****

'18

ANNUAL REPORT

****

Millennium bim

INDEX

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

The Mozambican economy grew moderately in 2018 (GDP accelerated by an average of 3.5%), boosted by the strong performance of sectors such as agriculture, extractive industry, trade and port services, transport and logistics. The stability of the foreign exchange market was mainly due to the increase in megaproject exports (Coal, Aluminium, Energy, Natural Gas and Heavy Sands), and lower aggregate demand, which favoured the slowdown of annual inflation to a single digit level (3.52%), reflecting in further cuts to benchmark interest rates on the interbank money market.

In 2018, progress was made in the expansion of financial services to rural areas, external support to some social projects, advances in the negotiation process of public debt restructuring, regularization of domestic payments with suppliers of goods and services to the State, structural reforms, institutional and regulatory frameworks to improve the business environment of the private sector, signed agreements for the purchase and sale of liquefied natural gas from Rovuma basin projects. The combination of these factors, coupled with the improvement of macroeconomic indicators and business confidence, has reinforced expectations of a gradual recovery in economic activity over the medium term.

In a challenging economic environment and demanding financial regulation, Millennium bim has continued to demonstrate strong capacity for value creation (growing and sustainable results), backed by efficient cost management, a comfortable liquidity position, adequate capital levels, and resilience to face adverse impacts from the market environment. The favourable performance achieved in 2018 was clearly demonstrated by the following indicators:

- Total assets amounted to MT 148,883 million, an increase of 10% compared to the previous year;
- Funds increased 9% y/y, from MT 104,265 million to MT 113,864 million. This increasing variation results from the dynamics of commercial activity and payments made by the State to private companies;
- Banking Net Operating Revenue maintained an increasing trend, MT 16,462 million in 2018, representing an increase of 9% y/y;
- Net income reached the highest level in the last four years, from MT 3,391 million in 2015 to MT 6,367 million in 2018;
- Ratios of efficiency and return on average equity stood at 38.96% and 22.36%, respectively;
- Equity increased 17% y/y, contributing to the strengthening of the solvency ratio, which increased to 39% in 2018, the highest level since the implementation of Basel II.

Millennium bim has continued the process of financial inclusion through its efforts to increase the banking sector's national banking index by expanding financial services in various parts of the country. The expansion of the commercial network and the attraction of new Customers is a continuous strategy and represents a strong business component of Millennium bim, so the opening of new branches throughout the country is an important factor for the Bank's approach to unbanked populations.

In 2018, our branch network reached 193, coupled with an increase in the number of ATMs and POS, to 520 and 7,792, respectively. The number of banking agents has grown to 342, resulting in a geographical expansion of bank services. The customer base has grown significantly in the last four years (from 1.454 million to 1.760 million), leveraged by the expansion of the banking network, the launch of new digital platforms and technological solutions aimed at serving more financial consumers and serving them better.

Attentive to meeting its customer's needs, and committed to innovation and improved ease of access to banking services, the Bank has provided new functionalities on Millennium IZI, with emphasis on joining Mobile Banking via mobile phones - Customers can join the channel without having to go to the branch, using their telephone number registered on the Bank's database, and in the scope of interoperability between commercial banks and electronic money institutions, a partnership was signed between Millennium bim and Vodafone M-pesa, where customers with Millennium IZI as well as M-pesa can now make transactions between the two platforms easily, quickly and safely.

The Bank has reaffirmed its commitment to the implementation and dissemination of the principles of the United Nations Global Compact Initiative with regard to Human Rights, Labour and the Environment. Millennium bim remains committed to its social responsibility program through projects aimed at improving the quality of life of communities. Regarding sports, we highlight the support of the 13th edition of the mini-tournament Millennium bim, which reached all the provinces of the Country, the Millennium bim Race and the Helpo Race. In the area of education we continued to support the Banking Olympiads, environmental education in schools, and awareness about savings, among others.

In a plainly demanding market, the strategic priorities defined by the MBA - Millennium Bim Academy had as their main focus: the development of Employees' competences, with particular emphasis on improving the quality of customer service, rigorous execution of operations and reinforcement of technical and relational skills of the Commercial Managers, and the development of Millennium bim Leaders.

With the objective of supporting Employees who have expressed their desire to continue their studies, Millennium bim continued the Program of Scholarship for Master's Degree and Bachelor's Degree Scholarships.

Millennium bim has undeniably made a contribution to the national economy in terms of promoting jobs for young people who represent an important asset to ensure sustainable and inclusive growth.

Millennium bim was once again awarded the prize of the best bank in the area of Trade Finance Provider by the prestigious magazine for financial markets information and banking sector analysis, Global Finance, for the solutions it offers customers in international trade operations. This distinction joins other international awards such as "Best Internet Banking Site in Mozambique" and "Best Bank in Mozambique" both awarded by Global Finance, "Best Bank in Mozambique" by Euromoney, and "Most Innovative Bank of the Year" by The European magazine.

The international awards attributed to Millennium bim, over the years, reflect the recognition, commitment and merit of this financial institution with regards to customers, promotion of financing to the economy, boosting banking penetration, contribution in accelerating financial inclusion through the provision of modern and market-adapted financial solutions, digital technological innovation and good governance based on internationally accepted good practices and instituted by the banking supervisory authority.

With a view to the future of the financial services industry, the main focuses and challenges are: (i) scrupulous compliance with regulatory framework; (ii) in the resolution of credits in default and reversal of provisions / impairments; (iii) enhancing profitability and enhancing liquidity;; (iv) technological innovation through the provision of digital banking solutions to better serve financial consumers; (v) human resources training to improve service efficiency; (vi) the transformation of governance and business models; (vii) the consolidation of a responsible, stable, reliable and profitable bank with the capacity to promote the development, grobywth and financing of the economy.

The problem of non-performing loans, coupled with even more demanding regulatory and supervisory framework, with a focus on prudential and behavioural aspects of banking institutions, represent the main challenges facing the sector, within a closer time horizon. On the other hand, megaprojects in the Oil & Gas, Mining, Energy and other industries (agro-industry, logistics) will create new value chains, directly or indirectly (complementary sectors) with new financing needs. Local banking will play a vital role in fostering the creation of these value chains and capturing fair-share opportunities.

Finally, on behalf of the Board of Directors of Millennium bim, I would like to express our gratitude to the Employees for their effort, dedication, attitude and commitment to the corporate values of the institution, which have actively and cohesively contributed to the success of the results achieved.

Special thanks to our Customers for the preference and trust deposited, and to the Shareholders for their support in the implementation of our strategic plan.

Here with you!

Rui Cirne Plácido de Carvalho Fonseca

(Presidente)

KEY INDICATORS

Key Indicators – On an individual basis

Million Meticais

	2018	2017	2016	2015	Change % 18/17
Balance Sheet					
Total assets	148,883	134,980	133,780	117,066	10.30%
Loans to customers (net)	50,165	61,413	78,283	66,331	-18.32%
Total customer funds	113,864	104,265	100,687	91,450	9.21%
Shareholders' equity	30,822	26,315	21,496	21,496	17.13%
Profitability					
Net operating revenues	16,462	15,061	13,332	9,953	9.31%
Operating costs	6,413	5,995	5,485	4,592	6.97%
Impairment and Provisions	2,396	1,879	1,617	1,268	27.55%
Income Tax	1,286	1,613	1,720	702	-20.29%
Net income attributable to the Bank's Shareholders	6,367	5,574	4,510	3,391	14.23%
Cost to income ratio	38.96%	39.81%	41.10%	46.10%	
Return on average equity (ROE)	22.36%	23.64%	22.50%	19.40%	
Return on average total assets (ROA)	4.45%	4.15%	3.60%	3.20%	
Credit Quality					
Loans overdue > 90 days / total loans	5.33%	5.05%	3.50%	4.20%	
Non-performing loans / total loans	5.47%	5.55%	4.00%	4.30%	
Loan impairment / Loans overdue > 90 days	211.90%	191.48%	205.40%	141.70%	
Cost of risk	253 bps	262 bps	188 bps	158 bps	
Solvency (*)					
Tier I	40.34%	28.03%	20.20%	20.00%	
Total	39.00%	17.10%	18.80%	19.80%	
Customers (thousand)	1,760	1,810	1,272	1,454	-2.76%
Branches	193	186	176	169	3.76%
Employees	2,461	2,476	2,402	2,351	-0.61%

**Does not include the Net Income for the Year under review*

SUMMARY OF THE REPORT FROM THE BOARD OF DIRECTORS

The World Bank predicts that the world economy will grow by 3% in 2018, and by 2019 it is expected to slow to 2.9%. The uncertainty in Europe as a result of the occurrence of Brexit, the Venezuelan crisis, the slowdown in the Chinese economy and the intensification of trade tensions between China and the US are some of the factors that have led the IMF, in the same line as the World Bank, to forecast an overall economic growth of just 3.5 in 2019.

According to the Global Prospects Report (World Bank, Jan/2019), sub-Saharan Africa experienced real GDP growth of 3.1% in 2018 and is expected to rise to 3.8% in 2019, partially explained by the increase in the international prices of raw materials for export from the main producers/exporters (Nigeria and South Africa). In October 2018 the price of oil reached its highest point in the last four years.

In Mozambique, the effects of the sovereign debt crisis, although with less intensity, were still felt throughout 2018, yet these were countered by the implementation of government measures aimed at increasing transparency through the inclusion of the private sector and the promotion and attraction of foreign direct investment, which has been recovering since the third quarter of 2018. Mozambique's GDP has thus reached a growth rate above average for Sub-Saharan Africa.

In 2018, agriculture remained the largest contributor to the economic structure of Mozambique (20%), employing around 80% of the economically active population, followed by the Transport and Communication sector (12%) and Commerce and Services (11%). The CPI (Consumer Price Index) inflation rate stood at 3.52% y/y at the end of December 2018, its lowest level since 2014, representing a decrease of 2.1 points compared to the same period of the previous year.

Consistent with the macroeconomic environment, namely the stabilization of inflation to a single digit, the Central Bank of Mozambique reduced the monetary policy interest rate (MIMO) by 525 bps, to 14.25% in December 2018. With the same downward trend, the rates of the Permanent Deposit Facility (FPD) and the Permanent Lending Facility (FPC) were reduced to 11.25% and 17.25%, respectively.

The rebalancing of the Balance of Payments, the renegotiation of public debt and the maintenance of exchange rate stability have favoured the economy’s recovery, which has been favourable since the third quarter of 2018 and is expected to be reflected in the year 2019. However, Mozambique remains vulnerable to external pressures given its dependence on factors external to its economy, as well as its current level of public indebtedness.

With regard to the Mozambican Financial System and, particularly in the regulatory field, and with a view to providing the financial system with greater solidity and transparency, Bank of Mozambique issued regulations throughout the year consistent with this concern and in line with worldwide best practices.

Despite the macroeconomic context of 2018, Millennium bim posted a positive net result of 6.809 million Meticais, 11% higher than in 2017. Simultaneously, the indicators of solidity and efficiency present values that reflect the bank's resilience and robustness; namely the Solvency Ratio reached 39%, while the Efficiency Ratio stood at 38.96% and Average Return on Equity (ROE) at 22.36%.

Net interest income increased by 8% to 12,341 million Meticais in 2018, mainly due to the positive effect of the reduction in the cost of deposits, which reflected the decline in market benchmark rates and, on the other hand, a decrease of 2.6% in net fees, which amounted to MZN 2,197 million.

Total bank assets increased by 10.30% to 148,883 million Meticais, compared to 134,980 million Meticais in 2017. Total customer funds increased by 9.2% to 113,864 million Meticais (104,265 million Meticais in 2017), while Customer loans (net) decreased from 61,413 million Meticais in 2017 to 50,165 million Meticais in 2018.

The quality of the credit portfolio, measured by the proportion of loans overdue for over 90 days as a function of total credit, stood at 5.3% in 2018, compared to 5.0% in 2017, mainly as a result of the macroeconomic impact on business activity. In line with the bank's prudential criteria, the coverage ratio of loans overdue for over 90 days due to impairment was 212% in 2018, thus allowing comfortable coverage levels for overdue loans.

Millennium bim's response to the new challenges of the market was guided by the strategic orientation in the correct segmentation of the business, directing solutions specific to each customers' needs. Innovation, new product development and customer-oriented campaigns are aspects which have guided the bank's approach to securing and retaining customer loyalty, improving relationships with the customer and the specificity of their needs. The diversification in the supply of means in the relationship with the customer have been factors that arise in the line of a greater and better customer service, boosting the mass expansion of the banking system, as well as the loyalty of the customers that are already banked. In this line, the geographical coverage of the Branches and Agents, ATM and POS expansion, the provision of the *Mobile Banking IZI* service, the development of *Prestige Direct* and *Internet Banking*, have proved to be successful focuses, being sources of value creation for the future.

Millennium bim, since its foundation, has always considered its employees as an essential pillar to the bank's success. At the end of 2018, Millennium bim had 2,461 Employees, a reduction of 1% over the previous year, as a result of a process of internal optimization of the staff, in which new career development opportunities were provided to Employees and a policy of admissions was directed mainly at the commercial areas. buybySeeking to enhance the Millennium bim brand as one of the benchmark employers and the Bank for Talent in Mozambique, Millennium bim Academy launched its first Summer School, targeting university students in Mozambique and abroad.

Millennium bim, within the scope of social responsibility, developed medium-term projects that in 2018 remained active and growing in terms of results, characterized by a greater scope in their actions. Millennium bim endorses the United Nations Global Compact Principles, which focus on improving access to opportunities for the most vulnerable. The Bank's focus in 2018 was on the following programs / activities:

- More Mozambique for Me;
- Sport: Mini Basketball Tournament, Millennium bim Run, Helpo Run;
- Education: Banking Olympiads, Incentivising Savings, A Clean City For Me, Playing Without Borders, Musiarte, Gorongosa National Park, Girl Move Foundation, Donation of Sports Equipment;
- Environment: Panel of Tiles;
- Community Intervention: Donation of Building Material, Corporate Volunteering.

Rui [illegible] de Carvalho [illegible]
(Presidente)

Nuno Manuel da Silva [illegible]
(1º Vice-Presidente)

José [illegible] da Costa
(2º Vice-Presidente)

Miguel Maya Dias Pinheiro
(Administrador)

[illegible]
(Administrador)

[illegible]
(Administrador)

João Manuel [illegible] da Cunha Martins
(Administrador)

Jorge Octávio [illegible] dos Santos
(Administrador)

[illegible]
(Administrador)

[illegible] Costa Lemos
(Administrador)

Nuno Pedro da Silva [illegible]
(Administrador)

Fernando Manuel [illegible] de Carvalho
(Administrador)

João Nuno [illegible]
(Administrador)

José Miguel Bensliman Schorcht da Silva Pessanha
(Administrador)

[illegible]
(Administrador)

INFORMATION ABOUT MILLENNIUM BIM

SHAREHOLDER STRUCTURE

Meticais

Shareholder	No. of Shares	% of share capital	Underwritten and paid-up share capital
BCP África, SGPS	30,008,460	66.69%	3,000,846,000
Estado de Moçambique	7,704,747	17.12%	770,474,700
INSS - Instituto Nacional de Segurança Social	2,227,809	4.95%	222,780,900
EMOSE - Empresa Moçambicana de Seguros, S.A.R.L.	1,866,309	4.15%	186,630,900
FDC - Fundação para o Desenvolvimento da Comunidade	487,860	1.08%	48,786,000
Others (*)	2,704,815	6.01%	270,481,500
Total	**45,000,000**	**100.00%**	**4,500,000,000**

* Other– 1.865 investors, with individual holdings of less than 1%, acquired under the process of the sale of State shares to Employees.

GOVERNING BODIES

Board of the General Meeting

Flávio Prazeres Lopes Menete	Chairman
Esperança Alfredo Samuel Machavela	Deputy Chairman
Horácio de Barros Chimene	Secretary

Supervisory Board

Teotónio Jaime dos Anjos Comiche	Chairman
Eulália Mário Madime	Member
Daniel Filipe Gabriel Tembe	Member

Board of Directors

Rui Cirne Plácido de Carvalho Fonseca	Chairman
Nuno Manuel da Silva Amado	1st Deputy Chairman
José Reino da Costa	2nd Deputy Chairman
Miguel Maya Dias Pinheiro	Director
Manuel Alfredo de Brito Gamito	Director
Jacinto Zacarias Uqueio	Director
João Manuel R. T. da Cunha Martins	Director
Jorge Octávio Netos dos Santos	Director
Moisés Jorge	Director
Liliana Marisa Catoja da Costa Lemos	Director
Nuno Pedro da Silva do Carmo Vaz	Director
Fernando Manuel Nobre de Carvalho	Director
João Nuno Oliveira Jorge Palma	Director
José Miguel Bensliman Schorcht da Silva Pessanha	Director
Oldemiro Júlio Marques Balói	Director

ECONOMIC ENVIRONMENT

INTERNATIONAL ECONOMY

According to forecasts by the World Bank, the world economy is expected to grow 3% by 2018, and to slow 2.9% in 2019, corresponding to a decrease of 0.1 percentage points.

The geopolitical risks, protectionist trade policy and the effects of Brexit could trigger turbulence in the financial markets, leading to a slowdown in the world economy.

In the same vein, the IMF has revised forecasts for global economic growth downwards to 3.5% by 2019, given the political uncertainty in Europe and intensified trade tensions between the two largest economies (US and China).

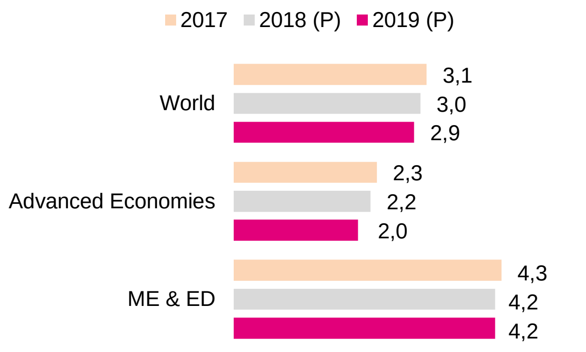
In October 2018, oil prices reached the highest level (US $ 86) in the last four years, driven by: a) a reduction in OPEC supply, b) a fall in Iran's production due to US sanctions and c) reduction of Venezuela's supply resulting from the economic crisis.

The oil market is expected to remain volatile through 2019, reflecting cuts in OPEC output and its partners, as well as slowing foreign demand, in part due to the slowdown in China's economy.

Sub-Saharan Africa experienced a gradual recovery in economic growth (3.1% in 2018, compared to 2.7% in 2017), justified by the appreciation of international commodity prices which benefited the largest producers and exporters in the region (Nigeria, South Africa and Angola).

Graph 1. World Economy

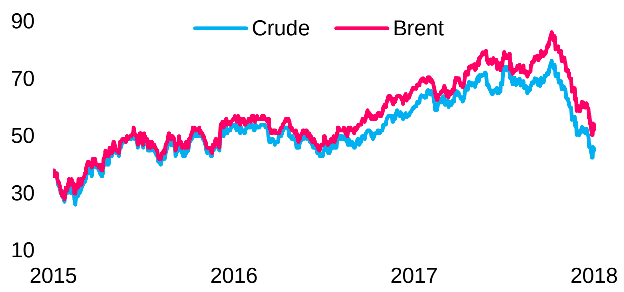
Real GDP Growth %



Source: World Bank, Global Prospects Report, Jan.19

Graph 2. Oil price evolution

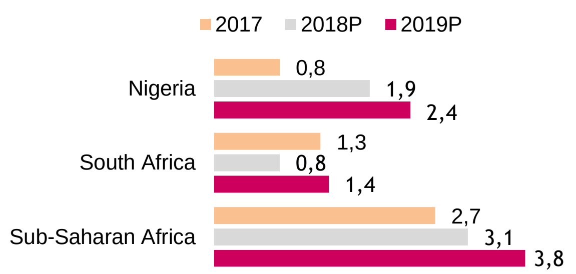
Price (USD/barrel)



Source: Bloomberg

Graph 3. Sub-Saharan Africa

Real GDP Growth, %



Source: World Bank, Global Prospects Report, Jan.19

Adverse climate change, public debt sustainability, the political situation, strengthening of the dollar, volatile financial markets and geopolitical tensions are the main risk factors limiting growth in the region.

National Economy

The macroeconomic environment improved in 2018 following the period of high volatility in the financial markets that has been observed in the last two years as a result of the effects of the sovereign debt crisis. These developments led to a slowdown in the economy to historically low levels (3.3% compared to the 7% average recorded in the last decade), but still above the average (2.7%) in the sub-Saharan Africa region.

The United Nations Development Program's Human Development Report for 2018 indicates that the world average Human Development Index (HDI) has increased by 21.7 per cent since 1990 and 43.3 since 1970. Mozambique has fallen a place in the ranking of development of the United Nations – it now sits in 180th position among 189 nations, contrary to the positive trend observed in 2016. Notwithstanding the slight improvement in the average life expectancy, per capita income has worsened, justified by the combined effect of the decline in nominal GDP and population growth.

In terms of its business environment, Mozambique has climbed three positions (from 138th to 135th) in the World Bank's "Doing Business" ranking, reflecting its success in implementing legal, regulatory and institutional reforms towards ensuring government transparency, the inclusion of the private sector in large projects, as well as promoting the competitiveness of the economy and attracting foreign direct investment, which is necessary to restore the confidence of economic agents, which has been improving since the third quarter of 2018, as a result of prospects for increased domestic demand coupled with improved monetary conditions.

In summary, the year of 2018 was marked by the favourable evolution of the macroeconomic indicators, highlighting the reduction of inflationary pressures, combined with stability on the exchange market, which favoured the continuous and gradual slowdown of the benchmark interest rates in the Interbank Money Market (IMM). It is anticipated that this trend will continue in 2019, supported by the stable political situation, an increase in foreign currency revenues (mainly from coal and aluminium exports), capital inflows from investments in megaprojects in the Mining, Energy, Oil and Gas, with potential to transform, modernize, boost, leverage and crystallize value to the Mozambican economy.

Economic Activity

Quarterly data on the Gross Domestic Product has shown that economic growth remains moderate, due to the prevalence of risks in the domestic and international environment. Namely: (i) the sustainability of public debt, (ii) the effects of fiscal austerity, (iii) administered price adjustments for goods, (iv) geopolitical tensions among the major economies (US and China) with impact on trade flows and investment climate, volatility of oil prices on international markets, political instability in some countries of the region.

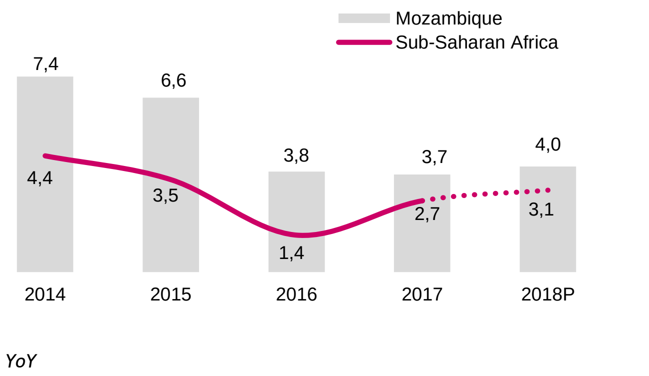
In the third quarter of 2018, the economy grew 3.2% y/y, strongly driven by the primary sector, with the mining and agriculture industry making the largest contributions (15.4% and 3.8%, respectively) in the increasing variation of gross domestic product. The most dynamic growth of the economy has been underpinned by the capital investments of large projects of production and exploitation of coal, heavy sands, graffiti and natural gas, which have contributed to job creation, business promotion (local content) foreign exchange and balance of external accounts.

Agriculture continues to dominate the country's economic structure, accounting for about 20% of Gross Domestic Product. The sector employs around 80% of the economically active population and is the basis for the development of the national economy.

