Bayport Financial Services Moçambique (MCB), SA

Financial Statements
for the year ended 31 December 2023

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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 Helena Fernandes Ivan Machava 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 Comercial 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. Millennium BIM - Banco Internacional de Moçambique, S.A. Moza Banco, S.A. Nedbank Moçambique, S.A. Standard Bank Moçambique, S.A
Auditors	Mazars - Sociedade de Contabilistas & Auditores Certificados, Lda. Edificio Maryah, Bairro Central, Rua 1.233, nº 81, 5º Andar. 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 2023, 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 21.

The financial statements set out on pages 22 to 60, which have been prepared on the going concern basis, were approved by the board of directors on 19 March 2024 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 2023.

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

The global economy in 2023 was shaped by several key factors, including the ongoing recovery from the COVID-19 pandemic, geopolitical tensions, inflationary pressures, and shifts in monetary policy among the world's major economies. Here's a summary of some of the most significant aspects:

- Post-Pandemic Recovery: Many countries continued to recover from the economic impacts of the COVID-19 pandemic. This recovery was uneven, with some regions and sectors rebounding faster than others.

- Inflation: Many countries faced high inflation rates, partly due to supply chain disruptions, increased energy prices, and the economic stimulus measures implemented during the pandemic. Central banks in several countries, including the U.S. Federal Reserve, responded by tightening monetary policy and raising interest rates.

- Geopolitical Tensions: Ongoing geopolitical tensions, such as the Russia-Ukraine conflict, affected global energy markets and trade. Sanctions against Russia and disruptions in Ukrainian agricultural exports had ripple effects on global supply chains and contributed to higher energy and food prices.

- Technological Advancements and Digital Economy: The growth of the digital economy continued, with advancements in technology sectors such as artificial intelligence, cybersecurity, and e-commerce. However, there were also concerns about tech industry layoffs, data privacy, and the regulation of big tech companies.

- Global Trade and Supply Chains: Supply chain issues persisted but began to ease compared to the height of the pandemic. There was also a trend towards re-shoring and diversification of supply chains to reduce reliance on single sources.

- Emerging Markets: Emerging markets faced varied economic challenges, including dealing with high debt levels, currency fluctuations, and the impact of external factors like interest rate hikes in developed countries.

- Debt and Fiscal Policy: Many countries grappled with high levels of public debt, a legacy of the fiscal responses to the pandemic. Debates continued over the sustainability of these debt levels and the need for fiscal consolidation.

3. Review of financial results and activities (continued)

The World Economic Outlook issued by the International Monetary Fund (IMF) in October 2023 projected a 3% GDP growth for 2023, down from 3.5% in 2022.

On the domestic front, the International Monetary Fund (IMF) in the Third Review Under the Three-Year Arrangement Under the Extended Credit Facility estimates that Mozambique's gross domestic product grew by 6% in 2023. The IMF noted that the economy continues growing steadily and that inflation pressures have declined sharply reflecting lower food and fuel prices. They went on to say that a fiscal correction is ongoing following the fiscal slippages from implementation challenges related to the single salary scale adopted in 2022 and that the security situation in the north has improved and general elections are planned for October 2024.

Although the Monetary Policy Committee (CPMO) kept the monetary policy rate unchanged during the year, the Prime lending rate increased by 150bps, a reflection of the deterioration in credit quality. Given that inflation seems to be under control, the expectation is that the CPMO will cautiously reduce rates from 2024.

Financial performance

The increase in the cash reserve ratio, from 10.50% to 28% and then 39% for metical deposits had the effect of drying up liquidity from all the financial institutions that take deposits. For Bayport in particular, a decision was then made to slow disbursements in the first two months of the year. In addition, in the second half of the year, management decided to reduce loans writing due to delays in salary payments by the government, due to the single salary table (TSU) implementation glitches. The effect of the above was to reduce the loan book and hence profitability as well.

Despite the decline in sales and consequent net Loan book reduction of 5%, Interest and other similar income grew by a slight 1% as increases in cost of funding was finally passed on to clients. Operating expenses decreased by 2% due to cost containment strategies to restrict spending to only business essentials, given the decrease in business.

The metical was quite stable throughout the year against the USD, limiting foreign currency losses to a minimal MZN 4.7 million, down from the 6.6 million recorded last year. Just like 2022, the losses recorded for the year mainly emanated from liquidation of funding received in USD as well as foreign supplier payments made during the year.

Although impairment expense reduced by 14% from MZN 473.45 million in 2022 to MZN 408.29 million, management still consider the levels to still be high and outside acceptable levels. This mostly came from continued collection delays from some municipalities that occurred during the course of the year as well as deduction problems in the migration of some clients from non-central government platform to central government platform, resulting in the forward migration of the respective loans. The non-performing loans ratio reduced from 3.31% in 2022 to 2.75%.

Principally as a result of the reduction in Interest and other similar income, coupled with an increase in Interest and other similar charges due to increase in reference rates (such as the Prime Lending Rate), profit after tax decreased by 37.69% from the MZN 656.21 million registered in 2022 to MZN 408.85 million.

Financial highlights

Profitability	**2023 (MZN)**	**2022 (MZN)**
Interest and other similar income	4,990,898,575	4,942,242,376
Net interest income	2,232,875,134	2,713,395,596
Net fees and commission income	(6,125,239)	3,404,422
Operating income	2,222,792,018	2,727,867,284
Operating expenses	1,266,527,557	1,294,682,238
Impairment expense	408,287,852	473,446,064
Profit after tax	408,852,244	656,206,920
Financial Position		
Net advances	15,319,029,442	16,139,608,697
Deposits from customers	4,185,572,216	5,040,837,434
Equity	4,675,136,448	4,266,283,848
Ratio		
Net profit margin (Net profit/interest and other similar income and fees and commission income)	8.18%	13.27%
Return on equity (net profit/average equity)	9.15%	16.18%
Non-performing loans/Gross advances	2.75%	3.31%

3. Review of financial results and activities (continued)

Net profit margin decreased from 13.27% to 8.18% mainly due to the increase in interest and other similar expenses, as well as increase in impairment expense. The return on equity also decreased from 16.18% to 9.15% mainly due to the decrease in profit after tax.

On the deposit-taking side, Bayport decided to reduce exposure to minimise the impact of the increase in the cash reserve ratio. To this effect, pricing was reduced, driving out some deposits. Overall, the deposit book reduced by MZN 855.27 million.

