Bayport Financial Services Moçambique (MCB), SA

Financial statements
for the year ended 31 December 2022

Index

General Information

Country of incorporation and domicile	Mozambique
Nature of business and principal activities	Provision of retail financial services
Directors	Grant Colin Kurland Bryan Arlow Bene Machatine Ivan Machava Osvaldo Nhampossa Nothando Ndebele Ranganai Mubaiwa
Business address	Avenida 25 de Setembro No 1147, 3º Andar Maputo Mozambique
Holding company	Bayport Management Ltd incorporated in the Republic of Mauritius
Main Bankers	Absa Bank Moçambique, S.A. Access Bank Mozambique, S.A. Banco Commercial e de Investimentos, S.A. Banco de Investimento Global, S.A. Banco Nacional de Investimento, S.A. Banco Société Générale Moçambique, S.A. First National Bank Moçambique, S.A. Millenium BIM Banco Internancional de Moçambique, S.A. Moza Banco, S.A. Nedbank Moçambique, S.A. Standard Bank Moçambique, S.A
Auditors	BDO Limitada Avenida 25 de Setembro 1230 3º Andar Edifício 33 Andares Maputo, Mozambique
Company Lawyers	CGA Advogados Av. 24 de Julho No 7, 7 Andar Maputo Mozambique
Bank registration number	100312530

Directors' Responsibilities and Approval

The directors are required in terms of the Mozambique Commercial Code to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Microbank as at the end of the financial period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards, as issued by IASB. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards, as issued by IASB and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Microbank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Microbank and all employees are required to maintain the highest ethical standards in ensuring the Microbank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Microbank is on identifying, assessing, managing and monitoring all known forms of risk across the Microbank. While operating risk cannot be fully eliminated, the Microbank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Microbank's cash flow forecast for the year to 31 December 2022, in light of this review and the current financial position, they are satisfied that the Microbank has or had access to adequate resources to continue in operational existence for the foreseeable future. The directors have made an assessment of the Microbank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The external auditors are responsible for independently auditing and reporting on the Microbank's financial statements. The financial statements have been examined by the Microbank's external auditors and their report is presented on pages 13 to 17.

The financial statements set out on pages 16 to 55, which have been prepared on the going concern basis, were approved by the board of directors on 23 February 2023 and were signed on their behalf by:

By Order of the Board

Chief Financial Officer

Chief Executive Officer

Directors' Report

The directors have pleasure in submitting their report on the financial statements of Bayport Financial Services Moçambique (MCB), SA (the "Microbank" or "Bayport") for the year ended 31 December 2022.

1. Incorporation

The Microbank was incorporated on 19 July 2012 in the Republic of Mozambique.

2. Nature of business

The Microbank is engaged in the provision of retail financial services and deposit taking activities. The Microbank operates in the Republic of Mozambique.

There have been no material changes to the nature of the Microbank's business from the prior year.

Why we exist: Our vision

Our vision is to be the most valued financial solutions brand in our chosen markets by providing a broad range of unique and relevant financial solutions tailored to the needs of our customers.

To achieve this, Bayport will engineer a new reality in financial services provision; and will be recognised for consistently demonstrating the highest standard of care, responsibility and innovation.

Bayport will be the first choice for the fulfilment of the economically active population's financial needs – bringing hope, upliftment and financial liberation to the communities we serve.

What we aspire to: Our mission

Bayport's mission is to provide financial solutions suited to the needs of an inclusive and broad customer base; embracing technology, product leadership and innovation and so becoming the leading developing market financial solutions provider.

What we believe in: Our core values

Empowerment

We believe in the capacity and will of all people to empower themselves and shape their own destinies, given the right economic and self-empowerment opportunities and access to life-changing financial solutions.

We believe in an empowered corporate culture where the Bayport family is encouraged to be proactive, and has the right tools and approach to fulfil our brand promise.

Responsibility

We believe in our duty of care for each and every customer to provide responsible access to credit, risk products and other financial solutions.

We believe in our role as a responsible member of the societies in which we live and provide services; as well as our responsibility to each other. We uphold the highest standard of integrity, corporate citizenship and ethical behaviour.

Innovation

We believe in innovation that matters and makes things better; in technology and product innovations that enable meaningful relationships with our customers.

We believe in the spirit of creative entrepreneurship, challenging conventions and embracing the lessons we have learned.

Simplicity

We are committed to doing and creating things that are simple. Simple to understand and resonate with. Simple to promote without the cost of confusion. A brand promise expressed in the simplest, most single-minded way.

Simplicity must rule how we talk to our customers, design our solutions and innovate; how we work together, meet and make decisions.

2. Nature of business (continued)

Partnership

We believe in the power to build lasting relationships with members of the Bayport family, customers, communities and stakeholders, based on trust and a deep understanding of what matters to them.

We recognise that our local partners and local management are the true champions of our brand, and that their local wisdom is critical to success.

Relevance

We believe in continuously putting ourselves to a simple series of tests by asking "Is what I am doing consistent with The Bayport Way and...

- good for our customer?
- adding value to or assisting the Bayport family?
- time and cost efficient?
- sustainable?

By answering "Yes!" we ensure that what we are doing is relevant.

3. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Mozambique Commercial Code. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the Microbank are set out in these financial statements.

Economy

On a global scale, in line with the World Economic Outlook issued by the International Monetary Fund (IMF) in October 2022, the global economic activity experienced a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening of financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weighed heavily on the outlook. Global growth was forecasted to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. This being the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. Global inflation is expected to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024. Monetary policies were expected to stay on course to restore price stability, and fiscal policies would aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. Structural reforms to further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation was deemed necessary for fast tracking the green energy transition and preventing fragmentation.

Additionally, in accordance with the Financial Bulletin issued in December 2022, the Bank of Mozambique states that in the first half of 2022, the global economy faced increasing risks to economic activity and financial and price stability due to the outbreak of war between Russia and Ukraine and the reintroduction of restrictive measures to contain the COVID-19 pandemic in Asia. These events justified the downward revision of economic growth by the International Monetary Fund and the World Bank for the current year, in a scenario of increased risks to financial stability, especially in the advanced economies, but without the materialisation of a global systemic event affecting financial institutions or markets.

In the same report, in the domestic context, the Bank of Mozambique stated that a 4.37% growth in economic activity in the first half of 2022 contributed to the maintenance of a moderate level of systemic risk, reflecting the continued improvement in demand and the recovery of the sectors most affected by COVID-19, following the easing of restrictive measures at domestic and most external levels. Even so, the domestic financial system suffered from some vulnerabilities, especially military instability in the north of the country and the occurrence of extreme climatic events.

The banking sector remained solid and resilient during the period under review, with growth in earnings and adequate levels of capitalisation and liquidity. Meanwhile, in terms of asset quality, the non-performing loan ratio stood at 10.02%, above the acceptable benchmark of 5.0%. The sector recorded an annual increase in the solvency ratio of 116 basis points (bp) to 26.76%, a growth in assets of 6.13% (to 847 billion meticais), and an increase in profits of approximately 52.71%.

3. Review of financial results and activities (continued)

The Monetary Policy Committee (CPMO) increased reference rates during the year with the aim to mitigate the high risks and uncertainties on inflation, in particular due to the effects of persistent geopolitical tensions in Europe. There were 400 bps increases across all the main reference rates, that is, Monetary Policy Rate (MIMO), Lending Facility Rate (FPC), Deposit Facility Rate (FPD), and Prime Lending Rate (PLR), to 17.25%, 20.25%, 14.25% and 22.60% respectively. The expectation is that the CPMO will continue to monitor the evolution of the risks and uncertainties associated with inflation in order to bring it to lower single digit numbers.

Financial performance

Despite the unstable economic environment, particularly the high inflation, in addition to the delayed implementation of the single salary table (TSU) by the Mozambique government for civil servants, Bayport was able to ride-through and do well in loans written. However, cognisant of the high inflation impact on the consumers, management decided against passing on to borrowers the increases in the prime lending rate, even though this came at the cost of eroding the net interest margin.

Interest income grew by 12.29% from MZN 4.37 billion to MZN 4.94 billion, supported by commensurate growth in the net Loan book of 15.15%. Operating expenses decreased by 1.53% mainly due to exclusion of impairment on software previously recognised as well as continued cost containment strategies to restrict spending to only business essentials. The Microbank continues to implement cost containment efforts to mitigate the persisting potential negative impact of the Covid-19 pandemic and the negative impact of the Ukraine war but still supporting loan book growth.

The metical has been relatively stable throughout the year with no change from July 2022. Foreign currency loss recorded for the year mainly emanated from liquidation of funding received in USD as well as foreign supplier payments made during the year.

Impairment expense increased by 268% from MZN 128.66 million in 2021 to MZN 473.45 million, translating to cost of risk increasing from 1.31% in 2021 to 3.46%. This mostly came from collection delays from some municipalities that occurred during the course of the year, resulting in the forward migration of the respective loans. The non-performing loans ratio also increased from 2.19% to 3.31%. Partially, as a result of this bad impairment performance, profit after tax decreased by 24.23% from the MZN 866.05 million registered in 2021 to MZN 656.21 million.

Financial highlights

Profitability	**2022 (MZN)**	**2021 (MZN)**
Interest and other similar income	4,942,242,376	4,370,589,119
Net interest income	2,713,395,596	2,583,463,851
Net fees and commission income	3,404,423	(2,144,246)
Operating income	2,727,867,285	2,723,996,075
Operating expenses	1,294,682,234	1,314,744,782
Impairment expense	473,446,064	128,659,278
Profit after tax	656,206,924	866,047,298
Financial Position		
Net advances	16,139,608,697	14,016,548,534
Deposits from customers	5,040,837,434	3,581,595,678
Equity	4,266,283,849	3,844,597,861
Ratio		
Net profit margin (Net profit/interest and other similar income and fees and commission income)	13.27%	19.83%
Return on equity (net profit/average equity)	16.18%	26.91%
Non-performing loans/Gross advances	3.31%	2.19%

Net profit margin decreased from 19.83% to 13.27% mainly due to the net impact of increase in interest and other similar income on one hand against increase in interest and other similar expenses, as well as increase in impairment expense. The return on equity also decreased from 26.41% to 16.18% mainly due to the decrease in profit after tax.

3. Review of financial results and activities (continued)

To continue on its growth path, Bayport embraces challenges as they come ensuring adequacy in liquidity, strengthened by the solid funding capacity of shareholders and the favourable performance of our assets. The increase in turnover was strategically aligned with corresponding investments in administrative systems, human capital and information technologies in prior years to provide maximum efficiency throughout the value chain.

The market has also continued to be quite receptive to the deposit-taking product, resulting in the deposits balance increasing from MZN 3.58 billion at the beginning of the year to MZN 5.04 billion at the end of the year. As such, deposits continue to play an important role in our funding.

Human resources capital

As of December 2022, the staff complement, including management, stood at 132, split as follows in terms of gender:

	2022	2021
Female	50	56
Male	82	94
Total	**132**	**150**

The decrease in employee head count is due to the resizing project that started in 2020 being concluded in February 2022. In addition, there were calculated delays in replacement of some of the employees that were lost from natural attrition.