Transport and communications were the second largest contributor to GDP (12%), followed by trade and services (11%) and manufacturing (8%). Diversification of the productive structure and exports, industrialization of the agricultural sector, the development of megaproject value chains, the access to finance for small and medium-sized enterprises (which absorb the overwhelming majority of the country's business fabric), the training of public institutions and private partnerships, the fiscal consolidation, among others, are the main structural challenges that Mozambique faces in the short and medium term.

The IMF technical mission, which visited Mozambique in November 2018, expects real GDP to grow by 4% in 2018, accelerating to 4.7% in 2019, in line with the projections in the General State Budget. According to the IMF, these economic forecasts are based on sustained efforts to create a lasting peace, gradual relaxation of monetary conditions, regularization of domestic payments in arrears with suppliers, and increased foreign direct investment.

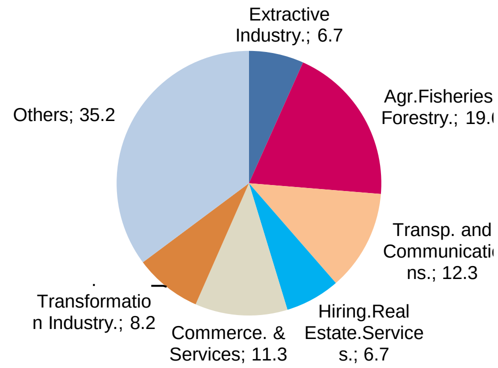
Graph 1. Real GDP Growth



Source: INE

Graph 2 Composition of GDP per sector

In percentage, 3T 2018



Source: INE

EVOLUTION OF INFLATION

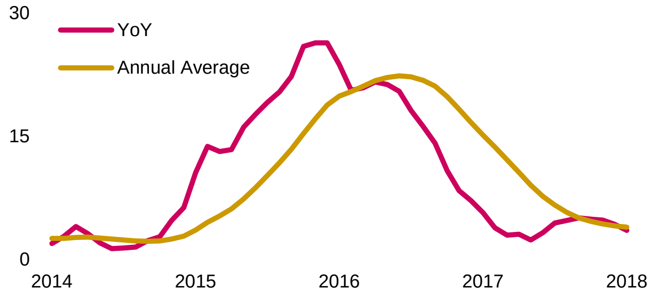
Data published by the INE (National Statistical Institute) has shown a general slowdown in prices throughout 2018, justified on the one hand by the relative stability of the Meticais against the US Dollar and on the other by the combined effect of lower demand and greater supply of goods, resulting from favourable climatic conditions that contributed positively to the performance of the productive sector.

Inflation given by the Consumer Price Index (CPI) stood at 3.52% y/y at the end of December 2018, its lowest level since 2014, representing a decrease of 2.1 percentage points compared to the same period last year.

The average annual inflation (considered one of the benchmarks in the negotiation process for the national minimum wage) reached 3.91%, placing Mozambique in 3rd place in the ranking of the Harmonized Consumer Price Index in SADC countries.

Graph 3. Inflation Evolution

Y-o-y and Annual average, %



Source: INE

Regarding inflation by geographical area, the cities of Maputo, Beira and Nampula registered price increases of around 4.33%, 3.76% and 1.74%, respectively. This data shows that the Mozambican capital recorded the highest price level increase in the country, explained by the increase in consumption during the holiday season.

The maintenance of forward looking inflation at around a single digit creates space for the continuation of the cycle of reducing interest rates in the economy, boosting the aggregate demand in the credit market, in a context in which the country expects investments in the oil and gas sector.

The Central Bank has warned of the prevalence of risks that could damper expectations of low and stable inflation in the short and medium term, namely high public indebtedness, as well as uncertainties regarding the evolution of administered prices for goods and external shocks resulting from the global growth slowdown, with impact on foreign trade and fluctuation of international prices for imported and exported goods.

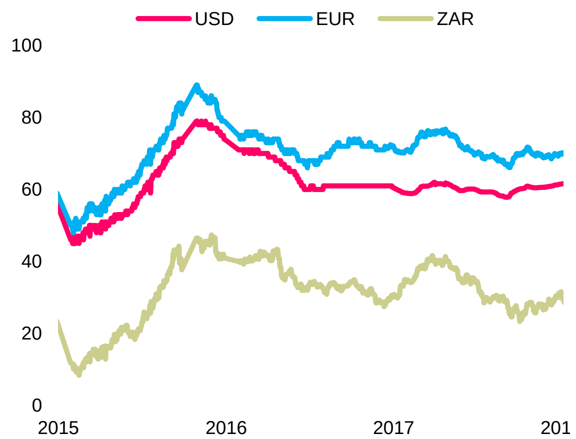
Exchange Market and Monetary Market

At the end of 2018, the Meticais exchange rate against the US dollar maintained a trend of depreciation, explained by the strengthening of the Dollar on the international market, and by a greater demand for foreign exchange on the Interbank Foreign Exchange Market (FEM).

At the end of December, the average exchange rate offered by commercial banks with the public stood at 61.5 MZN, corresponding to a depreciation of 4% on an annual basis.

Graph 4. Exchange rates

USD/EUR/ZAR



The depreciation of the national currency in the latter part of the year has been justified by the greater pressure on the foreign exchange market resulting from a greater demand for foreign currency for the payment of external invoices, in spite of the regular interventions from the Central Bank on the FEM.

Short-term prospects point to a trend towards currency stabilization, considering the improvement in macroeconomic conditions coupled with the expectations of an increase in liquidity in foreign currency, due to the increase in megaproject exports and advances in the development of natural gas projects in the northern Mozambique region, with significant economic and financial impacts, particularly on the country's trade balance and strengthening of international reserves.

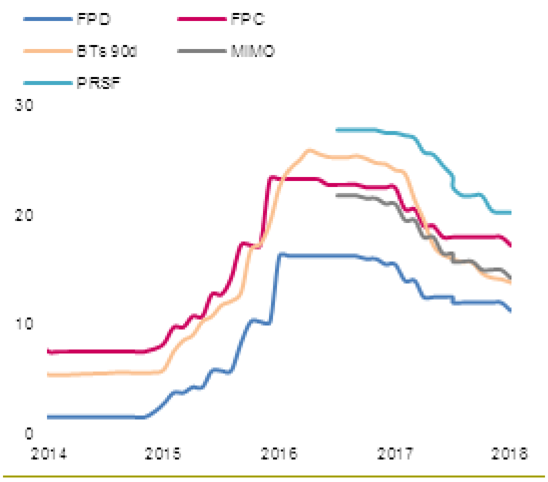
On the monetary side, the projection of one-digit inflation in the short and medium term allowed the Central Bank Monetary Policy Committee, to reduce the monetary policy interest rate (MIMO), at the end of the year, in 75 bp to 14.25%, keeping the reduction cycle started in mid-2017

In the same direction, the rates for the Permanent Absorption Facility (FPD) and the Permanent Lending Facility (FPC) were reduced by 75 bps to 11.25% and 17.25%, respectively. Nevertheless, the mandatory reserves ratio for liabilities in local currency (14%) and in foreign currency (22%) remained unchanged.

The Prime Rate of the Financial System stood at 20.20%, its lowest level in the last 12 months, signalling the effectiveness of the monetary policy transmission mechanism.

Graph 5. Interest Rates

In Percentage



Source: BdM

Despite interest rate cuts, credit to the private sector grew slowly, reflecting on the one hand the weak dynamics of economic activity and, on the other hand lower demand on the credit market, which influenced commercial banks to apply liquidity in Interbank Monetary Market (MMI) instruments and public debt securities.

Financial System

Statistical data released by the Bank of Mozambique, with reference to September, indicate that the number of bank accounts increased to 5,010,861 in 2018, the number of IME (Electronic Money Institution) accounts increased to 7,699,593, the banking network grew to 662 branches in operation, and the number of ATMs followed the same pace of acceleration as it rose to 1,836. These indicators show the progress achieved in the banking sector of the economy and show the strong commitment of the national banking system to the achievement of the objectives set out in the Financial Inclusion Strategy (2016-2023).

Within the regulatory framework, the banking supervisory body introduced new regulatory regulations with the aim of improving the transparency of the sector's performance and strengthening the soundness of financial institutions. Among the regulations that have had an impact on the banking business, the following stand out: (i) Notice No. 04 / GBM / 2018, which establishes rules and procedures to be followed in the handling of the specific export revenue account of goods, services and investment income; (ii) Notice No. 08 / GBM / 2018, which establishes the conditions for the conversion of export earnings of goods and services, income from investments abroad and other funds received from abroad; (iii) Notice no. 09 / GBM / 2018 which establishes the criteria that institutions must observe when granting credit to their customers.

External Sector and Public Finances

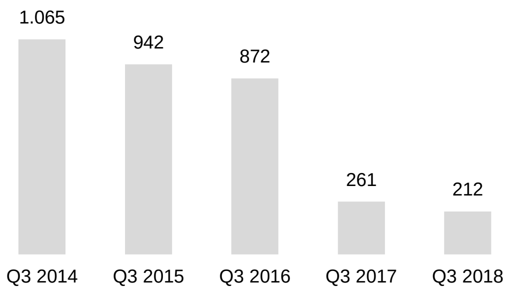
Trade between Mozambique and the rest of the world grew in the third quarter of 2018, with the trade balance registering a deficit of US $ 186 million, explained by the accelerated growth in imports (32%), excluding large projects, which has translated into a gradual recovery of economic activity.

Imports of consumer goods increased by 47%, especially in vehicles, medicines and cereals. On the other hand, intermediate goods and capital increased by 27% and 12%, respectively, due to imports of fuels and machinery. In the period under review, exports increased 4% in relation to the previous quarter, driven by the performance of major mining projects and aluminium production. The main destination markets for exports were India (36.01%), the Netherlands (22.45%) and South Africa (14.03%).

Foreign direct investment inflows fell by 19% in the third quarter of 2018, corresponding to a cumulative decrease of USD 49 million, impacting on the reduction of the demand for goods and services produced in the economy, affecting the business environment of the business sector national. In October 2018, foreign reserves totalled USD 2.9 billion, a decrease of USD 207 million compared to the previous year.

Graph 6. Foreign Direct Investment

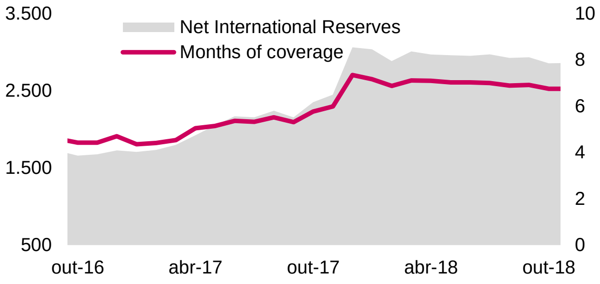
USD million



Source: BdM

Graph 7. Net International Reserves

USD million



Source: BdM

In the fiscal outlook, IMF forecasts indicate that public debt could reach 113% of GDP in 2018, remaining in "Debt Distress", with repercussions on the evaluation of the sovereign rating that remained at “selective default”, despite the agreement reached between the Mozambican government and part of the private creditors for the restructuring of the external debt, with the objective of making the debt financially sustainable, in a context in which the State faces difficulties in mobilizing revenues to finance the public deficit.

Perspectives for 2019

The balance between the demand for and supply of foreign exchange on the foreign exchange market, supported by an adequate stock of foreign reserves, favours a reduction in inflationary pressures and, consequently, the improvement of monetary conditions (reduction of interest rates). Furthermore, the recovery of foreign direct investment, supported by the stable political environment, the renegotiation of public and private debt to financially sustainable levels, with significant repercussions on economic activity, are the main fundamentals that underpin expectations of a favourable economic cycle in 2019.

Effective coordination of the policy mix (monetary and fiscal) is key to ensuring fiscal consolidation and restore macroeconomic stability, in a context in which Mozambique expects to receive large capital investments in the oil and gas sector, which will change the business opportunities for the financial system and benefits for the real economy.

In view of the high uncertainty in the international scenario, tilted by the risks of adverse weather changes, geopolitical tensions impacting the global economy, price volatility of major commodities (oil, coal, aluminium, energy, natural gas), the Mozambican economy will continue to be vulnerable to external shocks affecting trade and private investment flows, industrial production, agricultural productivity and aggregate supply, and may generate macroeconomic imbalances due to the country's high public indebtedness. In this sense, the adoption of economic policies aimed at expanding production, improving production processes and diversifying exports are vital instruments to mitigate risk factors and mitigate the adverse effects of the market climate, making the economy more robust, resilient, and competitive.

This year inflation is expected to remain at between 6 and 6.5%, together with the lower volatility of the Meticais in the domestic exchange market, which favours the continuity of the cycle of reduction of benchmark interest rates, stimulating the increase in domestic consumption and business investment, essential factors to accelerate the engine of economic growth. However, there are risks in the domestic environment that require permanent vigilance and monitoring of macroeconomic indicators, namely: (i) the sustainability of public finances, (ii) the "selective default" sovereign rating that limits access to financial markets, (iii) administered price adjustments for goods, (iv) impact of the election results; and (v) possible delays in the development of the Rovuma gas exploration projects operated by the multinationals Eni, Exxon Mobil and Anadarko. On this front, we expect economic growth to remain subdued in 2019, although with acceleration forecasts at a gradual pace over the medium term.

With a view to the future of the financial services industry, the main focuses and challenges are: (i) scrupulous compliance with regulatory measures; (ii) in the resolution of credits in default and reversal of provisions / impairments; (iii) increasing profitability and strengthening liquidity; (iv) continuing the recapitalization process in line with regulatory requirements and expansion investment plans; (v) technological innovation through the provision of digital banking solutions to better serve financial consumers; (vi) training human resources to improve service efficiency; (vii) the transformation of governance and business models, based on best international practices and adjusted to the needs of the market; (viii) consolidating a responsible, stable, reliable and profitable bank with the capacity to promote the development, growth and financing of the economy.

The problem of bad credit, coupled with the ever more demanding regulatory and supervisory framework, with a focus on prudential and behavioural aspects of banking institutions, represent the main challenges that the sector faces in a shorter time horizon. On the other hand, changes in supply and demand in the market have placed pressure on the strategic repositioning of commercial banks. Large projects under development in the Oil & Gas, Mining, Energy and other industries (agro-industry, logistics) will create new value chains, directly or indirectly (complementary sectors) with new financing needs. Local banking will play a vital role in fostering the creation of these value chains and fair-share capturing of the opportunities created.

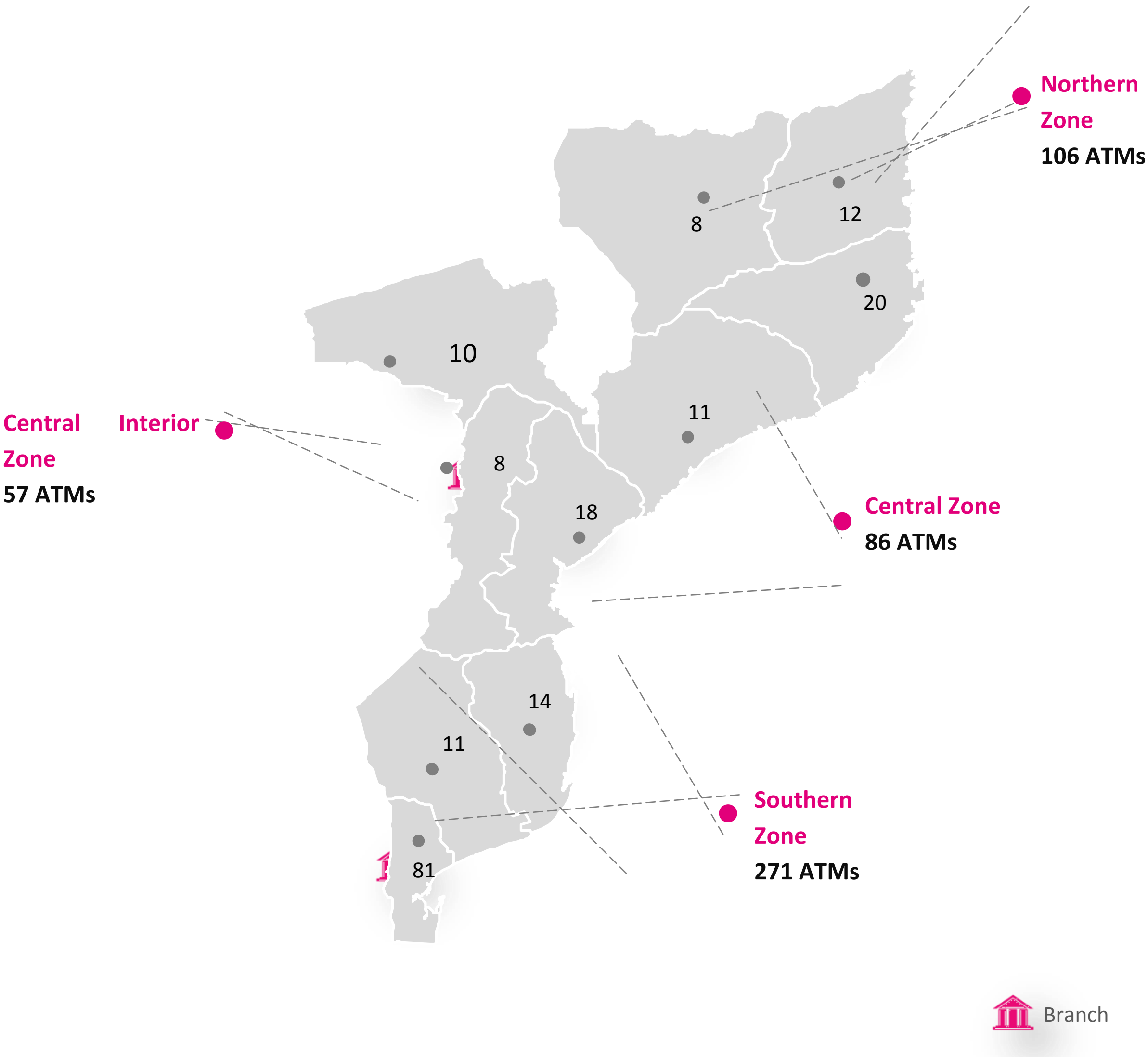
THE BANK

THE MILLENNIUM BIM NETWORK

Network
Distribution per zone

	Customers	Branches	ATMs	POS
Northern Zone	311,756	40	106	977
Central Interior Zone	176,348	18	57	559
Central Zone	259,643	29	86	1.046
Southern Zone	1,012,116	106	271	5.210
	1,759,863	**193**	**520**	**7.792**

Branch and ATM network
Distribution per province and per zone



VISION, MISSION, VALUES AND STRATEGY

Vision

Millennium bim is a universal bank, focused on the creation of value in all market segments, and a presence based on excellence, quality and innovation in the distribution of financial products and services. It aspires to be a leading bank in customer service and one of its main objectives is to reach a higher level of efficiency, reflected in a commitment to continue to improve its efficiency ratio through a judicious management of capital and costs.

Mission

Contribute to the modernization and development of the financial system and of the Mozambican economy, through the marketing of innovative and personalized financial products and services, designed to fully meet the global financial needs and expectations of different market segments, with the highest standards of quality and expertise.

Company Values

CLOSE BY

Choose a place and a moment, a reason or a dream, for we will be here to help you achieve it. Around the corner, right next to home, near to the market, just a few steps from you, there is always a Millennium bim branch available. For us, nothing is out of hours or inconvenient. When you think you are far away, we will reach you through your mobile phone, tablet or computer and make everything more accessible and convenient. So, being closer to our customers does not just mean having branches everywhere, but finding ways to solve quickly and efficiently their questions, speaking the same language and understanding their needs. Therefore, more than us being there, we are close by.

DYNAMIC

Movement is the other name for life. Whether it's the rhythm of the clock or of dreams, we all go in search of further and better. This daily race is won with flexibility and speed. Winners are those who anticipate obstacles and make the right decisions, winners are those who constantly adapt to new realities. It is because we know this that as a Bank, we generate solutions and offer services tailored to the challenges of our customers and we become a tool for their achievements. Dynamism! This is a value that is always available to Millennium bim Customers. It is a trademark that gives meaning to our own.

INNOVATIVE

A new idea is enough to observe the world with other eyes. And sometimes novelty comes through a gesture that we have discovered or on a screen that with a simple click causes us to reach the goal more quickly. This is precious and motivating. This is us every day, creating new ways of breaking through. It is us, the Bank of yesterday that today is renewed and tomorrow surprises. On the trail of technology, in human relations, in business, in partnerships, we always strive to be a leader. A Bank which innovates because it moves with the passion and creativity that every one of our customers deserves and demands. With you we give wings to the imagination, we put hands to work and we create numerous possibilities. If it's new, it's Millennium bim.

Strategy

- Committed contribution to raising the level of banking penetration within the Mozambican economy;
- Maintaining high levels of satisfaction, loyalty and engagement from Customers;

- Expansion of Customer base and assets under management, within traditional business areas;
- Promotion of new initiatives within areas of high potential growth;
- Taking a leading position through the exploration of new business opportunities created by new technologies and in the digital field;
- Consolidating sectorial and regional technological leadership;
- Sustained improvement of levels of profitability and financial robustness;
- Valuing, motivating and rewarding Employees;
- Maximizing Shareholders' returns;

SOCIAL RESPONSIBILITY

Social Responsibility Programme – "More Mozambique for Me"

Since 2006, the year in which the social responsibility program - More Mozambique for Me was created, Millennium bim has supported and developed projects which contribute to the improvement of the quality of life of communities. The action strategy involves the development of a set of measures that focus on human capital as a driving force for economic and social development.

The Bank has reaffirmed its commitment to the implementation and dissemination of the principles of the United Nations Global Compact Initiative with regard to the areas of Human Rights, Labour and Environment, as well as its support in the implementation of the FEMA - Business Forum for the Environment.

Guiding Principles of the Bank's Social Responsibility

Since 2003 the Bank has subscribed to the United Nations' Global Compact Principles. The aim is to contribute to building a more sustainable global market and share values that enable the poorest and most vulnerable populations to access opportunities. Adhering companies should adopt and promote a set of key values in the areas of Human Rights, Labour Standards, the Environment and the Fight against Corruption.

Sport

Millennium bim Mini Basketball Tournament

For the first time the 13th edition of the "Millennium bim Mini Basketball Tournament" reached all the provinces of the country, where 1,600 young athletes, boys and girls, aged between 6 and 11 years, from schools, clubs and neighbourhoods. The competition now covers the whole country, namely the cities of Maputo, Matola, Xai-Xai, Inhambane, Beira, Chimoio, Manica, Tete, Quelimane, Nampula, Nacala, Lichinga and Pemba. For the first time and with the support of the Helpo Mozambique Association, it was possible to run leisure activities alongside sports activities in the province of Nampula where athletes showed their talent in painting, music and drawing.

In this edition, there were partners: Colgate, that offered each participant a toothbrush and toothpaste, and in Maputo it carried out activities in Dental Hygiene; Musiarte, responsible for the running the Music Workshops in the Maputo Tournament; the Ministry of Health, responsible for the promotion of talks on Oral Health; the Ministry of the Interior, responsible for talks on Road Safety.

Millennium bim Race

With a course of 13km for the Running Race and 5km for the Walk, this event involving 1300 athletes is open to all sport supporters aged between 14 and 70 years.

This sports initiative aims to promote athletics as a form of exercise which contributes to healthier lifestyles and increases the motivation of the public to do it. The 13th edition of this event was once again organized in partnership with the Athletics Association of Maputo City and Thomas Bonnet.

The event also had several new features, namely a Cycling Race, in partnership with Betinho Bikes. Open to a total of 100 participants, this competition introduced a new modality in the great sporting event. As in previous years, the evidence has seen an increase in the number of participants with disabilities who have completed their tricycle journey.