Human resources capital

As of December 2023, the staff complement, including management, stood at 130, split as follows in terms of gender:

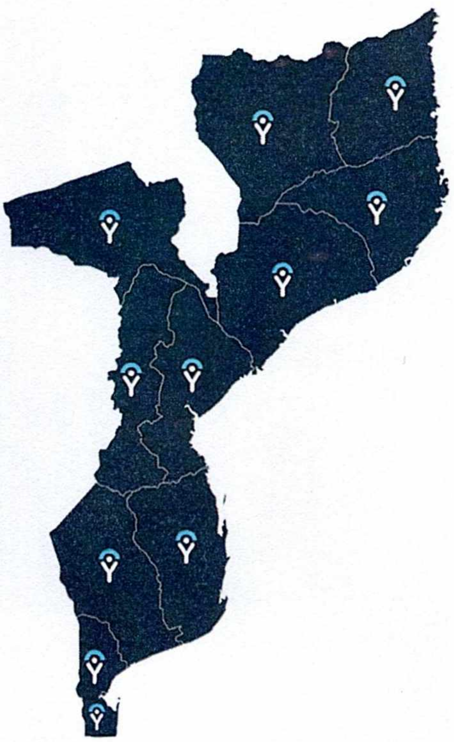
	2023	2022
Female	52	50
Male	78	82
Total	**130**	**132**

The slight decrease in employee headcount is due to positions that were still to be delayed at year end.

Bayport performed various training programs for employees during the year such as Anti Money Laundering, Improvement of Customer Satisfaction: Complaint Management – NM ISO 10002:2018, Compliance OCOS Training - ICA, Customer Services Excellence - Back Office. Bayport also made use of internal eLearning training on Moodle platform where employees received in-house training on topics such as, Anti-Fraud, Interview Techniques, Environmental, Social, and Governance (ESG), Services and Customer Experience, Collections (Cycle, Fixations, Restructuring), Early Settlement, Quality Assurance, Performance Management Process, NAVEX, Risk Management, Receipting, Refunds and Corporate Image. Additionally, Bayport made use of internal eLearning training on Bayport Academy platform where employees received in-house training on topics such as Data Protection, Password Protection, Malicious Links, Insider Threats, Ransomware, Malware, BEC Scams, Count of Online Threats, ESG, Social Engineering, Surfing the Web (Phishing) and Spear Phishing.

Branch network

The total number of branches held were 11 as of year-end, unchanged from 2022. The branches are widely distributed, with at 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 Risk and Compliance Committee ("RCC"). The RCC monitors risks associated with credit, reputational, IT, operational, conduct, compliance, legal, strategic, financial, interest rate, foreign currency and liquidity. The RCC is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the Microbank's management of risk. 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 RCC.

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 25.14%, comfortably higher than the minimum limit.

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	2,748,240,000	99.00
Whatana Investments	13,880,000	0.50
Other private individuals	13,880,000	0.50
Total	**2,776,000,000**	**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 continued negative effect of the high Mandatory Reserves ratio on the Microbank's liquidity, the Board of Directors decided not to declare dividends out of the 2023 financial year results (2022: 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 four board committees in place, namely, Audit Committee, Credit Committee, the Remuneration Committee (REMCO) and the Risk and Compliance Committee. The Risk and Compliance 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
Helena Fernandes	Non-Executive
Ivan Machava*	Non-Executive
Nothando Ndebele*	Non-Executive
Ranganai Mubaiwa	Executive

* These directors were 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	Commercial and Operations Executive

7. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

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 Mazars - Sociedade de Contabilistas & Auditores Certificados, Lda, appointed in December 2023 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 122,655,674, representing 30% of the profit made in 2023, 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 286,196,570, be kept in retained earnings.

The financial statements set out on page 22 - 60, which have been prepared on the going concern basis, were approved by the board of directors on 19 March 2024, and were signed on its behalf by:

Grant Colin Kurland
(Chairperson)

Bene Machatine
(Chief executive officer)

Bryan Arlow
(Non-Executive Director)

Helena Fernandes
(Non-Executive Director)

Ivan Machava
(Non-Executive Director)

Nothando Ndebele
(Non-Executive Director)

Ranganai Mubaiwa
(Chief Financial Officer)

mazars

INDEPENDENT AUDITOR´S REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail)

To the shareholders of

Bayport Financial Services Moçambique, S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Bayport Financial Services Moçambique, S.A. (hereinafter also referred to as "Microbank" or "Bayport") included in pages 22 to 60, which comprise the Statement of Financial Position on December 31, 2023, the Statement of Profit and Loss and Other Comprehensive Income, the Statement of changes in equity and the Statement of Cash Flows for the year then ended, as well as the notes to the financial statements, including material information on accounting policy.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the Microbank's financial position as of December 31, 2023, its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section below. We are independent of the Microbank in accordance with the requirements of the Code of Ethics of the IESBA (International Ethics Standards Board for Accountants) and the relevant ethical requirements for the Audit of financial statements in Mozambique, and we fulfilled the remaining ethical responsibilities provided for in these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We describe below the Key Audit Matters for the current year:

Impairment losses on the loan portfolio granted to customers	
Description of the key audit matter	Audit approach and response
As disclosed in Note 1.4 of the notes attached to the financial statements ("Financial instruments"), impairment losses of the loan portfolio granted to customers, recorded in the financial statements, represent the best Management estimate in terms of the implicit losses in its credit portfolio. These impairments are determined through collective analysis. The impairments calculated based on the collective analysis are determined considering data, assumptions and estimates, subject to value judgments formed by the Management Body. Considering the materiality and subjective nature of impairments on the loan portfolio granted to customers, this matter was considered as relevant within the scope of our Audit.	In order to respond to the identified risks, among the Audit procedures carried out, we highlight the following: • Assessment and testing of the design and operational effectiveness of the controls instituted in the process of quantifying impairments on the Microbank's loan portfolio. These controls include those related to the identification of impaired loans, tolerance levels and accounting records made in relation to the quantified impairment of the clients loan portfolio; • Carrying out substantive tests of the Microbank's impairment model, on a sample basis, with a view to critically reviewing the instituted model. These Audit procedures included evaluating the criteria and methodology adopted in determining the risk parameters and collective impairment, extracting the information used in the model (inputs), re-executing the calculations and reviewing the sensitivity analysis carried out by the Microbank, regarding the underlying critical assumptions. This review also aimed to ensure the alignment of the instituted model with the requirements of International Financial Reporting Standard No. 9 (IFRS 9);

- Assessment of the adequacy of the disclosures contained in the notes attached to the Microbank's financial statements, related to this matter.

Related Parties	
Description of the key audit matter	**Audit approach and response**
ISA 550 requires that the Auditor performs audit procedures to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. All identified significant related party transactions outside the entity's normal course of business must be treated as significant risk. The related party balances, transactions and compensation to directors and other key management personnel are disclosed in Note 30 ("Related parties"), for which we have considered as being a relevant area for our audit, considering their nature and amount.	In order to respond to the identified risks, among the Audit procedures carried out, we highlight the following: • Inquiry of management and others within the Microbank, and the execution of other risk assessment procedures to obtain an understanding of the controls that management has established to: (i) identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework; (ii) authorise and approve significant transactions and arrangements with related parties; and (iii) authorise and approve significant transactions and arrangements outside the normal course of business • Verification of the following for indications of the existence of related party relationships or transactions: (i) External confirmations to the Related Parties; (ii) Bank and legal confirmations obtained as part of our audit procedures; (iii) Minutes of meetings of shareholders and of those charged with governance; and (iv) other records or documents, as we consider to be required in the circumstances of the Microbank; • For identified significant related party transactions outside the entity's normal course of business, we have

	inspected the underlying contracts or agreements to obtain audit evidence that the transactions have been appropriately authorised and approved; and • Evaluation if the identified related parties and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework (IFRS).