Bayport performed various training programs for employees during the year such as English lessons, Double Taxation Treaty, Financial Risk Manager (FRM) Certification and Franklin Covey Management training. Bayport also made use of internal eLearning training on Moodle platform where employees received in-house training on topics such as, Anti Money Laundering and Combating Financing of Terrorism, Fraud Awareness, NAVEX, Risk Management, Corporate Image, Information security, and Bayport Code of Conduct.

Branch network

The total number of branches held were 11 as of year-end, unchanged from 2021. The branches are widely distributed, with least one branch in each province, enhancing financial inclusion. The 11 branches are located as follows:

3. Review of financial results and activities (continued)

Risk management

The board is responsible for risk management and the setting of the risk management framework. Direct oversight of risk management is the responsibility of the Audit, Risk and Compliance ("ARC") committee. The ARC committee monitors risks associated with financial reporting, accounting policies, internal control and IT governance. The ARC committee is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the Microbank's management of risk including credit and compliance. The Microbank also has an Assets and Liabilities Management Committee (ALCO), which has frontline responsibility for managing Assets and Liabilities. The ALCO, which is made of management members, reports to the ARC committee.

Taking risk is core to the financial business, and hence risk is an inevitable consequence of being in business. The Microbank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Microbank's financial performance.

Liquidity risk

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Microbank's liquidity risk. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturity of assets and liabilities to replace, at an acceptance cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the entity and its exposure to changes in interest rates and exchange rates.

Interest rate risk

The objective of the entity's interest rate risk management process is to manage and control interest rate exposure in order to optimise return on risk while maintaining a market profile consistent with the entity's mission.

Interest rate risk is the risk that movements in interest rates will reduce the entity's income or capital.

A principal part of the entity's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The entity aims, through its management of interest rate risk, to mitigate the impact of prospective interest rate movements which could reduce future earnings and capital.

Capital risk management

The capital structure of the Microbank consists of equity, debt, and, cash and cash equivalents. The Microbank reviews the capital structure on a regular basis. The central Microbank has regulations in place that relate to amount of capital every Microbank should hold, chiefly, a minimum capital adequacy ratio (CAR) of 8% to cover risk weighted assets. In order to maintain or adjust the capital structure, the Microbank may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Consistent with others in the industry, the Microbank also monitors capital on the basis of the gearing ratio.

As of year-end, the Microbank's CAR stood at 18.77%, higher than the minimum limit. However, cognisant of the expected growth of the Microbank and the impact this growth would have on the CAR.

Foreign exchange risk

The Microbank is exposed to foreign exchange risk arising from various currency exposures, through, chiefly, payables in United States dollars. Consequently the Microbank is exposed to the risk that the carrying amounts of these foreign currency denominated assets liabilities may change due to fluctuations in foreign exchange rates.

A principal part of the entity's management of foreign exchange risk is to monitor the sensitivity of future earnings and capital to varying foreign exchange rates. The entity aims, through its management of foreign exchange risk, to mitigate the impact of foreign exchange fluctuations which could reduce future earnings and capital.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Microbank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Microbank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

3. Review of financial results and activities (continued)

Anti-fraud

The Microbank has a whistleblowing system called Navex in place. This system assists in strengthening the Microbank's drive at greater transparency and preventing and/or detecting fraudulent activities throughout the business.

4. Share capital

Issued	Share capital (MZN)	Percentage of Share Capital (%)
Bayport Management Ltd	2,748,238,031	99.00
Whatana Investments	13,880,807	0.50
Other private individuals	13,880,807	0.50
Total	**2,775,999,645**	**100.00**

Refer to note 24 of the financial statements for details in the movement in authorised and issued share capital.

5. Dividends

Although the Microbank made a profit, due to the upward adjustment in Mandatory Reserves by the Central Bank that is expected to increase pressure on the Microbank's liquidity, the Board of Directors decided not to declare dividends out of the 2022 financial year results (2021: nil).

6. Governance

The governance of the Microbank is comprised of a Single Fiscal Council and a Board of Directors and its committees. As of year-end, there were three board committees in place, namely, ARC Committee, Credit Committee and the Remuneration Committee (REMCO). The ARC Committee established a sub-committee, namely, the Assets and Liabilities Management Committee (ALCO), that deals with assets and liabilities management.

For day to day management of the Microbank, the Board has delegated some of its functions to the Executive Committee which is headed by the Chief Executive Officer.

6.1 Single Fiscal Council

The Microbank's Single Supervisor during the year was CW Ducker.

6.2 General Assembly Table

Daisy Nogueira (CGA)	Company Secretary

6.3 Board of Directors Composition

The directors of the Microbank at the date of the approval of the financial statements are as follows:

Grant Colin Kurland	Chairperson
Bene Machatine	Executive
Bryan Arlow*	Non-Executive
Ivan Machava*	Non-Executive
Osvaldo Nhampossa*	Non-Executive
Nothando Ndebele*	Non-Executive
Ranganai Mubaiwa	Executive

* These directors have been duly appointed by the shareholders but they await Bank of Mozambique approval.

6. Governance (continued)

6.2 Executive Committee

As of the date of the approval of these financial statements, the Executive Committee members are as follows:

Executive Committee	
Bene Machatine	Chief Executive Officer
Ranganai Mubaiwa	Chief Financial Officer
Francisco Orlando	Chief Commercial and Operations Officer

7. Events after the reporting period

On the 25th of January 2023, the Bank of Mozambique announced an increase in mandatory deposit reserves from 10.50% to 28% and from 11.00% to 28.50% for local currency and foreign currency, respectively, effective from the 22nd of February 2023, increasing liquidity demand and affecting profit trajectory. Management have put in place plans to meet the extra liquidity demands whilst still meeting the profit targets set at the end of last year. To achieve this, management will, chiefly, seek to increase senior debt funding and to extend the deposits to longer-term tenors.

8. Holding company

The Microbank's holding company (and ultimate holding company) is Bayport Management Ltd, which is incorporated in the Republic of Mauritius.

9. Auditors

The Microbank's external auditors are BDO Limitada, appointed in March 2021 in accordance with Decree number 65/2011 of 21 December 2011.

10. Proposed application of profit

The following are proposed;

- Transfer to Legal Reserve - it is proposed that MZN 196,862,077, representing 30% of the profit made in 2022, be transferred to a legal reserve in compliance with statutory requirements (Law 20/2020 of 31 December 2020 in particular).

- It is further proposed that the remainder of the profit, amounting to MZN 459,344,843, be kept in retained earnings and be applied in full towards increasing the equity of the business ("Fundos Proprios").

The financial statements set out on page 16 - 55, which have been prepared on the going concern basis, were approved by the board of directors on 23 February 2023, and were signed on its behalf by:

Grant Colin Kurland
(Chairperson)

Bene Machatine
(Chief executive officer)

Bryan Arlow
(Non-Executive Director)

Ivan Machava
(Non-Executive Director)

Osvaldo Nhampossa
(Non-Executive Director)

Nothando Ndebele
(Non-Executive Director)

Ranganai Mubaiwa
(Chief Financial Officer)

BDO

Tel: 258 21 300720
Fax: 258 21325091
Email:bdo@bdo.co.mz
www.bdo.co.mz

Av. 25 de Setembro
nº 1230,3º andar Bloco 5
Maputo-Moçambique
CP 4200

TO THE SHAREHOLDERS OF
BAYPORT FINANCIAL SERVICES MOÇAMBIQUE (MCB), S.A.
MAPUTO

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of **BAYPORT FINANCIAL SERVICES MOÇAMBIQUE (MCB), S.A**, which comprise the statement of financial position as at 31 December 2022 (which shows a total assets of MZN 19 602 881 740 and total equity of MZN 4 266 283 848 including a net profit of MZN 656 206 920), the income statement, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of **BAYPORT FINANCIAL SERVICES MOÇAMBIQUE (MCB), S.A**, as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.
We are independent of the entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Mozambique, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statement and auditor's report thereon

Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of board of directors and those charged with governance for the financial statements

Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards applicable in Mozambique (IFRS), and for such internal control as Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Board of Directors is responsible for assessing the Entity´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Board of Directors.

- Conclude on the appropriateness of Board of Directors's use of the going concern basis of accounting and, based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirement regarding independence, and to communicate with them all relationship and other matter that mat reasonably by thought to bear on our independence, and where applicable, related safeguards.

From the matter communicated with those charged with governance, we determine those matters that were of most significance in the auditor of financial statement of the current period and are therefore the key audit matters. We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequence of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO (MOZAMBIQUE), LDA
Registered Audit Firm nr 02/SAC/OCAM/2012, represented by:

BDO

Abdul Satar Hamid

Engagement Partner: Abdul Satar A. Hamid
Registered Auditor: 01/CA/OCAM/2012

Maputo, 23 February 2023

Statement of Profit and Loss and Other Comprehensive Income

Figures in Metical	Note(s)	2022	2021
Interest and other similar income	3	4,942,242,376	4,370,589,119
Interest and other similar charges	4	(2,228,846,780)	(1,787,125,268)
Net interest income		**2,713,395,596**	**2,583,463,851**
Fees and commission income	5	100,968,948	86,764,762
Fees and commission expense	5	(97,564,526)	(88,909,008)
Net fees and commission income	5	**3,404,422**	**(2,144,246)**
Net profit/(losses) from trading	6	(6,611,646)	134,971,929
Other income		17,621,695	8,523,145
Income/(loss)from available for sale of movable assets		57,217	(818,604)
Operating income		**2,727,867,284**	**2,723,996,075**
Impairment of loans and advances and trade receivables	12&13&31.1	(473,446,064)	(128,659,278)
Net operating income		**2,254,421,220**	**2,595,336,798**
Staff costs	7	(522,588,075)	(513,585,274)
Depreciation and amortisation	15&16&17	(132,849,995)	(199,985,227)
Other operating expenses	8	(639,244,168)	(601,174,281)
Profit before taxation		959,738,982	**1,280,592,015**
Current tax	9.1	(289,413,715)	(338,042,495)
Deferred tax	9.1	(14,118,347)	(76,502,222)
Profit for the year		**656,206,920**	**866,047,298**
Other comprehensive income		-	-
Total comprehensive income for the year		**656,206,920**	**866,047,298**

Certified Accountant

Board of Directors

The financial statements should be read together with the notes to the financial statements.

Statement of Financial Position

Figures in Metical	Note	2022	2021
Assets			
Cash and deposits with the Central bank	10	558,778,926	491,106,145
Deposits with other financial institutions	11	708,834,655	299,443,630
Loans and advances to customers	12	16,139,608,697	14,016,548,534
Other assets	13	46,329,302	50,344,853
Investment securities	14	1,615,602,766	1,439,954,479
Property and equipment	15	64,253,247	83,888,201
Right-of-use asset	16	93,660,336	103,176,635
Intangible assets	17	367,373,033	434,726,220
Current tax assets	9.2	2,819,338	201,686
Deferred tax assets	9.3	5,621,440	9,525,327
Total Assets		**19,602,881,740**	**16,928,915,710**
Liabilities and Equity			
Liabilities			
Deposit from customers	18	5,040,837,434	3,581,595,678
Due to banks	19	-	60,525,669
Other liabilities	20	604,649,055	521,066,157
Lease liabilities	21	111,227,336	127,472,363
Borrowed funds	22	7,966,353,903	6,582,949,799
Amount payable to shareholder	23	1,600,648,723	2,006,406,781
Current tax liabilities	9.2	-	201,634,422.
Deferred tax liabilities	9.3	12,881,441	2,666,980
Total Liabilities		**15,336,597,892**	**13,084,317,849**
Equity			
Share capital	24	2,775,999,645	2,775,999,645
Deposit for shares	24	-	234,520,933
Legal reserves	25	506,072,038	246,257,848
Retained income		984,212,165	587,819,435
Total Equity		**4,266,283,848**	**3,844,597,861**
Total Liabilities and Equity		**19,602,881,740**	**16,928,915,710**

Certified Accountant

Board of Directors

The financial statements should be read together with the notes to the financial statements.