Helpo Race

Millennium bim once again supported another edition of the solidarity race, Helpo Mozambique. The event was extended to four Mozambican cities - Maputo, Nampula, Pemba and Ilha de Moçambique - which were joined by Vila Real in Portugal and Sao Tome in Sao Tome and Principe.

In Mozambique, the race was attended by about 600 children in an initiative that was likewise united in the fight for the eradication of poverty and the promotion of a healthy life through playing sport, where the participants in addition to athletics had the opportunity to practice other modalities, such as basketball, taekwondo, and other activities related to physical well-being and health.

Education

Banking Olympiads

A financial literacy project which aims to introduce financial concepts, equipping students and teachers with knowledge for responsible financial management and for the creation of entrepreneurship projects.

After the completion of a general examination for the 400 participants from 10 schools, the 40 finalists were selected. The finalist students participated in a workshop at Millennium bim headquarters, where topics such as entrepreneurship, savings, insurance, banking and social volunteering were presented and discussed.

The 9th edition of the Banking Olympiads included a social volunteer action at the Lhanguene Old Age Support Centre in Maputo. The event was part of the celebrations of the International Day for Older Persons and had several opportunities for volunteers and the users of this Centre to socialise, including the participation of the Mozambican band Gran'Mah. The program also included pieces carried out by the participating students such as poetry recital and the staging of a theatrical play.

In the grand finale, students presented innovative and easy-to-apply projects in their school or neighbourhood. The winning project called "Culture", from Gwaza Mutine High School, will be implemented at the beginning of the academic year 2019 with the support of Millennium bim. The insurer Ímpar and Helpo Association, partners in this initiative, offered books and school supplies to schools and students.

Incentivising Saving

Millennium bim has trained 2300 students and 44 teachers in order to instil in the young people an awareness of the topic of saving. This project is part of the program run by the Central Bank of Mozambique, which has been taking place since 2014.

The training was conducted by Millennium bim employees in partnership with the schools and their teachers. It took place in 33 educational establishments in 5 provinces from north to south of the country, namely Inhambane, Tete, Sofala, Nampula and Maputo.

During the training sessions, where there were several activities related to the importance of saving, the students had at their disposal information adapted to their age on how they could economize.

In light of what happened in 2017, they were challenged to answer the question: "**Every day I can save, if ...**". This was the motto for a wide range of actions including creating texts and designing appealing phrases, as well as making projects where the act of saving is present.

This action culminated in an event included in the celebrations of World Savings Day, at Munhuana Primary School, in the province of Maputo. In this educational establishment several activities were carried out where the children were stimulated to do creative work on the topic.

The theme of Savings is also worked on in other projects promoted under the Bank's social responsibility program, such as: Banking Olympiads, and Environment Clubs from the Clean City for Me project.

“A Clean City for Me” – Environmental Education in Schools

Now in its 13th edition, the environmental education project has as its core objective to instil among the students an awareness of new habits of waste treatment, focusing on the theme of recycling and its importance for cleaning up the city.

This year, in partnership with the company Reciclagem e Serviços LDA, students had the opportunity to transform the garbage collected by using a machine that works on the plastic, creating objects (bricks, tops, etc.) that could then be used in their daily lives.

The cleaning up of their school and city and the creation of posters allusive to environmental themes are some of the activities carried out by teachers and students in the Environment Clubs.

“Games without borders”

Millennium bim supported the third edition of Games without borders (Brincando sem Fronteiras), a project of the Ministry of Education and Human Development that aims to provide children between the ages of 6 and 12 with disabilities, occasions for physical exercise, games and jokes that work on their interpersonal relationship, respect, tolerance, self-esteem, among other values.

For the first time, the project has been extended to the province of Nampula, and with support from Helpo, the CREI-Josina Machel Inclusive Education Resource Centre was the place chosen to host this activity with the participation of about 250 children (125 with special needs) from this centre and the primary schools of Matibane and Napacala 2. This is a festival with inclusive games such as football, ntchuva, lady, murava-rava, running races, bag race, etc.

In Maputo, 300 children had the opportunity to do various sports, to participate in workshops of recycling, theatre, arts, poetry, singing and reading, thus developing their imagination, creativity, motor skills and reasoning.

"Musiarte"

The Musiarte project - National Conservatory of Music and Dramatic Art, created in 2014, is an initiative from the renowned Opera singers, Stella Mendonça and Sónia Mocumbi.

Millennium bim is the main sponsor of this musical education project, which aims to contribute to a quality music education and also to identify and promote young talents regardless of their social conditions.

There were many events held in 2018, where students attending the Conservatory showed the results of their work.

Maputo Fortress and Eduardo Mondlane University Cultural Centre were some of the venues that served as the stage for the presentation of the work developed in this school, which has started to stand out in the panorama of music teaching in Mozambique.

Gorongosa National Park

In July, Millennium bim signed an accession protocol to the Gorongosa Business Club, where it started directly to support the "Girls' Clubs" program, which aims to combat the high rate of child marriages and school drop-outs by boosting activities which address the education of girls, their personal safety, nutrition and access to family planning.

The main projects currently underway in Gorongosa National Park are to restore the ecosystem, support local communities in their socio-economic development and to create a sustainable tourism industry as an emblematic example of nature conservation and opportunity creation for local populations.

It is within this scope that Millennium bim Employees from the central area of the country carried out a volunteer action at Bêbedo Primary School, which had as its objective the creation of a school library in this area. This project was supported by the Helpo association, which offered the books and material to boost its daily activities.

Girl Move Foundation

This is an Advanced Leadership and Social Entrepreneurship Program for university students from all over the country. These young people are provided support at various levels, especially in the area of education, turning them into role models for adolescent girls in their community.

When a girl's life is improved through education, health, security, opportunities are enhanced; these changes have a positive multiplier effect on society - the girl becoming an educated mother, an active citizen, a trained professional, transforming herself into the largest asset in her community, breaking the cycle of poverty. The Girl Move project believes that by empowering Mozambican women and girls, they can become the country's main development agents.

Development of the Cash Back campaign where whenever a transaction is made with the Woman's Debit Card, a percentage of the transaction reverts in favour of the Girl Move project.

This amount would revert back to the "Pitch Perfect" action - the result of the incubation process of 4 social entrepreneurship projects carried out by the Foundation.

Donation of Sports Equipment – Manhiça District

With the aim of contributing to expanding and boosting of playing sports, as a vehicle for transmitting values and structuring principles for the lives of young people, Manhiça Primary School was offered sports equipment.

Environment

Panel of Tiles

Millennium bim supported the production and execution of a mural of tiles made from recycled plastic collected on the beaches and streets of Maputo City. This project is unprecedented at the level of the African continent according to the promoters of the initiative, Reciclagem e Serviços, LDA. The tiles that make up the panel were made using two machines specially designed to purify and grind plastic debris, transforming this highly polluting waste into new parts and objects.

Community Intervention

Donation of Construction Material

Millennium bim supported flood-affected communities in the Hulene A and B neighbourhoods in Maputo.

This activity was aimed at helping communities affected by the floods that hit these neighbourhoods. The heavy rains that fell caused serious damage in several houses, leaving several families in that region without roofing. Construction materials were delivered, which intend to contribute to the support that the Provincial Government is carrying out among the most affected populations.

As has happened in previous situations, where we have always tried to show solidarity with the communities most affected, we have also wanted to be present now, because if we all help, it is easier to minimize the damage caused by natural disasters, which unfortunately have hit our country.

Corporate Volunteering

Millennium bim Responsible, the Bank's business volunteer project, involves Employees and their families in actions of social and community interest, materializing structuring projects in institutions with no human and financial resources to implement them.

This year 120 employees participated in 4 actions, in a total of 960 hours. We highlight the creation of a library in the Bêbedo Primary School under the protocol that Millennium bim has with the Gorongosa National Park. It was also possible to carry out the rehabilitation of the Paediatrics unit of Chicumbane Rural Hospital in the province of Gaza which saw a considerable intervention in its facilities, effectively improving the conditions of reception and treatment of patients who seek this facility. For the second consecutive year, in partnership with the Makobo Platform through the 'Solidarity Soup' project, employees from Nampula City, made soup for about 50 children living in Bethel orphanage in the city.

MILLENNIUM BIM'S ACTIVITY

Employees

At the end of 2018, Millennium bim had 2,461 Employees, a reduction of 1% over the previous year, as a result of a process of internal optimization of the staff, in which new career development opportunities were provided to Employees in addition to an extremely thorough admissions policy.

With approximately 67% of the Employees working in the commercial area, the Millennium bim team has an average age of 36 years and 10 years seniority. In terms of gender diversity, Millennium bim has a total of 52% of female employees, and, in terms of Management and Coordination roles 42% of these are performed by women, rising to 51% in the commercial area.

Talent Attraction, Selection and Integration

In the scope of recruitment, 159 Employees were admitted, most of them (68%) to the commercial area, with a focus on the recruitment of young graduates. In 2018, Millennium bim strengthened conditions, through the acquisition of a platform for this purpose, for the agility and robustness of the process, including a cultural fit evaluation for the recruitment of future Employees.

The admission of all these new employees is done through an on-boarding training that aims to contribute to an adequate integration, with general knowledge about the most different areas and focus on the immersion of new staff into the culture of Millennium bim.

In addition to the 3rd edition of the People Grow Program that took place in 2018, Millennium bim also reinforced its commitment to attracting young talents by launching the 4th edition of People Grow at the end of the year, preceded by a road show which resulted in around 2,600 applications, about double the previous year, an evident sign of the growing success of this program among young Mozambican students with high potential.

With regard to internal recruitment, which is Millennium bim's preferred focus on meeting its needs, 45 internal mobility opportunities were published through the "Opportunities Exchange", of which 36 were allocated to Central Services and 9 to the Commercial Area, thus allowing the professional development and creation of new career opportunities.

Finally, Millennium bim supported the launch of the Yearbook of Mozambican Higher Education Students, an initiative of the Portugal Mozambique Chamber of Commerce which aims to raise awareness and open the doors to the labour market in Mozambique to Mozambican students who are studying in Portugal and are intending to return to Mozambique, thus contributing to the country's socio-economic development.

Learning and Training

In a market that is increasingly demanding at all levels, the strategic priorities defined by Millennium bim Academy were focused on the development of the Employees' competences, with particular emphasis on improving the quality of customer service, the rigorous execution of operations and the reinforcement of the technical and relational skills of Customer Managers, and the development of Millennium bim Leaders.

In this sense, continuing the "Charming Customers and Selling Solutions" training, which has since been extended to Prestige, actions were carried out for a ritualization of the training, to reinforce the behavioural skills in an experiential and immersive way, involving about 1000 Employees from the Commercial Network. With these actions it was possible to support Employees in commercial roles in becoming aware of themselves and their customers, for better team collaboration and better management of Customer's expectations.

Also in this line of strategic orientation a Client Manager Certification Program was launched, multi-annually with Prestige, Corporate and Corporate Segment staff, to improve their technical and specific skills, through the alignment of behaviours and systematization of procedures in order to ensure greater efficiency and customer satisfaction.

Also in 2018, the Leadership Development Program "Leading Millennium bim 4.0" was launched, which aims to define the profile and key competencies of the Millennium bim Leader, common understanding of what is expected of each of the leaders in the context of the challenges and future strategy of BIM. This program covers all 150 Employees with 1st and 2nd line management roles.

With the objective of supporting the Employees who express their desire to continue their studies, Millennium bim continued the Scholarship Program for Master's Degrees and Bachelor's Degrees Scholarships.

Seeking to enhance the Millennium bim brand as one of the top employers and the Bank for Talent in Mozambique, Millennium bim Academy launched its 1st Summer School, targeting university students who are attending the 2nd and 3rd years of university, in Mozambique and abroad. The first phase of this program was attended by 9 students, 5 from universities in Mozambique and 4 from universities abroad, which corresponded to 2,508 hours of internship.

Finally, with the support of the Millennium Foundation, it was possible to support 27 Mozambican university students from disadvantaged backgrounds and with good academic performance.

Talent Management and Development

At Millennium bim, the process of evaluation and performance management is based on a culture of meritocracy and is intended to drive high performance. In this sense improvements have been made to the model, and in 2018, with the rationale of aligning the performance evaluation system with the Millennium bim Culture, an evaluation of expected behaviours was introduced for each of the 5 Values, with the introduction to an assessment of specific role competencies, defined by the areas themselves, expected to be implemented in 2019.

Based on Employees' performance and potential, the Annual Talent Review was once again carried out to support Employees' performance through Individual Development Plans and to identify the future generation of talent and Millennium bim leaders, giving them the opportunity to develop their skills in order to be prepared to take on more responsible roles through specific training, coaching, mentoring and participation in projects with exposure to top management.

On the basis of merit, there were 751 Employees who saw their performance recognized through promotions, enhanced recognition through the business area incentive system and being awarded prizes for excellence at the BIM Annual Staff Meeting.

For a Leadership Culture

In 2018, and seeking to strengthen an organizational culture, aligned with the strategy and vision of Management and of the Employees themselves regarding Millennium bim, BIM Values were reviewed, having been defined as 5 main Values: Innovation, Customer Focus , Responsibility, Trust and Excellence.

Employee Experience

In this sense, and in order to reinforce the experience of the BIM Values by all Employees, a Values Ritualization Program was created that will last throughout the year 2019 and which includes the involvement of all Bank Employees, starting with the members of the board of Directors, as Ambassadors of each one of the Values. In order to stimulate this Program, an internal social platform was created where the Employee can identify the behaviours of his / her peers that most reflect those Values, who are subsequently credited for this, as well as the Employees who have identified these behaviours.

Health and Wellness of Employees

In line with what has been done over the last few years, a set of actions has been developed and reinforced to promote health and wellness initiatives among the Bank's staff, particularly those of a sporting and social nature.

With regards to the health component, in 2018, we supported the cause of the Pink October and Blue November movements through two breast and prostate cancer awareness talks, as well as the acquisition of pink ribbons that were distributed among Employees, thereby supporting the Mozambican association fighting against Cancer. At the level of the HIV Office, the support that has been given to the treatment staff controlled by the HIV Office has continued. And as far as welfare initiatives are concerned, in 2018 the tradition of offering Christmas to the employees' children was maintained, bringing Christmas gifts to a total of 2,615 children.

With regards to sport, in order to create the necessary conditions to coordinate the sporting and recreational activities of the Millennium bim Club, the appointment of Employees who formed part of the Club Setting Up Committee was approved. In terms of sports activities, the Club flew the flag with the participation of more than 250 Employees in athletics, basketball, futsal, 11-a-side football, volleyball and chess, representing the colours of Millennium bim and leading to several winners in a number of these sports.

Business Areas' Review

a) Business Segment

Millennium bim remains the bank with the highest number of Customers in the Mozambican financial system. For that reason, segmentation is a continuous action, implying a permanent challenge for restructuring and resizing the business area, in order to meet the different Customers' needs, maintaining high levels of services. With the purpose of meeting the Customers' needs, the launching of innovative products and services and the expansion of the branches network remains the Bank's focus, strongly contributing for the strengthening of one of the main strands of action of the Bank: raising the level of banking penetration and financial literacy of Mozambican population.

b) Innovation, Products and Campaigns

To mitigate the risk of adjusting to market volatility conditions of the indexing rates, the Bank provided the consumer credit denominated New Life Fixed Rate Loan (*Crédito Nova Vida com Taxa Fixa* "CNV Taxa Fixa") for government and non-government employees, with the monthly repayment owed to the Bank able to be deducted at source by the employer or not.

With the purpose of creating an attractive offer for Individual Customers, Businessmen as sole traders or companies, with special or profitable conditions for purchasing KIA brand cars (discounted rates and purchasing conditions/ car service), the Bank has signed a protocol of partnership with Intercar for Sale of KIA brand cars on credit, which sustained the Leasing KIA campaign.

In 2018, the number of Jájá agents increased to 342, resulting in a geographic expansion of the services provided by Millennium bim.

We have made a lot of changes to the Bank's website, improving the access for the transactional website. The operations menu is easier to be accessed and the review of statements is friendlier, allowing a more intuitive browsing.

During this year, vehicle insurance, which besides covering vehicle damages caused in a car crash, now also provides vehicle assistance to all Customers using (private) light vehicles up to 9 seats. Now, this insurance covers the sending of a breakdown truck to tow the vehicle, guaranteed transport for all occupants of the vehicle to their homes or hospital and vehicle assistance at the place of the accident, with the service available twenty-four hours a day.

c) Customer Attraction and Loyalty

Expansion of commercial network and new Customers attraction is a continuing strategy which represents a strong component of Millennium bim business, which is why the opening of new branches throughout the country is an important factor to approach the bank to the unbanked population, for strengthening proximity and relieving congestion in the existing branches. The Bank ended the year 2018 with 193 branches, being present in all provinces with branches and with agents in most districts without branches.

PRESTIGE

Securing new Customers as well as increasing the business volume registered in 2018, has strengthened the conviction that the strategy used by the Bank keeps us on the right track and encourages us to seek new and increasingly better ways of satisfying and retaining Customers of this segment. In this regard, the segmentation of Affluent Customers and companies continues to favour, not only the personalized service, with the existence of devoted Customers Managers, but also a wide range of different benefits that include benefits of debit and credit cards, provision of insurances, internet banking and mobile solutions.

CORPORATE

The Corporate network, in the cities of Maputo, Beira, Nampula and Nacala, has been strengthening its positioning with Customers, organizing itself in a way that assures that Relationship Managers provide an eminently commercial assistance, with a large number of visits to Customers.

During the period that has just ended, the Corporate commercial teams have played an important role in holding and raising operations related to some of the most relevant projects in the country, which allowed the establishment of the Bank as an essential partner, in the context of large companies and large national projects in Mozambique.

Technical and behavioural training actions have been taken in order to improve the performance and services provided to Clients.

d) ATM, POS and Cards

During 2018, the Bank renewed the ATM and respective layout in order to maintain the alignment with all Millennium Group countries, placing new screens in new branches and replacing gradually in the remaining branches.

Simultaneously, the fleet of POS has grown, covering more Customers and facilities, in locations where there were no POS before.

e) Mobile Banking

Conscious of meeting its Customers' needs and engaged with innovation and quality improvement in facilitating access to bank services, the Bank has provided new functionalities in Millennium IZI, namely:

- Access to Mobile Banking through mobile phones – Customers can get access to the channel without needing to go to a branch. Using the mobile phone number registered in the Bank database, the Customer gets access and uses the Mobile Banking in an easy, fast and safe manner.
- Interoperability with M-pesa – at an early stage it enables the transfer from current deposit accounts at Millennium bim, to electronic currency accounts in M-pesa, and vice-versa.

Regarding Smart IZI, several innovations have been introduced, amongst which the payment of ZAP TV packages (an option already existing on Millennium IZI), the listing and description of Customers accounts balances, the sending of an authorization code for transactions initiated on Internet Banking, as well as the provision of notifications for a variety of messages.

f) Prestige Direct

A wide range of Customers from the Upper Mass Market and Prestige Segment have been identified, to whom, in the experimental stage, the Bank is monitoring a remote level of care. This initiative is included in the commitment with the innovation and access facility of our Customers to products and services provided by the Bank, through alternative routes without the need of going to a branch. With over 700 Customers, this project has shown positive results and a high level of satisfaction by Customers covered.

g) ATM Deposits

Gradually, the bank has been introducing ATM deposits. This arrangement comes to reduce the need Customers have of going to a Branch simply to make deposits. We are now present in 8 provinces. Highlighting that in the Province of Maputo, in branches equipped with these machines, the flow of ATM deposits is growing at a higher rate than branch deposits.

h) Internet Banking

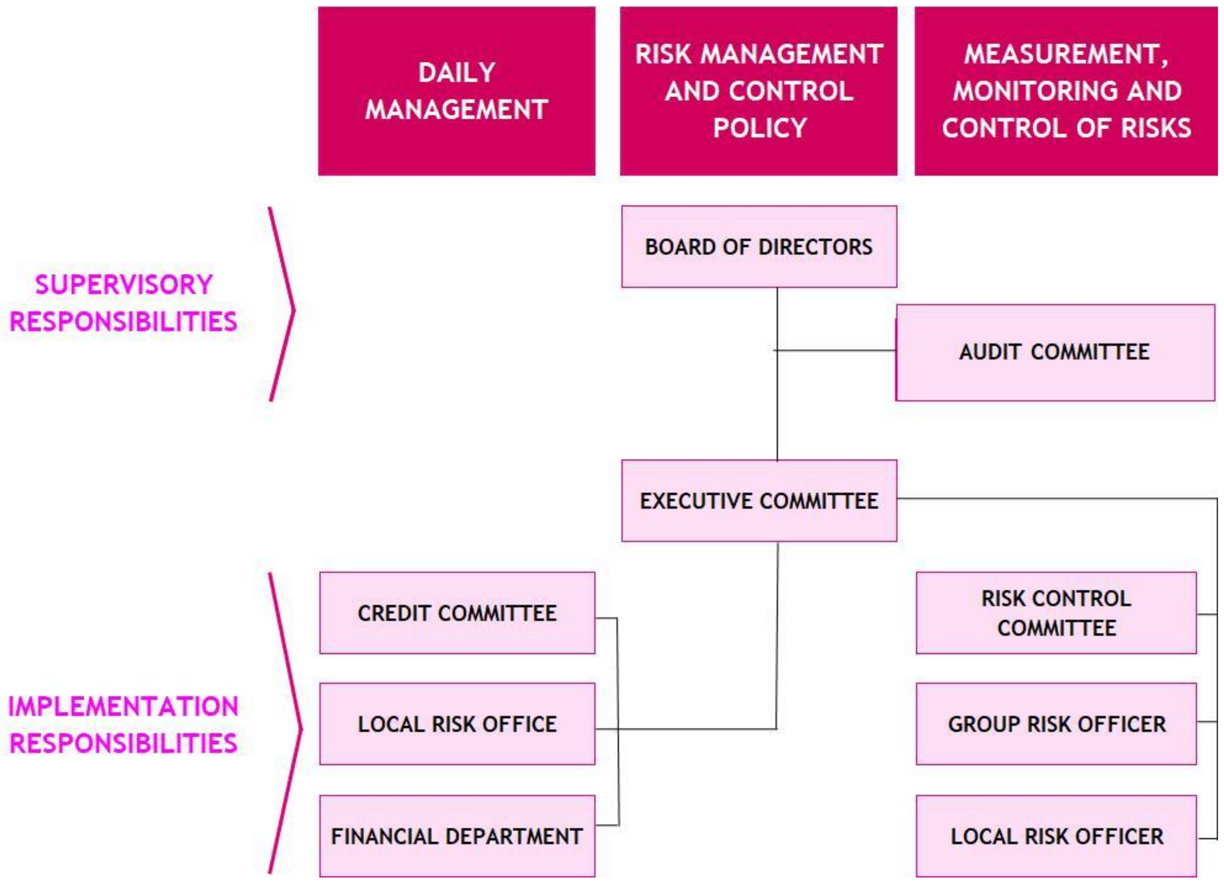
The Bank has launched a wide range of arrangements for preventing frauds, highlighting:

- Security information on the login page, popup with security tips about the internet page;
- Validation with the telephone operator, if there has been made a replacement of a SIM card by a certain Customer; whenever there is an attempt to make transactions with that number or a request to send data that would enable the Customer to make a transaction;
- Alerts aiming to advise Customers when the e-commerce is active after its use, so that they may carry out deactivation;
- Functionality that enables the checking, issuing or sending by e-mail of the purchased telephone top-up voucher;
- Give the possibility to Individual Customers abroad without mobile network access, to get via Smart IZI, the confirmation code for transactions initiated with Internet banking.