Going concern	
Description of the key audit matter	**Audit approach and response**
As disclosed in note 1.1 of the notes attached to the financial statements ("Significant judgements and sources of estimation uncertainty"), the Microbank's management has made an assessment of its ability to continue as a going concern basis. If the going concern basis is not applicable, the financial statements should be prepared on an alternative basis such as the break-up basis or liquidation basis. Considering the importance of this matter and the subjectivity related to this assessment, we have considered this area as a key audit matter within our Audit.	In order to respond to the identified risks, among the Audit procedures carried out, we highlight the following ones: • Assessment of the entity level controls; • Analysis of the activity controls of the Microbank regarding the Management's assessment of going concern, namely the existence of segregation of duties; • Evaluation of the management's plans for future action in relation to its going concern assessment, including whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances; • Analysis of the Business Plan and forecast prepared by the Microbank; • Review of the reliability of the underlying data generated to prepare the Business plan / forecast; • Determining whether there is adequate support for the assumptions underlying the forecast; • Request written representations from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans; • Review the correspondence with the regulators; and

	• Review of the information disclosed in the Management report and also in the notes to the financial statements, related to this matter.

Other matters

The financial statements of Bayport Financial Services Moçambique, S.A. for the year ended December 31, 2022, presented for comparative purposes, were audited by another auditor who expressed a clean opinion, with no qualifications or emphasis of matters on these financial statements, on February 23, 2023.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the document entitled "Directors' Report". Other information does not include the financial statements or the auditor's report thereon.

Our opinion on the financial statements does not cover other information and we do not express an Audit opinion or any type of guarantee of reliability on that other information.

Within the scope of the audit of the financial statements, our responsibility is to read the other information and, consequently, consider whether this other information is materially inconsistent with the financial statements, with the knowledge we obtained during the audit or if it appears to be materially misstated. If, based on the work 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 management and the supervisory body for the financial statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Microbank's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS);
- the preparation of the management report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Microbank's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Microbank's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Microbank's financial reporting process.

Auditor Responsibilities for the Audit of the Financial Statements

Our responsibility is 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 skepticism 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 Microbank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management'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 Microbank'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 included 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 Microbank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory board, 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;
- determine, from the matters communicated with those charged with governance, including the supervisory board, those matters that were of most significance in the audit of the financial statements 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 their public disclosure;

- provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements.

MAZARS SCAC, LDA.

Ce: 16/SCA/OCAM/2016

Represented by:

mazars
Lic. N.º 17/SCA/OCAM/2016

Dipak Lalgi

Certified Auditor: 17/CA/OCAM/2012

Maputo, 19th March 2024

Statement of Profit and Loss and Other Comprehensive Income

Figures in Metical	Note(s)	2023	2022
Interest and other similar income	3	4,990,898,575	4,942,242,376
Interest and other similar charges	4	(2,758,023,441)	(2,228,846,780)
Net interest income		**2,232,875,134**	**2,713,395,596**
Fees and commission income	5	90,901,228	100,968,948
Fees and commission expense	5	(97,026,467)	(97,564,526)
Net fees and commission income	5	**(6,125,239)**	**3,404,422**
Net profit/(losses) from trading	6	(4,718,601)	(6,611,646)
Other income		1,937,448	17,621,695
Income/(loss)from available for sale of movable assets		(1,176,724)	57,217
Operating income		**2,222,792,018**	**2,727,867,284**
Impairment of loans and advances and trade receivables	12&13&31.1	(408,287,852)	(473,446,064)
Net operating income		**1,814,504,166**	**2,254,421,220**
Staff costs	7	(496,229,410)	(522,588,075)
Depreciation and amortisation	15&16&17	(126,350,597)	(132,849,995)
Other operating expenses	8	(643,947,550)	(639,244,168)
Profit before taxation		547,976,609	959,738,982
Current tax	9.1	(109,611,772)	(289,413,715)
Deferred tax	9.1	(29,512,593)	(14,118,347)
Profit for the year		**408,852,244**	**656,206,920**
Other comprehensive income		-	-
Total comprehensive income for the year		**408,852,244**	**656,206,920**

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	2023	2022
Assets			
Cash and deposits with the Central bank	10	1,639,671,769	558,778,926
Deposits with other financial institutions	11	2,130,046,311	708,834,655
Loans and advances to customers	12	15,319,029,442	16,139,608,697
Other assets	13	49,900,304	46,329,302
Investment securities	14	6,960,302	1,615,602,766
Property and equipment	15	42,947,324	64,253,247
Right-of-use asset	16	74,957,428	93,660,336
Intangible assets	17	311,943,155	367,373,033
Current tax assets	9.2	138,527,412	2,819,338
Deferred tax assets	9.3	3,349,520	5,621,440
Total Assets		**19,717,332,967**	**19,602,881,740**
Liabilities and Equity			
Liabilities			
Deposit from customers	18	4,185,572,216	5,040,837,434
Other liabilities	20	667,078,218	604,649,055
Lease liabilities	21	85,424,679	111,227,336
Borrowed funds	22	8,608,761,203	7,966,353,903
Amount payable to shareholder	23	1,455,238,090	1,600,648,723
Deferred tax liabilities	9.3	40,122,113	12,881,441
Total Liabilities		**15,042,196,519**	**15,336,597,892**
Equity			
Share capital	24	2,776,000,000	2,775,999,645
Legal reserves	25	702,934,115	506,072,038
Retained income		1,196,202,333	984,212,165
Total Equity		**4,675,136,448**	**4,266,283,848**
Total Liabilities and Equity		**19,717,332,967**	**19,602,881,740**

Beatriz Dias Pondja

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 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 1 January 2023	**2,775,999,645**	**-**	**2,775,999,645**	**506,072,038**	**984,212,165**	**4,266,283,848**
Issue of shares	**355**	**-**	**355**	**-**	**-**	**355**
Total comprehensive income for the year	-	-	-	-	408,852,244	**408,852,244**
Transfer to legal reserves	-	-	-	196,862,077	(196,862,077)	**-**
Total changes	**355**	**-**	**355**	**196,862,077**	**211,990,168**	**408,852,599**
Balance at 31 December 2023	**2,776,000,000**	**-**	**2,776,000,000**	**702,934,115**	**1,196,202,333**	**4,675,136,448**
Note	24	24	24	25		