Statement of Changes in Equity

Figures in Metical	Share capital	Deposit for shares	Total stated capital	Legal reserves	Retained income/ Accumulated loss	Total equity
Balance at 01 January 2021	**2,483,520,645**	**157,250,976**	**2,640,771,621**	**128,472,369**	**(160,442,384)**	**2,608,801,606**
Increase in deposit for shares	-	369,748,957	369,748,957	-	-	369,748,957
Increase in share capital	292,479,000	(292,479,000)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	866,047,298	866,047,298
Total changes	**292,479,000**	**77,269,957**	**369,748,957**	**117,785,479**	**748,261,819**	**1,235,796,255**
Balance at 01 January 2022	**2,775,999,645**	**234,520,933**	**3,010,520,578**	**246,257,848**	**587,819,435**	**3,844,597,861**
Repayment of deposit for shares	**-**	**(234,520,933)**	**(234,520,933)**	**-**	**-**	**(234,520,933)**
Total comprehensive income for the year	-	-	-	-	656,206,920	**656,206,920**
Transfer to legal reserves	-	-	-	259,814,190	(259,814,190)	**-**
Total changes	**-**	**(234,520,933)**	**(234,520,933)**	**259,814,190**	**396,392,730**	**421,685,987**
Balance at 31 December 2022	**2,775,999,645**	**-**	**2,775,999,645**	**506,072,038**	**984,212,165**	**4,266,283,848**
Note	24	24	24	25		

Certified Accountant

Board of Directors

The financial statements should be read together with the notes to the financial statements.

Statement of Cash Flows

Figures in Metical	Note(s)	2022	2021
Cash flows from operating activities			
Cash used in operations	26	2,573,117,095	1,086,649,585
Finance costs paid		(1,106,518,031)	(793,276,437)
Tax paid		(453,012,182)	(276,736,042)
Movement in taxes		(40,653,607)	12,675,747
Net cash used in operating activities		**972,933,275**	**29,312,853**
Cash flows from investing activities			
Purchase of property and equipment	15	(17,896,247)	(49,446,035)
Investment in securities	14	(175,648,287)	(168,667,603)
Purchase of intangible assets	17	(327,600)	(1,817,597)
Proceeds from sale of property and equipment		789,820	1,169,440
Net cash used in investing activities		**(193,082,314)**	**(218,761,795)**
Cash flows from financing activities			
Proceeds from bond issuance		292,999,000	680,000,000
Repayment of bonds – capital		-	(1,364,890,000)
Repayment of bonds – interest		(482,618,554)	(307,088,575)
Proceeds from borrowings		3,031,459,101	4,674,758,770
Repayment of borrowings – capital		(2,025,398,131)	(2,208,264,154)
Repayment of borrowings – interest		(535,947,451)	(580,020,314)
Funding received from shareholder loan		-	177,246,450
Repayments to shareholder loan – capital		-	(837,691,926)
Repayments to shareholder loan – interest		(247,113,185)	-
Lease liabilities – capital repaid		(22,468,229)	(98,253,885)
Lease liabilities – interest paid		(18,653,103)	(22,665,058)
(Repayment) / Receipt of deposit for shares		(234,520,933)	371,499,933
Net cash flows generated from financing activities		**(242,261,485)**	**484,631,242**
Net increase in cash and cash equivalents		**537,589,475**	**295,182,300**
Cash and cash equivalents at the beginning of the year		730,024,106	434,841,806
Total cash and cash equivalents at the end of the year	28	**1,267,613,581**	**730,024,106**

Certified Accountant

Board of Directors

The financial statements should be read together with the notes to the financial statements.

Significant Accounting Policies

Corporate information

Bayport Financial Services Moçambique (MCB), SA, (hereafter referred as "Bayport" or the "Microbank") is a private financial institution incorporated on the 19th of July 2012, with its head office in Maputo, Mozambique. The holding company is Bayport Management Ltd, a company incorporated in Mauritius. The Microbank is engaged in the granting of loans to individuals, particularly individuals employed in the public sector.

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by IASB, and by the provisions of the notice 4/GBM/2007 of 30 March 2007. The financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in Meticais.

For supervisory purposes, Bayport qualifies as a Microbank that is subject to Law 20/2020 of 31 December 2020 and is supervised by the Bank of Mozambique.

The statement of financial position is presented in descending order of liquidity. Reference to the current maturities of these financial assets and liabilities are disclosed in the notes to the statement of financial position and in the analysis of financial assets and liabilities. The accounting policies are consistent with the previous year, except where specifically stated otherwise.

1.1 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These form the basis of making the judgements on carrying values of assets or liabilities that are not otherwise readily apparent. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Certain accounting policies have been identified where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The actual results could, by definition therefore, often differ from the related accounting estimates. The most significant use of judgements and estimates is detailed as follows:

Going Concern

The Microbank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Microbank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Assets useful lives and residual values

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at each financial year-end and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account.

Taxes

Income taxes (current and deferred) are determined by the Microbank based on fiscal rules. However, in some situations, tax legislation is not sufficiently clear and objective and may result in different interpretations. In these cases, book values result from better understanding of the Microbank about the adequate framework for its operations, which may be questioned by the tax authorities.

The tax authorities have the right to review the tax situation of the Microbank for a period of up to five (5) years, which may result in eventual adjustments due to a different interpretation and/or non-compliance with the applicable legislation, namely, Industrial Contribution, IRT, Corporate Taxation (IRPC), Employee Taxation (IRPS) and Value Added Tax (IVA).

Management believes it has fulfilled all tax obligations that the Microbank is subject to. Any corrections to the tax base declared as a result of these reviews are not expected to have a material effect on the financial statements.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in the future against which they can be utilised. Future taxable profits are estimated based on budget plans which include estimates and assumptions regarding economic growth, interest, inflation, tax rates and competitive forces.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position 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. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of financial assets

Financial assets are impaired using the approach prescribed in IFRS 9, unless the asset is considered to be credit impaired on initial recognition, in which case those specific requirements as contained in IFRS 9 will be applied. This approach requires for the provision of expected credit losses rather than incurred credit loss as IAS 39 required. The estimation of impairments of financial assets is inherently uncertain and depends on many factors, including general economic conditions (current and forward looking), structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes.

Upon origination of financial assets, impairments measured at 12-month expected credit losses will be provided. Impairments measured at lifetime expected credit losses will be provided on financial assets whose credit risk has increased significantly since initial recognition. Impairments measured at lifetime expected credit losses will also be provided on financial assets that are credit impaired.

Leases under IFRS 16

Critical judgements made on application of IFRS 16 include identification of lease contracts and reasonableness in determining whether an extension or termination option will be exercised.

1.2 Property and equipment

Property and equipment are tangible assets which the Microbank holds for its own use or for rental to others and which is expected to be used for more than one year.

The cost of an item of property and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Microbank; and
- the cost of the item can be measured reliably.

Property and equipment are initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property and equipment, the carrying amount of the replaced part is derecognised.

Property and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property and equipment have been assessed as follows:

Item	Average useful life
Furniture and fittings	5 years
Motor vehicles	4 years
Office equipment	5 years
IT equipment	3 years
Leasehold improvements	Over the expected term of the lease (5 years)

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1.2 Property and equipment (continued)

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

Derecognition of property and equipment

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profits and loss when the item is derecognised.

1.3 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is recognised on a straight-line basis over the estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis:

Item	Average useful life
Computer software	3 - 7 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

1.4 Financial instruments

Classification

The Microbank classifies financial assets and financial liabilities into the following categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial liabilities measured at amortised cost

The Microbank may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit and loss to present subsequent changes in the fair value through other comprehensive income. This investment is neither held for trading nor a contingent consideration.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as fair value through profit or loss:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The Microbank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, matching the duration of financial assets to the liabilities that are funding those assets or realising cash flows through the sales of the assets;
- how the performance of the portfolio is evaluated and reported to Microbank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of the overall assessment of how the Microbank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payment of principal and interest, the Microbank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Microbank considers:

- interest rate charged to customers;
- origination fee and service fee charged to customers;
- any other amounts charged to customers (if any);
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Microbank's claim to cash flows from specified assets (for example, non-recourse asset arrangements); and
- features that modify consideration of time value of money (for example, periodical reset of interest rates).

Financial assets which have been classified as measured at amortised cost include cash and deposits with the Central Bank, Deposits with other financial institutions, other assets, and loans and advances.

If the business model/SPPI test are not met, the financial asset would be classified as fair value through profit or loss.

1.4 Financial instruments (continued)

Initial recognition and measurement

The Microbank initially recognises financial assets and liabilities on the date the Microbank becomes a party to the contractual provisions of the instruments. This is on the date that these financial instruments are originated.

Financial instruments are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities are added to or deducted from the fair value of the financial assets or liabilities, as appropriate, on initial recognition.

The Microbank generally does not reclassify financial instruments between different categories subsequent to initial recognition. Financial assets are reclassified only if the Microbank changes its business model for managing financial assets. In accordance with IFRS 9:

- Financial liabilities can never be reclassified; and
- Financial assets can only be reclassified if there is a change in business model.

Subsequent measurement

Equity Instruments designated as fair value through other comprehensive income (FVTOCI)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves.

Amounts recognised in other comprehensive income are not reclassified to profit or loss under any circumstances, instead, they will be transferred to retained earnings in case of disposal.

Amortised cost

Financial assets which are classified at amortised cost, are measured using the effective interest method, less any expected credit losses which are recognised in profit or loss. Amortised cost is calculated by taking into account any transaction costs on acquisition as well as fees and costs that are an integral part of the effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired assets, a credit-adjusted effective interest rate is calculated using estimated cash flows including expected credit losses. The calculation of effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial assets or financial liability.

Origination fees are regarded as integral part of the effective interest rate and are accounted for as interest and other similar income.

Expected credit losses are calculated through the use of an appropriate impairment methodology.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets (or a portion thereof) are derecognised when the Microbank realises the rights to the benefits specified in the contract, the rights expire, the asset is substantially modified or the Microbank surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable (including any new asset obtained) are included in the statement of comprehensive income.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the amount paid for it are included in the statement of comprehensive income.

Impairment of financial assets

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Microbank considers reasonable and supportable information that is relevant and available without undue costs and effort. The Microbank has utilised the 30-days past due rebuttable presumption to identify a significant increase in credit risk since initial recognition.