Risk Management

The Risk Management System (RMS) of Millennium bim is continuously being strengthened and consolidated, in mechanisms of controlling and monitoring the several risks that concern activities developed, as well as concerning their respective measurement and assessment.

The Governance of Risk Management at Millennium bim, with the structure below, assures an integrated control of the institution's risk:

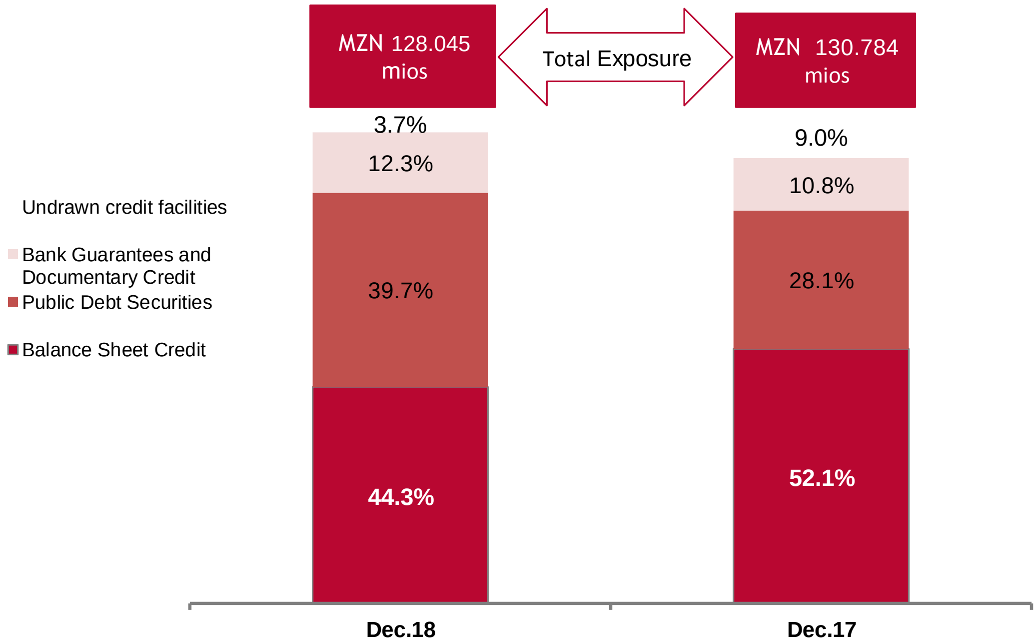


Credit Risk

Credit risk is associated to the occurrence of losses arising from default on financial obligations under the agreed terms of receivers of loans, issuers of securities or contractual counterparts. The Risk Office has developed actions aimed at identifying, measuring and controlling this risk.

LOAN PORTFOLIO EVOLUTION AND COMPOSITION

The segregation of the credit risk exposure shows the evolution and composition of BIM's credit risk in compliance with the strategies approved for the development of the activity.



Key Credit risk Indicators

Quarterly development of the key indicators of credit level with signs of risks and coverage of credit exposure between December 2017 and 2018 is provided below:

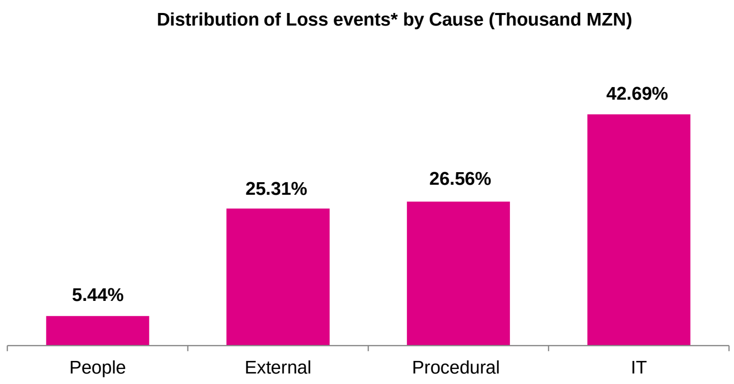
	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17
Non-performing exposure > 90 days/Total exposure	8.7%	8.0%	7.8%	12.9%	14.2%
NPL>90 days/Total Credit	20.35%	19.84%	19.67%	17.76%	19.55%
Impairment / Total exposure	5.1%	4.6%	4.4%	7.2%	7.2%

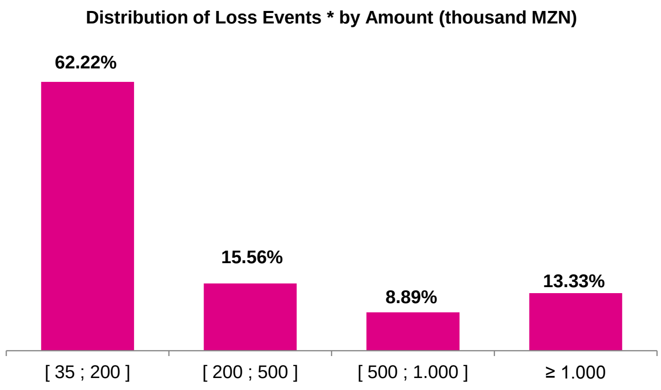
NPL = Non performing loans
Total Credit = Direct credit exposure

The deterioration of the Bank's loan portfolio experienced in the second half of the year was due to the unfavourable microeconomic environment which then affected business activity and reduced the levels of employment/ income generation.

Operational Risk

Operational risk is materialized in the occurrence of losses resulting of failures or inadequacy of processes, systems, people or even external events. Operational risk management at Millennium bim lies in the structure of processes. For the measurement of risks we use internationally recommended methodologies, such as: definition of Key Risk Indicators, the performance of Risk Self-Assessment and Operational Losses Data collection and analysis. The classification of Operational Losses at Millennium bim is made taking into account 5 (five) categories of Risk defined at the level of Basel II, namely: Personal, External, Procedural, IT and Organizational Risks. The profile of accumulated losses between January and December 2018 is illustrated in the images below:





Market Risk

Market risks are the potential losses that can be registered in a certain portfolio, resulting from rate changes (interest or Exchange rates) and/or prices of different financial instruments comprising it, considering not only the correlations existing among them, but also their respective volatility.

Interest Rate Risk

For measuring this risk, Millennium bim adopts the methodologies established by the Central Bank of Mozambique through the Circular No 04/SCO/2013, and also uses methodologies defined in-house based on gap analysis, distributed over residual repricing periods, and subject to a sensitivity analysis on interest rate variation. For control of this risk, transversal limits to the Millennium Bcp Group are defined annually regarding the interest rate sensitivity balance, indexed to the Bank's Equity. The Bank complied with the established limits, and even reduced its interest rate sensitivity in 2018, due to the better balance between the volume and duration of assets and liabilities.

In Million MZN

	Dec.17		Dec.18	
	100 bp	**200 bp**	**100 bp**	**200 bp**
MZN	354	708	302	605
USD	77	155	30	59
ALL CURRENCIES*	436	873	349	698

*includes other currencies

Exchange Rate Risk

To control this risk limits have been defined by the Central Bank of Mozambique (Global Position cannot be higher than 20% of the Equity Base and one Currency Position must not be higher than 10%), which are permanently monitored and respected by Millennium bim.

Liquidity Risk

Liquidity Risk is the potential incapacity of Millennium bim in meeting its obligations at the time of payment without incurring significant losses, resulting from a deterioration in financial conditions (financing risk) and/or from the sale of its assets for under market values (market liquidity risk).

The measurement of the Liquidity Risk at Millennium bim is made through a set of indicators, namely: Immediate and Quarterly Liquidity, Commercial Gap (Per Currency), Internal Liquidity Ratio and LCR (Liquidity Coverage Ratio), for which exposure limits are defined.

In addition, Millennium bim monitors its Liquidity Ratio daily. According to Notice No. 14/GBM/2017 to 09/06 from the Central Bank of Mozambique, Banks should on a daily basis keep a Liquidity Ratio at no less than 25%. Millennium bim has been strictly controlling and complying with this indicator, with results higher than 25%.

Economic Capital

The ICAAP (Internal Capital Adequacy Assessment Process) is a key component of the Bank's risk management and it consists of an exercise carried out in order to identify the necessary capital for the Bank to appropriately cover the risks incurred in the development of its current business strategy and projected for the medium term, through stress tests and related impact on the regulatory capital adequacy ratios.

The ICAAP is equipped with an Internal Governance Model which ensures the involvement of the Board of Directors and its Executive Committee, the Risk Control Committee and the Audit Committee in the different stages of the process.

The main risks considered under the ICAAP are then detailed in the Bank's Risk Taxonomy matrix that embodies the material and non-material risks.

These risks are analysed quarterly by the Bank within the stress tests - Sensitivity Analyses and yearly during the stress tests - Scenario Analyses, producing estimated impacts on capital levels, whether via the impact on operating earnings or via alterations in levels of risk weighted assets (RWA).

The results are tested in relation to the limits for regulatory capital ratios approved by the Board of Directors under the Risk Appetite Statement (RAS).

According to Notice No. 16/GBM/2017 of 30/06 on Market Discipline, Millennium bim submits a biannual report on Market Discipline. On a quarterly basis, the bank issues Prudential, Financial and Economic Indicators.

Based on the reports presented to the regulator in 2018, it has been concluded that the Bank's capital levels are adequate for the different risks it assumes and which are inherent to its activity.

Financial Review

Results and Balance Sheet

BIM – Mozambique International Bank, S.A., in conformity with the provisions in Notice No. 04/GBM/2007 and complementary provisions issued by Bank of Mozambique, presents the individual and consolidated financial statements relative to the financial years of 2017 and 2018.

In a context where, as in the previous year, the level of economic activity has remained low, the Bank kept its focus on financial solidity, ensuring prudent liquidity levels and simultaneously continuing the expansion of its branch network. In spite of the reduction in credit interest rates, the high risk of the client portfolio keeps conditioning the expansion of credit to the economy.

The year 2018 showed a deceleration in the growth of the Mozambican economy. The tendency shown throughout the year in the decrease of index interest rates, as well as the increase in competition seen on the market, might have supposed a downward trend in terms of results. However, the reality has taken precedence and the Bank registered a Profit Margin that increased by 912 million Meticais compared to 2017.

In line with the less restrictive trend practiced by the Central Bank of Mozambique since 2017, a decrease in benchmark interest rates was seen, setting the MIMO (Interbank Money Market Rate) at 14.25% at the end of the year.

The Bank's total assets increased to 148,883 million Meticais, on 31 December 2018, compared with 134,980 million Meticais in 31 December 2017, supported by the increase of other financial assets at amortised cost.

Due to the economic environment, banks within the system preferred to lower interest rates significantly, and this tendency was also followed by Millennium bim. In light of this, with Millennium bim focused on profit instead of market share, the remuneration rate for current and term deposits has fallen significantly. The poor performance of the economy in compliance with a demand for Credit which has been less active, culminated in an increase of customers' total assets. These increased to 112,835 million Meticais in 31 December 2018 compared with 103,223 million Meticais registered in 31 December 2017, benefiting from the good performance of term deposits' growth from Customers and other resources that remain the main business source of funding. This evolution has sustained the strong performance regarding the positive results achieved.

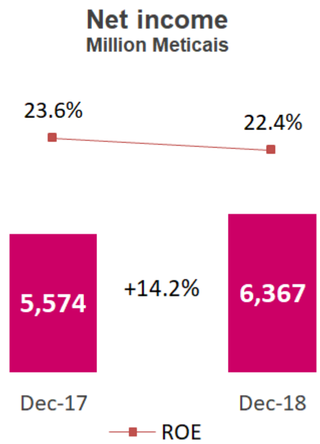
Net income was positive at 6,367 million Meticais in 2018 compared with the positive net income of 5,574 million Meticais registered in 2017, which represents a growth of 14% compared with results from the previous year.

Profitability Analysis

Net income

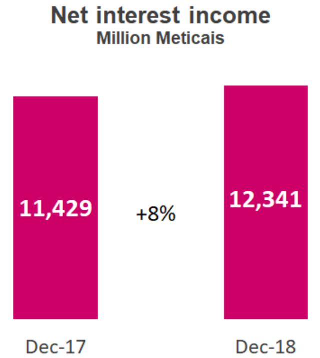
The performance of the net income recorded in 2018 essentially reflects the following positive impacts:

- The favourable evolution of net interest income was essentially due to the decreased cost of deposits justified by the decreased rate.
- The positive variation of the amount of other operating income, positively influenced by the value brought by the sale of real estate.
- An extraordinary income of about 600 M MZN, included in other operating income, explained by a ring-fencing of the pension fund.



Additionally, the net income of 2018 also reflects the moderate increase in operating costs (in line with the current plan to expand the network of branches) and from the exchange impact, added to which were increased allocations for loan impairment resulting from a prudent policy to the increase of credit risk.

Net Interest Income



Net interest income increased by 8%, to stand at 12,341 million Meticais in 2018, compared to the 11,429 million Meticais recorded in 2017, essentially driven by the positive effect of the decreased cost of deposits, reflecting the decreased market interest rates.

During 2018, the market registered a high reduction in the rates offered in securing funds from customers, a tendency which was strategically monitored by Millennium bim, opting for financial strength to the detriment of its market share. Nevertheless, the raising of funds had a positive growth, resulting in a growth rate of 14% compared to the previous year.

Regarding the portfolio of financial assets, which mainly consists of securities issued by the Mozambican state and the Bank of Mozambique, namely Treasury Bills and Bonds, in 2018 the bank benefited from keeping in its portfolio securities with long maturity and high fixed rates, which promoted a good performance in a context of falling market rates, mainly in the first half of the year.

The positive performance in net interest is also a result of the bank's analytical effort in granting credit, in its careful granting and its strict monitoring, within the context of a market with increased risk.

Other net income

Other net income amounted to 4,121.1 million Meticais in 2018, 13.5% above the amount recorded for the same period in 2017.

Million MZN

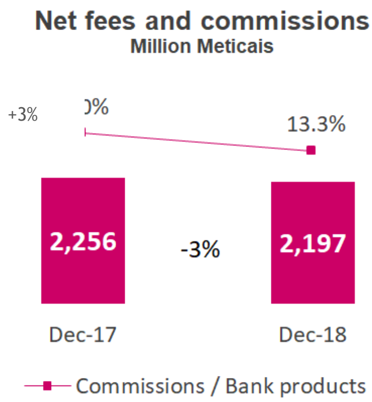
	Dec-18	Dec-17	Var. 18/17
Income from equity instruments	**434.9**	**360.1**	**20.8%**
Net commissions			
Cards	1,285.4	1,141.7	12.6%
Credit and guarantees	450.5	513.4	-12.3%
Foreign operations	244.4	346.9	-29.6%
Other banking services	216.3	253.7	-14.7%
Total net commissions	**2,196.6**	**2,255.7**	**-2.6%**
Earnings from financial transactions	670.4	781.4	-14.2%
Other net operating income	819.2	234.4	249.5%
Total other net income	**4,121.1**	**3,631.5**	**13.5%**
Other income / Bank product	**25%**	**24%**	

Income from equity instruments

The income from equity instruments corresponds to the dividends received from the financial holding in Seguradora Internacional de Moçambique, S.A.

Net fees and commissions

The net fees and commissions reached 2,196.6 million Meticais in 2018, representing a decrease in 2.6% in relation to the 2,255.7 million Meticais recorded in the same period of 2017. The decreased fees and commissions were influenced by the unfavourable evolution of fees for provided guarantees.



The context of the macroeconomic slowdown in the country, influenced the weaker performance at the level of net fees.

Earnings from trading activity

The earnings from trading activity reached 670.4 million Meticais in 2018. This amount represents a decrease of 14.2% relative to 2017 due to the effect of the lower volume of foreign exchange operations and the squeezing of intermediation margins.

Other net operating income

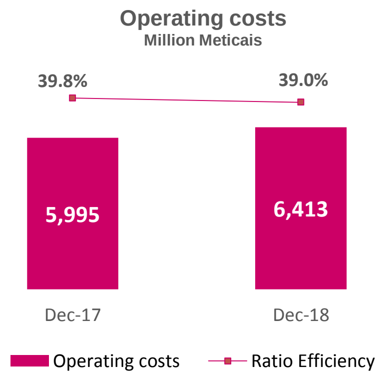
Other net operating income amounted to 819.2 million Meticais in 2018, compared to 234.4 Meticais in 2017. This increase was essentially influenced by the recording, in 2018, of the real estate sales profits.

Operating costs

Million MZN

	Dec-18	Dec-17	Var. 18/17
Staff costs	2,717.9	2,571.7	5.7%
Other administrative costs	3,130.9	2,902.8	7.9%
Amortisation for the year	564.2	520.5	8.4%
	6,413.0	**5,995.0**	**7.0%**

Operating costs, which incorporate staff costs, other administrative costs and amortisation for the year, stood at 6,413.0 million meticais in 2018, representing an increase of 7.0% compared to 2017.



The evolution of operating costs was conditioned by the strengthening of the commercial structure and the support of the on-going growth and segmentation strategy of the branch network and the distribution of more ATMs.

The 5.7% increase in staff costs in relation to the same period of the previous year is related to the impact of the annual salary adjustments as well as to salary adjustments arising from evolutions in the professional careers of employees.

Other administrative costs increased by 7.9% influenced by the increased expenses related to information technology and consulting, water and energy as well as independent work.

Amortisation for the year reached 564.2 million Meticais in 2018, representing a growth of 8.4% in relation to the amount for 2017. This growth essentially reflects the investments made in the IT platform with a view to supporting the growth of the network, maintenance of high quality service standards, innovations related to the bank's "digital" positioning in the market, a strategic positioning variable.

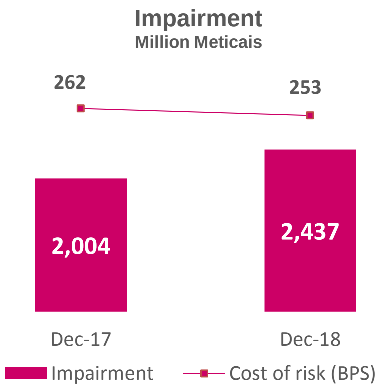
Cost to income ratio

The efficiency ratio (cost to income), on a comparable basis, stood at 39.0% in 2018, compared to 39.8% recorded in 2017.

The improvement of the ratio was due to the strong growth of net operating income in relation to the moderate growth of operating costs, as well as rigor in monitoring operational costs throughout 2018.

Credit impairment and other impairments and provisions

Loan impairment (net of recoveries of loans written off) amounted to 2,436.9 million Meticais in 2018 compared to 2,003.5 million Meticais in 2017. This evolution was driven by the increased allocations for loan impairment related to the increase of defaults, with higher impairment in corporate customers which are subject to individual analysis with high exposure amounts.



In 2018, the Bank continued its efforts to improve the risk monitoring mechanisms and its policy of prudent provisioning, with a view to strengthening the full coverage of the loan portfolio with signs of impairment.

The cost of risk, calculated by the proportion of the credit impairment charges (net of recoveries of written off loans) from the loan portfolio, stood at 253 bps in 2018, compared to the 262 bps recorded in 2017.

The current level of impairment provides the bank with a robust financial solidity, consolidated by a well provisioned credit portfolio and ready for the challenges in 2019.

BALANCE SHEET REVIEW

In 2018 the total assets reached 148,883 million Meticais, compared to 134,980 million Meticais recorded in 2017, registering a 10.3% growth. The increase of total assets was influenced by the growth of other financial assets at amortized cost.

In a macroeconomic context not appropriate for loan concession to the economy, and so as to preserve the structure of the balance sheet, the reduction of loans granted was accompanied by an increase in secured deposits, which enabled the loan-to-deposit ratio to be kept below 80%.

Net loans to Customers represent 34% of total assets, with gross loans corresponding to 56,549 million Meticais, equivalent to a 17% reduction in relation to 2017 (67,984 million Meticais).

Total Assets

Million MZN

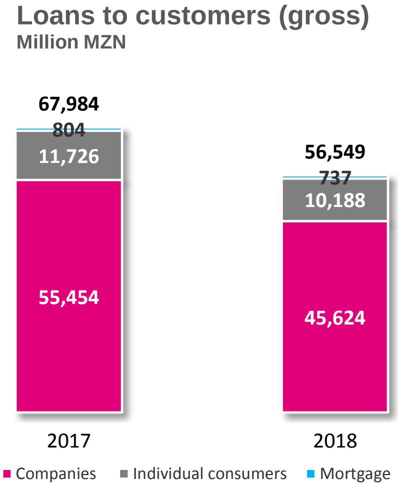
	2018	2017	Var. %
Cash and deposits at Central Bank (BM)	28,072	18,541	51.4%
Deposits and credits in credit institutions	9,999	11,376	-12.1%
Loans to customers (net)	50,165	61,413	-18.3%
Other financial assets at amortized cost	48,649	33,849	43.7%
Financial assets at fair value through other comprehensive income	81	25	224.0%
Investments in subsidiaries	416	416	0.0%
Tangible and intangible assets	5,422	5,245	3.4%
Other assets	6,079	4,116	47.7%
	148,883	**134,980**	**10.3%**

Loans to customers (gross)

In a context of an economic slowdown, associated with great difficulties in the performance of the economic agents, Millennium bim adjusted its loan concession policy to the market adversity, intensifying its policy of prudence in the selection of operations according to risk and profitability, as well as reducing exposures to large concentrations.

Loans to customers (gross), on a comparable basis, reached 56,549 million meticais in 2018, having fallen by 17% in relation to the 67,984 million meticais recorded in 2017. In the percentage weighting, this evolution was especially determined by loans to companies (-18%), although loans to individuals also fell by 13%.

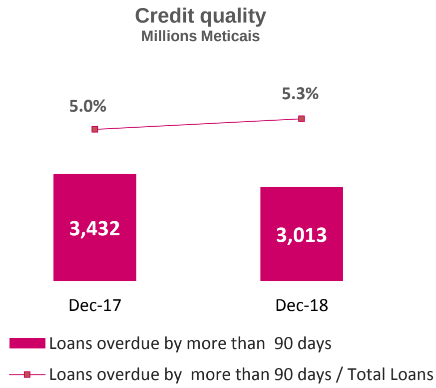
The structure of the loan portfolio has maintained the same patterns of diversification, with loans to companies continuing to hold a dominant position in the loan portfolio, with a weight of 81% (compared to 82% in 2017).



Credit Quality

Credit quality, measured by the proportion of loans overdue by more than 90 days as a percentage of total loans, stood at 5.3% in 2018 compared to 5.0% in 2017. This increase was due to the rise in default among loans granted to companies. The Bank has pursued a prudential credit policy, with the identification of higher risk segments in Individuals and individual monitoring of large and medium-sized companies, aimed at strengthening prevention and stimulating credit recovery.

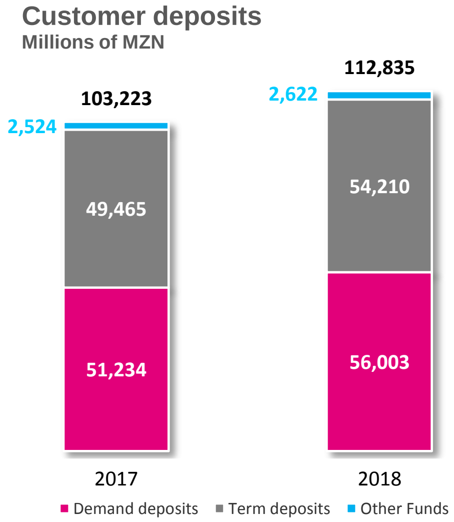
The coverage ratio of loans overdue by more than 90 days by impairment stood at 212% in 2018, reflecting prudential criteria and which enabled it to maintain comfortable coverage levels for overdue loans.



Customer Deposits

In 2018, rates adopted by the Bank System, to attract customers declined continuously and sharply, due to the evolution of the central bank's policy rates.