Beatriz Dias Padoja

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)	2023	2022
Cash flows from operating activities			
Cash used in operations	26	3,585,902,753	2,573,117,095
Finance costs paid		(2,510,911,075)	(2,362,497,913)
Tax paid		(245,319,846)	(493,665,789)
Net cash used in operating activities		**829,671,832**	**(283,046,607)**
Cash flows from investing activities			
Purchase of property and equipment	15	(13,062,359)	(17,896,247)
Movement in securities	14	1,608,642,463	(175,648,287)
Purchase of intangible assets	17	(9,144,410)	(327,600)
Proceeds from sale of property and equipment		3,437,124	789,820
Net cash used in investing activities		**1,589,872,818**	**(193,082,314)**
Cash flows from financing activities			
Proceeds from bond and commercial paper issuance	27	1,395,045,100	292,999,000
Proceeds from borrowings	27	1,835,673,531	3,079,840,000
Repayment of borrowings – capital	27	(2,647,989,693)	(2,041,476,493)
Repayments to shareholder loan	27	(458,892,227)	(42,001,846)
Lease liabilities – capital repaid	27	(24,316,191)	(22,468,229)
Lease liabilities – interest paid	27	(16,961,026)	(18,653,103)
Receipt / (Repayment) deposit for shares		355	(234,520,933)
Net cash flows generated from financing activities		**82,559,849**	**1,013,718,396**
Net increase in cash and cash equivalents		**2,502,104,499**	**537,589,475**
Cash and cash equivalents at the beginning of the year		1,267,613,581	730,024,106
Total cash and cash equivalents at the end of the year	28	**3,769,718,080**	**1,267,613,581**

Beatriz Dias Pondja

Certified Accountant

Board of Directors

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

Material accounting policy information

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.

1.7 Impairment of assets other than financial assets (continued)

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.

1.10 Provisions and contingencies (continued)

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 2023.

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 17 Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17) – original issue (effective 1 January 2023)
- IAS 1 Presentation of Financial Statements - amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements— Disclosure of Accounting Policies (effective 1 January 2023)
- IAS 12 Income Taxes - amendments to Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023)
- IAS 12 Income Taxes - amendments regarding International Tax Reform - Pillar Two Model Rules (effective 1 January 2023)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – amendments on definition of accounting estimates (effective 1 January 2023)

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 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures - Amendments regarding Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date yet to be set)
- IAS 1 Presentation of Financial Statements: Amendments regarding the classification of liabilities as current or non-current (effective 1 January 2024)
- IAS 1 Presentation of Financial Statements: Amendments regarding the non-current Liabilities with covenants (effective 1 January 2024)
- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures – Amendments regarding Supplier Finance Arrangements (effective 1 January 2024)
- IFRS 16 – Leases – Amendments regarding Lease Liability in a Sale and Leaseback (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

	2023	2022
Interest from loans and advances	4,748,823,320	4,747,804,716
Interest from banks and investment securities	242,075,255	194,437,660
Total interest and other similar income	**4,990,898,575**	**4,942,242,376**

4. Interest and other similar charges

	2023	2022
Interest on bonds and commercial papers	782,459,065	489,203,054
Interest on bank overdrafts and loans	1,138,721,026	752,761,419
Interest on amount payable to shareholder	166,958,264	217,501,891
Interest on lease liabilities	16,961,026	18,653,103
Interest on deposits from customers	652,924,060	750,727,313
Total interest and other similar changes	**2,758,023,441**	**2,228,846,780**

5. Net fees and commission income

	2023	2022
Fees and commission income		
Credit life commission received	90,901,228	100,968,948
Fees and commission expense		
Fees and commission expense	(97,026,467)	(97,564,526)
Net fees and commission income	**(6,125,239)**	**3,404,422**

6. Net profit/(losses) from trading

	2023	2022
Foreign exchange losses		
Foreign exchange losses	(4,718,601)	(6,611,646)

7. Staff costs

	2023	2022
Personnel expenses present as follows:		
Wages and salaries	488,482,098	513,691,077
Contribution to INSS	7,747,312	8,896,998
Total staff costs	**496,229,410**	**522,588,075**

8. Other operating expenses

	2023	2022
Levies and duties paid - stamp duties	2,007,635	3,013,792
Professional fees	385,773,215	366,880,308
Travelling and representation expenses	41,418,557	46,916,999
Communications	6,056,963	5,100,917
Operating lease rentals*	55,887	199,389
Marketing and promotions	2,446,883	6,382,909
Fuel	3,574,040	3,598,399
Entertainment	470,371	163,955
Insurance	4,895,415	5,190,945
Fines, penalties and operational losses	1,749,804	3,415,619
Security services	6,465,268	5,928,156
Printing and stationery	10,050,411	9,354,284
Maintenance and repairs	3,338,001	3,343,998
Other expenses	175,645,100	179,754,498
Total other operating expenses	**643,947,550**	**639,244,168**

* 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

	2023	2022
Current tax		
In respect of current year	80,171,060	248,558,422
In respect of prior year	(16,996,395)	201,686
Withholding tax	46,437,107	40,653,607
Total current tax	**109,611,772**	**289,413,715**
Deferred tax		
In respect of current year	29,780,617	14,118,347
In respect of prior year	(268,024)	-
Total deferred tax	**29,512,593**	**14,118,347**
Total income tax expense recognised in the current year	**139,124,365**	**303,532,062**

Reconciliation of effective tax rate

	2023		2022	
	Tax rate	**Value**	**Tax rate**	**Value**
Profit before taxation		547,976,609		959,738,986
Tax at the applicable rate	32%	175,352,515	32.00%	307,116,476
Tax effect of the adjustments on taxable income				
Non-deductible expense	6.31%	34,558,842	3.91%	37,492,128
Deductible expense	-23.68%	(129,740,297)	-10.01%	(96,050,182)
Taxation		**80,171,060**		**248,558,422**
Current tax expenses relating to prior year		(16,996,395)		201,686
Withholding tax		46,437,107		40,653,607
Total current tax		**109,611,772**		**289,413,715**
Effective tax rate		**20.00%**		**30.16%**

9.2 Current tax assets and liabilities

	2023	2022
Current tax assets	138,527,412	2,819,338
Current tax liabilities	-	-
	138,527,412	**2,819,338**
At 1 January	2,819,338	(201,432,736)
Tax paid	198,882,739	453,012,182
Current tax for the year recognised in profit or loss	(80,171,060)	(248,558,422)
Current tax expenses relating to prior year	16,996,395	-
Write-Off processed to income statement	-	(201,686)
At 31 December	**138,527,412**	**2,819,338**

9.3 Deferred tax assets and liabilities

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

	2023	2022
Deferred tax asset breakdown		
IFRS 16 – Right of Use	3,349,520	5,621,440
Total deferred tax assets	**3,349,520**	**5,621,440**
Deferred tax liability breakdown		
Accelerated capital allowances for tax purposes	(39,359,132)	(11,597,858)
Unrealised foreign exchange gains/(losses)	(762,982)	(1,283,583)
Total deferred tax liabilities	**(40,122,114)**	**(12,881,441)**
Deferred tax assets and liabilities	**(36,772,594)**	**(7,260,001)**
Reconciliation of deferred tax assets		
At 1 January	(7,260,001)	6,858,347
Accelerated capital allowances	(27,761,275)	(21,123,185)
Unrealised foreign exchange losses	520,602	1,383,397
IFRS 16 – Right of Use	(2,271,920)	5,621,440
Tax losses available for set off against future taxable income		-
At 31 December	**(36,772,594)**	**(7,260,001)**