1.4 Financial instruments (continued)

Credit risk

The Microbank monitors the borrowers credit risk using both qualitative and quantitative information such as number of days in arrears and recency. Days in arrears represent the number of days that the contractual instalment has past due and recency is calculated by referencing the most recent payment history of loans. The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for our internal credit risk management purposes. The policy of management is to use recency to assess the default status of a loan as opposed to days in arrears due to high levels of administration and concomitant delays associated with payroll deductions. The internal definition of default is used instead of the IFRS 9 90 days presumption.

Definition of Default

The Microbank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Microbank, in full (without taking into account any collateral held by the Microbank).

Irrespective of the above analysis, the Microbank considers that default has occurred when a financial asset is more than 90 days past due.

Credit impaired financial assets

At each reporting date, the Microbank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties.

Write off policy

The Microbank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Microbank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The Microbank recognises loss allowances for expected credit losses on the following financial assets:

- Loans and advances; and
- Trade and other receivables.

Impairments are measured as 12-month expected credit losses upon origination. Where there has been a significant increase in credit risk since initial recognition of a financial asset, the loss allowance is measured as an amount equal to lifetime expected credit losses.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime expected credit losses.

12-month expected credit losses are the portion of expected credit losses that result from default events on a financial instrument, that are possible within the 12-month period after the reporting date.

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

- Financial assets that are not credit impaired at the reporting date – as the present value of all cash flow shortfalls (i.e. the difference between the cash flows due to the Microbank in accordance with the contract and the cash flows that the Microbank expect to receive);
- Financial assets that are credit impaired at the reporting date – as the difference between the gross carrying amount and the present value of estimated future cash flows.

Loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

The Microbank classifies loan into the 3 different stages based on recency and days in arrears as follows:

IFRS 9 Stage allocation	Recency	Recency definition
12-month-ECL - Credit risk has not increased significantly since initial recognition is low	Standard Performing	No missed instalments (IFRS 9 Stage 1)
Lifetime-ECL- not credit-impaired - Credit risk has increased significantly since initial recognition and credit risk is not low	Performing Active (1-2)	Loans that are performing, on payroll, and have made payment on either one or both of their most recent 2 instalments expected. Loans in this category relate mainly to loans in technical arears which are generally still on payroll and as a consequence evidence high payment propensity. (IFRS 9 Stage 2)
	Performing Active (3-4)	Partial performing loans that have over the last four consecutive periods reviewed, missed their most recent two instalments expected but have paid either one or both of the preceding two instalments due. This is a transitional bucket with the majority of these loans likely to be indicative of separation from payroll and likely to move into NPL but more time and analysis is required to confirm that assessment. (IFRS 9 Stage 2)
Lifetime-ECL- credit-impaired - Credit risk has increased significantly since initial recognition and loans are credit impaired	Non-performing	Loans that have over the last four consecutive periods reviewed, missed all four instalments expected. (IFRS 9 Stage 3)
	Doubtful & Bad	Delinquent loans where the probability of recovery is uncertain and the separation from payroll has been confirmed, as well as credit impaired loans, which have been identified for write offs subject to board approval. (IFRS 9 Stage 3)

Refer to note 31 on credit risk management and measurement.

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

Trade and other receivables are classified as financial assets at amortised cost.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and bank balances

Cash and bank balances comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when 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.

1.5 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from transaction or event which is recognised, in the same or a different period, to other comprehensive income.

Value added tax

The value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense as applicable.

1.6 Leases

At inception of a contract, the Microbank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Microbank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Microbank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Microbank has the right to direct the use of the asset. The Microbank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Microbank has the right to direct the use of the asset if either:
  -the Microbank has the right to operate the asset; or
  -the Microbank designed the asset in a way that predetermines how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Microbank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Microbank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a lessee

The Microbank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

Lease payments included in the measurement of the lease liability comprise the following:

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

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Microbank presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in lease and liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Microbank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12-months or less and leases of low-value assets, including IT equipment. The Microbank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.7 Impairment of assets other than financial assets

The Microbank assesses at each end of the reporting period whether there is any indication that an asset may be impaired.

Irrespective of whether there is any indication of impairment, the Microbank also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the company in which they are declared.

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12-months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Microbank makes statutory contributions to the defined contribution plans that are managed by Instituto Nacional de Suguranca Social de Mocambique (INSS).

1.10 Provisions and contingencies

Provisions are recognised when:

- the Microbank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.11 Revenue

General policy

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue is recognised net of allowances for returns and any taxes collected from customers.

Revenue comprises fees for rendering of services to customers, collection of owned book debts and finance charges on loans.

Interest income

Interest is recognised, in profit or loss, using the effective interest rate method.

This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit impaired financial assets. For those financial assets, the Microbank applies the credit adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- financial assets that are not purchased or originated credit impaired financial assets but subsequently have become credit impaired financial assets. For those financial assets, the Microbank applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Microbank estimates the expected cash flows by considering all the contractual terms of the financial instrument but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The credit adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit impaired financial asset. When calculating the credit adjusted effective interest rate, the Microbank estimates the expected cash flows by considering all the contractual terms of the financial asset and expected credit losses.

Fees and commission income

The Microbank earns fee and commission income from services it provides to its 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 insurance of Bank Guarantees and Letters of Credit.

Fee income from providing transaction services

The fees are recognised as revenue when a significant act has been completed.

1.12 Deferred costs

Deferred costs are loan originated costs. These are recognised over the term of the loan using effective interest rate method.

1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Meticais, which is the functional and presentation currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Meticais by applying to the foreign currency amount, the exchange rate between the Meticais and the foreign currency at the date of the cash flow.

1.15 Related parties

Related parties are individuals and companies, where the individual and Microbank have the ability, directly or indirectly, to control the other party or exercise significant influence on the other party in making financial and operating decisions. Related party transactions and balances are disclosed in the notes to the financial statements.

Notes to the Financial Statements

2. New Standards and Interpretations

In the current year, the Microbank has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 01 January 2022.

2.1 New and revised Standards and Interpretations that are effective and adopted in the current year

The following relevant Standards and Interpretations have been applied in these financial statements. However, they did not have any impact on the Company's financial statements but may impact the accounts for future transactions or arrangements.

- IFRS 1 First-time Adoption of International Financial Reporting Standards Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (subsidiary as a first-time adopter)
- IFRS 9 Financial Instruments - Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (fees in the '10 per cent' test for derecognition of financial liabilities)
- IFRS 9 Financial Instruments - Amendments resulting from Annual Improvements to IFRS Standards (fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 16 Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Amendments regarding the costs to include when assessing whether a contract is onerous

2.2 Standards and interpretations not yet effective

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but effective on annual period on or after the respective dates as indicated:

- IFRS 4 Insurance contracts - Amendments regarding the expiry date of the deferred approach (effective 1 January 2023)
- IFRS 17 Insurance Contracts - original issue (effective 1 January 2023)
- IFRS 17 Insurance Contracts - Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published (effective 1 January 2023)
- IAS 1 Presentation of Financial Statements - Amendment to defer the effective date of the January 2020 amendments (effective 1 January 2023)
- IAS 1 Presentation of Financial Statements: Amendments regarding the classification of liabilities (effective 1 January 2023)
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors – Amendments regarding the definition of accounting estimates (effective 1 January 2023)
- IAS 12 – Income Taxes – Amendments regarding deferred tax on leases and decommissioning obligations (effective 1 January 2023)
- IFRS 16 *Leases* - Amendments regarding Liability in a Sale and Leaseback (effective 1 January 2024)
- IAS 1 Presentation of Financial Statements – Amendments regarding Classification of Liabilities as Current or Non-Current (effective 1 January 2024)
- IAS 1 Presentation of Financial Statements - Amendment – Non-current Liabilities with Covenants (effective 1 January 2024)

The directors anticipate that these amendments will be applied in the Company annual financial statements for the annual periods beginning on the respective dates as indicated above. The directors have not yet assessed the potential impact of the application of these amendments.

3. Interest and other similar income

	2022	2021
Interest from loans and advances	4,747,312,492	4,247,060,987
Interest from employees loans	492,224	532,826
Interest from banks and investment securities	194,437,660	122,995,306
Total interest and other similar income	**4,942,242,376**	**4,370,589,119**

4. Interest and other similar charges

	2022	2021
Interest on bonds	489,203,054	446,051,400
Interest on bank overdrafts and loans	752,761,419	648,067,359
Interest on amount payable to shareholder	217,501,891	221,791,749
Interest on lease liabilities	18,653,103	22,665,058
Interest on deposits from customers	750,727,313	448,549,701
Total interest and other similar changes	**2,228,846,780**	**1,787,125,268**

5. Net fees and commission income

	2022	2021
Fees and commission income		
Credit life commission received	100,968,948	86,764,762
Fees and commission expense		
Fees and commission expense	(97,564,526)	(88,909,008)
Net fees and commission income	**3,404,422**	**(2,144,246)**

6. Net profit/(losses) from trading

	2022	2021
Foreign exchange gains/(losses)		
Foreign exchange (losses)/gains	(6,611,646)	134,971,929

7. Staff costs

	2022	2021
Personnel expenses present as follows:		
Wages and salaries	513,691,077	504,997,523
Contribution to INSS	8,896,998	8,587,751
Total staff costs	**522,588,075**	**513,585,274**

8. Other operating expenses

	2022	2021
Levies and duties paid - stamp duties	3,013,792	3,370,126
Professional fees	366,880,308	331,389,350
Travelling and representation expenses	46,916,999	40,618,723
Communications	5,100,917	5,676,978
Operating lease rentals*	199,389	738,714
Marketing and promotions	6,382,909	6,254,308
Fuel	3,598,399	2,804,278
Entertainment	163,955	31,530
Insurance	5,190,945	5,383,034
Fines, penalties and operational losses	3,415,619	14,875,570
Security services	5,928,156	6,594,527
Printing and stationery	9,354,284	11,181,548
Maintenance and repairs	3,343,998	4,125,035
Other expenses	179,754,498	168,130,560
Total other operating expenses	**639,244,168**	**601,174,281**

* Operating lease rentals costs consist of leases of low value assets and leases with a duration of 12 months or less that are not accounted for under IFRS 16 disclosures. These include rental space for generators and condominium fees.

9. Income taxes

9.1 Income tax recognised in profit or loss

	2022	2021
Current tax		
In respect of current year	248,558,422	314,155,449
In respect of prior year	201,686	-
Withholding tax	40,653,607	23,887,046
Total current tax	**289,413,715**	**338,042,495**
Deferred tax		
In respect of current year	14,118,347	76,502,222
Total deferred tax	**14,118,347**	**76,502,222**
Total income tax expense recognised in the current year	**303,532,062**	**414,544,717**

Reconciliation of effective tax rate

	2022		2021	
	Tax rate	Value	Tax rate	Value
Profit before taxation		959,738,986		1,280,592,015
Tax at the applicable rate	32.00%	307,116,476	32.00%	409,789,445
Tax effect of the adjustments on taxable income				
Non-deductible expense	3.91%	37,492,128	4.47%	57,230,760
Deductible expense	-10.01%	(96,050,182)	-11.94%	(152,864,756)
Taxation		**248,558,422**		**314,155,449**
Current tax expenses relating to prior year		201,686		-
Withholding tax		40,653,607		23,887,046
Total current tax		**289,413,715**		**338,042,495**
Effective tax rate		**30.16%**		**26.40%**

9.2 Current tax assets and liabilities

	2022	2021
Current tax assets	2,819,338	201,686
Current tax liabilities	-	(201,634,422)
	2,819,338	**(201,432,736)**
At 1 January	(201,432,736)	(140,126,283)
Tax paid	453,012,182	276,736,042
Current tax for the year recognised in profit or loss	(248,558,422)	(338,042,495)
Write-Off processed to income statement	(201,686)	-
At 31 December	**2,819,338**	**(201,432,736)**

9.3 Deferred tax assets and liabilities

The following is the analysis of deferred tax assets presented in the statement of financial position.