Millennium bim kept up with this evolution on the prices of deposits and, despite strong competition, it was able to achieve a substantial increase in customer funds. It is worth highlighting the combined effects of the additional performance of commercial networks, the offer of diversified products and services and strict pricing vs. maturities management, which contributed to the total customer funds having grown by 9.3%, amounting to 112,835 million meticais in 2018.



Capital

Capital ratios for 2018 were calculated in accordance with the regulatory standards of Central Bank of Mozambique. Total own funds arise from the sum of core capital (Tier I) and supplementary capital (Tier II) and subtraction of the component recorded under aggregate deductions.

The solvency ratio, as at 31 December 2018, stood at 39.0%, significantly above the minimum limit of 10% recommended by the Central Bank of Mozambique.

PROPOSED APPLICATION OF NET INCOME

Pursuant to the statutory provisions and under the terms of the Mozambican Legislation in force, namely Law number 15/99 of the Credit Institutions relative to the constitution of Reserves, it is proposed that the net income recorded on the individual balance sheet relative to the financial year of 2018 of the amount of 6,367,207,791.07 Meticais, should be distributed as follows:

Meticais

	%	Amount
Free Reserve	47.50%	3,024,423,700.76
Dividend Stabilization Reserve	2.50%	159,180,194.77
Distribution to Shareholders	50.00%	3,183,603,895.54

Jorge Octavio Neves dos Santos
(Administrador)

Moisés Jorge
(Administrador)

Liliana Marisa Catoja da Costa Lemos
(Administrador)

Nuno Pedro da Silva do Carmo Vaz
(Administrador)

Fernando Manuel Nobre de Carvalho
(Administrador)

João Nuno Oliveira Jorge Palma
(Administrador)

José Miguel Bensliman Schorcht da Silva Pessanha
(Administrador)

Olíderiro Júlio Marques Balói
(Administrador)

FINANCIAL STATEMENTS FOR 2018

Banco Internacional de Moçambique

Consolidated Income Statement

For the year ended 31 December 2018

MZN'000

	Notes	2018	2017
Interest and equivalent income	2	**20,443,318**	20,719,581
Interest and similar costs	2	**(7,295,652)**	(8,302,368)
Net interest income		**13,147,666**	12,417,213
Income from equity instruments	3	**1,890**	1,355
Earnings from services and commissions	4	**2,144,300**	2,180,358
Earning from trading activity	5	**681,044**	774,842
Other operating income	6	**1,451,845**	703,383
Total operating income		**17,426,745**	16,077,151
Staff cost	7	**(2,822,233)**	(2,655,699)
Other administrative costs	8	**(3,117,429)**	(2,873,903)
Depreciation	9	**(605,225)**	(559,635)
Total operating costs		**(6,544,887)**	(6,089,237)
Loans impairment	10	**(2,436,891)**	(2,003,513)
Other provisions	11	**(48,462)**	80,335
Net (loss) income before income tax		**8,396,505**	8,064,736
Taxes			
Current	12	**(2,071,592)**	(1,895,569)
Deferred	12	**483,884**	(8,543)
		(1,587,708)	(1,904,112)
Profit after income tax		**6,808,797**	6,160,624
Consolidated net income for the year attributable to:			
Shareholders of the Bank		**6,739,262**	6,100,553
Non-controlling interests		**69,535**	60,069
Net income for the year		**6,808,797**	6,160,622
Earnings per share	13	**149,76 MZN**	135,57 MZN

byhi

See accompanying notes to the consolidated financial statements

Banco Internacional de Moçambique

Consolidated Statement of Comprehensive Income for the financial year

For the year ended 31 December 2018

		MZN' 000
	2018	**2017**
Items that might be reclassified to the income statement		
Financial assets available for sale - fair value changes	**276,989**	390,256
	276,989	390,256
Items that will not be reclassification of net income for the year		
Actuarial losses for the year	**(8,769)**	318,285
	(8,769)	318,285
Other comprehensive income for the period after taxes	**268,220**	708,541
Consolidated net income for the year	**6,808,797**	6,160,622
Total comprehensive income for the year	**7,077,017**	6,869,163
Attributable to:		
Bank's Shareholders	**7,007,482**	6,806,367
Non-Controlling interests		
Consolidated net income for the year	**69,535**	60,069
Fair value reserves	**-**	1,021
Taxes	**-**	(247)
Actuarial gains for the year	**-**	1,952
	69,535	62,795
Total comprehensive income for the year	**7,077,017**	6,869,163

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Consolidated Balance Sheet

For the year ended 31 December 2018

			MZN' 000
	Notes	**2018**	**2017**
Assets			
Cash and deposits at Central Bank of Mozambique	14	**28,071,933**	18,540,507
Cash and deposits at other credit institutions	15	**2,809,498**	1,244,248
Loans and advances to other credit institutions	16	**7,207,478**	10,149,843
Loans to customers	17	**50,165,110**	61,413,093
Financial assets at amortised cost	18	**49,228,292**	34,605,106
Financial assets at fair value through comprehensive income Income	19	**120,341**	57,153
Investments in subsidiaries and associates	20	**259,619**	267,500
Investment properties		**107,458**	111,458
Non-current assets held for sale	21	**3,883,544**	2,401,337
Other tangible assets	22	**5,580,308**	5,678,533
Goodwill and intangible assets	23	**496,928**	395,637
Current tax assets	24	**956,900**	527,595
Deferred tax assets	25	**575,135**	2,349
Other assets	26	**1,345,531**	1,936,935
Total assets		**150,808,075**	**137,331,294**
Liabilities			
Amounts owed to other credit institutions	27	**930,807**	1,483,213
Customer funds	28	**110,727,229**	99,621,641
Provisions	30	**2,251,814**	4,613,983
Current income tax liability	24	**37,345**	-
Deferred income tax liability	25	**32,525**	21,930
Other liabilities	31	**3,262,300**	2,929,135
Total liabilities		**117,242,020**	**108,669,902**
Equity			
Share	32	**4,500,000**	4,500,000
Reserves and retained earnings	33	**28,821,488**	23,949,109
Total equity attributable to the Group		**33,321,488**	**28,449,109**
Non-controlling interests		**244,567**	212,283
Total Equity		**33,566,055**	**28,661,392**
Total equity and liabilities		**150,808,075**	**137,331,294**

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

MZN'000

	Notes	2018	2017
Cash flow from operating activities			
Interest and commissions received		**22,908,493**	23,694,910
Interest and commissions paid		**(8,164,426)**	(8,451,620)
Payment to employees and suppliers		**(5,738,444)**	(5,301,250)
Recoveries on loans previously written off		**200,139**	165,741
Net earned premiums		**1,169,052**	1,330,228
Claims incurred		**(386,408)**	(813,429)
Operating flows before changes in operating funds		**9,988,406**	10,624,580
Increases/decreases of operating assets			
Financial assets at amortised costs		**(14,976,565)**	(19,022,449)
Loans and advances to credit institutions		**3,128,794**	2,405,838
Deposits at central bank		**(9,575,040)**	1,265,062
Loans to customers		**5,956,752**	15,728,004
Other assets		**(865,276)**	(492,632)
Increase/decrease of operating liabilities			
Deposits from other credit institutions		**(551,280)**	(6,281,401)
Customer deposits and other loans		**12,072,047**	3,360,263
Other liabilities		**697,016**	(77,480)
Net cash flow from operating activities before payment of income tax		**5,874,854**	7,509,785
Income tax paid		**(2,463,552)**	(3,331,887)
Net cash flow from operating activities		**3,411,302**	4,177,898
Cash flow from investment activities			
Acquisitions / reinforcement of holdings		**7,881**	-
Dividends received		**1,890**	1,355
Acquisition of tangible assets		**(776,683)**	(1,008,874)
Sale of tangible assets		**161,510**	(5,030)
Cash flow from investment activities		**(605,402)**	(1,012,549)
Cash flow from financing activities			
Dividends paid		**(1,950,906)**	(1,578,387)
Net cash flow from financing activities		**(1,950,906)**	(1,578,387)
Effect of change in exchange rate on cash and cash equivalents		**666,640**	(1,904,278)
Increase/Decrease in cash and cash equivalents		**1,521,635**	(317,316)
Cash and cash equivalents at the beginning of the year		**5,837,712**	6,155,028
Cash and cash equivalents at the end of the year	37	**7,359,347**	5,837,712
		1,521,635	(317,316)

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

MZN'000

	Total equity	**Share** Share	**Legal reserve**	**Other reserves and retained earnings**	**Total equity attributable to the Group**	**Non-controlling interests**
Balance as at 01 January 2017	**23,506,370**	**4,500,000**	**3,853,193**	**14,924,586**	**23,277,779**	**228,591**
Transfer to the legal reserve	-	-	676,452	(676,452)	-	
Acquisition of 2% stake in SIM	(80,515)	-	-	-	-	(80,515)
Dividends paid in 2017	(1,609,715)	-	-	(1,578,387)	(1,578,387)	(31,328)
Comprehensive income	6,869,163			6,806,368	6,806,368	62,795
Other	(23,911)			(56,651)	(56,651)	32,740
Balance as at 31 December 2017	**28,661,392**	**4,500,000**	**4,529,645**	**19,419,464**	**28,449,109**	**212,283**
Adjustments from the initial application of IFRS 9	**(174,821)**	**-**	**-**	**(174,821)**	**(174,821)**	**-**
Balance restated as at 31 December	**28,486,571**	**4,500,000**	**4,529,645**	**19,244,643**	**28,274,288**	**212,283**
Dividends paid in 2018	(1,992,036)	-	-	(1,950,906)	(1,950,906)	(41,130)
Comprehensive income	7,077,017	-	-	7,007,482	7,007,482	69,535
Other	(5,497)	-	-	(9,376)	(9,376)	3,879
Balance as at 31 December 2018	**33,566,055**	**4,500,000**	**4,529,645**	**24,291,843**	**33,321,488**	**244,567**

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Income Statement of the Bank

For the year ended 31 December 2018

MZN'000

	Notes	2018	2017
Interest and equivalent income	2	**20,349,869**	20,422,948
Interest and similar costs	2	**(8,008,798)**	(8,993,879)
Net interest income		**12,341,071**	11,429,069
Income from equity instruments	3	**434,929**	360,103
Earnings from services and commissions	4	**2,196,559**	2,255,660
Earning from trading activity	5	**670,424**	781,354
Other operating income	6	**819,184**	234,387
Total operating income		**16,462,167**	15,060,573
Staff costs	7	**(2,717,886)**	(2,571,651)
Other administrative costs	8	**(3,130,881)**	(2,902,847)
Depreciation	9	**(564,235)**	(520,482)
Total operating costs		**(6,413,002)**	(5,994,980)
Loan impairment	10	**(2,436,891)**	(2,003,513)
Other provisions	11	**40,595**	124,810
Profit before income taxes		**7,652,869**	7,186,890
Taxes			
Current	12	**(1,769,545)**	(1,604,330)
Deferred	12	**483,884**	(8,543)
		(1,285,661)	(1,612,873)
Net income for the year		**6,367,208**	5,574,017
Earnings per share	13	**141,49 MZN**	123,87 MZN

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Comprehensive Income Statement of the Bank

For the year ended 31 December 2018

MZN' 000

	2018	2017
Items that will not be reclassification of net income for the year		
Financial assets available for sale - fair value changes	**274,455**	377,337
Actuarial loss for the year	**(8,769)**	445,958
Other comprehensive income for the period after taxes	**265,686**	823,295
Net income for the year	**6,367,208**	5,574,017
Total comprehensive income for the year	**6,632,894**	6,397,312

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Balance Sheet of the Bank as at 31 December 2018

For the year ended 31 December 2018

MZN'000

	Notes	2018	2017
Assets			
Cash and deposits at Central Bank of Mozambique	14	**28,071,933**	18,540,507
Cash and deposits at other credit institutions	15	**2,807,182**	1,232,643
Loans and advances to credit institutions	16	**7,191,413**	10,142,888
Loans to customers	17	**50,165,110**	61,413,093
Financial assets at amortised cost	18	**48,648,704**	33,849,116
Financial assets at fair value through comprehensive income	19	**80,958**	24,976
Investments in subsidiaries and associates	20	**416,148**	416,148
Non-current assets held for sale	21	**3,883,544**	2,401,337
Other tangible assets	22	**5,087,413**	4,999,985
Goodwill and Intangible assets	23	**334,888**	245,037
Current tax assets	24	**956,900**	354,783
Deferred tax assets	25	**572,628**	2,349
Other assets	26	**666,294**	1,357,099
Total assets		**148,883,115**	**134,979,961**
Liabilities			
Amounts owed to other credit institutions	27	**930,807**	1,483,214
Customer funds	28	**112,834,994**	103,223,308
Debt securities issued	29	**1,029,333**	1,042,167
Provisions	30	**373,773**	526,056
Current tax liabilities	24	**3**	-
Other liabilities	31	**2,892,174**	2,390,352
Total liability		**118,061,084**	**108,665,097**
Equity			
Share	32	**4,500,000**	4,500,000
Reserves and retained earnings	33	**26,322,031**	21,814,864
Total Equity		**30,822,031**	**26,314,864**
Total Equity and Liabilities		**148,883,115**	**134,979,961**

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Cash Flow Statement of the Bank

For the year ended 31 December 2018

MZN'000

	Notes	2018	2017
Cash flow from operating activities			
Interest and commissions received		**24,736,505**	23,319,693
Interest and commissions paid		**(8,824,614)**	(8,992,985)
Payments to employees and suppliers		**(5,814,760)**	(5,359,323)
Recoveries on loans previously written-off		**200,139**	165,741
Operating earnings before change in operating funds		**10,297,270**	9,133,126
Increases/decreases of operating assets			
Financial assets at amortised cost		**(14,308,433)**	(20,834,654)
Loans and advances to credit institutions		**2,915,298**	2,184,265
Deposits at central bank		**(9,575,040)**	1,265,062
Loans to customers		**5,958,114**	17,684,047
Other assets		**(888,235)**	(1,513,189)
Increase/decrease of operating liabilities			
Deposits from other credit institutions		**(551,281)**	(6,281,400)
Customer deposits and other loans		**10,134,444**	3,670,889
Liabilities represented by securities		**(1)**	1,000,000
Other liabilities		**1,286,999**	(557,704)
Net cash flow from operating activities before payment of income tax		**5,269,135**	5,750,442
Income tax paid		**(2,371,659)**	(1,941,794)
Net cash flow from operating activities		**2,897,476**	3,808,648
Cash flow from investment activities			
Purchase of holdings		**-**	(60,000)
Dividends received		**434,929**	360,103
Acquisition of tangible assets		**(678,725)**	(946,636)
Amounts received from the sale of tangible assets		**161,510**	(6,611)
Net cash flow from investment activities		**(82,286)**	(653,144)
Cash flow from financing activities			
Dividends paid		**(1,950,906)**	(1,578,387)
Repayment of subordinated debt		**-**	(17)
Net income from financing activities		**(1,950,906)**	(1,578,404)
Effect of change in exchange rate on cash and cash equivalents		**666,640**	(1,904,278)
Decrease/increase in cash and cash equivalents		**1,530,924**	(327,178)
Cash and cash equivalent at the beginning of the period		**5,826,107**	6,153,285
Cash and cash equivalent at the end of the period	37	**7,357,031**	5,826,107
		1,530,924	(327,178)

See accompanying notes to the consolidated financial statements

BIM - Banco Internacional de Moçambique, S.A.

Statement of Changes in Equity of the Bank

For the year ended 31 December 2018

MZN'000

	Total equity	Share	Legal Reserves	Reserves and retained earnings
Balance as at 01 January 2017	**21,495,939**	**4,500,000**	**3,853,193**	**13,142,746**
Transfer to legal reserve	-	-	676,452	(676,452)
Dividends paid in 2017	(1,578,387)	-	-	(1,578,387)
Comprehensive income	6,397,312	-	-	6,397,312
Balance as at 31 December 2017	**26,314,864**	**4,500,000**	**4,529,645**	**17,285,219**
Adjustments from the initial application of IFRS 9	**(174,821)**	-	-	**(174,821)**
Balance restated as at 01 January 2018	**26,140,043**	**4,500,000**	**4,529,645**	**17,110,398**
Dividends paid in 2018	(1,950,906)	-	-	(1,950,906)
Comprehensive income	6,632,894	-	-	6,632,894
Balance as at 31 December 2018	**30,822,031**	**4,500,000**	**4,529,645**	**21,792,386**

See accompanying notes to the consolidated financial statements

ANNUAL REPORT MILLENNIUM BIM 2018 - Notes to the Financial Statements

Notes

Introduction

BIM – Banco Internacional de Moçambique, S.A. ("Bank" or "BIM") is a private bank with head office in Maputo. These consolidated financial statements are composed of the Bank and its subsidiaries, Seguradora Internacional de Moçambique, SA (collectively "the Group").

The Group and the Bank present financial statements that reflect the earnings of its operations for the financial year ended on 31 December 2018.

The Bank's primary objective is the accomplishment of financial transactions and provision of all the services permitted to commercial Banks in accordance with the legislation in force, namely the granting of loans in national and foreign currency, the granting of credit notes and bank guarantees, transactions in foreign currency and receipt of deposits in national and foreign currency.

Basis of presentation

The consolidated and individual financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), having been approved by the Bank's Board of Directors on 25 February 2019.

The consolidated and individual financial statements presented herein reflect the results of the operations of the Bank and all its subsidiaries (together referred to as the "Group") and the Group's stake in associates for the year ended on 31 December 2018.

The accounting policies set forth in this note were applied consistently to all the Group's entities, and are consistent with those used in the preparation of the financial statements of the previous period. These are the first financial statements of the Bank and the Group in which IFRS9 has been applied. Changes in accounting policies are described in note 1. w).

Functional and presentation currency

These consolidated and individual financial statements are presented in Meticais, which is the functional currency of the Group and Bank. All the amounts were rounded off to the closest million unit, except when indicated otherwise.

Use of judgements and estimates

The preparation of the financial statements in conformity with IFRS requires the Executive Committee to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and costs. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity or for which assumptions and estimates are considered to be significant are presented in the accounting policy described in the corresponding note.

1. Accounting policies

a) Financial Instruments (IFRS 9)

FINANCIAL ASSETS

A) Classification, initial recognition and subsequent measurement

At the time of their initial recognition, financial assets are classified under one of the following categories:

i) Financial assets at amortised cost;
ii) Financial assets at fair value through other comprehensive income; or
iii) Financial assets at fair value through profit or loss (not applicable to Millennium bim)

The classification is carried out taking into account the following aspects:

- The Group's business model for the management of financial assets; and

- The characteristics of the contractual cash flows of the financial assets.

Assessment of the Business Model

The Group proceeded, with reference to 1 January 2018, to an assessment of the business model in which financial instruments are held in the portfolio, given that this approach reflects, in the best way, how assets are managed and how information is made available to the management bodies. Information considered in this assessment includes the following:

- the policies and objectives established for the portfolio and the operability in practice of these policies, including how the management strategy focuses on receipt of contracted interest, maintaining a particular interest rate profile, adapting the duration of financial assets to the duration of the liabilities financing these assets or in cash flows realized through the sale of assets;
- the way the portfolio performance is assessed and reported to the Group's management bodies;
- the assessment of risks impacting the performance of the business model (and of the financial assets held under that business model) and how those risks are managed;
- the remuneration of business managers– e.g. to what extent compensation depends on the fair value of the assets under management or contractual cash flow received; and
- the frequency, volume and timing of sales in the previous periods, the reasons for such sales and expectations about future sales. However, the information on sales should not be considered in isolation, but as part of an overall assessment of how the Group establishes management objectives of financial assets and of how cash flows are obtained.

Financial assets held for trading and financial assets managed and assessed at fair value by option are measured at amortized cost by virtue of neither being held nor for the collection of contractual cash-flows and sale of such financial assets.

Evaluation if the contractual cash flows correspond only to the principal and interest received.

In evaluating financial instruments in which the contractual cash-flows refer exclusively to the principal and interest received, the Group considers the original contractual terms of the financial instrument. During the evaluation process, the Group has taken the following into consideration:

- Contingent events that may change the timing and amount of cash flows;
- Characteristics leading to leverage;
- Clauses for advance payment and extension of maturity;
- Clauses that may limit the Group's right to claim the cash flows in relation to specific assets (e.g. contracts with clauses preventing access to assets in the event of default – "non-recourse asset"); and
- Characteristics that may modify the compensation for the time value of money. In addition, an advance payment is consistent with the classification criteria at amortised cost, if:
    - The financial asset is acquired or originated with a premium or discount regarding the contractual nominal value;
    - The advance payment substantially represents the nominal amount of the contract plus contractual interest recognised on an accrual basis, but has not yet been paid (it may include reasonable compensation for the advance payment); and
    - The fair value of the advance payment is insignificant at initial recognition.

B) Financial assets at amortised cost

Classification

A financial asset is classified under the category of "Financial assets at amortised cost" if it cumulatively meets the following conditions:

- the financial asset is held in a business model whose main purpose is the holding of assets for collection of the corresponding contractual cash flows; and
- the contractual cash flows of the financial asset occur on specific dates and correspond only to payments of capital and interest over the amount owed.

The category of “Financial assets at amortised cost” includes loans and advances to credit institutions, loans to customers and debt securities managed on the basis of a business model whose objective is receiving the corresponding contractual cash flows (government bonds, corporate bonds and commercial paper).

Initial recognition and subsequent measurement

The loans and advances to credit institutions and loans to customers are recognised on the date on which the funds are made available to the counterparty (settlement date). Debt securities are recognized on the trade date, that is, on the date on which the Group commits to purchase them.

Financial assets at amortised cost are initially recognised at fair value, plus their transaction costs, and are subsequently measured at amortised cost. Additionally, financial assets are liable, from their initial recognition, to be settled from impairment losses to expected credit losses, which are recorded against “Impairment of financial assets at amortised cost”.

The gains or losses generated upon derecognition are recorded under the heading "Earnings / (losses) with derecognition of financial assets and liabilities at amortised cost".

C) Financial assets at fair value through other comprehensive income

Classification

A financial asset is classified under the category of “Financial assets at fair value through other comprehensive income” if it cumulatively meets the following conditions:

- The financial asset is held in a business model whose objective is the collection of the corresponding contractual cash flows and the sale of such financial asset;
- The contractual cash flows of the financial asset occur on specific dates and correspond only to payments of capital and interest over the amount owed.

Additionally, at initial recognition of an equity instrument, not held for trading, and other than a contingent consideration recognized by an acquiring entity in a business combination which IFRS 3 applies to, the Group may irrevocably choose to classify the equity instrument under the category of “Financial assets at fair value through other comprehensive income” (FVOCI). This option is exercised on a case-by-case basis, is investment based and is only available to those financial instruments which meet the definition of equity instruments provided for in IAS 32, and may not be used for financial instruments whose classification as equity instrument within the scope of the issuer is performed under the exceptions provided for under sections 16A to 16 D of IAS 32.

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at fair value, plus the transaction costs, and are subsequently measured at fair value. Changes in the fair value of these financial assets are recorded against other comprehensive income and, at the time they are sold, the corresponding gains or losses accumulated in other comprehensive income are reclassified under a specific heading of profit or loss named "Earnings or losses with derecognition of financial assets at fair value through other comprehensive income".

Impairment in equity instruments at fair value through other comprehensive income is not recognized, and the respective accumulated gains or losses are recorded in the fair value changes transferred to accumulated Profit or Loss at the time of derecognition.

RECLASSIFICATION BETWEEN CATEGORIES OF FINANCIAL ASSETS

Financial assets are reclassified under other categories only if the business model used in managing them changes.

The reclassification is applied prospectively from the date of recognition, and no gains, losses (including those related to impairment) or interest previously recognised are restated.