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

10. Cash and deposits with the Central bank

	2023	2022
Current assets		
Cash and deposits with the Central Bank is as follows:		
Local currency	**1,639,671,769**	**558,778,926**
	1,639,671,769	**558,778,926**

The balances held with the Central Bank of Mozambique satisfy their requirements to maintain sufficient cash reserves. The minimum cash reserve requirement was MZN 1,573,255,674 as at 31 December 2023 (31 December 2022: MZN 517,955,285). The rules in place as at 31 December 2023, as specified in Circular number 02/EMO/2023 of Notice 01/GBM/2023 of the Central Bank, established that financial institutions have to deposit an average balance of 39% of local currency and 39.50% of foreign currency of its client deposits at the end of each calculation period (2022:10.50% and 11.50%, respectively). No interest is earned on these minimum reserve balances with the Central Bank of Mozambique.

11. Deposits with other financial institutions

	2023	2022
Current assets		
Cash and due from banks consist of:		
Cash balance		
Cash and mobile money on hand	3,106,158	6,140,677
Due from banks		
Local currency	2,126,805,845	702,555,277
Foreign currency	134,308	138,701
Total due from banks	**2,126,940,153**	**702,693,978**
Total deposits with other financial institutions	**2,130,046,311**	**708,834,655**

12. Loans and advances to customers

	2023	2022
Gross advances	16,380,722,158	17,037,038,085
Impairment provision	(1,061,692,716)	(897,429,388)
Loans and advances to customers	**15,319,029,442**	**16,139,608,697**
Impairment provision		
At 1 January	897,429,388	414,847,077
Net impairment recognised in profit or loss	513,150,477	488,416,192
Utilisation of allowance for impairment	(348,887,149)	(5,833,881)
At 31 December	**1,061,692,716**	**897,429,388**
Non-current assets	13,028,760,232	13,944,327,048
Current assets	2,290,269,210	2,195,281,649
Loans and advances to customers	**15,319,029,442**	**16,139,608,697**

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	1,426,485	1,253,529
Loans and receivables to directors	**1,426,485**	**1,253,529**

13. Other assets

	2023	2022
Prepayments	15,552,293	13,320,592
Other receivables	34,348,011	33,008,710
Impairment provision	-	-
Total other assets	**49,900,304**	**46,329,302**
Impairment provision		
At 1 January	-	18,333
Net impairment recognised in profit or loss	-	-
Impairment provision reversal	-	(18,333)
At 31 December	**-**	**-**
The other receivables are made up of the following:		
Advances to employees	427,056	44,695
Deposits for rentals	2,112,086	2,054,086
Sundry debtors	31,808,868	30,909,929
Total other receivables	**34,348,010**	**33,008,710**
Sundry debtors include:		
Credit life commission	9,542,133	14,840,074
Other	22,266,735	16,069,855
Total sundry debtors	**31,808,868**	**30,909,929**

14. Investment securities

As of 31 December 2023, and 31 December 2022, the Microbank had the following investments:

		2023	2022
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**
		6,960,302	**1,615,602,766**
Opening balance		1,615,602,766	1,439,954,479
Additions		5,561,433,737	5,747,947,341
Matured		(7,170,076,201)	(5,572,299,054)
At 31 December		**6,960,302**	**1,615,602,766**

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

	2023	2022
Treasury Bills	-	1,614,616,545
Impairment on Treasury Bills	-	(5 974 081)
	-	**1,608,642,464**

The treasury bills 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 17.85% (2022: 17.55% to 17.65%) 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. However, Bayport management decided that there would be no outstanding Treasury Bills at the end of 2023 to avoid high impairments arising from the downgrade of Mozambique sovereign credit rating during the year.

15. Property and equipment

Cost	Furniture and fixtures	Motor vehicles	Office equipment	IT equipment	Leasehold improvements	Asset under construction	Total
At 01 January 2022	**29,644,423**	**53,672,988**	**37,673,488**	**79,542,607**	**61,556,818**	**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)
At 1 January 2023	**30,190,683**	**49,798,824**	**42,307,745**	**84,426,331**	**66,245,629**	**2,102,116**	**275,071,329**
Additions	-	5,100,000	801,052	3,736,199	3,425,108	-	13,062,359
Disposals	(5,759,564)	(9,088,312)	(15,319,650)	(22,258,497)	-	(964,805)	(53,390,828)
Transfers					1,137,311	(1,137,311)	-
At 31 December 2023	**24,431,119**	**45,810,512**	**27,789,147**	**65,904,034**	**70,808,048**	**-**	**234,742,862**
Accumulated depreciation							
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 1 January 2023	**27,002,690**	**29,565,888**	**36,309,931**	**66,702,211**	**51,237,362**	**-**	**210,818,082**
Charge for the year	1,884,865	5,837,147	2,383,029	9,675,649	9,973,743	-	29,754,433
Disposals	(5,481,495)	(7,068,301)	(15,123,938)	(21,103,245)	-	-	(48,776,979)
At 31 December 2023	**23,406,060**	**28,334,734**	**23,569,022**	**55,274,615**	**61,211,105**	**-**	**191,795,536**
Carrying Value							
At 31 December 2023	**1,025,059**	**17,475,778**	**4,220,125**	**10,629,419**	**9,596,943**	**-**	**42,947,324**
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**

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 2022	**217,178,509**	**217,178,509**
Additions	32,920,216	32,920,216
Modifications	(14,314,361)	(14,314,361)
At 01 January 2023	**235,784,364**	**235,784,364**
Additions	131,993,483	131,993,483
Modifications	(118,674,514)	(118,674,514)
At 31 December 2023	**249,103,333**	**249,103,334**
Accumulated depreciation		
At 01 January 2022	**114,001,874**	**114,001,874**
Charge for the year	28 122 154	28 122 155
Termination of lease	-	-
At 01 January 2023	**142,124,028**	**142,124,028**
Charge for the year	32,021,877	32,021,877
Termination of lease	-	-
At 31 December 2023	**174,145,905**	**174,145,906**
Carrying Value		
At 31 December 2023	**74,957,428**	**74,957,428**
At 31 December 2022	**93,660,336**	**93,660,336**

16.1 Amount recognised in profit or loss

	2023	2022
Interest on lease liabilities	16,961,026	18,653,103
Depreciation of right of use asset	32,021,877	28,122,155
Expenses relating to short term leases	(16,988,932)	(9,141,101)
	31,993,971	**37,634,156**

16.2 Amount recognised in the statement of cash flows

	2023	2022
Lease liabilities – capital repaid	24,316,191	22,468,229
Lease liabilities – interest paid	16,961,026	18,653,103
	41,277,217	**41,121,332**