	2022	2021
Deferred tax asset breakdown		
Accelerated capital allowances for tax purposes	-	9,525,327
IFRS 16 – Right of Use	5,621,440	-
Total deferred tax assets	**5,621,440**	**9,525,327**
Deferred tax liability breakdown		
Accelerated capital allowances for tax purposes	(11,597,858)	-
Unrealised foreign exchange gains/(losses)	(1,283,583)	(2,666,980)
Total deferred tax liabilities	**(12,881,441)**	**(2,666,980)**
Deferred tax assets and liabilities	**(7,260,001)**	**6,858,347**
Reconciliation of deferred tax assets		
At 1 January	6,858,347	83,360,569
Accelerated capital allowances	(21,123,185)	(1,294,901)
Unrealised foreign exchange losses	1,383,397	(75,207,321)
IFRS 16 – Right of Use	5,621,440	-
Tax losses available for set off against future taxable income	-	-
At 31 December	**(7,260,001)**	**6,858,347**

The deferred tax assets relating to unrealised taxation losses were fully utilised to offset chargeable income during the year.

	2022	2021
Reconciliation of fiscal losses		
At 1 January	-	-
Tax losses utilised	-	-
At 31 December	-	-

10. Cash and deposits with the Central bank

	2022	2021
Current assets		
Cash and deposits with the Central Bank is as follows:		
Local currency	558,778,926	491,106,145
	558,778,926	**491,106,145**

The balances held with the Central Bank of Mozambique satisfy their requirements to maintain sufficient cash reserves. The minimum cash reserve requirement was MZN 517,955,285 as at 31 December 2022 (31 December 2021: MZN 342,712,470). The rules in place as at 31 December 2022, as specified in Circular number 06/EMO/2021 of Notice 08/GBM/2019 of the Central Bank, established that financial institutions have to deposit an average balance of 10.50% of local currency and 11.50% of foreign currency of its client deposits at the end of each calculation period (2021:10.50% and 11.50%, respectively). No interest is earned on these minimum reserve balances with the Central Bank of Mozambique. Cash reserves are restricted and not for day to day use by the Microbank and must be revised on a monthly basis.

11. Deposits with other financial institutions

	2022	2021
Current assets		
Cash and due from banks consist of:		
Cash balance		
Cash and mobile money on hand	6,140,677	6,643,412
Due from banks		
Local currency	702,555,277	292,868,773
Foreign currency	138,701	32,137
Total due from banks	**702,693,978**	**292,900,910**
Total deposits with other financial institutions	**708,834,655**	**299,443,630**

12. Loans and advances to customers

	2022	2021
Gross advances	17,037,038,085	14,431,395,611
Impairment provision	(897,429,388)	(414,847,077)
Loans and advances to customers	16,139,608,697	14,016,548,534
Impairment provision		
At 1 January	414,847,077	260,719,112
Net impairment recognised in profit or loss	488,416,192	162,685,048
Utilisation of allowance for impairment	(5,833,881)	(8,557,083)
At 31 December	**897,429,388**	**414,847,077**
Non-current assets	13,944,327,048	9,434,419,153
Current assets	2,195,281,649	1,467,538,052
Loans and advances to customers	**16,139,608,697**	**14,016,548,534**

Please refer to note 31.1 for disclosures on credit risks.

As at the reporting date, the below represent loans and receivables due from executive and non-executive directors;

Loans and receivables to executive directors	1,253,529	1,436,067
Loans and receivables to directors	**1,253,529**	**1,436,067**

13. Other assets

	2022	2021
Prepayments	13,320,592	13,918,149
Other receivables	33,008,710	36,445,037
Impairment provision	-	(18,333)
Total other assets	46,329,302	**50,344,853**
Impairment provision		
At 1 January	18,333	49,055
Net impairment recognised in profit or loss	-	12,554
Impairment provision reversal	(18,333)	(43,276)
At 31 December	**-**	**18,333**
The other receivables are made up of the following;		
Advances to employees	44,695	4,394,547
Deposits for rentals	2,054,086	3,293,283
Sundry debtors	30,909,929	28,757,207
Total other receivables	**33,008,710**	**36,445,037**
Sundry debtors include:		
Credit life commission	14,840,074	14,065,553
Other	16,069,855	14,691,654
Total sundry debtors	**30,909,929**	**28,757,207**

14. Investment securities

As of 31 December 2022 and 31 December 2021, the Microbank had the following investments:

		2022	2021
Investment type			
Financial assets at fair value through other comprehensive income	14.1	6,960,302	6,960,302
Financial assets at amortised cost	14.2	1,608,642,464	**1,432,994,176**
		1,615,602,766	**1,439,954,479**
Opening balance		1,439,954,479	1,271,286,876
Additions		5,747,947,341	4,590,637,635
Matured		(5,572,299,054)	(4,421,970,032)
At 31 December		**1,615,602,766**	**1,439,954,479**

14.1 Financial assets at fair value through other comprehensive income

Company	Type	Participation (%)	Number of shares	Value (MZN)
Sociedade Interbancaria de Mocambique	Participation	0.50	63,275	6,327,548
Registration fee		-	-	632,754
		0.50	**63,275**	**6,960,302**

In September 2018, the Microbank acquired a 0.5% stake in Sociedade Interbancaria de Mocambique (SIMO).

The investment is not held for trading. Accordingly, the directors of the Company have elected to designate it in equity instruments as FVTOC.

The investment represents 0.5% in SIMO with regards to the licensing of SIMO which provides payment services to credit institutions and financial companies. The investment is carried at cost as fair value cannot be reliably measured.

14.2 Financial assets at amortised cost

	2022	2021
Treasury Bills	1,614,616,545	1,432,994,176
Impairment on Treasury Bills	(5 974 081)	-
	1,608,642,464	**1,432,994,176**

The treasury bills amounting to MZN 1.61 billion (2021: MZN 1.43 billion) have maturities ranging from the 1st of February 2023 to the 8th of March 2023 and they form part of the Microbank's liquid asset portfolio in terms of the Banco de Mocambique regulations on Liquidity Ratio (Notice 14/GBM/2017). Interest earned during the year ranged from 17.55% to 17.65% (2021: 7.50% to 14.94%) per annum. The Microbank's strategy is to invest in securities that have, from the date of investment, maturities of not more than three months.

15. Property and equipment

Cost	Furniture and fixtures	Motor vehicles	Office equipment	IT equipment	Leasehold improvements	Asset under construction	Total
At 01 January 2021	30,033,671	42,293,159	36,353,309	54,856,015	64,411,065	2,136,270	230,083,489
Additions	700,188	18,719,829	1,966,389	24,791,396	3,268,233	-	49,446,035
Disposals	(1,089,436)	(7,340,000)	(646,210)	(138,959)	(6,122,479)	-	(15,337,084)
Transfers	-	-	-	34,154	-	(34,154)	-
At 01 January 2022	**29,644,423**	**53,672,988**	**37,673,488**	**79,542,607**	**61,556,819**	**2,102,116**	**264,192,440**
Additions	594,069	324,919	4,727,501	7,560,947	4,688,811	-	17,896,247
Disposals	(47,809)	(4,199,083)	(93,244)	(2,677,222)	-	-	(7,017,358)
Transfers	-	-	-	-	-	-	-
At 31 December 2022	**30,190,683**	**49,798,824**	**42,307,745**	**84,426,331**	**66,245,630**	**2,102,116**	**275,071,329**
Accumulated depreciation							
At 01 January 2021	**20,791,802**	**22,260,965**	**26,424,815**	**45,666,059**	**37,577,839**	**-**	**152,721,480**
Charge for the year	3,578,456	9,535,934	5,810,771	11,987,155	10,019,484	-	40,931,799
Disposals	(740,571)	(6,777,500)	(525,347)	(138,048)	(5,167,574)	-	(13,349,040)
At 01 January 2022	**23,629,687**	**25,019,399**	**31,710,239**	**57,515,166**	**42,429,749**	**-**	**180,304,240**
Charge for the year	3,420,812	8,679,962	4,692,936	11,741,567	8,807,613	-	37,342,890
Disposals	(47,809)	(4,133,473)	(93,244)	(2,554,522)	-	-	(6,829,048)
At 31 December 2022	**27,002,690**	**29,565,888**	**36,309,931**	**66,702,211**	**51,237,362**	**-**	**210,818,082**
Carrying Value							
At 31 December 2022	**3,187,993**	**20,232,936**	**5,997,814**	**17,724,120**	**15,008,268**	**2,102,116**	**64,253,247**
At 31 December 2021	**6,014,736**	**28,653,589**	**5,963,250**	**22,027,441**	**19,127,070**	**2,102,116**	**83,888,201**

16. Right-of-use asset

The Microbank leases buildings for its operations. Information about leases for which the Microbank is a lessee is presented below;

Cost	Rental space	Total
At 01 January 2021	**276,318,643**	**276,318,643**
Additions	66,718,838	66,718,838
Modifications	(125,858,972)	(125,858,972)
At 01 January 2022	**217,178,509**	**217,178,509**
Additions	32,920,216	32,920,216
Modifications	(14,314,361)	(14,314,361)
At 31 December 2022	**235,784,364**	**235,784,364**
Accumulated depreciation		
At 01 January 2021	**84,535,460**	**84,535,460**
Charge for the year	29,466,413	29,466,413
Termination of lease	-	-
At 01 January 2022	**114,001,874**	**114,001,874**
Charge for the year	28 122 155	28 122 155
Termination of lease	-	-
At 31 December 2022	**142,124,028**	**142,124,028**
Carrying Value		
At 31 December 2022	**93,660,336**	**93,660,336**
At 31 December 2021	**103,176,635**	**103,176,635**

16.1 Amount recognised in profit or loss

	2022	2021
Interest on lease liabilities	18,653,103	22,665,058
Depreciation of right of use asset	28,122,155	29,466,413
Expenses relating to short term leases	(9,141,101)	**(432,280)**
	37,634,156	**51,699,191**

16.2 Amount recognised in the statement of cash flows

	2022	2021
Total cash outflow for leases	41,121,332	34,058,993

17. Intangible assets

Cost	Computer Software	Asset under development	Total
At 01 January 2021	**32,383,505**	**545,928,536**	**578,312,041**
Additions	1,817,597	-	1,817,597
Transfers	521,931,755	(521,931,755)	-
At 01 January 2022	**556,132,857**	**23,996,781**	**580,129,638**
Additions	327,600	-	327,600
Transfers	-	-	-
At 31 December 2022	**556,460,457**	**23,996,781**	**580,457,238**
Accumulated depreciation			
At 01 January 2021	**16,029,137**	**-**	**16,029,137**
Charge for the year	129,374,282	-	129,374,282
At 01 January 2022	**145,403,419**	**-**	**145,403,419**
Charge for the year	67,680,786	-	67,680,786
At 31 December 2022	**213,084,205**	**-**	**213,084,205**
Carrying Value			
At 31 December 2022	**343,376,252**	**23,996,781**	**367,373,033**
At 31 December 2021	**410,729,439**	**23,996,781**	**434,726,220**

18. Deposit from customers

Customer deposits are mainly comprised of fixed term deposits.

