets | - | 1 941 327 | 1 619 741 | 370 164 | 1 608 112 | 5 539 344 |
| Loans and advances to customers | - | 3 164 660 | 1 771 787 | 10 110 876 | 4 092 204 | 19 139 527 |
| Other assets | 117 387 | - | - | - | - | 117 387 |
| | **561 437** | **9 245 147** | **3 435 012** | **10 666 843** | **5 700 316** | **29 608 755** |
| **Financial assets** | | | | | | |
| Credit Institution Resources | - | 45 780 | - | - | - | 45 780 |
| Deposits and checking accounts | 7 183 441 | 7 856 264 | 3 613 | 8 875 047 | 2 002 | 23 920 367 |
| Payroll Resources | - | 36 879 | - | - | - | 36 879 |
| Other liabilities | - | 676 014 | - | - | - | 676 014 |
| Bond loans | - | - | - | 869 963 | - | 869 963 |
| | **7 183 441** | **8 614 937** | **3 613** | **9 745 010** | **2 002** | **25 549 003** |

| 31 Dec-2018 | Current | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 794 999 | - | - | - | - | 794 999 |
| Availability about credit institutions | 107 215 | - | - | - | - | 107 215 |
| Applications in credit institutions | - | 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 | - | 3 751 733 | 839 817 | 10 148 909 | 3 245 149 | 17 985 608 |
| Other assets | 528 627 | - | - | - | - | 528 627 |
| | **1 430 841** | **11 099 658** | **4 907 744** | **11 643 604** | **3 245 149** | **32 326 996** |
| **Financial liability** | | | | | | |
| Credit Institution Resources | 59 733 | 807 182 | - | - | - | 866 915 |
| Deposits and checking accounts | 7 998 599 | 8 311 953 | 8 489 389 | 93 285 | - | 24 893 226 |
| Payroll Resources | - | - | - | 93 153 | - | 93 153 |
| Other liabilities | 586 577 | - | - | - | - | 586 577 |
| Bond loans | - | - | - | 870 026 | - | 870 026 |
| | **8 644 909** | **9 119 135** | **8 489 389** | **1 056 464** | **-** | **27 309 897** |

The table below summarizes the profile of maturity of the Group's financial liabilities as at 30 June based on undiscounted contractual cash flows:

| 30 Jun-2019 | Current | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 851 940 | - | - | - | - | 851 940 |
| Availability about credit institutions | 12 354 | 49 863 | - | - | - | 62 217 |
| Applications in credit institutions | - | 4 540 279 | 43 484 | 185 803 | - | 4 769 566 |
| Financial assets | - | 2 202 466 | 1 620 406 | 370 164 | 1 608 112 | 5 801 148 |
| Loans and advances to customers | - | 3 219 720 | 1 798 485 | 11 241 505 | 4 517 572 | 20 777 282 |
| Other assets | 117 951 | - | - | - | - | 117 951 |
| **Total undiscounted assets** | **982 245** | **10 012 328** | **3 462 375** | **11 797 472** | **6 125 684** | **32 380 104** |
| **Financial liability** | | | | | | |
| Credit Institution Resources | - | 45 780 | - | - | - | 45 780 |
| Deposits and checking accounts | 8 248 660 | 8 317 927 | 344 990 | 8 875 047 | 2 002 | 25 788 626 |
| Payroll Resources | - | 36 879 | - | - | 193 178 | 230 057 |
| Other liabilities | - | 714 247 | - | - | - | 714 247 |
| Bond loans | - | - | - | 869 963 | - | 869 963 |
| **Total undiscounted liabilities** | **8 248 660** | **9 114 833** | **344 990** | **9 745 010** | **195 180** | **27 648 673** |

| 31 Dec-2018 | Current | Less than 3 months | 3 to 12 months | Mais 1 ano | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and availability at Central Bank | 1 152 270 | - | - | - | - | 1 152 270 |
| Availability about credit institutions | 176 640 | - | - | - | - | 176 640 |
| Applications in credit institutions | - | 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 liability** | | | | | | |
| Credit Institution Resources | 60 534 | 806 773 | - | - | | 867 307 |
| Deposits and checking accounts | 7 998 599 | 9 745 855 | 8 759 032 | 93 285 | | 26 596 771 |
| Payroll Resources | - | - | - | 295 915 | | 295 915 |
| Other liabilities | - | - | - | 870 026 | | 870 026 |
| Bond loans | 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 per

### 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:

| 30 Jun-2019 | On Demand | Less than 3 months | 3 to 12 months | Over 1 Year | Non interest bearing | Total |
|---|---|---|---|---|---|---|
| **Financial asset** | | | | | | |
| Cash and availability at Central Bank | - | - | - | - | 444 050 | 444 050 |
| Availability about credit institutions | - | 49 863 | - | - | - | 49 863 |
| Applications in credit institutions | - | 4 089 297 | 43 484 | 185 803 | - | 4 318 584 |
| Financial assets | - | 1 941 327 | 1 619 741 | 1 978 276 | - | 5 539 344 |
| Loans and advances to customers | - | 2 848 520 | 1 714 563 | 14 576 444 | - | 19 139 527 |
| Other assets | - | 117 387 | - | - | - | 117 387 |
| **Total undiscounted assets** | **-** | **9 046 394** | **3 377 788** | **16 740 523** | **444 050** | **29 608 755** |
| **Financial liability** | | | | | | |
| Credit Institution Resources | - | 45 780 | - | - | - | 45 780 |
| Deposits and current accounts | 7 183 441 | 7 856 264 | 3 613 | 8 877 049 | - | 23 920 367 |
| Payroll Resources | - | 36 879 | - | - | - | 36 879 |
| Other liabilities | - | 676 014 | - | - | - | 676 014 |
| Bond loans | - | - | - | 869 963 | - | 869 963 |
| **Total undiscounted liabilities** | **7 183 441** | **8 614 937** | **3 613** | **9 747 012** | **-** | **25 549 003** |

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

| 30 Jun-2019 | Current | Less than 3 months | 3 to 12 months | more than 1 year | non bearing interest | Total |
|---|---|---|---|---|---|---|
| **Financial asset** | | | | | | |
| Cash and availability at Central Bank | 407 890 | - | - | - | 444 050 | 851 940 |
| Availability on credit institutions | - | 62 217 | - | - | - | 62 217 |
| Applications in credit institutions | - | 4 540 279 | 43 484 | 185 803 | - | 4 769 566 |
| Financial assets | - | 2 121 742 | 1 694 803 | 1 984 603 | - | 5 801 148 |
| Loans and advances to customers | - | 2 903 956 | 1 761 536 | 16 111 790 | - | 20 777 282 |
| Other assets | 564 | 117 387 | - | - | - | 117 951 |
| **Total dos activos não descontados** | **408 454** | **9 745 581** | **3 499 823** | **18 282 196** | **444 050** | **32 380 104** |
| **Financial liability** | | | | | | |
| Credit institutions' resources | - | 45 780 | - | - | - | 45 780 |
| Deposits and current accounts | 8 341 844 | 8 225 147 | 344 586 | 8 877 049 | - | 25 788 626 |
| Payroll Resources | - | 36 879 | - | 193 178 | - | 230 057 |
| Other liabilities | 38 233 | 676 014 | - | - | - | 714 247 |
| Bond loans | - | - | - | 869 963 | - | 869 963 |
| **Total undiscounted liabilities** | **8 380 077** | **8 983 820** | **344 586** | **9 940 190** | **-** | **27 648 673** |