17. Intangible assets

Cost	Computer Software	Asset under development	Total
At 01 January 2022	**556,132,857**	**23,996,781**	**580,129,638**
Additions	327,600	-	327,600
Transfers	-	-	-
At 01 January 2023	**556,460,457**	**23,996,781**	**580,457,238**
Additions	-	9,144,410	9,144,410
Transfers	-	-	-
At 31 December 2023	**556,460,457**	**33,141,191**	**589,601,648**
Accumulated depreciation			
At 01 January 2022	**145,403,419**	**-**	**145,403,419**
Charge for the year	67,680,786	-	67,680,786
At 01 January 2023	**213,084,205**	**-**	**213,084,205**
Charge for the year	64,574,288	-	64,574,288
At 31 December 2023	**277,658,493**	**-**	**277,658,493**
Carrying Value			
At 31 December 2023	**278,801,964**	**33,141,191**	**311,943,155**
At 31 December 2022	**343,376,252**	**23,996,781**	**367,373,033**

18. Deposit from customers

Customer deposits are mainly comprised of fixed term deposits.

	2023	2022
Corporate clients		
Fixed term deposits	2,482,671,750	2,776,425,676
Current accounts	70,720,995	**53,466,722**
Individual clients		
Fixed term deposits	1,561,994,101	2,170,434,923
Current accounts	70,185,370	40,510,113
Total deposit from customers	**4,185,572,216**	**5,040,837,434**
Maturity analysis		
Current liabilities		
Fixed deposits	2,404,273,830	4,239,930,029
Current accounts	140,906,365	93,976,835
Total current liabilities	**2,545,180,195**	**4,333,906,864**
Non-current liabilities		
Fixed deposits	1,640,392,021	706,930,570
Current accounts	-	-
Total non-current liabilities	**1,640,392,021**	**706,930,570**
Total deposit from customers	**4,185,572,216**	**5,040,837,434**

19. Due to banks

The Microbank Bank has two overdraft facilities amounting to MZN 140,958,334 with other financial institutions and have maturities of one year. The facilities were unutilised on 31 December 2023 (2022: Nil).

20. Other liabilities

Current liabilities

	2023	2022
Accounts Payable	412,932,797	326,932,014
Withholding tax payable	174,806,644	171,231,436
Sundry creditors and accruals	79,338,777	106,485,605
Total other liabilities	**667,078,218**	**604,649,055**

21. Lease liabilities

	2023	2022
Maturity analysis		
Not later than 1 year	39,627,874	56,678,207
Later than 1 year and not later than 5 years	78,457,739	85,750,015
Later than 5 years	-	11,998,235
	118,085,613	**154,426,457**
less: future finance charges	(32,660,934)	(43,199,121)
Total discounted lease liabilities at 31 December	**85,424,679**	**111,227,336**
Present value of minimum lease payments due		
Within one year	25,923,756	36,368,717
In second to fifth year inclusive	59,500,923	74,858,619
Present value of minimum lease payments	**85,424,679**	**111,227,336**
Non-current liabilities	59,500,923	74,858,619
Current liabilities	25,923,756	36,368,717
	85,424,679	**111,227,336**

22. Borrowed funds

	2023	2022
Held at amortised cost		
Corporate bonds	3,953,625,948	3,059,584,870
Commercial papers	435,776,805	-
Term Loans	4,291,147,081	4,991,664,268
Transaction costs	**(71,788,631)**	**(84,895,235)**
	8,608,761,203	**7,966,353,903**

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

(ii) Commercial papers have maturity date of August 2024.

(iii) Term loans have maturity dates ranging from January 2024 to November 2027.

	2023	2022
Non-current liabilities		
At amortised cost	5,762,707,864	6,064,195,650
Current liabilities		
At amortised cost	2,846,053,339	**1,902,158,253**
Total borrowed funds	**8,608,761,203**	**7,966,353,903**

23. Amount payable to shareholder

	2023	2022
Loan from shareholder	1,142,929,575	1,448,220,199
Professional fees	312,308,515	152,428,524
	1,455,238,090	**1,600,648,723**
Maturity Analysis		
Non-current liabilities	1,142,929,575	1,448,220,199
Current liabilities	312,308,515	152,428,524
	1,455,238,090	**1,600,648,723**

(i) Outstanding loans from Bayport Management Ltd are denominated in MZN. A 10-year term USD loan facility of USD 22,500,000 was granted in January 2015, bearing interest at a fixed rate of 4% per annum. USD 10.5 million of this facility was subsequently converted to equity and the remaining balance was converted to an MZN loan 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 drawn-down amount of this USD denominated loan was fully paid in 2022. USD 11,495,526 was still available to be drawn as of 31 December 2023 (2022: USD 11,495,526).

(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 2022	**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	-	-	-
At 01 January 2023	**2,775,999,645**	**-**	**2,775,999,645**
Repayment of Deposit for shares	-	-	-
Issue of shares	355	-	355
31 December 2023	**2,776,000,000**	**.**	**2,776,000,000**

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 2022	**2,483,521**	**2,483,521**
Issue of shares	292,479	292,479
At 01 January 2023	**2,776,000**	**2,776,000**
Issue of shares	-	-
31 December 2023	**2,776,000**	**2,776,000**

During the year, no ordinary shares were issued (2022: 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 2023, a legal reserve amounting to MZN 196,862,077 was transferred based on profits made in 2022.

	2023	2022
At 1 January	506,072,038	246,257,848
Transfer from income surplus account	196,862,077	259,814,190
At 31 December	**702,934,115**	**506,072,038**

26. Cash used in operations

	2023	2022
Profit before taxation	547,976,609	959,738,986
Adjustments for:		
Depreciation and amortisation	126,350,597	132,625,851
Loss/(Gain) on disposal of property and equipment and intangibles	1,176,724	(57,217)
Finance Costs	2,758,023,441	2,228,846,780
Unrealised loss on foreign exchange	1,671,317	3,830,450
Increase in provision for credit impairment	466,876,630	548,704,325
Changes in working capital:		
Increase in other assets	(35,247,809)	(15,401,983)
Decrease/(increase) in gross advances	353,702,625	(2,671,746,154)
Increase / (decrease) in other liabilities	220,637,836	(72,665,698)
(Decrease) / increase in deposit from customers	(855,265,217)	1,459,241,756
Cash used in operations	**3,585,902,753**	**2,573,117,095**

27. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities – 2023

	Lease Liabilities	Borrowings	Bonds and Commercial Papers	Shareholder Loans	Total
Opening Balance	111,227,336	5,061,889,755	2,904,464,148	1,448,220,199	**9,525,801,438**
Cash flow items:					
Proceeds	-	1,835,673,531	1,395,045,100	-	**3,230,718,630**
Capital repayment	(24,316,191)	(2,647,989,693)	-	(458,892,227)	**(3,131,198,111)**
Interest / Coupon paid	(16,961,026)	(1,049,034,678)	(694,472,671)	-	**(1,760,468,376)**
Deferred transaction cost paid	-	(10,246,691)	(19,356,766)	-	**(29,603,457)**
Non-cash flow items					
Interest accrued	16,961,026	1,036,000,736	754,078,370	153,601,603	**1,960,641,736**
Deferred transaction cost accrued	-	26,533,416	16,176,647	-	**42,710,064**
Other adjustments	(1,486,465)	-	-	-	**(1,486,465)**
Closing Balance	**85,424,679**	**4,252,826,376**	**4,355,934,828**	**1,142,929,575**	**9,837,115,459**

Reconciliation of liabilities arising from financing activities – 2022

	Lease Liabilities	Borrowings	Bonds and Commercial Papers	Shareholder Loans	Total
Opening Balance	127,472,363	3,998,289,811	2,584,659,988	1,695,333,384	**8,405,755,546**
Cash flow items:					
Proceeds	-	3,079,840,000	292,999,000	-	**3,372,839,000**
Capital repayment	(22,468,229)	(2,041,476,493)	-	(42,001,846)	**(2,105,946,568)**
Interest / Coupon paid	(18,653,103)	(551,097,108)	(451,390,534)	(776,451,202)	**(1,797,591,947)**
Deferred transaction cost paid	-	(42,129,447)	(6,251,452)	-	**(48,380,899)**
Non-cash flow items					
Interest accrued	24,876,305	591,939,247	475,594,240	571,374,399	**1,663,784,190**
Deferred transaction cost accrued	-	26,523,745	8,852,906	-	**35,376,652**
Other adjustments	-	-	-	(34,536)	**(34,536)**
Closing Balance	**85,424,679**	**4,252,826,376**	**4,355,934,828**	**1,142,929,575**	**9,837,115,459**

28. Cash and cash equivalents

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

		2023	2022
Cash and deposits with Central Bank	10	1,639,671,769	558,778,926
Deposits with other financial institutions	11	2,130,046,311	708,834,655
Total cash and cash equivalents		**3,769,718,080**	**1,267,613,581**

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 6,251,072,221 in event of unremedied payment defaults. Management does not expect unremedied payment defaults to happen in the foreseeable future.

Leases
The Microbank entered into 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.

Litigations
There are eleven separate open legal proceedings instituted by clients in 2020 to 2023 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 expected that the cases will be concluded by the end of 2024. 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 6,256,591. 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

	2023	2022
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	Grant Kurland	Edgar Baloi
	Helena Fernandes	
Fiscal Council	CW Ducker	CW Ducker

30.1 Related party balances

	2023	2022
Amount due to related parties		
Bayport Management Ltd (Loan)	1,142,929,575	1,448,220,199
Bayport Management Ltd (Professional fees)	312,308,515	152,428,524
Actvest (Proprietary) Limited (Cost recoveries)	1,882,485	923,937
Actvest (Proprietary) Limited (Professional fees)	365,303,312	272,837,033
Loans and receivables to executive directors	(1,426,485)	(1,253,529)

Amounts payable to shareholder are disclosed in note 23.

30.2 Related party transactions

	2023	2022
Bayport Management Ltd		
Interest paid	166,958,264	217,501,891
Professional fees paid	104,594,867	236,419,098
Total	**271,553,131**	**453,920,989**
Actvest (Proprietary) Limited		
Professional fees paid	37,935,791	128,113,574
Whatana Investments, S.A		
Management fees	27,364,460	25,079,095
Directors' fees		
Directors' fees	1,937,925	1,446,830

30.3 Compensation to directors and other key management personnel

	2023	2022
Short term employee benefits	56,989,613	44,787,041
Post-employment benefits	1,118,364	1,092,196
Total	**58,107,977**	**45,879,237**

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 2023 or 2022.

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 RCC. The RCC monitors risks associated with credit, reputational, IT, operational, conduct, compliance, legal, strategic, financial, interest rate, foreign currency and liquidity. The RCC is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the Microbank's management of risk.

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 2023	Loans and advances	Other assets	Investment in other financial assets	Total
Neither past due nor credit impaired	12,439,076,521	34,348,008	-	12,473,424,529
Past due but not credit impaired	3,513,400,863	-	-	3,513,400,863
Credit impaired	425,448,732	-	-	425,448,732
Impairment allowance	(1,061,692,716)	-	-	(1,061,692,716)
	15,316,233,400	**34,348,008**	**-**	**15,350,581,408**

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**

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

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:

	2023	2022
Past due up to		
1 month	1,483,750,689	764,386,981
1-2 months	718,402,975	312,555,944
2-3 months	409,261,927	164,713,139
3-4 months	223,621,808	113,188,864
Older than 4 months	678,363,464	489,680,684
Loans past due but not credit impaired	**3,513,400,863**	**1,844,525,612**

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 2022	**62,185,547**	**182,536,608**	**170,124,922**	**414,847,077**
Originations	59,288,361	58,140,824	40,683,860	158,113,045
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)	(66,440,477)
Write-offs	-	-	(5,833,881)	(5,833,881)
Investments - existing book movements	5,974,081	-	-	5,974,081
At 01 January 2023	**133,428,252**	**401,421,099**	**368,554,118**	**903,403,469**
Originations	19,616,598	26,679,397	6,223,244	52,519,239
Existing book movements	(41,262,648)	268,316,622	260,563,882	487,617,856
Derecognition (settlements in the ordinary course of business)	(5,220,416)	(8,170,135)	(13,596,068)	(26,986,619)
Write-offs			(348,887,149)	(348,887,149)
Investments - existing book movements	(5,974,081)			(5,974,081)
At 31 December 2023	**100,587,705**	**688,246,983**	**272,858,027**	**1,061,692,715**

31.2 Categories of financial instruments

	2023	2022
Financial assets		
At amortised cost		
Cash and deposits with Central Bank	1,639,671,769	558,778,926
Deposits with other financial institutions	2,130,046,311	708,834,655
Loans and advances to customers**	15,316,233,401	16,241,514,293
Other assets	34,348,007	33,008,710
Investment securities	-	1,608,642,464
Fair value through other comprehensive income		
Investment securities	6,960,302	6,960,302
Total financial assets	**19,127,259,790**	**19,157,600,350**
Financial liabilities		
At amortised cost		
Deposit from customers	4,185,572,216	5,040,837,434
Due to banks	-	-
Other liabilities	667,078,218	330,888,085
Lease liabilities	85,424,679	111,227,336
Borrowed funds*	8,680,549,833	8,051,249,138
Amount payable to shareholder	1,455,238,104	1,600,648,723
Total financial liabilities	**15,073,863,050**	**15,134,850,716**