	2022	2021
Corporate clients		
Fixed term deposits	2,776,425,676	1,655,647,057
Current accounts	53,466,722	12,817,139
Individual clients		
Fixed term deposits	2,170,434,923	1,872,506,171
Current accounts	40,510,113	40,625,311
Total deposit from customers	**5,040,837,434**	**3,581,595,678**
Maturity analysis		
Current liabilities		
Fixed deposits	4,239,930,029	3,468,377,604
Current accounts	93,976,835	53,442,450
Total current liabilities	**4,333,906,864**	**3,521,820,054**
Non-current liabilities		
Fixed deposits	706,930,570	59,775,624
Current accounts	-	-
Total non-current liabilities	**706,930,570**	**59,775,624**
Total deposit from customers	**5,040,837,434**	**3,581,595,678**

19. Due to banks

Current Liabilities

	2022	2021
Bank overdraft	-	60,525,669

Bank overdraft balances refer to facilities with other financial institutions and have a maturity of 1 year.

20. Other liabilities

Current liabilities

	2022	2021
Accounts Payable	326,932,014	285,432,039
Withholding tax payable	171,231,436	131,850,439
Sundry creditors and accruals	106,485,605	103,783,679
Total other liabilities	**604,649,055**	**521,066,157**

21. Lease liabilities

	2022	2021
Maturity analysis		
Not later than 1 year	56,678,207	57,920,295
Later than 1 year and not later than 5 years	85,750,015	146,599,706
Later than 5 years	11,998,235	-
	154,426,457	**204,520,001**
less: future finance charges	(43,199,121)	(77,047,638)
Total discounted lease liabilities at 31 December	**111,227,336**	**127,472,363**
Present value of minimum lease payments due		
Within one year	36,368,717	36,461,033
In second to fifth year inclusive	74,858,619	91,011,330
Present value of minimum lease payments	**111,227,336**	**127,472,363**
Non-current liabilities	74,858,619	91,011,330
Current liabilities	36,368,717	36,461,033
	111,227,336	**127,472,363**

22. Borrowed funds

	2022	2021
Held at amortised cost		
Corporate bonds	3,059,584,870	2,617,735,537
Term Loans	4,991,664,268	4,037,105,252
Transaction costs	(84,895,235)	(71,890,990)
	7,966,353,903	**6,582,949,799**

(i) Corporate bonds have with maturity dates ranging from April 2024 to October 2028.

(ii) Term loans have maturity dates ranging from October 2023 to November 2027.

	2022	2021
Non-current liabilities		
At amortised cost	6,064,195,650	4,378,713,530
Current liabilities		
At amortised cost	1,902,158,253	2,204,236,269
Total borrowed funds	**7,966,353,903**	**6,582,949,799**

23. Amount payable to shareholder

	2022	2021
Loan from shareholder	1,448,220,199	1,695,333,386
Professional fees	152,428,524	311,073,395
	1,600,648,723	**2,006,406,781**
Maturity Analysis		
Non-current liabilities	1,448,220,199	1,695,333,386
Current liabilities	152,428,524	311,073,395
	1,600,648,723	**2,006,406,781**

(i) Loans from Bayport Management Ltd are denominated in MZN (2021: USD and MZN). The first USD loan covered a 10-year term loan facility of USD 22,500,000 granted in January 2015 bearing interest at a fixed rate of 4% per annum, which was subsequently converted to equity and the remaining balances of USD 19.5M (including professional fees of USD 8.6 million) was converted to MZN with the approval of shareholders. In January 2017, an additional term loan facility of USD 45 million was granted at a fixed rate 4% per annum. The USD denominated loan was fully paid in 2022.

(ii) Professional fees are charged at 1.5% of gross advances as from November 2016.

24. Share capital

	Share capital	Deposit for Shares	Total
At 01 January 2021	**2,483,520,645**	**157,250,976**	**2,640,771,621**
Deposit for shares	-	369,748,957	369,748,957
Issue of shares	292,479,000	(292,479,000)	-
At 01 January 2021	**2,775,999,645**	**234,520,933**	**3,010,520,578**
Repayment of Deposit for shares	-	(234,520,933)	(234,520,933)
Issue of shares	-	-	-
31 December 2022	**2,775,999,645**	-	**2,775,999,645**

Deposit for shares funding provided to the Microbank during shareholder restructuring exercise amounting to MZN 234,520,933 returned after review by the Bank of Mozambique.

	No of shares	Total
At 01 January 2020	2,395,968	2,395,968
Issue of shares	87,553	87,553
At 01 January 2021	**2,483,521**	**2,483,521**
Issue of shares	292,479	292,479
31 December 2021	**2,776,000**	**2,776,000**

During the year, no ordinary shares were issued (2021: 292,479).

25. Legal reserves

In compliance with Mozambican legislation, the Microbank must allocate each year, to a legal reserve, in the following proportions: a) 30%, when the reserves formed are less than the paid-up capital; b) 15%, when the reserves formed are equal to or greater than the paid-up capital.

As a result, in 2022, a legal reserve amounting to MZN 259,814,190 was transferred based on profits made in 2021.

	2022	2021
At 1 January	246,257,848	128,472,369
Transfer from income surplus account	259,814,190	117,785,479
At 31 December	**506,072,038**	**246,257,848**

26. Cash used in operations

	2022	2021
Profit before taxation	959,738,986	1,280,592,015
Adjustments for:		
Depreciation and amortisation	132,625,851	199,985,227
(Gain)/Loss on disposal of property and equipment and intangibles	(57,217)	818,604
Finance Costs	2,228,846,780	1,787,125,268
Unrealised loss/(gain) on foreign exchange	3,830,450	(140,912,191)
Increase in provision for credit impairment	548,704,325	168,334,981
Changes in working capital:		
(Increase)/decrease in other assets	(15,401,983)	43,485,869
(Increase) in gross advances	(2,671,746,154)	(3,268,755,945)
(Decrease)/increase in other liabilities	(72,665,698)	202,090,968
Increase in deposit from customers	1,459,241,756	813,884,790
Cash used in operations	**2,573,117,095**	**1,086,649,585**

27. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities – 2022

	Opening balance	Currency movements	Other non-cash movements	Cash flows	Closing Balance
Lease liabilities	127,472,363	-	24,876,305	(41,121,332)	111,227,336
Borrowed funds	6,582,949,799	-	1,102,910,137	280,493,966	7,966,353,903
Amount payable to shareholder	1,695,333,384	(34,536)	571,374,394	(818,453,048)	1,448,220,199
Total liabilities from financing activities	**8,405,755,546**	**(34,536)**	**1,699,160,839**	**(579,080,414)**	**9,525,801,438**

Reconciliation of liabilities arising from financing activities – 2021

	Opening balance	Currency movements	Other non-cash movements	Cash flows	Closing Balance
Lease liabilities	225,726,248	-	22,665,058	(120,918,942)	127,472,363
Borrowed funds	4,717,270,300	-	971,183,773	894,495,726	6,582,949,799
Amount payable to shareholder	2,423,760,000	(67,982,005)	204,246,013	(864,691,525)	1,695,333,384
Total liabilities from financing activities	**7,366,757,448**	**(67,982,005)**	**1,198,094,844**	**(91,114,740)**	**8,405,755,546**

28. Cash and cash equivalents

The following is a summary of total cash and cash equivalents, made up as follows:

		2022	2021
Cash and deposits with Central Bank	10	558,778,926	491,106,145
Deposits with other financial institutions	11	708,834,655	299,443,630
Due to banks	19	-	(60,525,669)
Total cash and cash equivalents		**1,267,613,581**	**730,024,106**

29. Commitments and contingencies

The following commitments and contingencies were present as at the reporting date:

Borrowings
The external lenders term loan contracts include security against our loan book to the amount of MZN 5,989,997,121 in event of unremedied payment defaults. Management does not expect unremedied payment defaults to happen in the foreseeable future.

Leases
The Microbank entered in several lease commitments for its 11 branches as well as its head office operations. These have been accounted for in accordance with IFRS 16 requirements as disclosed in the Note 21.

Ligations
There are five separate open legal proceedings instituted by clients in 2021 and 2022 against the Microbank for various reasons. The Microbank vigorously denies that it was at fault and is defending itself. Legal advice received supports the directors' belief that the claims are without merit. It is anticipated that the cases will be concluded by the end of 2023. In the event that the Microbank is found to be liable, the directors have been advised that the compensation payable is highly unlikely to exceed MZN 465,000. The directors note that in the event of an unfavourable judgement the Microbank would not be able to recoup the loss from another party.

30. Related parties

	2022	2021
Holding company	Bayport Management Ltd	Bayport Management Ltd
Company under common shareholding	Actvest (Proprietary) Limited	Actvest (Proprietary) Limited
Shareholder	Whatana Investments, S.A	Whatana Investments, S.A
Directors	Edgar Baloi	Hon. Prof José Mateus Muaria Katupha
		Suzette Jose Dalsuco
		Nazir Bhikha
		Edgar Baloi
Fiscal Council	CW Ducker	CW Ducker

30.1 Related party balances

	2022	2021
Amount due to related parties		
Bayport Management Ltd (Loan)	1,448,220,199	1,695,333,386
Bayport Management Ltd (Professional fees)	152,428,524	311,073,395
Actvest (Proprietary) Limited (Cost recoveries)	923,937	814,491
Actvest (Proprietary) Limited (Professional fees)	272,837,033	235,242,704
Loans and receivables to executive directors	(1,253,529)	(1,436,067)

Amounts payable to shareholder are disclosed in note 23.

30.2 Related party transactions

	2022	2021
Bayport Management Ltd		
Interest paid	217,501,891	221,791,749
Professional fees paid	236,419,098	188,301,467
Total	**453,920,989**	**410,093,216**
Actvest (Proprietary) Limited		
Professional fees paid	128,113,574	140,817,092
Whatana Investments, S.A		
Management fees	25,079,095	23,367,934
Directors' fees		
Directors' fees	1,446,830	2,286,278

30.3 Compensation to directors and other key management personnel

	2022	2021
Short term employee benefits	44,787,041	33,329,879
Post-employment benefits	1,092,196	909,988
Total	**45,879,237**	**34,239,867**

The Microbank also contributes to INSS pension fund in relation to post-employment benefits. There were no other long-term benefits, termination benefits or share-based payments incurred in 2022 or 2021.