| 31 Dec-2018 | Current | Less than 3 months | 3 to 12 months | more than 1 year | non bearing interest | Total |
|---|---|---|---|---|---|---|
| Financial asset | | | | | | |
| Cash and availability at Central Bank | - | - | - | - | 1 152 270 | 1 152 270 |
| Availability about credit institutions | - | 107 215 | - | - | 69 425 | 176 640 |
| Applications in credit institutions | - | 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 liability** | | | | | | |
| Credit Institution Resources | - | 867 307,00 | - | - | - | 867 307,00 |
| Deposits and current accounts | - | 17 745 253 | 8 758 230 | 93 288 | - | 26 596 771 |
| Payroll Resources | - | - | - | 295 915 | - | 295 915 |
| Other liabilities | - | - | - | 870 026 | - | 870 026 |
| Bond loans | - | 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 Monetary Policy rates of the Bank of Mozambique, based on financial assets and liabilities whose interest rate is variable on June 30th is as follows:

| | **Moz Banco** | | **Group** | |
|---|---|---|---|---|
| | **Base point increase / decrease** | **Impact of profit before tax** | **Base point increase / decrease** | **Impact of profit before tax** |
| **30 Jun-2019** | +200 pb | 0 | +200 pb | 0 |
| | -200 pb | 0 | -200 pb | 0 |
| **31 Dec-2018** | +200 pb | 125 914 | +200 pb | 138 767 |
| | -200 pb | (125 914) | -200 pb | (138 767) |

### *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 30 June:

| 30 Jun-2019 | MZN | USD | ZAR | EUR | Others | Total |
|---|---|---|---|---|---|---|
| **Financial asset** | | | | | | |
| Cash and availability at Central Bank | 361 378 | 58 174 | 4 678 | 19 798 | 22 | 444 050 |
| Availability on credit institutions | 22 804 | (13 856) | (6 765) | 40 150 | 7 530 | 49 863 |
| Applications in credit institutions | 2 881 470 | 1 375 880 | 32 486 | 18 | 28 729 | 4 318 583 |
| Financial assets | 4 844 035 | 695 309 | - | | - | 5 539 344 |
| Loans and advances to customers | 16 603 618 | 2 535 908 | 1 | - | - | 19 139 527 |
| Other assets | 117 387 | 0 | - | - | - | 117 387 |
| | **24 830 692** | **4 651 415** | **30 400** | **59 966** | **36 281** | **29 608 754** |
| **Financial liability** | | | | | | |
| Credit institutions resources | 45 780 | - | - | | - | 45 780 |
| Deposits and current accounts | 21 301 618 | 2 497 711 | 39 914 | 60 438 | 20 687 | 23 920 368 |
| Recursos consignados | 36 879 | - | - | - | - | 36 879 |
| Other liabilities | 676 014 | - | - | - | - | 676 014 |
| Bond loans | 869 963 | - | - | - | - | 869 963 |
| | **22 930 254** | **2 497 711** | **39 914** | **60 438** | **20 687** | **25 549 004** |
| **Total undiscounted liabilities** | **1 900 438** | **2 153 704** | **(9 514)** | **(472)** | **15 594** | **4 059 750** |

| 31 Dec-2018 | MZN | USD | ZAR | EUR | Others | Total |
|---|---|---|---|---|---|---|
| **Financial asset** | | | | | | |
| Cash and availability at Central Bank | 683 883 | 63 405 | 11 152 | 36 539 | 20 | 794 999 |
| Availability on credit institutions | 39 249 | 15 224 | 15 670 | 32 631 | 4 441 | 107 215 |
| Applications in credit institutions | 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 liability** | | | | | | |
| Credit institutions' resources | 866 915 | - | - | - | - | 866 915 |
| Deposits and current accounts | 21 539 342 | 3 001 979 | 222 609 | 118 005 | 11 291 | 24 893 226 |
| Payroll Resources | 93 153 | - | - | - | - | 93 153 |
| Other liabilities | 870 026 | - | - | - | - | 870 026 |
| Bond loans | 547 404 | 27 685 | 620 | 2 463 | 8 405 | 586 577 |
| | | | | | | - |
| | **23 916 840** | **3 029 664** | **223 229** | **120 468** | **19 696** | **27 309 897** |
| ***Total undiscounted liabilities*** | **2 964 574** | **2 550 806** | **52 631** | **(33 357)** | **6 277** | **5 540 931** |

The following table summarizes the Group's foreign exchange risk exposure as at 30 June:

| 30 Jun-2019 | MZN | USD | ZAR | EUR | Others | Total |
|---|---|---|---|---|---|---|
| **Financial asset** | | | | | | |
| Cash and availability at Central Bank | 697 982 | 120 787 | 8 048 | 25 101 | 22 | 851 940 |
| Availability on credit institutions | (31 669) | (4 446) | 499 | 90 303 | 7 530 | 62 217 |
| Applications in credit institutions | 3 315 332 | 1 375 880 | 49 606 | 18 | 28 729 | 4 769 565 |
| Financial assets | 5 105 839 | 695 309 | - | - | - | 5 801 148 |
| Loans and advances to customers | 18 015 835 | 2 761 445 | 1 | 1 | - | 20 777 282 |
| Other assets | 149 105 | - | - | - | - | 149 105 |
| | **27 252 424** | **4 948 975** | **58 154** | **115 423** | **36 281** | **32 411 257** |
| **Financial liability** | | | | | | |
| Credit institutions resources | 45 780 | - | - | - | - | 45 780 |
| Deposits and current accounts | 22 962 869 | 2 680 995 | 57 840 | 66 236 | 20 687 | 25 788 627 |
| Payroll Resources | 230 057 | - | - | - | - | 230 057 |
| Other liabilities | 714 095 | 152 | - | - | - | 714 247 |
| Bond loans | 869 963 | - | - | - | - | 869 963 |
| | **24 822 764** | **2 681 147** | **57 840** | **66 236** | **20 687** | **27 648 674** |
| ***Exposição liquida*** | **2 429 660** | **2 267 828** | **314** | **49 187** | **15 594** | **4 762 583** |

| 31 Dec-2018 | MZN | USD | ZAR | EUR | Others | Total |
|---|---|---|---|---|---|---|
| **Financial asset** | | | | | | |
| Cash and availability at Central Bank | 969 868 | 126 018 | 14 522 | 41 842 | 20 | 1 152 270 |
| Availability on credit institutions | 41 847 | 24 634 | 22 934 | 82 784 | 4 441 | 176 640 |
| Applications in credit institutions | 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 liability** | | | | | | |
| Credit institutions resources | 867 307 | - | - | - | - | 867 307 |
| Deposits and current accounts | 23 035 879 | 3 185 263 | 240 535 | 123 803 | 11 291 | 26 596 771 |
| Payroll Resources | 295 915 | - | - | - | - | 295 915 |
| Other liabilities | 870 026 | - | - | - | - | 870 026 |
| Bond loans | 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** |
| ***Exposição liquida*** | **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 exchange rate in USD, keeping the remaining variables constant. The impact on the income statement (before tax) is the same as in equity:

| | Moza Banco | | | Group | |
|---|---|---|---|---|---|
| | Impact on USD exchange rate variation | Impact of profit before tax | Impacts on equity | Impact of profit before tax | Impacts on equity |
| **30 Jun-2019** | +5% | 107 685 | 107 685 | +5% | 113 391 |
| | -5% | (107 685) | (107 685) | -5% | (113 391) |
| **31 Dec-2018** | +5% | 127 540 | 127 540 | +5% | 133 247 |
| | -5% | (127 540) | (127 540) | -5% | (133 247) |

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

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

| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2018 |
|---|---|---|---|
| US dollar | 62,12 | 61,47 | 68,54 |
| Euro | 70,71 | 70,25 | 59,32 |
| South African Rand | 4,39 | 4,28 | 4,27 |