Reclassification of investments under equity instruments measured at fair value through other comprehensive income, or of financial instruments designated at fair value through profit or loss, is not allowed.

MODIFICATION AND DERECOGNITION OF FINANCIAL ASSETS

General principles

I. The Group derecognises a financial asset if, and only if:

- The contractual rights to the cash flows arising from the financial asset expire; or
- The Group transfers the financial asset as defined in paragraphs ii) and iii) below and the transfer meets the requirements for derecognition in accordance with paragraph iv).

II. The Group transfers a financial asset if, and only if, one of the following situations occurs:

- The Group transfers the contractual rights related to receiving the cash flows arising from the financial asset; or
- The Group retains the contractual rights related to receiving the cash flows arising from the financial asset, but it assumes a contractual obligation to pay cash flows to one or more beneficiaries in an agreement which meets the requirements laid down in paragraph iii).

III. When the Group retains the contractual rights to receive the cash flows arising from a financial asset («the original asset»), but assumes a contractual obligation to pay those cash flows to one or more entities (the «final beneficiary»), the Group deals with the transaction as a transfer of a financial asset if, and only if, all three of the following conditions are met:

- The Group does not have any obligation to pay amounts to final beneficiaries unless it receives equivalent amounts resulting from the original asset. Short term advances by the entity with the right to full recovery of the amount borrowed plus the interest accrued at market rates do not violate this requirement;
- The Group is prohibited by the terms of the transfer contract from selling or pledging the original asset other than the guarantee to the final beneficiaries for the obligation to pay them cash flows; and
- The Group has an obligation to remit any cash flow received on behalf of final beneficiaries without significant delays. In addition, the Group has no right to reinvest these cash flows, except in the case of investments in cash or cash equivalents (as defined in IAS 7 Cash Flow Statements) during the short period of settlement between the date of receipt and the date of delivery required from final beneficiaries, and the interest received as a result of these investments is passed to the final beneficiaries.

IV. When transferring a financial asset (see paragraph ii above), the Group should evaluate the extent to which it retains the risks and benefits of ownership of the financial asset. In this case:

- If the Group transfers, substantially, all the risks and benefits of ownership of the financial asset, it derecognises the financial asset and recognizes, separately, any rights and obligations created or retained with the transfer as assets or liabilities;
- If the Group retains, substantially, all the risks and benefits of ownership of the financial asset, it continues to recognise the financial asset.
- If the Group neither transfers nor retains, substantially, all the risks and benefits of ownership of the financial asset, it should determine whether it has retained control of the financial asset. In this case:
    - If the Group has not retained control, it should derecognise the financial asset and recognize, separately, any rights and obligations created or retained with the transfer as assets or liabilities;

- If the Group has retained control, it should continue to recognise the financial asset to the extent of its continued involvement in the financial asset.

V. The transfer of risks and benefits referred to in the previous paragraph is evaluated by means of comparison of the Group's exposure, before and after the transfer, with the variability of the amounts and timing of the net cash flows resulting from the financial asset transferred.

VI. The question of whether the Group has retained or not retained control (see paragraph iv above) of the asset transferred depends on the capacity of the entity receiving the transfer to sell the financial asset. If the entity receiving the transfer has practical capacity to sell the entire financial asset to a non-related third party and is able to exercise this capacity unilaterally and without needing to impose additional restrictions on the transfer, it is considered that the entity has not retained control. In all other cases, it is considered that the entity has retained control.

Derecognition criteria

In the context of the general principles described in the previous section, and taking into account that the contract amendment processes can lead, in some circumstances, to the derecognition of financial assets and the recognition of new assets (subject to the identification of POCI), the purpose of this section is to establish the criteria and circumstances that lead to the derecognition of a financial asset.

The Group believes that a modification under the terms and conditions of a credit exposure will result in the derecognition of the transaction and in the recognition of a new transaction when the modification translates into at least one of the following conditions:

- Creation of a new exposure that results from a debt consolidation, with no derecognized instruments having a nominal value exceeding 90% of nominal value of the new instrument;
- Double extension of the residual maturity, provided that the extension is not less than 3 years in relation to the residual maturity at the time of modification;
- Increased exposure by over 10% in relation to the nominal value (it refers to the last amount approved in the transaction subject to modification);
- Change in the qualitative characteristics, namely:
    - Change of currency, unless the exchange rate between the old and the new currency is linked or managed within restricted limits by law or relevant monetary authorities;
    - Deletion or addition of a substantial characteristic of equity conversion into a debt instrument, unless it is not reasonably possible that is performed during its period;
    - Transfer of credit risk of the instrument to another borrower, or a significant change in the structure of borrowers in the instrument.

Write-off

The Group recognises a loan written off against assets when the Group has no reasonable expectations to recover the loan fully or partially. This record occurs after all recovery measures taken by the Group are unsuccessful. The loans written off against assets are recorded in off-balance-sheet accounts.

Financial assets acquired or originated in loan impairment

Financial assets acquired or originated in loan impairment (POCI) are assets which have objective evidence of loan impairment at the time of their initial recognition. An asset is impaired if one or more events have occurred with a negative impact on the estimated future cash flows of the asset. The Group does not present financial assets acquired or originated in loan impairment (POCIs) in its financial statements.

IMPAIRMENT LOSSES

Financial instruments subject to the recognition of impairment losses

Millennium bim recognizes impairment losses for expected credit losses on financial instruments recorded in the following accounting headings:

a) Financial assets at amortised cost

Impairment losses on financial assets at amortised cost reduce the balance sheet value of these financial assets against the heading "Impairment of financial assets at amortised cost" (in profit or loss).

b) Debt instruments at fair value through other comprehensive income

Impairment losses on debt instruments at fair value through comprehensive income are recognised in profit or loss under the heading "Impairment of financial assets at fair value through other comprehensive income", against other comprehensive income (do not reduce the balance sheet value of these financial assets).

c) Credit commitments, documentary credits and financial guarantees

Impairment losses associated with credit commitments, documentary credits and financial guarantees are recognized as liabilities, under the heading "Provisions for guarantees and other commitments", against the heading "Other provisions" (in profit or loss).

Classification of financial instruments in stages

	Change in credit risk since initial recognition		
	Stage 1	Stage 2	Stage 3
Classification criteria	Initial recognition	Significant increase of credit risk since initial recognition	In impairment status
Impairment losses	12-month expected credit losses	"Lifetime" expected credit losses	

Millennium bim determines the expected credit losses of each transaction in the light of credit risk deterioration which has occurred since initial recognition. For this purpose, transactions are classified at one of the following three stages:

- Stage 1: transactions in which there is a significant increase in credit risk since initial recognition regardless of the credit quality (unless if acquired or originated with objective evidence of loss) are classified at this stage. Impairment losses associated with transactions classified at this stage correspond to forecast credit losses resulting from an event of default which may occur over a twelve-month period after the reporting date (12-month expected credit losses).

- Stage 2: transactions in which there is a significant increase of credit risk since initial recognition, but which are not impaired, are classified at this stage. Impairment losses associated with transactions classified at this stage correspond to expected credit losses resulting from events of default that may occur over the expected remaining lifetime of transactions ("lifetime" expected credit losses).

- Stage 3: impaired transactions are classified at this stage. Impairment losses associated with transactions classified at this stage correspond to "*lifetime*" expected credit losses.

Definition of financial assets in default and in impairment status

Customers meeting at least one of the following criteria are considered to be in default:

i) At least 1 agreement in litigation; or
ii) At least 1 credit agreement with capital or interest due for more than 90 days (> 90 days)

The following situations are considered as having objective signs of impairment (i.e. as being impaired):

1. Customers with at least 1 agreement in litigation;
2. Customers with at least 1 credit agreement with capital or interest due for more than 90 days (> 90 days) exceeding MZN 1,000;
3. Customers having capital or interest due for more than 45 days and exceeding MZN 1,000;
4. Customers with at least one agreement restructured due to financial difficulties, whose amount exceeds MZN 1,000;
5. Sum of *Early Warnings Signals* above 1.

Estimate of expected credit losses - Individual analysis

A. Customers under the following conditions are subject to individual analysis:

- Groups or customers in litigation and exposure exceeding 800,000 MZN;
- Groups or customers with credit and interest overdue for more than 45 days and exposure exceeding MZN 3,000,000, provided that the amount of credit and interest overdue exceeds MZN 1,000.
- Groups or customers with restructured loans and exposure exceeding MZN 3,000,000, provided that the amount of restructured loans exceeds MZN 1,000;
- Groups or customers with negative EWS with a total weight above 1 and exposure exceeding MZN 8,000,000.
- Groups or customers with exposure exceeding MZN 15,000,000.

B. Individual analysis includes the following procedures:

- For customers who are not in default, analysis of the indicators of financial hardship in order to determine whether the customer has objective evidence of impairment, or whether they should be classified at Stage 2 due to the occurrence of a significant increase in credit risk, considering for this purpose a set of indicators;
- For customers in default or for which the previous analysis has allowed to conclude that the customer has objective evidence of impairment, determination of loss.

In determining such impairment losses on individually assessed loans, the following factors are considered:

- The total exposure of each customer at the Group and the existence of overdue loans;
- The economic-financial viability of the customer's business and its capability to generate sufficient cash flow to service future debt obligations;
- The existence, nature and estimated value of the collaterals;
- A significant downgrading of the customer's rating;
- The Customer's assets in situations of liquidation or bankruptcy;
- The expected amount and timing of recoveries.

Individual analysis lies under the responsibility of Credit Management and Credit Recovery Management.

Each of the units referred to in the previous paragraph is responsible for assigning an expectation and a recovery period to the exposures relating to Customers subject to individual analysis, which shall be reported to the *Risk Office* within the scope of the regular data collection process, accompanied by detailed justification of the impairment proposed.

There are two types of recovery strategy:

- "*Going Concern*", in which the recovery estimate is based on the business cash flows;
- "*Gone Concern*", in which the recovery estimate is based on the execution of collateral.

The *Risk Office* is responsible for reviewing the data collected and for clarifying all inconsistencies identified. The Risk Office should also take the final decision on the customer's impairment.

Estimate of expected credit losses - Collective analysis

Transactions that are not subject to individual analysis of impairment are grouped in view of their risk characteristics and subject to collective analysis of impairment. The Group's credit portfolio is divided into internal risk grades and according to the following segments: consumer loans, housing loans, business loans, DDA - business loans, Leasing & ALD, private customers and DDA - private customers.

The main inputs used in measuring expected credit losses on collective basis, include the following variables:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained by means of internal statistical models, and other relevant historical data, taking into account existing regulatory models tailored according to the IFRS 9 requirements.

PD is estimated based on a given historical period and is calculated based on statistical models, which in turn are based on internal data. PD is calculated considering the contractual maturities of exposures.

The Group collects performance and default indicators on their credit risk exposures with analyses by types of customers and products.

LGD is the magnitude of loss which is expected to occur if the exposure is in default. The Group estimates the LGD parameters based on the history of recovery rates after counterparties are in default.

EAD represents the expected exposure should the exposure and/or customer be in default. The Group obtains the EAD amounts from current counterparty exposure. For credit commitments and financial guarantees, the EAD amount considers both the credit amount used as the expectation of the potential future value that may be used in accordance with the agreement.

As described previously, with the exception for the financial assets which consider a twelve-month PD, for not having a significant increase of credit risk, the Group calculates the amount of expected credit losses given the risk of default during the maximum period of contractual maturity of the agreement, even if, for the purposes of risk management, a longer period is considered. The maximum contractual period will be considered as the period until the date on which the Group is entitled to demand payment or terminate the credit commitment or financial guarantee.

FINANCIAL LIABILITIES

A. Classification, initial recognition and subsequent measurement

At the time of initial recognition, the Bank recorded its financial liabilities at amortised cost.

Financial liabilities at amortised cost

Classification

Financial liabilities that are not classified at fair value through profit or loss and do not correspond to financial guarantee contracts, are measured at amortised cost.

The category of "Financial assets at amortised cost" includes deposits from banks, customer accounts and subordinated and unsubordinated debt securities.

Initial recognition and subsequent measurement

Financial liabilities at amortised cost are initially recognised at fair value, plus transaction costs, and are subsequently measured at amortised cost. Interest expense for financial instruments measured at amortised cost are recognised in "Interest payable and similar charges".

Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not permitted.

B. Derecognition of financial liabilities

The Group derecognizes financial liabilities when these are discharged, cancelled or extinguished.

FINANCIAL INSTRUMENTS (IAS 39)

The Group's consolidated financial statements for the year 2017 have been prepared in accordance with IAS 39 - Financial instruments - Recognition and measurement, as follows:

1. Loans to customers

The heading of Loans to Customers includes loans derived from the Group which are not intended to be sold in the short term, which are recorded on the date when the funds are provided to the Customers.

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the Group expire or (ii) the Group has substantially transferred all the risks and benefits associated to these loans.

Loans to Customers are initially recognised at their fair value, plus any transaction costs, and are subsequently valued at amortised cost, and are presented in the balance sheet minus impairment losses.

1.1. Impairment of financial instruments

It is the Group's policy to regularly assess the existence of objective evidence of impairment in its loan portfolio. The identified impairment losses are recorded against profit or loss, and subsequently reversed through profit or loss if there is a reduction of the estimated impairment loss in a subsequent period.

After initial recognition, a Customer loan or loan portfolio, defined as a group of loans with similar credit risk characteristics, may be classified as impaired when there is objective evidence of impairment as a result of one or more events and when this has an impact on the estimated future cash flow of the Customer loan or loan portfolio, that can be reliably estimated.

According to IAS 39, there are two basic methods of calculating impairment losses: (i) individually assessed loans; and (ii) collective assessment.

Individual analysis

The assessment of the existence of impairment losses in individual terms is determined through analysis of the total loan exposure, on a case-by-case basis. For each loan considered individually significant, the Group assesses the existence of any objective evidence of impairment on each reporting date. In determining such impairment losses on individually assessed loans, the following factors are considered:

- The total exposure of each customer at the Group and the existence of overdue loans;
- The economic-financial viability of the Customer’s business and its capability to generate sufficient cash flow to service future debt obligations;
- The existence, nature and estimated value of the collaterals;
- A significant downgrading of the customer's rating;
- The customer’s assets in situations of liquidation or bankruptcy;
- The expected amount and timing of recoveries.

The book value of impaired loans is presented in the balance sheet net of impairment losses.

Loans for which no objective evidence of impairment has been identified are grouped into portfolios with similar credit risk characteristics and assessed collectively.

Collective analysis

Impairment losses based on collective analysis may be calculated from two perspectives:

- For homogeneous groups of loans that are not considered individually significant; or
- In respect of losses which have been incurred but have not yet been reported (IBNR) on loans for which there is no objective evidence of impairment

The methodology and assumptions used to estimate the future cash flow are reviewed regularly by the Group.

Loans and advances to customers are charged-off when there is no realistic expectation, from an economic perspective, of recovering the loan amount, and for secured facilities, when the funds arising from the realisation of the collateral had already been received, by the use of impairment losses where these correspond to 100% of the amount of loans and advances to customers that are considered irrecoverable.

2. Financial instruments

2.1. Classification, initial recognition and subsequent measurement

Financial assets are recognized on the trade date, that is, on the date in which the Group commits to purchase the assets and are classified considering the intention underlying them according to the categories described below:

2.1.1. Available-for-sale financial assets

Financial assets held for the purpose of being maintained by the Group, namely bonds, treasury bills or shares, and are classified as available for sale, unless they are classified under another category of financial assets. Available-for-sale financial assets are initially recognised at fair value, including the costs or income associated with the transactions and are subsequently measured at their fair value. The changes in fair value are accounted for against “Fair value reserves”. In the sale of the Available-for-sale financial assets, or if impairment is determined, the accumulated gains or losses recognised as fair value reserves are recorded under “Earnings from available-for-sale financial assets” or “Impairment of available-for-sale financial assets" in the income statement, respectively. Dividends are recognized in the income statement when the right to receive the dividends is attributed.

2.1.2. Financial assets held to maturity

The financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the Group has the intention and capacity to maintain until the maturity of the assets and that were not included in another category of financial assets. These Financial Assets are initially recognised at fair value and subsequently measured at amortised cost. The impairment losses are recognized in profit or loss when identified.

2.1.3. Other financial liabilities

The other financial liabilities are all financial liabilities that are not recognized as financial liabilities at fair value through profit or loss. This category includes money market transactions, deposits from customers and from other financial institutions, issued debt, and other transactions.

2.2. Impairment

On each reporting date, an assessment is made of the existence of objective evidence of impairment. A financial asset, or group of financial assets, is impaired whenever there is objective evidence of impairment arising from one or more events that occur after their initial recognition.

If impairment is identified in a financial asset available for sale, the cumulative loss (measured as the difference between the acquisition cost and the fair value, excluding any impairment loss recognised previously through profit or loss) is transferred from reserves and recognised in the income statement. If, in a subsequent period, the fair value of debt instruments classified as available for sale increases and this increase can be objectively related to an event which occurred after the impairment loss was recognised in the income statement, the impairment loss is reversed through profit or loss. Recovery of impairment losses on equity instruments classified as available-for-sale financial assets is recognised as a gain in fair value reserves when it occurs (if there are no reversal in the income statement).

b) <u>Basis of consolidation</u>

As from 1st of January 2010, the Group applied IFRS 3 (revised) for accounting recognition of business activities. The changes in the accounting policies resulting from the application of IFRS 3 (revised) are applied prospectively.

These consolidated financial statements reflect the assets, liabilities, income and expenses of the Bank and its subsidiary (Group), and the results attributed to the Group with reference to investments in associated companies.

Investments in subsidiaries

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by the Group. The Group controls another entity when it is exposed, or has rights, to variable returns derived from its involvement with that entity and the ability to enforce these returns through its power over the entity's relevant activities (*de facto* control). The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group acquires control until the date that control ceases.

On a step acquisition process resulting in the acquisition of control, the revaluation of any participation previously acquired, is booked against profit or loss when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, any participation retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

The consolidated financial statements include the attributable part to the Group of the total results and reserves of associated companies accounted on an equity basis. When the Group's share of losses exceeds its interest in the associate, the carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred in a legal obligation to assume those losses on behalf of an associate.

Consolidation differences - Goodwill

Business combinations are accounted for using the purchase method of accounting. The acquisition cost corresponds to the fair value determined on the acquisition date of the assets given and liabilities incurred or assumed.

Costs directly attributable to the acquisition of a subsidiary are recorded directly through profit or loss.

The positive goodwill arising from acquisitions is recognised as an asset and recorded at acquisition cost, not being amortised.

Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the total or corresponding share of the fair value of the net assets and contingent liabilities acquired, depending on the option taken.

Negative goodwill arising on an acquisition is recognised directly in the income statement in the year in which the business combination occurs.

The recoverable value of goodwill is assessed annually, regardless of the existence of any indications of impairment. Impairment losses are recognized in the income statement. The recoverable amount is determined based on the higher between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement, or in equity, when applicable.

Purchases and dilution of non-controlling interests

The acquisition of the non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, additional goodwill resulting from this transaction is not recognized. The difference between the acquisition cost and the fair value of non-controlling interests acquired is recognised directly in reserves. On this basis, the gains and losses resulting from the sale of non-controlling interests, that does not impact the control position of a subsidiary, are always recognised against reserves.

Loss of control

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognised by the Group in the income statement.

In an acquisition (dilution) of non-controlling interests not resulting in a loss of control, the difference between the fair value of the non-controlling interests acquired and the acquisition value is accounted against reserves.

Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses arising from intragroup transactions are eliminated in the preparation of the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

c) Capital instruments

An instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments' issuance deduction to the amount issued. Amounts paid or received related to instruments are recognized in equity, net of transaction costs.

Preference shares issued by the Group are considered as an equity instrument when redemption of the shares is solely at the discretion of the issuer and dividends are paid at the discretion of the Group.

Income from equity instruments (dividends) are recognized when the right to receive this income is established and are deducted to equity.

d) Securities borrowing and lending business and repurchase agreement transactions

(i) Securities borrowing and lending

Securities lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

(ii) Repurchase agreements

The Group performs acquisition/sell of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos' / 'reverse repos'). The securities related to reselling agreements at a future date are not recognized on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities. Securities sold through repurchase agreements continue to be recognized in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest and income or interest and similar costs.

e) <u>Non-current assets held for sale</u>

The groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non-current asset) are classified as held for sale when there is the intention to sell the referred assets and liabilities and the assets or groups of assets are available for immediate sale and their sale is highly probable.

The Group also classifies as non-current assets held for sale, those non-current assets or groups of assets acquired exclusively with a view to subsequent sale, available for immediate sale and whose sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Subsidiaries acquired exclusively for the purpose of their sale in the short-term, are consolidated until the moment of their sale.

The Group also classifies as non-current assets held for sale the investments arising from recovered loans that are measured initially by the lower of its fair value net of selling costs and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalized.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by the Group.

The subsequent measurement of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs, and is not subject to depreciation. In case of unrealized losses, these should be recognized as impairment losses against results.

An impairment loss is recognised for the amount that the book value of the asset exceeds its recoverable value. For purposes of assessment of impairment, the assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

f) <u>Leasing</u>

Finance lease transactions for a lessee are recorded at the inception date of the lease as an asset and liability, at the fair value of the leased asset, which is equivalent to the present value of the future lease payments. The instalments are composed by the financial charge plus the amortisation of the principal. The financial charge is allocated to the periods during the lease term so as to produce a constant periodic rate of interest on the remaining liability balance for each period.

Assets held under finance leases for a lessor are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortisation of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

g) Recognition of interest

Applicable policy as of 31 December 2017

Interest income and expense measured at amortised cost are recognised in interest and similar income or interest and similar costs (net interest income).

Interest calculated at the effective interest rate of available-for-sale financial assets are also recognized in net interest income.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction.

If a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Specifically regarding the accounting policy for interest on overdue loans' portfolio the following aspects are considered:

- Interest income for overdue loans with collaterals is accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and

- The interest accrued and not paid for overdue loans for more than 90 days that is not covered by collaterals is written-off and is recognized only when it is received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

Policy applicable as from 31 December 2017

Effective interest rate

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

- The gross carrying amount of the financial asset; or
- The amortized cost of financial liabilities.

When calculating the effective interest rate for financial instruments other than assets acquired or originating from credit loss, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not the Expected Credit Loss. For financial assets with acquired or originated credit loss, an effective interest rate adjusted to credit is calculated using estimated future cash flows including the Expected Credit Loss.

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount by which the financial asset or liability is measured at initial recognition less capital repayments, plus or less the accumulated depreciation using the effective interest rate method of any difference between such amount and the maturity amount and, for financial assets, adjusted by any expected credit loss provisioning (or impairment loss before 1 January 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset prior to adjustment of any expected credit loss provisioning.

Interest income and expense calculation

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

However, for impaired financial assets after initial recognition, interest income is calculated by applying the effective interest rate at amortized cost of the financial asset.

For impaired financial assets at initial recognition, the interest income is calculated by applying the effective interest rate adjusted by credit at the amortized cost of the financial asset. Interest income calculation does not revert to the gross basis even if the financial asset credit risk improves.

Presentation

Interest income calculated using the effective interest rate method presented in the Statement of Income and Comprehensive Income includes:

- Interest on financial assets and financial liabilities measured at amortised cost;
- Interest on debt instruments measured at fair value through Comprehensive Income.

Other interest income presented in the Statement of Income and Comprehensive Income includes interest income on finance leases.

Interest expense presented in the Statement of Income and Comprehensive Income includes financial liabilities measured at amortised cost.

Interest income and expense in all assets and liabilities held for trading are included accidentally in the trading operations of the Group and Bank and are presented together with other changes in the fair value of assets and liabilities held for trading in net revenues.

h) Recognition of Earnings from services and fees

The earnings from fees and commissions are recognised in accordance with the following criteria:

- When they are received as the services are provided, they are recognised in income during the period in which the service is being provided;

- When resulting from the provision of services, they are recognised when the service is completed.

Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized in the net interest income.

A contract with a customer resulting in the recognition of a financial instrument in the Group's financial statements may be partially under IFRS 9 and partially under IFRS 15. If this is the case, the Group applies IFRS 9 first, to separate and measure the part of the contract which is within the scope of IFRS 9 and then applies IFRS 15 to the remaining part.

Other fee and commission expenses refer mainly to transaction and service charges, which are recorded as expenses when services are received.

i) Earnings from trading activity

Earnings related to financial transactions include gains and losses arising from foreign currency marketing transactions and the conversion into national currency of monetary items in foreign currency.

This heading also records the gains and losses of securities classified as available for sale, and the dividends associated to these portfolios.

j) Tangible assets

Tangible assets are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result to the Group.

All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Real estate properties	50
Expenditure on freehold and leasehold buildings	10
Equipment	4 to 10
Other tangible assets	3

Whenever there is indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss should be recognised whenever the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

The impairment losses of the fixed tangible assets are recognized in profit or loss for the year.

k) Investment properties

Tangible assets are initially recognised at acquisition cost, including transaction costs and are subsequently measured at fair value. The fair value of the investment real estate should reflect the market conditions on the reporting date. Changes in fair value are recognised in results as Other operating income.

l) Intangible assets

Intangible assets acquired by the Group and Bank are recorded at acquisition cost minus accumulated depreciation and impairment losses.

Amortisation is imputed to the profit or loss account pursuant to the straight-line criteria during the estimated useful life:

Software

The Group records the costs associated to software acquired from third party entities as intangible assets, and amortises them on a linear basis over the estimated period of useful life of 3 years. The Group does not capitalize internal costs arising from software development.

Goodwill

The goodwill of the acquisition of the subsidiary is presented under intangible assets. The initial measurement represents the difference between the paid value and the fair value of the subsidiary's assets.

After the initial recognition, the goodwill is measured at cost minus accumulated impairment losses.

Assets with an indefinite useful life are not amortised in a scheduled form, but are tested annually for impairment. The impairment losses for this type of asset are not reversed.

m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the amounts recorded on the balance sheet with maturity less than three months counted as of the reporting date, which include cash and deposits at other credit institutions.

Cash and cash equivalents exclude the compulsory deposits at the Central Bank of Mozambique.

n) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are converted into Meticais at the average rate disclosed by the Central Bank of Mozambique on the reporting date, with any resulting currency conversion differences being recognised through profit or loss in the period to which they refer.

Non-monetary assets and liabilities stated at historical cost, expressed in foreign currency, are converted at exchange rate on the transaction date. Non-monetary assets and liabilities expressed in foreign currency and recorded at fair value are converted at the exchange rates in force on the date when the fair value was determined.

Any resulting currency conversion differences are recognised through profit or loss.

o) Employee benefits

(i) Defined benefit plan

The Group attributes its Employees a defined benefit plan, for which it has insurance managed by its subsidiary Seguradora Internacional de Moçambique, S.A.

For the benefit plan, the Group finances a redeemed pension that is guaranteed to its Employees through a supplementary retirement pension, which operates on an autonomous basis.

The redeemed pension will be attributed to current Employees recruited up to 31 December 2011, when they reach 60 years old in the case of men and 55 years old in the case of women, where it is a compulsory condition that the employee is now receiving a retirement pension attributed by the National Social Security Institute (INSS) or should the Executive Commission decide so.

(ii) Short term employee benefits

Short term benefits consist of wages and any non-monetary benefits, such as medical assistance contributions, and are measured on a non-discounted basis and recorded as an expense when the related service is provided.

A liability is recognised at the value payable if the Group has a legal or constructive present obligation to pay this value as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Termination of benefits

The benefits inherent to termination of labour relations (severance pay) are recognised as a cost when the Group is not in a position to be able to revoke formally undertaken commitments before the retirement date or when related to negotiated benefits, arising from the employee’s voluntary termination of the contract.

When it is not expected that the benefits will be settled within a period of 12 months, they are discounted.

p) Income taxes

The Group and its subsidiary based in Maputo are subject to the tax system stipulated in the Income Tax Code, whereby the profit imputable to each year is subject to Corporate Income Tax (IRPC).

Income tax is recorded through profit or loss.

Income tax is recognised in the income statement, unless related to items recorded under equity, which implies its recognition under equity (namely Available-for-sale financial assets).

Current tax corresponds to the expected amount payable on the taxable income for the year, using the tax rates prescribed by the law, or that are in force on the reporting date, and any adjustments to the tax of previous periods.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences between the book values of the assets and liabilities and their tax base, using the tax rates approved or substantially approved on the reporting date and which are expected to be applied when the temporary differences are reversed.

Deferred taxes assets are recognised to the extent when it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Group compensates, as established in IAS 12, paragraph 74 the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

q) Segmental reporting

A business segment is an identifiable component of the Group engaged in providing an individual product or service or a group of related products or services, and that is subject to risks and returns that are different from those of other business segments.

The Group controls its activity through the following major segments:

- Retail Banking;
- Corporate Banking; and
- Insurance.

r) Provisions

Provisions are recognized when: (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

The measurement of provisions takes into account the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely profit or loss of on-going operations and taking into account the risks and uncertainties inherent in the process. In cases where the discount effect is material, the provisions corresponding to the present value of expected future payments are discounted at a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit or loss in the proportion of the payments that are probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

s) **Earnings per share**

Basic earnings per share are calculated by dividing net income attributable to the Bank's shareholders by the average number of ordinary shares issued and in circulation.

t) **Insurance contracts**

The Group issues policies which include insurance risk, financial risk or a combination of insurance and financial risk. A contract, under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

A contract issued by the Group who's transferred insurance risk is not significant, but who's transferred financial risk is significant with discretionary participation in profit, is considered an investment contract, recognised and measured in accordance with the accounting policies applicable to insurance contracts.

A contract issued by the Group that transfers only financial risk, without discretionary participating features, is classified as an investment contract and accounted for as a financial instrument.

Insurance contracts and investment contracts with profit sharing features are recognised and measured as follows:

(i) Premiums

Gross premiums issued are recorded as income for the year to which they refer, regardless of when they are received or paid, in accordance with the accrual and deferral principle.

Reinsurance premiums ceded are accounted for as expense in the year to which they respect in the same way as gross premiums written.

Provision for unearned premiums from direct insurance and outward reinsurance.

The provision for unearned gross premiums is based on the evaluation of the premiums written before the end of the year but for which the risk period continues after the year end. This provision is calculated using the *pro-rata temporis* method applied to each receipt in force.

(ii) Provision for claims

The provision for claims corresponds to the expected amount of costs related to claims that have not yet been settled or have already been settled but have not yet been paid by the end of the year.

This provision was determined as follows:

based on the analysis of the outstanding claims at the end of the year and consequent estimated liability existing on that date; and

through the provision, based on statistical data, of cost amounts related to claims for the year, in order to meet liabilities related to claims declared after the closing of the year (IBNR).

The mathematical reserve of the work accidents branch is calculated for pensions that have already been homologated by the Labour Court and for estimates arising from proceedings whose injured parties are in a situation of "clinical cure".

(iii) Provision for profit sharing

Provision for profit sharing to be attributed (shadow accounting):

Unrealised gains and losses on the assets covering liabilities arising from insurance and investment contracts with discretionary profit sharing is attributed to policyholders, in proportion to their estimated share, based on the expectation that they will receive these unrealised gains and losses when they are realised, through the recognition of a liability.

The estimated amounts to be attributed to insurance policyholders under the form of profit-sharing, for each modality or group of modalities, is calculated based on a suitable plan applied consistently, taking into account the profit-sharing plan, the maturity of the commitments, the allocated assets as well as other specific variables of the modality or modalities in question.

Provision for attributed profit sharing:

Corresponds to the amounts attributed to insurance policyholders or to the beneficiaries of the contracts, as profit sharing, and when it has not yet been distributed, namely through inclusion in the mathematical provision of the contracts.

u) Financial Guarantees and Credit Commitments

"Financial guarantees" are contracts that require specific payment from the Bank to repay the holder for a loss incurred as a result of default by a specific debtor relating to the payment according to the terms of a debt instrument.

"Credit Commitments" are firm commitments to grant credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Later these are measured as follows:

- *As from 1 January 2018:* at higher between loan loss provision determined according to the IFRS 9 and the amount initially recognised minus, where appropriate, the accumulated value of the revenue recognized in accordance with the principles of IFRS 15; and

- *By 1 January 2018:* by the highest value representing the initial fair value amortized over the life of the guarantee or commitment and the present value of any expected payment to settle the liabilities when a payment under the contract becomes likely.

The Bank does not issue credit commitments measured at fair value through profit or loss.

For other credit commitments:

- *As from 1 January 2018:* the Group recognises loan loss provision;
- *By 1 January 2018:* the Group recognises a provision in accordance with IAS 37, given that the contract is considered costly.

Liabilities resulting from financial guarantees and credit commitments are included in provisions.

v) Accounting estimates in the application of accounting policies

IFRS set forth a range of accounting treatments that require the Executive Committee to apply judgments and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Executive Committee, the Group's reported results would differ if a different treatment was chosen. The Executive Committee considers that the adopted criteria are appropriate and that the financial statements present the financial position and operations of the Group in a suitable manner in all materially relevant aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment of available-for-sale financial assets

The Group and the Bank determine that there is impairment in its available-for-sale financial assets when there is a continued or significant devaluation at fair value. The determination of a continued or significant devaluation requires a judgment to be made. In the judgment made, the Group and Bank assess, among other factors, the normal volatility of the prices of financial assets. Under Group and Bank policies, a 30% devaluation in the fair value of a capital instrument is considered a significant devaluation and the 1 year period is assumed to be a continued devaluation of the fair value below cost of acquisition.

In addition, valuations are obtained through market prices or valuation models, which require the use of certain assumptions or judgment in the establishment of fair value estimates.

Alternative methodologies to use different assumptions and estimates could result in a different level of recognized impairment losses, with a consequent impact on the Group's consolidated results.

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

Alternative methodologies, the use of other assumptions and estimates could result in different levels of impairment losses recognized, with a consequent impact in the consolidated income statement of the Group.

Income taxes

The Group is subjected to income taxes. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Mozambican Tax Authorities are entitled to review the Bank and its resident subsidiary's determination of its annual taxable earnings, for a period of five years, in case there are tax losses brought forward. Hence, it is possible that the taxable earnings may be adjusted, mainly as a result of differences in interpretation of the tax law which for its probability, the Executive Committee considers that there is no relevant material effect in terms of the financial statements.

Pensions and other employee benefits

Determining liabilities for pension payments requires the use of assumptions and estimates, including the use of actuarial projections, estimated return on investments and other factors that may have an impact on pension plan costs and liabilities. Changes to these assumptions could have a significant impact on the determined amounts.

Goodwill impairment

The goodwill recoverable amount recognised as a Group's asset is revised annually regardless of the existence of impairment losses.

For this purpose, the carrying amount of the business unit of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested. Determining the cash flows to discount and the discount rate, involves judgment.

w) Changes in accounting policies

As described in the introduction, Bases of Presentation, the Group has adopted IFRS 9 – Financial Instruments 1 January 2018 in replacement of IAS 39 – Financial Instruments: Recognition and Measurement, which was in force until 31 December 2017. The Group did not adopt, in advance, any of the requirements of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group chose not to proceed with the restatement of the comparative balances of the previous year. All adjustments to the carrying amounts of financial assets and liabilities on transition date were recognized in equity with reference to 1 January 2018. Consequently, changes in the information disclosed in the notes to the financial statements arising from the amendments to IFRS 7, following the adoption of IFRS 9, were applied only to the current reporting period. The information included in the notes to the financial statements relating to the comparative period corresponds to the information disclosed in the previous period.

Adoption of IFRS 15 had no impact in terms of figures in the heading net fees referring to customers contracts. Hence, the impact on comparative data is limited to new requirements in terms of disclosure.
The effects on initial application of these new standards are essentially attributed to the following:

- An increase in impairment losses recognised in financial assets;
- Additional disclosures related to IFRS 9;
- Additional disclosures related to IFRS 15.

Since IFRS 9 contains a new classification and measurement approach for financial assets which reflects the business model used in asset management, as well as the characteristics of their contractual cash-flows, changes were made in the classification and measurement of financial assets held on 1 January 2018 as follows:

- Loans and advances to customers measured at amortised cost under IAS 39 are measured at amortised cost under IFRS 9;
- Held-to-maturity securities, measured at amortised cost under IAS 39, are measured at amortised cost under IFRS 9;
- Investments in debt securities that were classified as available-for-sale under IAS 39 are, under IFRS 9, classified at amortised cost.

Based on this analysis and on the strategy defined there have been no material changes in the measurement criteria associated with the Group's financial assets (financial assets measured at amortised cost versus financial assets measured at fair value) with impact on transition to IFRS 9.

IFRS 9 replaces the "incurred loss" model of IAS 39 by a model of expected credit losses "(ECL)", which considers the expected losses over the life of the financial instruments.

The main assumptions used in the transition adjustments recorded on 1 January 2018 are as follows:

1) Assignment of stage 3 to contracts which were in the default risk bucket;
2) Assignment of stage 2 to contracts which were in the restructured risk bucket and with early-warning signals and to customers with contracts in arrears for more than 1 day;
3) Assignment of stage 1 to other contracts.

Registered impacts are above all at the collective analysis level by adoption of the Lifetime PD.

The (Consolidated and Bank) Balance Sheets, as of 1 January 2018, reflecting equity impacts resulting from the application of IFRS 9 are as follows:

Transition adjustments of IAS 39 for IFRS 9

Consolidated Balance sheet on 1 January 2018

MZN '000

	IAS 39	Re-evaluations	Transition adjustments	IFRS 9
Assets				
Cash and deposits at Central Bank of Mozambique	18,540,507	-	-	18,540,507
Cash and deposits at other credit institutions	1,244,248	-	-	1,244,248
Loans and advances to other credit institutions	10,149,843	-	-	10,149,843
Loans to customers	61,413,093	-	(230,381)	61,182,712
Other financial assets at amortised cost	-	34,637,283	(26,709)	34,610,574
Available-for-sale financial assets	29,800,919	(29,800,919)	-	-
Financial assets at fair value through other comprehensive income	-	24,976	-	24,976
Financial assets held to maturity	4,861,340	(4,816,340)		-
Investments in associated companies	267,500	-	-	267,500
Non-current assets held for sale	2,401,337	-	-	2,401,337
Investment properties	111,458	-	-	111,458
Other tangible assets	5,678,533	-	-	5,678,533
Goodwill and intangible assets	395,637	-	-	395,637
Current tax assets	527,595	-	82,269	609,863
Deferred tax assets	2,349	-	-	2,349
Other assets	1,936,935	-	-	1,936,935
Total assets	137,331,294	-	(174,821)	137,156,472
Liabilities				
Amounts owed to credit institutions	1,483,213	-	-	1,483,213
Customer funds and other loans	99,621,641	-	-	99,621,641
Provisions	4,613,983	-	-	4,613,983
Deferred income tax liabilities	21,930	-	-	21,930
Other liabilities	2, 929,133	-	-	2,929,133
Total Liabilities	108,669,902		-	108,669,901
Equity				
Principal	4, 500, 000	-	-	4,500,000
Fair value reserves	(259,464)	-	-	(259,464)
Reserves and retained earnings	24,208,573	-	(174,821)	24,033,752
Total equity attributable to the shareholders of the Bank	28,449,109	-	(174,821)	28,274,288
Non-controlling interests	212,283	-	-	212,283
Total equity and Liabilities	28,661,392	-	(174,821)	137.156.472

IAS transition adjustments for IFRS 9

BIM Balance sheet on 1 January 2018

MZN '000

	IAS 39	Re-evaluations	Transfers	Transition adjustments	IFRS 9
Assets					
Cash and deposits at Central Bank of Mozambique	18,540,507	-	-	-	18,540,507
Loans and advances to other credit institutions	1,232,643	-	-	-	1,232,643
Deposits in banks	10,142,888	-	-	-	10,142,888
Loans to customers	61,413,093	-	-	(230,381)	61,182,712
Other financial assets at amortised cost	-	33,849,117	-	(26,709)	33,822,408
Available-for-sale financial assets	29,294,603	(29,294,603)	-	-	-
Financial assets at fair value through other comprehensive income	-	24,976	-	-	-
Financial assets held to maturity	4,579,489	(4,579,489)	-	-	-
Investments in associated companies	416,148	-	-	-	416,148
Non-current assets held for sale	2,401,337	-	-	-	2,401,337
Other tangible assets	4,999,985	-	-	-	4,999,985
Goodwill and intangible assets	245,037	-	-	-	245,037
Current tax assets	354,783	-	-	82,269	437,052
Deferred tax assets	2,349	-	-	-	2,349
Other assets	1,357,099	-	-	-	1,357,099
Total assets	134,979,961	-	-	(174,821)	134,805,140
Liabilities					
Amounts owed to credit institutions	1,483,214	-	-	-	1,483,214
Customer funds and other loans	103,223,308	-	-	-	103,665,096
Debt securities issued	1,042,167	-	-	-	1,042,167
Provisions	526,056	-	-	-	526,056
Other liabilities	2,390,352		-	-	2,390,352
Total Liabilities	108,665,097	-	-	-	108,665,097
Equity					
Principal	4,500,000	-	-	-	4,500,000
Fair value reserves	(271,911)	-	-	-	(271,911)
Reserves and retained earnings	22,086,775	-	-	(174,821)	21,911,954
Total equity attributable to the shareholders of the Bank	26, 314,864	-	-	(174,821)	26,140,043
Total equity and Liabilities	134.979.96	-	-	(174,821)	134.805.140

2. Net interest income

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Interest and equivalent income				
Interest on loans and advances	**11,328,692**	15,233,154	**11,328,692**	15,233,154
Interest on deposits and other investments	**379,745**	468,212	**378,458**	451,526
Interest on other financial assets to the amortized cost	**8,734,881**	5,018,215	**8,642,719**	4,738,268
	20,443,318	20.719.581	**20.349.869**	20.422.948
Interest and similar costs				
Interest on deposits and other funds	**7,086,516**	8,290,702	**7,607,495**	8,940,046
Interest on securities issued	-	-	**192.167**	42.167
Other similar costs and interest	**209,136**	11,666	**209,136**	11,666
	7,295,652	8,302,368	**8,008,798**	8,993,879
Net interest income	**13,147,666**	12,417,213	**12,341,071**	11,429,069

3. Income from equity instruments

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Income from investments in subsidiaries	-	-	**434.929**	360.103
Income from securities at fair amount through other comprehensible income	**1,890**	1,355	**-**	-
	1,890	1,355	**434,929**	360,103

The heading of Income from investments in subsidiaries corresponds, for the Bank, to dividends received from the financial holding in Seguradora Internacional de Moçambique, S.A. and, for the Group, to dividends received from the other stakes held by Seguradora Internacional de Moçambique, S.A..

4. Earnings from services and fees

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Services rendered				
From guarantees provided	**507,623**	642,159	**507,623**	642,159
From banking services rendered	**1,203,055**	1,109,984	**1,246,512**	1, 149,782
Insurance activity fees	**65,963**	75,596	**-**	-
Other fees	**720,372**	739,466	**720,372**	739,466
	2,497,013	2,567,205	**2,474,507**	2,531,407
Services received				
From guarantees provided	**23,419**	57,564	**23,419**	57,564
From banking services provided	**150**	531	**150**	58
Insurance activity fees	**74,765**	110,627	**-**	-
Other fees	**254,379**	218,125	**254,379**	218,125
	352,713	386,847	**277,948**	275,747
Earnings from services and fees	**2,144,300**	2,180,358	**2,196,559**	2,255,660

Fees and commissions revenue from contracts with customers is measured based on the specified remuneration in the contract with the client. The Bank recognises the revenue when it transfers control of the service to the customer.

The following table provides information about the nature and time of performance obligations satisfaction in contracts with customers, including significant terms of payment and the related revenue recognition policies.

Type of service: Nature and time of performance obligations satisfaction, including significant payment deadlines.	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Retail and business banking services: The Bank provides retail and business banking services, including account management, overdraft facilities, foreign currency transactions, credit card and service fees. The fees relating to continuous management of accounts are charged monthly to the customer's account. Annually, the Bank sets the rates separately for retail and business banking clients. The rates charged on transactions based on interchange fees, foreign currency transactions and overdrafts are charged to the customer's account when the transaction occurs. Service charges are collected monthly and are based on standard rates reviewed annually by the Bank.	The revenue of account service and service charges is recognized over time as the services are rendered. Related transactions revenue is recognized at the time the transaction occurs.
Investment banking services: The investment banking segment of the Bank provides various services related to finance, including loan management and branch services, management of a syndicated loan, execution of transactions with customers with exchanges and subscription of securities. The on-going service fees are charged annually at the end of each year on the customer account. However, if a customer terminates the contract before 31 December, the termination will be charged a fee for the services performed to date. Transaction-based fees for management of a syndicated loan, execution of transactions and subscription of securities are charged when the transaction occurs.	The administrative branch services revenue is recognized over time as the services are rendered. The chargeable amounts from clients on December 31 are recognised as accounts receivable from customers. Related transactions revenue is recognized at the time the transaction occurs.

5. Earnings from trading activity

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Profits from financial transactions				
Foreign exchange transactions	**776,717**	1,038,175	**664,339**	859,840
Other transactions	**8,127**	34,854	**7,383**	11,776
	784,844	1,073,027	**671,722**	871,616
Losses from financial transactions				
Foreign exchange transactions	**103,800**	298,185	**1.298**	90,262
	103,800	298,185	**1.298**	90,262
	681,044	774,842	**670,424**	781,354

6. Other operating income

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Other operating income				
Income from real estate properties	**24,612**	27,333	**19,101**	20,417
Income from services	**68,061**	8,967	**166,853**	162,733
Reimbursement of expenses	**158,385**	146,167	**158,412**	146,190
Insurance premiums	**1,169,052**	1,330,228	-	-
Other operating income	**646,356**	325,664	**634,806**	16,400
	2,066,466	1,838,359	**979,172**	345,740
Other operating costs				
Taxes	**72,562**	33,392	**70,761**	31,467
Donations and levies	**17,152**	15,798	**16,647**	15,384
Costs related to claims	**446,733**	1,017,098	-	-
Other operating costs	**78,174**	68,688	**72,580**	64,502
	614,621	1,134,976	**159,988**	111,353
	1,451,845	703,383	**819,184**	234,387

7. Staff costs

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Remunerations	**2,683,225**	2,537,218	**2,488,179**	2,341,882
Mandatory social security charges	**90,476**	89,965	**91,201**	82,819
Voluntary social security charges	**28,037**	4,166	**123,574**	124,194
Other staff costs	**20,495**	24,350	**14,932**	22,756
	2,822,233	2,655,699	**2,717,886**	2,571,651

The average number of employees working in the Group and Bank, distributed by major professional categories, is demonstrated as follows:

	Group		Bank	
	2018	2017	**2018**	2017
Senior management	**147**	132	**129**	116
Specific /Technical staff	**1,020**	877	**880**	798
Other positions	**1,459**	1,339	**1,461**	1,293
	2,626	2,348	**2,471**	2,207

The total amount of remunerations attributed by the Group and Bank to the Management and Supervisory bodies during the year ended on 31 December 2018, recorded under the heading of Remunerations, stood at 324,376 thousand Meticais and 292,737 thousand Meticais, respectively (2017: 319,523 thousand Meticais and 290,526 thousand Meticais).

The heading of staff costs also includes the costs associated with pension liabilities for the Group and the Bank for the year ended on 31 December 2018 of the amount of 69,416 thousand Meticais and 63,946 thousand Meticais, respectively (2017: 21,757 thousand Meticais and 8,281 thousand Meticais).