31. Risk management

The board is responsible for risk management and the setting of the risk management framework. Oversight of risk management is the responsibility of the ARC committee. The ARC committee monitors risks associated with financial reporting, accounting policies, internal control and IT governance. The ARC committee is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the Microbank's management of risk including credit and compliance.

31.1 Credit risk

Credit risk is the risk of loss arising from the failure of a client or counterparty to discharge an obligation to the Microbank. The primary credit risks that the Microbank is exposed to arise from retail loans. It is not the Microbank's strategy to avoid credit risk, but rather to manage credit risk within the Microbank's risk appetite and to earn an appropriate risk adjusted return.

Credit risk management and measurement

The Microbank is responsible for the identification, measurement, management, control and reporting of credit risk within their business units. Exposure to credit losses is managed by assessing customer's affordability and their ability to repay loans and advances, customer's risk profile, employment status and stability. Terms of the loan provided range from 3 to 84 months. Impairments are monitored and provided for using statistical techniques including experiential and behavioural models. These models are based on customers' financial performance information while on book and assume that recent performance is a strong indicator of future performance. Models are developed internally.

Collections of instalments are made through payroll deductions or debit order collections. The expected loss model is developed using statistical techniques based on actual historical data. The expected loss is calculated for each active account, using parameter estimates including the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") segmented using contractual delinquency states (aging, recency and reason for default) as well as remaining term. The segmentation ensures homogenous risk buckets. The LGD is calculated on an explicit basis per account, taking into consideration the settlement balance, discount rates and discount periods.

The Microbank utilised the 30-days past due definition to determine a significant increase in credit risk as per paragraph 5.5.11 of IFRS 9.

Since collections are mainly through payroll deductions, the Microbank has defined credit impaired financial assets as assets which have missed 4 or more consecutive instalments or when there is qualitative information of the borrower being in significant financial difficulty. We have therefore rebutted the 90-days presumption based on historical quantitative analysis of the PDs and alignment to operational collection processes.

31.1 Credit risk (continued)

Financial asset subject to risk

The maximum exposure to credit risk of financial assets at the financial year-end is analysed as follows:

31 December 2022	Loans and advances	Other assets	Investment in other financial assets	Total
Neither past due nor credit impaired	14,875,124,201	33,008,710	1,621,576,847	16,529,709,758
Past due but not credit impaired	1,844,525,612	-	-	1,844,525,612
Credit impaired	419,293,868	-	-	419,293,868
Impairment allowance	(897,429,388)	-	(5 974 081)	(903,403,469)
	16,241,514,293	**33,008,710**	**1,615,602,766**	**17,890,125,769**

31 December 2021	Loans and advances	Other assets	Investment in other financial assets	Total
Neither past due nor credit impaired	12,566,724,145	36,445,037	1,439,954,479	14,043,123,661
Past due but not credit impaired	1,727,656,042	-	-	1,727,656,042
Credit impaired	276,393,957	-	-	276,393,957
Impairment allowance	(414,847,077)	(18,333)	-	(414,865,410)
	14,155,927,067	**36,426,704**	**1,439,954,479**	**15,632,308,250**

** Loans and advances to customers exclude deferred expenses and deferred revenue, which are not financial instruments.

31.1 Credit risk (continued)

Financial assets that are past due but not credit impaired

The age of loans and advances that are past due but not credit impaired are as follows:

	2022	2021
Past due up to		
1 month	764,386,981	867,854,200
1-2 months	312,555,944	258,068,622
2-3 months	164,713,139	147,010,052
3-4 months	113,188,864	100,307,082
Older than 4 months	489,680,684	354,416,086
Loans past due but not credit impaired	**1,844,525,612**	**1,727,656,042**

Valuation of collateral

Advances are unsecured and collateral held by the Microbank is immaterial. The unsecured loans are, however, credit-life insured for death, permanent and temporary disability, retrenchment and dread disease.

Impairment provision reconciliation	Stage 1 12 month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Credit impaired financial assets	Total
At 01 January 2021	**65,437,627**	**169,538,573**	**25,742,912**	**260,719,112**
Originations	38,207,111	44,662,051	19,910,011	102,779,173
Existing book movements	(20,697,644)	4,176,108	181,668,617	165,147,080
Derecognition (settlements in the ordinary course of business)	(20,761,547)	(35,840,124)	(9,726,219)	(66,327,889)
Write-offs	-	-	(47,470,399)	(47,470,399)
At 01 January 2022	**62,185,547**	**182,536,608**	**170,124,922**	**414,847,077**
Originations	59,288,361	58,140,824	40,683,860	158,113,044
Existing book movements	17,880,289	181,774,406	197,088,929	396,743,624
Derecognition (settlements in the ordinary course of business)	(11,900,026)	(21,030,739)	(33,509,712)	(66,440,476)
Write-offs	-	-	(5,833,881)	(5,833,881)
Investments - existing book movements	5,974,081	-	-	5,974,081
At 31 December 2022	**133,428,253**	**401,421,099**	**368,554,117**	**903,403,469**

31.2 Categories of financial instruments

	2022	2021
Financial assets		
At amortised cost		
Cash and deposits with Central Bank	558,778,926	491,106,145
Deposits with other financial institutions	708,834,655	299,443,630
Loans and advances to customers**	16,241,514,293	14,155,927,067
Other assets	33,008,710	36,463,370
Investment securities	1,608,642,464	1,432,994,176
Fair value through other comprehensive income		
Investment securities	6,960,302	6,960,302
Total financial assets	**19,157,600,350**	**16,422,894,690**
Financial liabilities		
At amortised cost		
Deposit from customers	5,040,837,434	3,581,595,678
Due to banks	-	60,525,669
Other liabilities	330,888,085	521,066,157
Lease liabilities	111,227,336	127,472,363
Borrowed funds*	8,051,249,138	6,654,840,789
Amount payable to shareholder	1,600,648,723	2,006,406,781
Total financial liabilities	**15,134,850,716**	**12,951,907,437**

* Borrowed funds exclude deferred transaction costs, which are not financial instruments.

** Loans and advances to customers exclude deferred expenses and deferred revenue, which are not financial instruments.

31.3 Financial risk management

The Microbank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Microbank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Microbank's financial performance.

31.4 Liquidity risk

The table overleaf analyses assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The sum of the balances depicted in the maturity analysis do not reconcile with the carrying amount of the assets/liabilities as disclosed in the statement of financial position. This is because the amounts disclosed in the table are the contractual undiscounted cash flows.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the entity. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturity of assets and liabilities to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the entity and its exposure to changes in interest rates and exchange rates.

31 December 2022

Cash flows from financial assets	**0-3 months**	**4-12 months**	**1-5 years**	**>5years**	**Total**
Cash and deposits with the Central Bank	558,778,926	-	-	-	558,778,926
Deposits with other financial institutions	708,834,655	-	-	-	708,834,655
Loans and advances to customers	1,707,620,991	5,160,426,643	21,643,323,353	4,910,845,830	33,422,216,817
Other assets	33,008,710	-	-	-	33,008,710
Investment securities	1,177,398,368	431,244,096	-	-	1,608,642,464
Cash flows from financial assets	**4,185,641,650**	**5,591,670,739**	**21,643,323,353**	**4,910,845,830**	**36,331,481,572**

Cash flows from financial liabilities	**0-3 months**	**4-12 months**	**1-5 years**	**>5years**	**Total**
Deposit from customers	1,558,317,279	3,105,753,212	804,781,374	-	5,468,851,865
Due to banks	-	-	-	-	-
Other liabilities	604,649,055	-	-	-	604,649,055
Borrowed funds	872,152,736	2,301,632,832	8,484,993,627	-	11,658,779,195
Amount payable to shareholder	280,075,274	475,978,342	1,083,741,646	-	1,839,795,262
Cash flows from financial liabilities	**3,315,194,344**	**5,883,364,386**	**10,373,516,647**	**-**	**19,572,075,377**
Net financial position	**870,447,306**	**(291,693,647)**	**11,269,806,706**	**4,910,845,830**	**16,759,406,195**

31 December 2021

Cash flows from financial assets	**0-3 months**	**4-12 months**	**1-5 years**	**> 5 years**	**Total**
Cash and deposits with Central Bank	491,106,145	-	-	-	491,106,145
Deposits with other financial institutions	299,443,630		-	-	299,443,630
Loans and advances to customers	1,526,096,455	4,453,685,440	17,952,434,553	-	23,932,216,448
Other assets	36,463,370	-	-	-	36,463,370
Investment securities	1,432,994,176	-	-	-	1,432,994,176
Cash flows from financial assets	**3,786,103,776**	**4,453,685,440**	**17,952,434,553**	**-**	**26,192,223,769**

Cash flows from financial liabilities	**0-3 months**	**4-12 months**	**1-5 years**	**> 5 years**	**Total**
Deposit from customers	558,613,382	3,234,355,584	64,004,805	-	3,856,973,770
Due to banks	60,525,669	-	-	-	60,525,669
Other liabilities	521,066,157	-	-	-	521,066,157
Borrowed funds	1,385,796,368	1,635,872,006	6,192,776,363	-	9,214,444,737
Amount payable to shareholder	441,895,288	518,342,899	1,655,334,898	-	2,615,573,085
Cash flows from financial liabilities	**2,967,896,864**	**5,388,570,489**	**7,912,116,066**	**-**	**16,268,583,418**
Net financial position	**818,206,912**	**(934,885,049)**	**10,040,318,487**	**-**	**9,923,640,351**

31.5 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The equity prices risk does not apply to the Microbank.

31.6 Interest rate risk

The objective of the entity's interest rate risk management process is to manage and control interest rate exposure in order to optimise return on risk while maintaining a market profile consistent with the entity's mission.

Interest rate risk is the risk that movements in interest rates will reduce the entity's income or capital.

A principal part of the entity's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The entity aims, through its management of interest rate risk, to mitigate the impact of prospective interest rate movements which could reduce future earnings and capital.

Sensitivity analysis - Increase/decrease of 10% in net interest margin

The interest rate risks sensitivity analysis is based on the following assumptions:

- Changes in the market interest rates affect the interest income or expenses of variable financial instruments,
- Changes in the market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognised at their fair values,
- The interest rate changes will have an effect on interest sensitive assets and liabilities and hence simulation modelling is applied to financial instruments which are quoted at variable interest rates,
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on current profit and equity of an incremental 10% parallel fall or rise on all yield curves at the beginning of the financial years beginning on 01 January 2022 and 01 January 2021.

31 December 2022	**Amount**	**Scenario 1 Effect after 10% increase in variable interest rates**	**Scenario 2 Effect after 10% decrease in variable interest rates**
Profit after tax	656,206,920	517,866,121	794,547,719
Equity	4,266,283,849	4,127,943,049	4,404,624,647

31 December 2021	**Amount**	**Scenario 1 Effect after 10% increase in variable interest rates**	**Scenario 2 Effect after 10% decrease in variable interest rates**
Profit after tax	866,047,298	803,747,547	928,347,049
Equity	3,844,597,858	3,782,298,110	3,906,897,612

Assuming no management actions, a rise would decrease the Microbank's profit after tax for the year and equity by MZN 138,340,799 (31 December 2021: MZN 62,299,751) while a fall would increase profit after tax and equity by the same amounts.