### 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 30 June, as per the requirements of the Bank of Mozambique:

| | Moza Banco | |
|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 |
| **Basic Equity (Tier I Capital)** | | |
| Share Capital | 3.943.250 | 3.943.250 |
| Elegible reserves and retained earnings | 5.149.306 | 5.917.709 |
| Intagible Assets | (175.103) | (209.878) |
| Credit Impairment according to the BdM notice | (3.092.205) | (3.144.499) |
| Provisional negative results for the year in progress at the end of the month | (274.105) | (768.403) |
| **Base Equity (Tier I capital)** | **5.551.143** | **5.738.179** |
| Toatal amount of the stake if more than 10% of the investee´s share capital | (1.219.670) | (1.219.670) |
| **Base Equity (Tier I capital) Adjusted** | **4.331.473** | **4.518.509** |
| **Complementary Equity** | | |
| Eligible subordinated debt | 866.295 | 868.000 |
| Others | 2.744 | 2.498 |
| Total amount of the holding if it exceeds 10% of the share capital of the subsidiary | (304.917) | (304.917) |
| **Supplementary own funds** | **564.122** | **565.580** |
| Other elements to deduct | (249.282) | (231.243) |
| **Basic and complementary equity** | **4.646.313** | **4.852.847** |
| **Risk weighted assets** | | |
| In financial position | 18.191.082 | 17.477.864 |
| Out of financial position | 3.761.407 | 2.503.725 |
| Operational and market risk | 3.411.602 | 2.383.451 |
| **Total weighted assets** | **25.364.091** | **22.365.040** |
| Prudential Ratios | | |
| CORE TIER 1 CAPITAL | 34,77% | 40,66% |
| TIER 1 CAPITAL | 17,08% | 20,20% |
| GLOBAL RATIO | 18,32% | 21,70% |
| Required solvency ratio | 11,00% | 11,00% |

(*)means the difference between the calculation of credit impairment based on BdM advice and the internal model.

## 4. Net interest income

Net interest income breaks down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| ***Interest and similar income*** | | | |
| Interest on loans and advances to customers | 1 637 378 | 1 419 777 | 1 780 338 |
| Cash and cash equivalents at credit institutions | 162 812 | 178 679 | 185 922 |
| Interests of assets available for sale | 448 036 | 522 320 | 465 546 |
| | *2 248 226* | *2 120 776* | *2 431 806* |
| ***Interest and similar income*** | | | |
| Interests from customers resources | 962 072 | 1 198 107 | 1 008 459 |
| Interest from payroll funds | 4 397 | 20 135 | 4 397 |
| Interest from subordinated liabilities | 98 093 | 64 349 | 98 093 |
| Interest from central bank resources and credit institutions | 12 341 | 290 | 22 890 |
| | *1 076 903* | *1 282 881* | *1 133 839* |
| | ***1 171 323*** | ***837 895*** | ***1 297 967*** |

## 5. Net fee and commission income

This item breaks down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| ***Income from services and commissions*** | | | |
| From guarantees provided | 92 493 | 56 701 | 95 800 |
| From banking services performed | 126 373 | 109 172 | 126 723 |
| Other income from services and commissions | 95 522 | 77 781 | 113 434 |
| | *314 388* | *243 654* | *335 957* |
| ***Service and commission charges*** | | | |
| From guarantees received | 388 | 1 198 | 621 |
| For third party banking services | 5 031 | 7 037 | 5 853 |
| VISA and Mastercard | 39 226 | 32 065 | 40 352 |
| Other charges for services and commissions | 320 | 130 | 320 |
| | *44 965* | *40 430* | *47 146* |
| | ***269 423*** | ***203 224*** | ***288 811*** |

| 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.<br>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.<br>Rates charged on transactions based on interbank fees, foreign currency transactions and overdrafts are charged to the customer's account when the transaction occurs.<br>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.<br>Transaction-related revenue is recognised at the time the transaction occurs. |
| **Investiment 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.<br>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.<br>Transaction-based fees for administration of a syndicated loan, execution of transactions and securities underwriting are charged when the transaction occurs.. | Revenue from administrative agencies' services is- recognized over time as services are-provided. The customer receivables on June 30th are acknowledged as trade receivables.<br>Transaction-related revenue is acknowledged at the time the transaction occurs. |

## 6. Net financial operations

Net financial operations break down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| ***Gains on financial operations*** | | | |
| Foreign exchange gains | 4 032 728 | 4 643 565 | 4 032 840 |
| Other gains on financial operations | 47 852 | 65 275 | 57 086 |
| | *4 080 580* | *4 708 840* | *4 089 926* |
| ***Losses on financial operations*** | | | |
| Foreign exchange losses | 3 982 726 | 4 533 452 | 3 983 323 |
| Other losses on financial operations | - | 6 144 | - |
| | *3 982 726* | *4 539 596* | *3 983 323* |
| ***Net financial transactions*** | ***97 854*** | ***169 244*** | ***106 603*** |

## 7. Staff costs

Staff costs break down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| Wages and salaries | 572 218 | 525 892 | 683 226 |
| Taxes | 23 576 | 17 032 | 26 891 |
| | ***595 794*** | ***542 924*** | ***710 117*** |

## Employees

At 30 June, the number of employees was as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| Central Services | 406 | 403 | 485 |
| Commercial Area | 338 | 349 | 424 |
| | ***744*** | ***752*** | ***909*** |

## 8. Other operating expenses and income

This item breaks down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun 19 | 30 Jun 18 | 30 Jun 19 |
| Communications | 53 603 | 58 611 | 63 446 |
| Professional Fees | 154 338 | 155 542 | 181 286 |
| Consumables | 15 940 | 16 153 | 24 021 |
| Maintenance and related services | 154 236 | 155 722 | 160 988 |
| Marketing expenses | 17 761 | 12 717 | 18 203 |
| Property rentals | 187 807 | 147 323 | 215 837 |
| Water, energy and fuel | 35 177 | 25 355 | 40 457 |
| Travelling and representation expenses | 10 698 | 11 034 | 11 589 |
| Training expenses | 3 294 | 2 912 | 3 391 |
| Reversão de proveitos de exercícios anteriores | 9 071 | 24 144 | 9 071 |
| Donations and quotes | 7 091 | 844 | 7 549 |
| Other | 59 581 | 104 196 | 68 083 |
| | ***708 597*** | ***714 553*** | ***803 921*** |
| | | | |
| Services rendered | 17 267 | 6 547 | 17 825 |
| Other incomes | 80 126 | 68 509 | 87 212 |
| | ***97 393*** | ***75 056*** | ***105 037*** |

The interim income statement for the period ended 30 June 2018 reclassified the withholding tax (IRPC) on interest on treasury bills, treasury bonds and MMI to note 10, with the amount of MZN 47,399 thousand of Meticais.

## 9. Provisions

Provisions break down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 |
| Provisions for litigation | 25 000 | - | 25 310 |
| | **25 000** | **-** | **25 310** |

In order to ensure any charges arising from proceedings in litigation, the Bank decided to set up a provision of 25,000 thousands Meticais, whose outcome is expected to be concluded by the end of 2019.

## 10. Income taxes

Income taxes break down as follows:

### i) Liberatory rate

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 30 Jun-2018 | 30 Jun-2019 |
| IRPC- liberatory rate | 128 877 | 47 399 | 136 708 |
| | ***128 877*** | ***47 399*** | ***136 708*** |

IRPC - Discharging Rate is the withholding tax (20%) on interest on the Bank's investments in Treasury Bills, Treasury Bonds and Interbank Money Market Investments..