* 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 2023

Cash flows from financial assets	**0-3 months**	**4-12 months**	**1-5 years**	**>5years**	**Total**
Cash and deposits with the Central Bank	1,639,671,769				1,639,671,769
Deposits with other financial institutions	2,130,046,311				2,130,046,311
Loans and advances to customers	1,697,634,624	5,041,186,295	20,749,627,915	3,155,496,034	30,643,944,868
Other assets	34,348,007	-	-	-	34,348,007
Investment securities	-	-	-	-	-
Cash flows from financial assets	**5,501,700,711**	**5,041,186,295**	**20,749,627,915**	**3,155,496,034**	**34,448,011,105**

Cash flows from financial liabilities	**0-3 months**	**4-12 months**	**1-5 years**	**>5years**	**Total**
Deposit from customers	1,029,876,982	1,515,303,214	1,640,392,021		4,185,572,216
Due to banks	-	-	-	-	-
Other liabilities	667,078,217	-	-	-	667,078,217
Borrowed funds	1,311,659,359	3,263,372,222	7,421,273,368	-	11,996,304,949
Amount payable to shareholder	349,453,726	1,136,006,612	79,092,123	-	1,564,552,461.00
Cash flows from financial liabilities	**3,358,068,284**	**5,914,682,048**	**9,140,757,512**	**-**	**18,413,507,844**
Net financial position	**2,143,632,427**	**(873,495,753)**	**11,608,870,403**	**3,155,496,034**	**16,034,503,261**

31 December 2022

Cash flows from financial assets	**0-3 months**	**4-12 months**	**1-5 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**

31.5 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 2023 and 01 January 2022.

31 December 2023	Amount	Scenario 1 Effect after 10% increase in variable interest rates	Scenario 2 Effect after 10% decrease in variable interest rates
Profit after tax	408,852,244	317,037,292	500,667,197
Equity	4,675,136,448	4,583,321,496	4,766,951,401

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

Assuming no management actions, a rise would decrease the Microbank's profit after tax for the year and equity by MZN 91,814,953 (31 December 2022: MZN 138,340,799) 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 2023	MZN	USD	ZAR	TZS	Total
Assets					
Cash and deposits with Central Bank	1,639,671,769				1,639,671,769
Deposits with other financial institutions	2,129,911,852	134,459	-	-	2,130,046,311
Loans and advances to customers**	15,316,233,401				15,316,233,401
Other assets	34,348,007				34,348,007
Investment securities	6,960,302				6,960,302
Total financial assets	**19,127,125,331**	**134,459**	**-**	**-**	**19,127,259,790**
Liabilities					
Deposit from customers	4,185,572,216	-	-	-	4,185,572,216
Due to banks					
Other liabilities	299,625,894	365,303,312	1,882,485	266,527	667,078,218
Lease liabilities	85,424,679				85,424,679
Borrowed funds*	8,680,549,833				8,680,549,833
Amount payable to shareholder	1,142,929,575	312,308,529	-	-	1,455,238,104
Total financial liabilities	**14,394,102,197**	**677,611,841**	**1,882,485**	**266,527**	**15,073,863,050**
Net financial position	**4,733,023,134**	**(677,477,382)**	**(1,882,485)**	**(266,527)**	**4,053,262,281**

* 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 2022	MZN	USD	ZAR	TZS	Total
Total financial assets	19,157,600,648	136,517	2,185	-	19,157,739,350
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**

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 2023 and 01 January 2022 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 2023	Amount	Scenario 1 Effect after 10% appreciation in MZN	Scenario 2 Effect after 10% depreciation in MZN
Profit after tax	408,852,244	408,843,112	408,861,377
Equity	4,675,136,448	4,675,127,315	4,675,145,581

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

Assuming no management actions, an appreciation in MZN would increase profit after tax for the year by MZN 9,133 (31 December 2022 by MZN 9,432), increase equity by MZN 9,133 (31 December 2022 by MZN 9,432), 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.

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).

33. Fair value measurements (continued)

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 2023		31 December 2022	
	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
- Loans and advances to customers**	15,316,233,401	15,316,233,401	16,241,514,293	16,241,514,293
Fair value through other comprehensive income				
- Investment securities	6,960,302	6,960,302	6,960,302	6,960,302
	15,323,193,703	**15,323,193,703**	**17,857,117,059**	**17,857,117,059**
Financial liabilities				
Financial liabilities held at amortised cost				
- Deposit from customers	4,185,572,216	4,185,572,216	5,040,837,434	5,040,837,434
- Lease liabilities	85,424,676	85,424,676	111,227,336	111,227,336
- Borrowed funds*	8,680,549,833	8,680,549,833	8,051,249,138	8,051,249,138
- Amount payable to shareholder	1,455,238,104	1,455,238,104	1,600,648,723	1,600,648,723
	14,406,784,829	**14,406,784,829**	**14,803,962,631**	**14,803,962,631**

* 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.

Fair value hierarchy as at 31 December 2023	Level 1 MZN	Level 2 MZN	Level 3 MZN	Total MZN
Financial assets				
At amortised cost				
- Loans and advances to customers	-	-	15,316,233,401	15,316,233,401
- Investment securities	-	-	-	-
Fair value through other comprehensive income				
- Investment securities	-	-	6,960,302	6,960,302
Total	-	-	**15,323,193,703**	**15,323,193,703**

	Level 1 MZN	Level 2 MZN	Level 3 MZN	Total MZN
Financial liabilities				
At amortised cost				
- Deposit from customers	-	-	4,185,572,216	4,185,572,216
- Lease liabilities	-	-	85,424,679	85,424,679
- Borrowed funds	-	-	8,680,549,833	8,680,549,833
- Amount payable to shareholder	-	-	1,455,238,104	1,455,238,104
Total	-	-	**14,406,784,832**	**14,406,784,832**

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**

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 2023 and 31 December 2022 as per the requirements of the Bank of Mozambique:

34. Capital Management (continued)

	2023	2022
Core Capital (Tier I)		
Share Capital Realised	2,776,000,000	2,775,999,645
Legal reserves	702,934,115	506,072,038
Reserves and Retained Earnings Losses	787,350,089	328,005,241
Negative revaluation reserves	-	(361,853,873)
Intangible Assets	(311,943,155)	(367,373,033)
Impairment Provision Gap	(443,734,757)	(279,500,161)
Core Capital (Tier I)	**3,510,606,292**	**2,601,349,857**
Complimentary Capital (Tier II)		
Other	1,706,135	1,694,583
Complimentary Capital (Tier II)	**1,706,135**	**1,694,583**
Eligible Capital (Tier I and Tier II)	**3,512,312,427**	**2,603,044,440**
Risk Weighted Assets (RWA)		
Credit Risk	13,649,081,018	13,556,665,613
Off Balance Sheet		-
Operational and Market Risk	362,087,126	310,283,138
	14,011,168,144	**13,866,948,751**
Capital Adequacy Ratios		
Core Tier I	25.06%	18.76%
Core Tier II	0.01%	0.01%
Solvency Ratio	25.07%	18.77%
Solvency Ratio (Minimum Required)	8.00%	8.00%

35. Events after the reporting period

There were no material significant events after the reporting date that require disclosure in or adjustments to the financial statements for the year ended 31 December 2023.