31.7 Capital risk management

The capital structure of the Microbank consists of equity attributable to shareholders comprising stated capital and retained income. The Microbank reviews the capital structure on a regular basis. The Microbank is not subject to any externally imposed capital requirements.

The capital structure of the Microbank consists of debt, which includes the borrowings disclosed in notes 18 and 22, amount payable to shareholders disclosed in note 23, cash and Microbank balances disclosed in note 10,11 and 19 and equity as disclosed in the statement of financial position. In order to maintain or adjust the capital structure, the Microbank may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares to reduce debt. Consistent with others in the industry, the Microbank monitors capital on the basis of the gearing ratio.

31.8 Foreign exchange risk

The Microbank has certain loans in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures. Consequently, the Microbank is exposed to the risk that the carrying amounts of these foreign currency denominated assets and liabilities may change due to fluctuations in foreign exchange rates.

The Microbank's currency position is as follows:

31 December 2022	MZN	USD	ZAR	TZS	Total
Assets					
Cash and deposits with Central Bank	558,778,926	-	-	-	558,778,926
Deposits with other financial institutions	708,695,953	136,517	2,185	-	708,834,655
Loans and advances to customers**	16,241,514,293	-	-	-	16,241,514,293
Other assets	33,008,710	-	-	-	33,008,710
Investment securities	1,615,602,766	-	-	-	1,615,602,766
Total financial assets	**19,157,600,648**	**136,517**	**2,185**	**-**	**19,157,739,350**
Liabilities					
Deposit from customers	5,040,837,434	-	-	-	5,040,837,434
Due to banks	-	-	-	-	-
Other liabilities	330,788,422	272,837,033	923,937	99,663	330,888,085
Lease liabilities	111,227,336	-	-	-	111,227,336
Borrowed funds*	8,051,249,138	-	-	-	8,051,249,138
Amount payable to shareholder	1,448,220,199	152,428,524	-	-	1,600,648,723
Total financial liabilities	**14,982,322,529**	**425,265,557**	**923,937**	**99,663**	**15,408,611,686**
Net financial position	**4,175,278,119**	**(425,129,040)**	**(921,752)**	**(99,663)**	**3,749,028,031**

* Borrowed funds exclude deferred transaction costs, which are not financial instruments.

** Loans and advances to customers exclude deferred expenses and deferred revenue, which are not financial instruments.

31 December 2021	MZN	USD	ZAR	TZS	Total
Total financial assets	16,422,862,554	29,613	2,524	-	16,422,894,691
Total financial liabilities	10,709,293,632	2,241,649,485	814,491	149,829	12,951,907,437
Net financial position	**5,713,568,922**	**(2,241,619,872)**	**(811,967)**	**(149,829)**	**3,470,987,254**

The objective of the entity's foreign exchange risk management is to manage and control foreign exchange exposure in order to optimise return on risk while maintaining a market profile consistent with the entity's mission. Foreign exchange risk is the risk that movements in foreign exchange rates will reduce the entity's income or capital.

A principal part of the entity's management of foreign exchange risk is to monitor the sensitivity of future earnings and capital to varying foreign exchange rates. The entity aims, through its management of foreign exchange risk, to mitigate the impact of foreign exchange fluctuations which could reduce future earnings and capital.

Sensitivity analysis - appreciation/depreciation of MZN against other currencies by 10%

The foreign exchange risks sensitivity analysis is based on the following assumptions:
- Foreign exchange exposures represent net currency positions of all currencies other than MZN,
- The currency sensitivity analysis is based on the assumption that all net currency positions are highly effective,
- The base currencies which the entity's business are transacted is MZN.

31.8 Foreign exchange risk (continued)

The table below sets out the impact on current earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of the financial years from 01 January 2022 and 01 January 2021 respectively.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

31 December 2022	Amount	Scenario 1 Effect after 10% appreciation in MZN	Scenario 2 Effect after 10% depreciation in MZN
Profit after tax	656,206,924	656,197,493	656,216,356
Equity	4,266,283,849	4,266,274,417	4,266,293,281

31 December 2021	Amount	Scenario 1 Effect after 10% appreciation in MZN	Scenario 2 Effect after 10% depreciation in MZN
Profit after tax	866,047,298	903,304,705	828,789,890
Equity	3,844,597,858	3,881,855,266	3,807,340,451

Assuming no management actions, an appreciation in MZN would increase profit after tax for the year by MZN 9,432 (31 December 2021 by MZN 37,258,583), increase equity by MZN 9,432 (31 December 2021 by MZN 37,258,583), and a depreciation in MZN would decrease profit after tax and equity by same.

32. Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Microbank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Microbank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

33. Fair value measurements

The information set out below provides information about how the Microbank determines fair values of various financial assets and financial liabilities.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Mozambique Stock Exchange).

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

33. Fair value measurements (continued)

Fair value of the Microbank's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Except where disclosed elsewhere, the Directors consider that the carrying value of the other financial assets approximate their fair values.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures required).

The Microbank values by the net present value model in order to obtain the fair value of the Government Bonds in available for sale financial assets. The rates used to discount for the discount factor are market observable, using the Treasury Bills rates, depending on the maturity dates.

The fair value of unquoted instruments, loans from Microbanks and other financial liabilities, as well as other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The following table shows an analysis of financial instruments recorded at amortised cost by level of the fair value hierarchy:

	31 December 2022		31 December 2021	
	Carrying amount MZN	Fair value MZN	Carrying amount MZN	Fair value MZN
Financial assets				
At amortised cost				
- Investment securities	1,608,642,464	1,608,642,464	1,432,994,176	1,432,994,176
- Loans and advances to customers**	16,241,514,293	16,241,514,293	14,155,927,067	14,155,927,067
Fair value through other comprehensive income				
- Investment securities	6,960,302	6,960,302	6,960,302	6,960,302
	17,857,117,059	**17,857,117,059**	**15,595,881,545**	**15,595,881,545**
Financial liabilities				
Financial liabilities held at amortised cost				
- Deposit from customers	5,040,837,434	5,040,837,434	3,581,595,678	3,581,595,678
- Lease liabilities	111,227,336	111,227,336	127,472,363	127,472,363
- Borrowed funds*	8,051,249,138	8,051,249,138	6,654,840,789	6,654,840,789
- Amount payable to shareholder	1,600,648,723	1,600,648,723	2,006,406,781	2,006,406,781
	14,803,962,631	**14,803,962,631**	**12,370,315,611**	**12,370,315,611**

* Borrowed funds exclude deferred transaction costs, which are not financial instruments.

** Loans and advances to customers exclude deferred expenses and deferred revenue, which are not financial instruments.

33. Fair value measurements (continued)

Fair value hierarchy as at 31 December 2022	Level 1 MZN	Level 2 MZN	Level 3 MZN	Total MZN
Financial assets				
At amortised cost				
- Loans and advances to customers	-	-	16,241,514,293	16,241,514,293
- Investment securities	-	-	1,608,642,464	1,608,642,464
Fair value through other comprehensive income				
- Investment securities	-	-	6,960,302	6,960,302
Total	-	-	**17,857,117,059**	**17,857,117,059**

	Level 1 MZN	Level 2 MZN	Level 3 MZN	Total MZN
Financial liabilities				
At amortised cost				
- Deposit from customers	-	-	5,040,837,434	5,040,837,434
- Lease liabilities	-	-	111,227,336	111,227,336
- Borrowed funds	-	-	8,051,249,138	8,051,249,138
- Amount payable to shareholder	-	-	1,600,648,723	1,600,648,723
Total	-	-	**14,803,962,631**	**14,803,962,631**

Fair value hierarchy as at 31 December 2021	Level 1 MZN	Level 2 MZN	Level 3 MZN	Total MZN
Financial assets				
At amortised cost				
- Loans and advances to customers	-	-	14,155,927,067	14,155,927,067
- Investment securities	-	-	1,432,994,176	1,432,994,176
Fair value through other comprehensive income				
- Investment securities	-	-	6,960,302	6,960,302
Total	-	-	**15,595,881,545**	**15, 595,881,545**

	Level 1 MZN	Level 2 MZN	Level 3 MZN	Total MZN
Financial liabilities				
At amortised cost				
- Deposit from customers	-	-	3,581,595,678	3,581,595,678
- Lease liabilities	-	-	127,472,363	127,472,363
- Borrowed funds	-	-	6,654,840,789	6,654,840,789
- Amount payable to shareholder	-	-	2,006,406,781	2,006,406,781
Total	-	-	**12,370,315,611**	**12,370,315,611**

34. Capital Management

The Microbank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Microbank's capital is monitored using, among other measures, the rules and ratios established by the Bank of Mozambique. The primary objectives of capital management are to ensure that the Microbank:

- complies with the externally imposed capital requirements set by the Bank of Mozambique;
- maintains strong credit ratings and healthy capital ratios in order to support its business; and
- has the ability to continue as a going concern so that it can continue to provide returns and maximize shareholders' value.

The Microbank is complying with the Bank of Mozambique regulatory framework and is subject to a daily ongoing monitoring of the foreign exchange position and on a monthly basis with regards to Capital Adequacy Ratio, Solvency Ratio and Credit Concentration. The Bank of Mozambique requires each Microbank to hold the minimum level of the regulatory capital of 8% of the risk-weighted assets. By this fact, the Microbank will not be allowed to increase assets patrimony, according to Aviso 6/GBM/2007 and ability to continue as a going concern may be triggered.

The following table summarises the calculation of the capital adequacy ratio of the Microbank for the year ended 31 December 2022 and 31 December 2021 as per the requirements of the Bank of Mozambique:

	2022	2021
Core Capital (Tier I)		
Share Capital Realised	2,775,999,645	2,775,999,645
Legal reserves	506,072,038	246,257,848
Reserves and Retained Earnings Losses	328,005,241	(278,227,866)
Negative revaluation reserves	(361,853,873)	-
Intangible Assets	(367,373,033)	(434,726,219)
Impairment Provision Gap	(279,500,161)	(481,008,964)
Core Capital (Tier I)	**2,601,349,857**	**1,828,294,444**
Complimentary Capital (Tier II)		
Other	1,694,583	(1,459,495)
Complimentary Capital (Tier II)	**1,694,583**	**(1,459,495)**
Eligible Capital (Tier I and Tier II)	**2,603,044,440**	**1,826,834,949**
Risk Weighted Assets (RWA)		
Credit Risk	13,556,665,613	11,675,962,117
Off Balance Sheet	-	-
Operational and Market Risk	310,283,138	244,127,981
	13,866,948,751	**11,920,090,098**
Capital Adequacy Ratios		
Core Tier I	18.76%	15.34%
Core Tier II	0.01%	0.01%
Solvency Ratio	18.77%	15.35%
Solvency Ratio (Minimum Required)	8.00%	8.00%

36. Events after the reporting period

The Bank of Mozambique increased mandatory deposit reserves from 10.50% to 28% and from 11.00% to 28.50% for local and foreign currencies respectively, on the 25th of January 2023 as explained in section 7 of the Directors' Report. There were no other material significant events after the reporting date that require disclosure in or adjustment to the financial statements for the year ended 31 December 2022.