### ii) Deferred tax

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

| | 01.01.2019 | Income Statement | | Equity | | 30.06.2019 |
|---|---|---|---|---|---|---|
| | | Expenses | income | Increase | Decrease | |
| **Defered tax assets** | | | | | | |
| Financial assets available-for-sale | - | - | | | | - |
| Tax losses | 95 000 | - | | - | - | 95 000 |
| | **95 000** | **-** | **-** | **-** | **-** | **95 000** |
| **Deferred tax liabilities** | | | | | | |
| Exchange differences | - | - | | - | - | - |
| Tangible assets | (8 839) | | | - | | (8 839) |
| Resulting | - | - | | - | - | - |
| | **(8 839)** | **-** | **-** | - | **-** | **(8 839)** |
| | | **-** | | | **-** | |

| | 01.01.2018 | Income Statement | | Equity | | 31.12.2018 |
|---|---|---|---|---|---|---|
| | | Expenses | Income | Increase | Decrease | |
| **Deferred Tax Assets** | | | | | | |
| Financial assets available-for-sale | 44 230 | - | - | - | (44 230) | - |
| Tax losses | 150 000 | (55 000) | - | - | - | 95 000 |
| | **194 230** | **(55 000)** | **-** | **-** | **(44 230)** | **95 000** |
| **Deferred tax liabilities** | | | | | | |
| Financial assets available-for-sale | | | | | | |
| Exchange differences | - | - | - | - | - | - |
| Tangible assets | (8 839) | - | - | - | - | (8 839) |
| Resulting | | - | - | - | - | - |
| | **(8 839)** | **-** | **-** | - | **-** | **(8 839)** |
| | | ***(55 000)*** | | | ***(44 230)*** | |

The deferred tax reduction of 55,000 thousand meticais is due to the decrease in the expectation of recoverability of the value as a result of the accrued losses.

## 11. Earning per share

*Basic and diluted earnings per share*

The calculation of basic and diluted earnings by interim shares is based on the impairment attributable to the bank's ordinary shareholders on 30 June 2019, 274,105 thousand Meticais (30 Jun-2018: Loss: 494,814 thousand Meticais), Group (345,635 Million Meticais) and the weighted average number of ordinary shares issued by 30 June 2019 of 559,445 (30 June 2018:553,650), calculated as follows

| | Moza Banco | | Group |
|---|---|---|---|
| | **30 Jun-2019** | **30 Jun-2018** | **30 Jun-2019** |
| Loss of the year | - | (494 814) | (71 530) |
| Weighted average number of ordinary shares | 559 445 | 553 650 | 559 445 |
| **Earnings per share** | | | |
| Basic | - | (0,89) | (0,13) |
| Diluted | - | (0,89) | (0,13) |

## 12. Cash and deposit with Central Bank

Cash and deposits with the Central Bank break down as follows

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Cash | 392 094 | 522 436 | 488 499 | 616 641 |
| Central Bank | 51 956 | 272 563 | 363 441 | 535 629 |
| | **444 050** | **794 999** | **851 940** | **1 152 270** |

## 13. Deposits with Banks

Deposits with banks break down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| National Banks | 25 956 | 65 963 | 25 956 | 68 560 |
| Foreign Banks | 23 907 | 41 252 | 36 261 | 108 080 |
| | **49 863** | **107 215** | **62 217** | **176 640** |

## 14. Loans and advances to banks

Loans and advances to banks break down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Central Banks | 2 881 470 | - | 2 881 470 | - |
| Other credit's institutions | 1 437 114 | 5 007 735 | 1 888 096 | 5 195 922 |
| | **4 318 584** | **5 007 735** | **4 769 566** | **5 195 922** |

## 15. Financial assets

This item breaks down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Central Banks | 2 881 470 | - | 2 881 470 | - |
| Other credit's institutions | 1 437 114 | 5 007 735 | 1 888 096 | 5 195 922 |
| | **4 318 584** | **5 007 735** | **4 769 566** | **5 195 922** |

As at June 30, 2019, the financial assets at maturity for the Group and Bank excluding holdings in other companies are as follows:

| | Moza Banco | | Group | | |
|---|---|---|---|---|---|
| | 30 Jun-2019 | 31/dez/18 | 30 Jun-2019 | 30 Jun-2019_BTM | 31 Dec-2018 |
| Up to 3 months | 2 206 602 | 2 573 845 | 2 404 877 | 198 275 | 2 722 836 |
| From 3 months to 1 year | 2 145 842 | 3 827 945 | 2 202 379 | 56 537 | 3 903 007 |
| From 1 year to 5 years | 1 157 309 | 1 441 842 | 1 157 974 | 665 | 1 441 842 |
| More than 5 years | 29 591 | 29 590 | 35 918 | 6 327 | 29 590 |
| | **5 539 344** | **7 873 222** | **5 801 148** | **261 804** | **8 097 275** |

The impairment movements on financial assets as at June 30, for the Group and Bank are as follows:

| | | Moza Banco | | Group | BTM |
|---|---|---|---|---|---|
| | line | 30 Jun 19 | 31/dez/18 | 30 Jun 19 | 30 Jun 19 |
| **Initial banalce** | | 39 110 | 120 973 | 39 110 | |
| Reinforcement | a) | 57 859 | 58 943 | 57 859 | |
| Reversal | b) | (96 969) | (132 545) | (96 969) | |
| Regularization | | - | (8 261) | - | |
| **Final balance** | | **-** | **39 110** | **-** | - |

As at June 30 2019, the Bank completely reversed the impairments to the date (MZN 39,110), resulting from the appreciation of the price of securities (MOZ BOND) to 110% (2018: 94.71%). The negative variation of impairments is justified by the following points. per:

a) Reversal of impairment in the amount of 96,969 thousand Meticais; and

b) Reinforcement of impairments in the amount of 57,859 thousand Meticais.

### 15.1 Treasury Bond

Treasury Bonds 2015 - 6th Series

These Treasury Bonds have maturity of four years and were issued on December 16, 2015 with a nominal value of 100 Meticais each. Coupons are paid on a semi-annual basis at a fixed annual interest rate of 10.50%, with repayment of principal at bond's maturity. The net amount on June 30, 2019 was 782,297 thousand Meticais (2018: 785,492 thousand Meticais).

Treasury Bonds 2016 – 2nd Series

These Treasury Bonds maturity is of four years and were issued on May 11, 2016 with a nominal value of a 100 Meticais each. Coupons are paid on a semi-annual basis at a fixed annual interest rate of 12.75%, with repayment of principal at maturity. The net value on June 30, 2019 was 134,624 thousand Meticais (2018: 136,960 thousand Meticais).

Treasury Bonds 2018 – 5th Series

These Treasury Bonds maturity is of three years and were issued on August 8, 2018 with a nominal value of 100 Meticais each. Coupons are paid on a semi-annual basis at an annual interest rate of 16.00% on the first two coupons and the remaining four coupons at the maturity-weighted average rate and the amounts of the last six Treasury Bills issued at terms longer than 63 days plus a percentage margin of 1.5%. The net amount at June 30, 2019 was 106,311 thousand Meticais (2018: 100,000 thousand Meticais).63 days plus a percentage margin of 1,5%. The net amount on June 30, 2019 was 106,311 thousand Meticais (2018: 100,000 thousand Meticais).

Treasury Bonds 2019 – 6th Series

These Treasury Notes maturity is of three years and were issued on May 8, 2019 with a nominal value of 100 Meticais each. Coupons are paid on a semi-annual basis at an annual interest rate of 14.00% for the first two coupons and the remaining four coupons at the

maturity-weighted average rate and the amounts of the last six Treasury Bills at maturities of more than 63 days plus a margin of 1,5%.

### 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.

### 15.2 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.

## 16. Investments in subsidiaries

Investments in subsidiaries break down as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| | 30 Jun-2019 | 31 Dez-2018 | 30 Jun-2019 |
| Investment in subsidiary | | | |
| Banco Terra, SA | 1 524 587 | 1 524 587 | - |
| | **1 524 587** | **1 524 587** | **-** |

The investment in Banco Terra was made on 21 December2018, 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:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun 19 | 31 Dec 18 | 30 Jun 19 | 31 Dec-2018 |
| Corporate | 19.098.221 | 18.680.055 | 20.757.885 | 20.847.031 |
| Individual | 3.805.352 | 2.492.691 | 4.004.294 | 2.492.691 |
| | 22.903.573 | 21.172.746 | 24.762.179 | 23.339.722 |
| Interest accrual and comissions | 331.135 | 685.748 | 374.580 | 730.533 |
| | **23.234.708** | **21.858.494** | **25.136.759** | **24.070.255** |
| Impairment allowances crédito | (4.095.181) | (3.872.886) | (4.359.477) | (4.156.619) |
| | **19.139.527** | **17.985.608** | **20.777.282** | **19.913.636** |

Loans and advances by segment to the Group and the Bank are as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun 19 | 31 Dec 18 | 30 Jun 19 | 31 Dec-2018 |
| Companies | 19 098 221 | 18 680 055 | 20 757 885 | 20 847 031 |
| Private | 3 805 352 | 2 492 691 | 4 004 294 | 2 492 691 |
| | 22 903 573 | 21 172 746 | 24 762 179 | 23 339 722 |
| Accrued interests and commissions | 331 135 | 685 748 | 374 580 | 730 533 |
| | **23 234 708** | **21 858 494** | **25 136 759** | **24 070 255** |
| Anticipated losses of credit | (4 095 181) | (3 872 886) | (4 359 477) | (4 156 619) |
| | **19 139 527** | **17 985 608** | **20 777 282** | **19 913 636** |

Analysis of the Group's and the Bank's credit risk concentration by industry is as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 DeC-2018 | 30 Jun-2019 | 31 Dec-2018 |
| | Net value | Net value | Net value | Net value |
| Government | 680 256 | 769 739 | 680 256 | 851 713 |
| Retail | 3 770 548 | 3 536 314 | 4 105 267 | 3 916 099 |
| Construction industry | 660 367 | 886 941 | 730 857 | 981 203 |
| Manufacturing industry | 1 482 539 | 1 702 767 | 1 489 274 | 1 885 704 |
| Private | 2 963 361 | 2 843 634 | 2 963 361 | 3 151 586 |
| Services | 6 614 501 | 5 796 010 | 7 109 506 | 6 414 350 |
| Transports and communications | 1 444 759 | 1 476 763 | 1 686 220 | 1 635 175 |
| Others | 1 523 196 | 973 440 | 2 012 541 | 1 077 806 |
| | **19 139 527** | **17 985 608** | **20 777 282** | **19 913 636** |

Gross loans and advances by currency to the Group and the Bank are as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| National currency | 20 056 363 | 18 827 235 | 21 748 473 | 20 808 999 |
| Foreign currency | 3 178 345 | 3 031 259 | 3 388 286 | 3 261 256 |
| | **23 234 708** | **21 858 494** | **25 136 759** | **24 070 255** |

Gross loans and advances by currency to the Group and the Bank are as follows:

| | Moza Banco | | | | | Group | |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| In compliance | 11 634 541 | - | - | 11 634 541 | 11 487 492 | 12 716 139 | 12 840 042 |
| In breach but without impairment | - | 4 239 060 | - | 4 239 060 | 3 052 634 | 4 333 612 | 3 308 154 |
| In breach | - | - | 3 265 926 | 3 265 926 | 3 445 482 | 3 727 531 | 3 765 440 |
| | **11 634 541** | **4 239 060** | **3 265 926** | **19 139 527** | **17 985 608** | **20 777 282** | **19 913 636** |

Loans and advances by stage to the Group and the Bank are as follows:

| | Moza Banco | | Group |
|---|---|---|---|
| **30 Jun-2019** | **30 Jun 19** | **31 Dec 18** | **30 Jun 19** |
| Up to 3 months | 3 164 660 | 3 751 733 | 3 219 720 |
| From 3 months to 1 years | 1 771 787 | 839 817 | 1 798 485 |
| From 1 year to 5 years | 10 110 876 | 10 148 909 | 11 241 505 |
| More than 5 years | 4 092 204 | 3 245 149 | 4 517 572 |
| | **19 139 527** | **17 985 608** | **20 777 282** |

## Credit impairment

The breakdown of movements in impairment losses is as follows:

| | Moza Banco | | | | | Group | |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Initial balance | 262 593 | 761 035 | 2 849 258 | 3 872 886 | 2 947 332 | 4 156 619 | 3 953 323 |
| Reinforcement | 83 501 | 389 896 | 279 716 | 753 113 | 411 650 | 846 496 | 1 226 064 |
| Reversal | (170 612) | (261 002) | (62 742) | (494 356) | (139 176) | (587 286) | (893 947) |
| Regularization | - | - | (36 462) | (36 462) | - | (56 352) | (128 821) |
| | **175 482** | **889 929** | **3 029 770** | **4 095 181** | **3 219 806** | **4 359 477** | **4 156 619** |

As at June 30, 2019, impairment losses for the year amounted to MZN 258,757 thousand Meticais, which corresponds to an increase in impairment over the previous year. The positive impairment's variation results from the reinforcement of impairment in MZN 753,113 thousand Meticais (c) and reversal of impairment in MZN 494,356 thousand Meticais (d).

## 18. Other Assets

The other assets account breaks down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 30 Jun-2019 |
| Other receivables | 27 410 | 27 968 | 27 974 | 27 968 |
| Accruals and deferrals | 124 202 | 130 461 | 139 752 | 140 784 |
| Inventories | 23 465 | 19 570 | 23 465 | 19 570 |
| Clearing Accounts | 89 977 | 23 516 | 80 297 | 8 868 |
| Others* | 1 333 216 | 1 103 798 | 1 343 087 | 1 111 190 |
| | 1 598 270 | 1 305 313 | 1 614 575 | 1 308 380 |
| Impairment of other assets | (294 713) | (252 854) | (294 713) | (252 854) |
| | **1 303 557** | **1 052 459** | **1 319 862** | **1 055 526** |

The item 'Other assets' breaks down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Promovalor Moçambique Promoção Imobiliaria | 409 601 | 447 021 | 409 601 | 447 021 |
| Condominio Maresias | 302 389 | 346 682 | 302 389 | 346 682 |
| ADC, S.A | 210 515 | 210 349 | 210 515 | 210 349 |
| Companhia de Moçambique | 285 463 | - | 285 463 | - |
| Sommer Engenharia | 51 095 | 60 983 | 51 095 | - |
| Others | 74 153 | 38 763 | 84 024 | 107 138 |
| | **1 333 216** | **1 103 798** | **1 343 087** | **1 111 190** |

The value of Companhia de Moçambique 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:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dez-2018 | 30 Jun-2019 | 31 Dez-2018 |
| Pledge of property | (60 203) | (60 203) | (60 203) | (60 203) |
| Moz Bond Interests | (234 510) | (192 651) | (234 510) | (192 651) |
| | **(294 713)** | **(252 854)** | **(294 713)** | **(252 854)** |

During the first semester 2019, the Group and the Bank recorded an impairment on MOZ BOND's current interest in the amount of MZN 41.859.

## 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:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dez-2018 |
| Foreclosed Properties | 467 914 | 470 184 | 738 499 | 641 869 |
| Impairments | (162 527) | (162 527) | (162 527) | (162 527) |
| | **305 387** | **307 657** | **575 972** | **479 342** |

The movements of non-current assets held for sale during the fiscal year to the Group and the Bank are as follows:

| | Moza Banco | | | | | Group | |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Initial balance | 262 593 | 761 035 | 2 849 258 | 3 872 886 | 2 947 332 | 4 156 619 | 3 953 323 |
| Reinforcement | 83 501 | 389 896 | 279 716 | 753 113 | 411 650 | 846 496 | 1 226 064 |
| Reversal | (170 612) | (261 002) | (62 742) | (494 356) | (139 176) | (587 286) | (893 947) |
| Regularization | - | - | (36 462) | (36 462) | - | (56 352) | (128 821) |
| | **175 482** | **889 929** | **3 029 770** | **4 095 181** | **3 219 806** | **4 359 477** | **4 156 619** |

Impairment losses on repossessed assets did not change during first semester 2019 amounting to MZN 162.527

## 20. Investment Property

This item breaks down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| **Cost** | | | | |
| ***31 Dec-2018*** | 128 698 | 35 594 | 128 698 | 128 698 |
| Increases | - | 93 104 | - | - |
| ***30 Jun-2019*** | **128 698** | **128 698** | **128 698** | **128 698** |
| **Amortization** | | | - | |
| ***31 Dec-2018*** | 6 307 | 1 780 | 6 307 | |
| Increases | 2 574 | 4 527 | 2 574 | |
| ***30 Jun-2019*** | **8 881** | **6 307** | **8 881** | **-** |
| **31 Dec-2018** | 135 005 | 37 374 | 135 005 | 128 698 |
| **30 Jun-2019** | **119 818** | **122 391** | **119 818** | **128 698** |

## 21. Intangible Assets

The property and equipment item for the Bank breaks down as follows

| | Leased buildings | Equipments | On-going investment | Others | Total |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| **01 Jan-2018** | **1 010 294** | **1 027 491** | **176 533** | **2 088** | **2 216 406** |
| Increases | 53 325 | 148 786 | 72 550 | 433 | 275 094 |
| Cutback | (55 851) | (7 923) | (40 497) | - | (104 271) |
| Transfers | 59 328 | 38 151 | (97 479) | - | - |
| **31 Dec-2018** | **1 067 096** | **1 206 505** | **111 107** | **2 521** | **2 387 229** |
| Increase | 30 610 | 15 772 | 129 444 | 48 | 175 874 |
| Cutbacks | (17 327) | (1 148) | (235) | - | (18 710) |
| Transfers | 10 001 | 28 863 | (38 862) | - | 2 |
| **30 Jun-2019** | **1 090 380** | **1 249 992** | **201 454** | **2 569** | **2 544 395** |

| | Leased buildings | Equipments | On-going investments | Others | Total |
|---|---|---|---|---|---|
| **Amortization** | | | | | |
| **01 Jan-2018** | **376 691** | **625 188** | **-** | **2 088** | *1 003 967* |
| Increase | 97 770 | 161 459 | - | - | 259 229 |
| Disposals / settlements | (4 994) | (6 342) | - | - | (11 336) |
| **31 Dec-2018** | **469 467** | **780 305** | **-** | **2 088** | **1 251 860** |
| Increase | 50 489 | 82 003 | - | - | 132 492 |
| Disposals / settlements | (3 899) | (1 122) | - | (2 088) | (7 109) |
| **30 Jun-2019** | **516 057** | **861 186** | **-** | **-** | **1 377 243** |
| **A 31 Dec-2018** | **597 629** | **426 200** | **111 107** | **433** | **1 135 369** |
| **A 30 Jun-2019** | **574 323** | **388 806** | **201 454** | **2 569** | **1 167 152** |

The Group's property and equipment item breaks down as follows:

| | Leased buildings | Equipments | On-going investment | Others | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **31 Dec-2018** | **1 157 275** | **1 360 930** | **112 465** | **31 079** | **2 661 749** |
| Increase | 31 170 | 15 772 | 129 955 | 48 | 176 945 |
| Write-offs | (26 294) | (48 833) | (235) | (1 280) | (76 642) |
| Transfers | 10 001 | 29 177 | (39 535) | - | (357) |
| **30 Jun-2019** | **1 172 152** | **1 357 046** | **202 650** | **29 847** | **2 761 695** |
| **Amortization** | | | | | |
| **31 Dec-2018** | **545 331** | **915 625** | **-** | **25 102** | 1 486 058 |
| Increase | 54 541 | 87 254 | - | 1 536 | 143 331 |
| Write-offs | (12 866) | (48 807) | - | (3 368) | (65 041) |
| Transfers | - | - | - | - | - |
| **30 Jun-2019** | **587 006** | **954 072** | **-** | **23 270** | **1 564 348** |
| **As 30 Jun-2019** | **585 146** | **402 974** | **202 650** | **6 577** | **1 197 347** |

## 22. Intangible assets

The property and equipment item for the Bank breaks down as follows:

| | Software | On-going investment | Total |
|---|---|---|---|
| **Costs** | | | |
| **01 Jan-2018** | **761 653** | **17 723** | **779 376** |
| Increases | 6 764 | 22 323 | 29 087 |
| Transfers | 21 578 | (21 578) | - |
| **31 Dec-2018** | **789 995** | **18 468** | **808 463** |
| Increases | 4 639 | 17 851 | 22 490 |
| **30 Jun-2019** | **794 634** | **36 319** | **830 953** |

| | Software | On-going investment | Total |
|---|---|---|---|
| **Amortization** | | | |
| **01 Jan-2018** | **481 229** | **-** | **481 229** |
| Amortization of the period | 117 356 | - | 117 356 |
| Write-off | | | - |
| **31 Dec-2018** | **598 585** | **-** | **598 585** |
| | | | - |
| Period amortization | 57 265 | - | 57 265 |
| **30 Jun-2019** | **655 850** | **-** | **655 850** |
| **31 Dec-2018** | **191 410** | **18 468** | **209 878** |
| **30 Jun-2019** | **138 784** | **36 319** | **175 103** |

The Group's property and equipment item breaks down is as follows:

| | Software | On-going investment | Total |
|---|---|---|---|
| **Cost** | | | |
| **31 Dec-2018** | **973 836** | **18 468** | **992 304** |
| Increases | 4 639 | 17 851 | 22 490 |
| Transfers | (137 904) | - | (137 904) |
| **30 Jun-2019** | **840 571** | **36 319** | **876 890** |
| **Amortizations** | | | |
| **31 Dec-2018** | **758 451** | - | **758 451** |
| Increases | 62 303 | - | 62 303 |
| Write-offs | (137 904) | - | (137 904) |
| **30 Jun-2019** | **682 850** | **-** | **682 850** |
| *Goodwill* | **-** | **-** | **427 033** |
| **30 Jun-2019** | **157 721** | **36 319** | **621 073** |

The registered Goodwill corresponds to the premium for the acquisition of 100% of Banco Terra shares. Management analyzed the value of goodwill as at 30 June 2019 and concluded that it is not impaired at the year-end.

## 23. Current Tax Assets

Current tax assets break down as follows:

| | Moza Banco | | Group | | |
|---|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 30 Jun-2019_BTM | 31 Dec-2018 |
| Payment on IRPC | 38 365 | 38 365 | 38 365 | - | 38 365 |
| IRPC withholding | 155 957 | 127 218 | 167 790 | 11 833 | 138 517 |
| | **194 322** | **165 583** | **206 155** | **11 833** | **176 882** |

## 24. Deposits from Banks

Loans from Credit Institutions including the Bank of Mozambique are as follows:

| | Moza Banco | | Group | | |
|---|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 30 Jun-2019_BTM | 31 Dec2018 |
| Demand deposit | 43 438 | 59 733 | 43 438 | - | 59 733 |
| Term deposit | 2 342 | 807 182 | 2 342 | - | 807 574 |
| | **45 780** | **866 915** | **45 780** | **-** | **867 307** |

Maturity on loans from Credit Institutions including the Bank of Mozambique are as follows:

| | Moza Banco | | Group | | |
|---|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 30 Jun-2019 | 31 Dec-2018 |
| Up to 3 months | 45 780 | 866 915 | 45 780<br>- | | 867 307 |
| | **45 780** | **866 915** | **45 780** | **-** | **867 307** |

## 25. Deposits and current accounts

Deposits and current accounts break down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Demand deposit | 6 811 836 | 8 001 910 | 7 876 932 | 8 923 358 |
| Term deposit | 16 613 694 | 16 403 752 | 17 416 857 | 17 185 849 |
| Others | 494 837 | 487 564 | 494 837 | 487 564 |
| | **23 920 367** | **24 893 226** | **25 788 626** | **26 596 771** |

Maturity of deposits and current accounts breaks down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Demand | 7 183 441 | 8 368 870 | 8 248 660 | 9 289 551 |
| Up to 3 months | 7 856 264 | 7 941 684 | 8 317 927 | 8 454 904 |
| From 3 months to 1 years | 3 613 | 8 489 389 | 344 990 | 8 759 033 |
| From 1 year to 5 years | 8 875 047 | 91 548 | 8 875 047 | 91 548 |
| More than 5 years | 2 002 | 1 735 | 2 002 | 1 735 |
| | **23 920 367** | **24 893 226** | **25 788 626** | **26 596 771** |

## 26. Assigned resources

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| BEI | - | 22 269 | - | 22 269 |
| Ministry of Industry (PRSP) | 3 960 | 4 593 | 3 960 | 4 593 |
| AFDB | 30 187 | 60 375 | 30 187 | 60 375 |
| Kuwait Fund | - | - | 124 921 | 130 639 |
| Interests | 2 732 | 5 916 | 70 989 | 78 039 |
| | **36 879** | **93 153** | **230 057** | **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:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Provisions result | 237 814 | 181 717 | 248 938 | 198 731 |
| Accrued expenses | 212 595 | 208 762 | 236 287 | 214 923 |
| Deferred revenue | 84 172 | 69 340 | 84 172 | 69 340 |
| Provisions | 102 670 | 87 995 | 106 087 | 91 101 |
| | **637 251** | **547 814** | **675 484** | **574 095** |
| Derived | 38 763 | 38 763 | 38 763 | 38 763 |
| | **676 014** | **586 577** | **714 247** | **612 858** |

## 28. Debt securities issued

Debt securities issued break down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| Bond lending - Subordinated | | | | |
| Moza Banco 2013-2023 bond loan | 750 000 | 750 000 | 750 000 | 750 000 |
| Moza Banco 2013-2022 bond loan | 118 000 | 118 000 | 118 000 | 118 000 |
| Interests | 1 963 | 2 026 | 1 963 | 2 026 |
| | **869 963** | **870 026** | **869 963** | **870 026** |

<u>Moza Banco 2013-2023 - Subordinated debt</u>

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.

<u>Moza Banco 2016-2022 - Subordinated debt</u>

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.

The breakdown of debt securities issued by maturity is as follows

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-19 | 31 Dec-2018 | 30 Jun-2019 | 31 Dec-2018 |
| From 3 months to 1 year | - | - | - | - |
| From 1 year to 5 years | 751 406 | - | 751 406 | - |
| More than 5 years | 118 557 | 870 026 | 118 557 | 870 026 |
| | **869 963** | **870 026** | **869 963** | **870 026** |

## 29. Share Capital

As at June 30, 2019, Moza Banco share capital is totally subscribed and paid up, as follows:

| 30 Jun-2019 | Number of Shares | Face Value | Share Capital | % Share Capital |
|---|---|---|---|---|
| Kuhanha | 468 482 | 5 000 | 2 342 410 | 59,40% |
| Arise | 235 000 | 5 000 | 1 175 000 | 29,80% |
| Moçambique Capitais, S.A | 43 435 | 5 000 | 217 175 | 5,51% |
| Novo Banco | 41 732 | 5 000 | 208 660 | 5,29% |
| Dr.António Matos | 1 | 5 000 | 5 | 0,00% |
| | **788 650** | | **3 943 250** | **100%** |

| 31 Dec-2018 | Number of Shares | Face Value | Share Capital | % Share Capital |
|---|---|---|---|---|
| Kuhanha | 468 482 | 5 000 | 2 342 410 | 59,40% |
| Arise | 235 000 | 5 000 | 1 175 000 | 29,80% |
| Moçambique Capitais, S.A | 43 435 | 5 000 | 217 175 | 5,51% |
| Novo Banco | 41 732 | 5 000 | 208 660 | 5,29% |
| Dr.António Matos | 1 | 5 000 | 5 | 0,00% |
| | **788 650** | | **3 943 250** | **100%** |

## 30. Reserve

Reserves break down as follows:

| | Moza Banco | | Group | |
|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dez-2018 | 30 Jun-2019 | 31 Dez-2018 |
| Legal reserves | 4 661 843 | 4 661 843 | 4 661 843 | 4 661 843 |
| Issuance premium | 1 993 740 | 1 993 740 | 1 993 740 | 1 993 740 |
| Other reserves | - | - | - | - |
| | **6 655 583** | **6 655 583** | **6 655 583** | **6 655 583** |

## 31. Fair value of Financial Instruments

The Bank's financial instruments classify as follows:

**30 Jun-2019**

| | Assets financed through profit or loss | Financial assets through other comprehensive income | Amortized cost | Total |
|---|---|---|---|---|
| **Asset** | | | | |
| Cash and availabilities in Central Bank | - | - | 444 050 | 444 050 |
| Availability over credit institutions | - | - | 49 863 | 49 863 |
| Applications in credit institutions | - | - | 4 318 584 | 4 318 584 |
| Financial assets | - | 29 590 | 5 509 754 | 5 539 344 |
| Loans and advances to customers | - | - | 19 139 527 | 19 139 527 |
| Other assets | - | - | 117 387 | 117 387 |
| | **-** | **29 590** | **29 579 165** | **29 608 755** |

| Liability | At fair value through profit and losses | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| Credit institution's resources | - | 45 780 | - | 45 780 |
| Deposits and current accounts | - | 23 920 367 | - | 23 920 367 |
| Payroll resources | - | 36 879 | - | 36 879 |
| Other liabilities | 38 763 | 637 251 | - | 676 014 |
| Bond Loans | - | 869 963 | - | 869 963 |
| | **38 763** | **25 510 240** | **-** | **25 549 003** |

| 31 Dec-2018 | Financial assets through profit or loss | Financial assets through other comprehensive revenue | Amortised cost | Total |
|---|---|---|---|---|
| **Assets** | | | | - |
| Cash and availability at Central Bank | - | - | 794 999 | 794 999 |
| Availability over credit institutions | - | - | 107 215 | 107 215 |
| Applications in credit institutions | - | - | 5 007 735 | 5 007 735 |
| Financial assets | - | 29 590 | 7 873 222 | 7 902 812 |
| Loans and advances to customers | - | - | 17 985 608 | 17 985 608 |
| Other assets | | | 528 627 | 528 627 |
| | **-** | **29 590** | **32 297 406** | **32 326 996** |

| Liability | At fair value through profit and loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| Credit institutions' resources | - | 866 915 | - | 866 915 |
| Current account deposits | - | 24 893 226 | - | 24 893 226 |
| Payroll resources | - | 93 153 | - | 93 153 |
| Other liability | 38 763 | 547 814 | - | 586 577 |
| Bond loans | - | 870 026 | - | 870 026 |
| | **38 763** | **27 271 134** | **-** | **27 309 897** |

The Group's financial instruments classify as follows:

| | Financial assets through profits and losses | Financial assets through other comprehensive revenue | Amortised cost | Total |
|---|---|---|---|---|
| **Asset** | | | | - |
| Cash and availabilities in Central Bank | - | - | 851 940 | 851 940 |
| Availability over credit institutions | - | - | 62 217 | 62 217 |
| Applications in credit institutions | - | - | 4 769 566 | 4 769 566 |
| Financial assets | - | 29 590 | 5 771 558 | 5 801 148 |
| Loans and advances to customers | - | - | 20 777 282 | 20 777 282 |
| Other assets | - | - | 117 951 | 117 951 |
| | **-** | **29 590** | **32 350 514** | **32 380 104** |

| Liability | At fair value through profit and loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| Credit institutions' resources | - | 45 780 | - | 45 780 |
| Deposits and current accounts | - | 25 788 626 | - | 25 788 626 |
| Payroll resources | - | 230 057 | - | 230 057 |
| Other liabilities | 38 763 | 675 484 | - | 714 247 |
| Bond Loans | - | 869 963 | - | 869 963 |
| | **38 763** | **27 609 910** | **-** | **27 648 673** |

| 31 Dez-2018 | Financial assets through profits and losses | Financial assets through other comprehensive revenue | Amortised cost | Total |
|---|---|---|---|---|
| **Asset** | | | | - |
| Cash and availabilities in Central Bank | - | - | 1 152 270 | 1 152 270 |
| Availability over credit institutions | - | - | 176 640 | 176 640 |
| Applications in credit institutions | - | - | 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 |
| | **-** | **29 590** | **35 066 372** | **35 095 962** |

| Liability | At fair value through profit and loss | Other financial liabilities | Non-financial liabilities | Total |
|---|---|---|---|---|
| Credit institutions' resources | - | 867 307 | - | 867 307 |
| Deposits and current accounts | - | 26 596 771 | - | 26 596 771 |
| Payroll resources | - | 295 915 | - | 295 915 |
| Other liabilities | 38 763 | 574 095 | - | 612 858 |
| Bond Loans | - | 870 026 | - | 870 026 |
| | **38 763** | **29 204 114** | **-** | **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 the Treasury's Bond's obligations in accordance with financial assets value available for sale, only applicable to the economic year of 2017 and the amortized cost for the economic year of 2018. The interest rates used to determine the discount factors are variables registered in the market, namely the average rates of placement of Treasury B and Treasury Bonds.

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:

| 30 Jun-2019 | Level1 | Level2 | Level3 | Total |
|---|---|---|---|---|
| **Asset** | | | | |
| Cash and availabilities in Central Bank | - | 444 050 | - | 444 050 |
| Availability in credit institutions | - | 49 863 | - | 49 863 |
| Applications in credit institutions | - | 4 318 584 | - | 4 318 584 |
| Financial assets | 2 339 506 | 3 199 838 | - | 5 539 344 |
| Loans and advances to customers | - | 19 139 527 | - | 19 139 527 |
| Other assets | - | 117 387 | - | 117 387 |
| | **2 339 506** | **27 269 249** | **-** | **29 608 755** |
| **Liability** | | | | |
| Credit institutions resources | - | 45 780 | - | 45 780 |
| Deposit and current accounts | - | 23 920 367 | - | 23 920 367 |
| Payroll resources | - | 36 879 | - | 36 879 |
| Other liabilities | - | 676 014 | - | 676 014 |
| Bond loans | - | 869 963 | - | 869 963 |
| | **-** | **25 549 003** | **-** | **25 549 003** |

**30 Jun-2019**

| | Level1 | Level2 | Level3 | Total |
|---|---|---|---|---|
| **Asset** | | | | |
| Cash and availabilities in Central Bank | - | 851 940 | - | 851 940 |
| Availability of credit institutions | - | 62 217 | - | 62 217 |
| Applications in credit institutions | - | 4 769 566 | - | 4 769 566 |
| Financial assets | 2 339 506 | 3 461 642 | - | 5 801 148 |
| Loans and advances to customers | - | 20 777 282 | - | 20 777 282 |
| Other assets | - | 117 951 | - | 117 951 |
| | **2 339 506** | **30 040 598** | **-** | **32 380 104** |
| **Liability** | | | | |
| Credit institutions' resources | - | 45 780 | - | 45 780 |
| Deposit and current accounts | - | 25 788 626 | - | 25 788 626 |
| Payroll resources | - | 230 057 | - | 230 057 |
| Other liabilities | - | 714 247 | - | 714 247 |
| Bond loans | - | 869 963 | - | 869 963 |
| | **-** | **27 648 673** | **-** | **27 648 673** |

The following table shows a breakdown of financial instruments recorded at fair value by level in the fair value hierarchy for the Group:

**30 Jun-2019**

| | Level1 | Level2 | Level3 | Total |
|---|---|---|---|---|
| **Asset** | | | | |
| Cash and availabilities in Central Bank | - | 851 940 | - | 851 940 |
| Availability of credit institutions | - | 62 217 | - | 62 217 |
| Applications in credit institutions | - | 4 769 566 | - | 4 769 566 |
| Financial assets | 2 339 506 | 3 461 642 | - | 5 801 148 |
| Loans and advances to customers | - | 20 777 282 | - | 20 777 282 |
| Other assets | - | 117 951 | - | 117 951 |
| | **2 339 506** | **30 040 598** | **-** | **32 380 104** |
| **Liability** | | | | |
| Credit institutions' resources | - | 45 780 | - | 45 780 |
| Deposit and current accounts | - | 25 788 626 | - | 25 788 626 |
| Payroll resources | - | 230 057 | - | 230 057 |
| Other liabilities | - | 714 247 | - | 714 247 |
| Bond loans | - | 869 963 | - | 869 963 |
| | **-** | **27 648 673** | **-** | **27 648 673** |

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 instruments 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

- 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 Parties

Balances arising from direct transactions with related parties are as follows:

| Shareholder | | Applications in credit institutions | Loand and advances to customers | Credit institutions' resources | Deposits and current accounts |
|---|---|---|---|---|---|
| Kuhanha | 30 Jun-19 | | | | |
| | 31 Dec-19 | | | | 2.133.344 |
| Arise. B.V | 30 Jun-19 | | | | 17 |
| | 31 Dec-18 | | | | 17 |
| Moçambique Capitais | 30 Jun-19 | | 1 | | 74.179 |
| | 31 Dec-18 | | 8 | | 6.288 |
| Novo Banco | 30 Jun-19 | | | 562 | - |
| | 31 Dec-18 | | | 127 | - |
| Almeida Matos | 30 Jun-19 | | 206 | | 13.081 |
| | 31 Dec-18 | | 113 | | 23.077 |

## 33. Contingencies and commitments

*Contingencies*

| | Moza Banco | | Group | | |
|---|---|---|---|---|---|
| | 30 Jun-2019 | 31 Dec-2018 | 30 Jun-2019 | 30 Jun-2019_BTM | 31 Dec-2018 |
| Guarantees | 6 985 746 | 5 774 739 | 14 120 197 | 7 134 451 | 148 705 |
| Letters of credit | 505 422 | 931 567 | 1 011 398 | 505 976 | 554 |
| | **7 491 168** | **6 706 306** | **15 131 595** | **7 640 427** | **149 259** |

*Operating leases - Bank as lessee*

The Group and the Bank concluded operational leasing agreements for the branches and facilities where their registered office operates. These locations have an average period of 8 to 10 years, with the option of renewing the contract after maturity. The values of the contracts are adjusted annually to reflect the market inflation. Minimum incomes payable for irrevocable operational lease operations were as follows as of June 30.

| | Moza Banco | | Group | BTM |
|---|---|---|---|---|
| **Operating Leases** | 30 Jun-19 | 31 Dec-18 | 30 Jun-19 | 30 Jun-19 |
| Up to 1 year | 0 | 0 | 0 | 0 |
| Bebore 1 to 5 years | 0 | 0 | 0 | 0 |
| More than 5 years | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 |

Accounting Technician

Board of Directors

*OCAM n° 888/CC/OCAM/2013*

*These financial statements should be read together with the notes to the financial statements*

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