8. Other administrative costs

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Water, electricity and fuel	**173,720**	128,668	**166,656**	123,392
Consumables	**155,671**	158,014	**152,370**	152,175
Hire and rental charges	**301,520**	289,149	**357,923**	352,013
Communications	**218,473**	225,975	**231,575**	221,397
Travel, hotel and representation costs	**91,175**	83,885	**86,516**	82,349
Advertising	**134,597**	115,968	**116,331**	99,397
Costs related to independent work	**170,017**	148,917	**143,146**	116,164
Maintenance and repair	**193,159**	169,834	**182,106**	161,606
Insurance	**8,984**	11,526	**89,013**	89,648
Legal and notary services	**25,189**	11,093	**21,407**	10,950
IT and Consulting	**1,327,783**	1,242,960	**1,289,633**	1,209,917
Security and surveillance	**147,741**	135,637	**142,805**	131,566
Cleaning of premises	**37,720**	35,010	**37,720**	35,010
Transport of amounts	**90,793**	91,243	**90,793**	91,243
Staff training	**37,302**	23,632	**37,302**	23,632
Other third party services	**3,585**	2,392	**3,585**	2,388
	3,177,429	2,873,903	**3,130,881**	2,902,847

9. Depreciation

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Intangible assets				
Software	**88,257**	72,333	**82,355**	67,784
Tangible assets				
Real estate properties	**166,519**	149,619	**149,355**	132,455
Equipment	**350,427**	337,660	**332,503**	320,220
Furniture	**34,148**	30,865	**31,777**	28,940
Office equipment	**5,942**	7,265	**5,886**	7,211
Computer equipment	**153,724**	155,389	**152,897**	154,366
Interior installations	**66,310**	60,136	**65,582**	59,408
Motor vehicles	**65,069**	54,318	**52,262**	42,174
Security equipment	**22,639**	26,666	**22,639**	26,666
Other equipment	**2,595**	3,021	**1,460**	1,455
Other tangible assets	**23**	23	**23**	23
	516,969	487,302	**481,881**	452,698
	605,225	559,635	**564,235**	520,482

10. Loans impairment

MZN '000

	Group		Bank	
	2018	2017	**2018**	2016
Loans granted to customers				
Net allocation for the year	**2,637,029**	2,169,254	**2,637,029**	2,169,254
Recovery of loans and interest written off from assets	**(200,138)**	(165,741)	**(200,138)**	(165,741)
	2,436,891	2,003,513	**2,436,891**	2,003,513

The heading of Credit impairment records the estimated losses incurred as at the date of the end of the year, determined pursuant to the assessment of objective evidence of impairment, as described in Note 1 a).

11. Other provisions

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Provisions for indirect credit risks				
Impairment for the year	**85,345**	143,080	**85,345**	143,080
Write-back for the year	**(165,027)**	(424,009)	**(165,027)**	(424,009)
Provisions for securities depreciation				
Impairment for the year	**13,464**	-	**13,464**	-
Write-back for the year	**(4,398)**	-	**(4,398)**	-
Provisions for general banking risks				
Impairment for the year	**6,218**	46,902	**6,218**	46,902
Write-back for the year	**-**	(435)	-	(435)
Other provisions				
Impairment for the year	**24,102**	47,092	**24,102**	47,092
Write-back for the year	**-**	-	**-**	-
Insurance technical provisions				
Impairment for the year	**114,964**	11,163	**-**	-
Write-back for the year	**-**	-	-	-
Provisions for other assets				
Impairment for the year	**-**	33,312	**-**	-
Write-back for the year	**(25,907)**	-	**-**	-
Provisions for non-current assets held for sale				
Impairment for the year	**9,492**	65,179	**9,492**	65,179
Write-back for the year	**(9,791)**	**(2,619)**	**(9,791)**	**(2,619)**
	48,462	(80,335)	**(40,595)**	(124,810)

12. Taxes

MZN' 000

	Group		Bank	
	2018	2017	**2018**	2017
Current tax	**2,071,592**	1,895,569	**1,769,545**	**1,604,330**
Deferred tax				
Tangible Assets	**(483,884)**	8,543	**(483,884)**	**8,543**
	(483,884)	8,543	**(483,884)**	**8,543**
Total tax costs	**1,587,708**	1,904,112	**1,285,661**	**1,612,873**
Reconciliation of the effective tax cost				
Income before tax	**8,396,504**	8,064,736	**7,652,869**	7,186,890
Current taxes	**2,832,462**	2,622,362	**2,448,918**	**2,299,805**
Tax adjustments				
Impact of non-deductible expenses	**27,657**	22,164	**26,310**	**21,093**
Impact of non-deductible costs	**19,596**	40,571	**17,148**	**38,440**
Revenue exempt from tax or not taxable	**-**	(21,098)	**-**	**(21,098)**
Amortisation of deferred cost	**(5,813)**	(9,459)	**(5,813)**	**(9,459)**
Impact of actuarial deviations	**-**	71,440	**-**	**-**
Tax benefits	**(139,177)**	(132,454)	**(139,177)**	**(115,233)**
Income from securities from Public Debt - withholding tax	**(1,147,017)**	(1,847,427)	**(1,061,725)**	**(1,624,579)**
Tax at withholding interest rate from Public Debt	**-**	1,149,470	**-**	**1,015,362**
Tax cost	**1,587,708**	1,895,569	**1,285,661**	**1,604,330**

13. Earnings per share

MZN

	Group		Bank	
	2018	2017	**2018**	2017
Net income	**6,739,261,999**	**6,100,553,013**	**6,367,207,791**	**5,574,017,036**
Number of shares	**45,000,000**	**45,000,000**	**45,000,000**	**45,000,000**
Earnings per share	**149,76**	135.57	**141,49**	123.87

14. Cash and deposits at Central Bank of Mozambique

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Cash	**4,549,849**	4,593,464	**4,549,849**	4,593,464
Central Bank of Mozambique	**23,522,084**	13,947,043	**23,522,084**	13,947,043
	28,071,933	18,540,507	**28,071,933**	18,540,507

The balance of deposits at Central Bank of Mozambique seeks to comply with the legal requirements on minimum cash reserves, calculated based on the amount of deposits and other effective liabilities.

The requirement on the mandatory constitution of cash reserves, requires the maintenance of balance in deposits at the Central Bank of Mozambique equivalent to 14.0% (2017:14%) for liabilities in national currency and 27.0% (2017:14%) liabilities in foreign currency on the monthly average amount of deposits. In 2017, the requirement on the constitution of cash reserves establishes the maintenance of 14.0% on the daily average amount of deposits and other liabilities of all currencies.

15. Cash and Deposits at other credit institutions

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Domestic credit institutions	**82,253**	84,206	**79,937**	72,601
Credit institutions abroad	**2,727,245**	1,160,042	**2,727,245**	1,160,042
	2,809,498	1,244,248	**2,807,182**	**1,232,643**

The heading of Deposits in credit institutions in the country includes collectible amounts of 79,937 thousand Meticais, for the Bank and for the Group, which essentially represent cheques drawn by third parties in other credit institutions under collection as at 31 December 2018. (2017: 72,601 thousand Meticais).

Breakdown of Deposits with other credit institutions abroad by currency:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
USD	**1,825,799**	268,378	**1,825,799**	268,378
CAD	**4,946**	10,748	**4,946**	10,748
CNY	**4,534**	-	**4,534**	-
ZAR	**31,991**	14,451	**31,991**	14,451
DKK	**846**	743	**846**	743
GBPS	**12,652**	15,020	**12,652**	15,020
JPY	**4,675**	488	**4,675**	488
NOK	**1,291**	1,780	**1,291**	1,780
SFK	**2,835**	838	**2,835**	838
CHF	**9,457**	4,754	**9,457**	4.754
EUR	**825,562**	841,150	**825,562**	841,150
AUD	**2,657**	1,692	**2,657**	1,692
	2,727,245	1,160,042	**2,727,245**	1,160,042

16. Loans and advances to credit institutions

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Loans and advances in domestic credit institutions	**16,065**	3,656,258	**-**	3,649,303
Loans and advances in credit institutions abroad	**7,191,413**	6,493,585	**7,191,413**	6,493,585
	7,207,478	10,149,843	**7,191,413**	10,142,888

17. Loans to Customers

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Asset-backed loans	**716,292**	787,979	**716,292**	787,979
Personal guaranteed loans	**32,102,220**	54,404,327	**32,102,220**	54,404,327
Unsecured loans	**747,357**	1,039,457	**747,357**	1,039,457
Public sector	**18,012,586**	5,723,189	**18,012,586**	5,723,189
Loans under financial leasing	**1,878,055**	2,188,652	**1,878,055**	2,188,652
Factoring	**-**	68,096	**-**	68,096
	53,456,510	64,211,700	**53,456,510**	64,211,700
Overdue loans - less than 90 days	**79,793**	340,640	**79,793**	340,640
Overdue loans - more than 90 days	**3,012,567**	3,431,748	**3,012,567**	3,431,748
	56,548,870	67,984,088	**56,548,870**	67,984,088
Impairment for credit risks	**(6,383,760)**	(6,570,995)	**(6,383,760)**	(6,570,995)
	50,165,110	61,413,093	**50,165,110**	61,413,093

The analysis of loans to Customers by type of operation is as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Short term				
Loans represented by discounted bills	**148,713**	337,117	**148,713**	337,117
Current account credits	**2,254,415**	2,699,233	**2,254,415**	2,699,233
Overdrafts	**829,543**	884,961	**829,543**	884,961
Loans	**1,722,433**	12,527,630	**1,722,433**	12,527,630
Mortgage loans	**11,328**	504	**11,328**	504
Finance leases	**71,216**	92,582	**71,216**	92,582
Factoring	**-**	68,096	**-**	68,096
	5,037,648	16,610,123	**5,037,648**	16,610,123
Medium and long term				
Loans represented by discounted bills				
Loans	**34,023,921**	45,506,011	**34,023,921**	45,506,011
Mortgage loans	**29,212**	109,322	**29,212**	109,322
Finance leases	**14,365,729**	1,986,244	**14,365,729**	1,986,244
	48,418,862	47,601,577	**48,418,862**	47,601,577
Overdue loans - less than 90 days	**79,793**	340,640	**79,793**	340,640
Overdue loans - more than 90 days	**3,012,567**	3,431,748	**3,012,567**	3,431,748
	3,092,360	3,772,388	**3,092,360**	3,772,388
Impairment for credit risks	**(6,383,760)**	(6,570,995)	**(6,383,760)**	(6,570,995)
	50,165,110	61,413,093	**50,165,110**	61,413,093

The analysis of loans to Customers by activity sector is as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Agriculture and forestry	**1,532,165**	2,860,710	**1,532,165**	2,860,710
Mining	**690,472**	647,329	**690,472**	647,329
Food, beverage and tobacco	**60,481**	779,748	**60,481**	779,748
Textiles	**4,537**	5,459	**4,537**	5,459
Printing and publishing	**44,270**	59.361	**44,270**	59.361
Chemicals	**1,876,615**	2,373,031	**1,876,615**	2,373,031
Machinery and equipment	**1,745,722**	1,711,724	**1,745,722**	1,711,724
Electricity, water and gas	**1,151,305**	5,648,664	**1,151,305**	5,648,664
Construction	**1,665,594**	6,632,640	**1,665,594**	6,632,640
Trade	**7,726,296**	9,415,623	**7,726,296**	9,415,623
Restaurants and hotels	**1,164,344**	850,775	**1,164,344**	850,775
Transport and communications	**2,689,618**	4,159,759	**2.689.618**	4,159,759
Services	**6.197.970**	12,867,000	**6.197.970**	12,867,000
Consumer credit	**10.188.015**	11,725,662	**10.188.015**	11,725,662
Mortgage loans	**736.501**	804,358	**736.501**	804,358
Mozambican State	**18.100.691**	5,759,195	**18.100.691**	5,759,195
Other activities	**973,914**	1,683,050	**973,914**	1,683,050
	56,548,870	67,984,088	**56,548,870**	67,984,088
Impairment for credit risks	**(6,383,760)**	(6,570,995)	**(6,383,760)**	(6,570,995)
	50,165,110	61,413,093	**50,165,110**	61,413,093

The portfolio of loans to Customers includes restructured loans that have been formally negotiated with Customers, in order to reinforce guarantees, extend the repayment date or change the interest rate.

The analysis of restructured loans by activity sector is as follows:

MZN '000

	2018	2017
Agriculture and forestry	**77,323**	463,004
Mining	**357,034**	934,790
Food, beverage and tobacco	**-**	2,678
Textiles	**-**	4,956
Printing and publishing	**19,615**	9,100
Chemicals	**13,989**	-
Machinery and equipment	**1,694,921**	438,875
Electricity, water and gas	**32,717**	38,066
Construction	**1,323,843**	862,002
Trade	**6,449,956**	6,868,730
Restaurants and hotels	**433,854**	144,686
Transport and communications	**1,544,567**	6,290,361
Services	**5,706,804**	3,036,017
Consumer credit	**-**	452,197
Other activities	**639,155**	- 23,187
	18,293,778	19,568,649

The analysis of overdue loans by type of credit, for the Bank is as follows:

MZN '000

	2018	2017
Asset-backed loans	**25,370**	22,103
Personal guaranteed loans	**2,812,983**	3,437,335
Unsecured loans	**50,389**	38,927
Public sector	**88,105**	13,171
Loans under financial leasing	**115,513**	260,852
	3,092,360	3,772,388

The analysis of overdue loans by sector of activity for the Bank is as follows:

MZN '000

	2018	2017
Agriculture and forestry	**13,737**	343,853
Mining	**11,351**	41,481
Food, beverage and tobacco	**30,447**	30,942
Textiles	**-**	9
Printing and publishing	**2,105**	3,574
Chemicals	**53,664**	4,946
Machinery and equipment	**40,068**	24,096
Electricity, water and gas	**919**	1,477
Construction	**87,568**	294,814
Trade	**413,832**	523,455
Restaurants and hotels	**107,382**	75,406
Transport and communications	**38,973**	784,698
Services	**1,051,498**	547,485
Consumer credit	**963,675**	952,637
Mortgage loans	**23,724**	22,103
Mozambican State	**88,105**	18,676
Other activities	**165,312**	102,736
	3,092,360	3,772,388

The transactions of impairment for credit risk are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**6,570,995**	6,146,761	**6,570,995**	6,146,761
Net allocation for the year	**2,637,029**	2,169,254	**2,673,012**	2,169,254
IFRSM 9 Adjustments	**235,983**	-	**235,983**	-
Amounts charged-off	**(3157.027)**	(1,391,029)	**(3,157.027)**	(1,391,029)
Exchange rate differences	**96.780**	(353,991)	**96.780**	(353,991)
Balance on 31 December	**6,383,760**	6,570,995	**6,383.760**	6,570,995

The table below shows the breakdown of impairment for credit risks by default category as at 31 December 2018:

MZN '000

	Classes of overdue			
	Up to 6 months	**6 months to 1 year**	**Over 1 year**	**Total**
Secured overdue loans	1,462,838	77,937	1,501,198	3,041,973
Existing impairment	(775,258)	(52,627)	(497,570)	(1,325,455)
Unsecured overdue loans	38,153	1,711	10,523	50,387
Existing impairment	(21,716)	(982)	(5,641)	(28,339)
Total overdue loans	**1,500,991**	**79,648**	**1,511,721**	**3,092,360**
Total impairment for overdue loans	(796,974)	(53,609)	(503,211)	(1,353,794)
Total impairment for outstanding loans				(5,029,966)
Total impairment for credit risks				**(6,383,760)**

The table below shows the breakdown of impairment for credit risks by default category as at 31 December 2017:

MZN '000

	Classes of overdue			
	Up to 6 months	**6 months to 1 year**	**Over 1 year**	**Total**
Secured overdue loans	436,584	1,033,351	2,263,546	3,733,481
Existing impairment	(234,823)	(196,989)	(1,652,065)	(2,083,877)
Unsecured overdue loans	13,282	8,367	17,278	38,927
Existing impairment	(5,469)	(1,659)	(10,428)	(17,556)
Total overdue loans	**449,846**	**1,041,718**	**2,280,824**	**3,772,388**
Total impairment for overdue loans	(240,292)	(198,648)	(1,662,493)	(2,101,433)
Total impairment for outstanding loans				(4,459,562)
Total impairment for credit risks				**6,570,995**

The analysis of the impairment, by sector of activity, is as follows:

MZN '000

	2018	2017
Agriculture and forestry	**52,975**	1,223,461
Mining	**22,510**	16,498
Food, beverage and tobacco	**3,997**	20,733
Textiles	**176**	3,478
Printing and publishing	**6,177**	7,481
Chemicals	**347,487**	51,194
Machinery and equipment	**91,552**	42,102
Electricity, water and gas	**29,010**	129,843
Construction	**814,476**	546,243
Trade	**679,817**	584,993
Restaurants and hotels	**83,790**	74,229
Transport and communications	**75,175**	842,329
Services	**1,532,288**	1,029,485
Consumer credit	**1,897,155**	1,582,728
Mortgage loans	**46,730**	52,907
Mozambican State	**447,538**	132,242
Other activities	**252,907**	231,049
	6,383,760	6,570,995

The impairment for credit risk, by type of credit, is analysed as follows:

MZN '000

	2018	2017
Asset-backed loans	**48,784**	54,943
Personal guaranteed loans	**5,588,198**	6,002,936
Unsecured loans	**164,336**	91,261
Public sector	**447,538**	128,560
Loans under financial leasing	**134,904**	291,933
Factoring	**-**	1,362
	6,383,760	6,570,995

The annulment of loans through use of provisions by activity sector is as follows:

MZN '000

	2018	2017
Agriculture and forestry	**2,655**	205
Food, beverage and tobacco	**2,948**	14,780
Food, beverage and tobacco	**1,320**	-
Machines and equipment	**10,495**	84
Construction	**39,169**	293,580
Trade	**1,388,739**	7,741
Restaurants and hotels	**5,998**	966
Transport and communications	**787,244**	1,503
Services	**413,950**	29,548
Consumer credit	**383,301**	1,026,777
Other activities	**121,231**	15,845
	3,157,050	1,391,029

The annulment of loans through use of the respective provision, analysed by type of credit, is as follows:

MZN '000

	2018	2017
Loans secured with other collateral	**3,127,829**	1,275,438
Unsecured loans	**29,198**	115,591
	3,157,027	1,391,029

The recovery of annulled loans and interest during the year or in previous years, carried out during 2018, presented by type of credit, is as follows:

MZN '000

	2018	2017
Loans secured with other collateral	**177,113**	146,288
Unsecured loans	**23,025**	19,453
	200,138	165,741

18. Financial assets available at amortised cost

The heading of Financial assets at amortised cost is analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Treasury Bonds	**17,487,815**	15,233,803	**16,924,356**	14,477,813
Other securities	**31,776,252**	19,371,303	**31,760.123**	19,371,303
	49,264.067	34,605,106	**48,684,479**	33,849,116
Impairment on securities	**(35,775)**	-	**(35,775)**	-
	49,228,292	34,605,106	**48,648,704**	33,849,116

Within the scope of IFRS 9 all securities issued by the State, namely, Treasury Bills and Treasury Bonds, have been reclassified for this heading. In 2017, all Treasury Bills and Treasury Bonds were classified as available for sale in accordance with IAS 39.

The transactions of impairment of other financial assets at amortised cost for the Group and for the Bank, is as follows.

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on January 1	-	-	-	-
Write-back for the year	**35,775**	-	**35,775**	-
Balance on December 31	**35,775**	-	**35,775**	-

19. Financial assets at fair value through another comprehensive income

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Shares	**120,341**	**57,153**	**80,958**	**24,976**
	120,341	**57,153**	**80,958**	**24,976**

The heading of financial assets at fair value through another comprehensive income is essentially composed by shares.

The impairment transactions of financial assets at fair value through another comprehensive income for the Group and for the Bank, are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on January 1	**7,098**	**7,098**	**7,098**	**7,098**
Reversion of the year	**(7,098)**	-	**(7,098)**	-
Balance on December 31	-	**7,098**	-	**7,098**

20. Investments in subsidiaries and associates

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Subsidiary:				
Seguradora Internacional de Moçambique, S.A	-	-	**416,148**	416,148
	-	-	**416,148**	416,148

The investment in the subsidiary Seguradora Internacional de Moçambique S.A., of the amount of 416,148 thousand Meticais, corresponds to the acquisition cost of the holding. As at 31 December 2018, the equity of the subsidiary amounted to 4,304,586 thousand Meticais (on 31 December 2017: 3,936,255 thousand Meticais).

As at 31 December 2018, the Bank's percentage holding in the subsidiary is demonstrated as follows:

MZN

Subsidiary	Head office	Share Capital	Economic Activity	Holding (%)	Consolidation method
Seguradora Internacional de Moçambique, S.A	Maputo	147,500,000	Insurance	91.99	Full*

*For the purpose of reporting to the Central Bank of Mozambique and in compliance with Notice No. 08/GBM/2007, the Bank consolidates through the Equity method.

As at 31 December, the Group's percentage holding in the associates is demonstrated as follows:

Associate	Head office	Share Capital	Economic Activity	Effective holding (%)		Book Balance sheet	
				2018	**2017**	**2018**	**2017**
Constellation, S.A.	Maputo	1,053,508	Real estate Management	17,98	17,98	250.212	250.208
Beira Nave	Beira	2,850	Shipyards	20,54	20,54	9.407	17.292
						250.619	267,500

21. Non-current assets held for sale

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Investments due to recovered loans				
Real estate properties	**2,993,414**	1,514,763	**2,993,414**	1,514,763
Equipment and other	**1,125,246**	1,125,253	**1,125,246**	1,125,253
	4,118,660	2,640,016	**4,118,660**	2,640,016
Impairment	**(235,116)**	(238,679)	**(235,116)**	(238,679)
	3,883,544	2,401,337	**3,883,544**	2,401,337

The transactions for impairment for non-current assets held for sale are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**238,679**	179,711	**238,679**	179,711
Impairment for the year	**9,491**	65,179	**9,491**	65,179
Reversal for the year	**(9,791)**	(2,619)	**(9,791)**	(2,619)
Uses	**(3,263)**	(3,591)	**(3,263)**	(3,591)
Balance at the end of the year	**235,116**	238,679	**235,116**	238,679

22. Tangible assets

The transactions under the heading of tangible assets during 2018, for the Group and for the Bank, are analysed as follows:

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Real estate properties	**4,085,096**	4,160,806	**3,419,291**	3,327,604
Works in rented buildings	**1,016,076**	930,628	**1,016,076**	930,628
Equipment				
Furniture	**384,967**	351,330	**371,429**	338,903
Office equipment	**126,211**	120,693	**122,764**	117,281
Computer equipment	**1,712,126**	1,711,158	**1,692,851**	1,693,744
Interior installations	**813,991**	738,970	**807,221**	732,200
Motor vehicles	**489,674**	403,962	**413,509**	340,011
Security equipment	**308,357**	290,148	**308,357**	290,148
Other tangible assets	**40,627**	39,620	**26,820**	26,103
Investments in progress	**565,269**	439,007	**565,269**	438,143
	9,542,394	9,186,321	**8,743,587**	8,234,765
Accumulated depreciation and impairment	**(3,962,086)**	(3,507,788)	**(3,656,174)**	(3,234,780)
	5,580,308	5,678,533	**5,087,413**	4,999,985

The transactions under the heading of tangible assets during 2018, for the Group, are analysed as follows:

MZN '000

	Balance as at 1 January 2018	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2018
Cost					
Real estate properties	4,160,806	1,772	(113,521)	36,039	4,085,096
Works in rented buildings	930,628	3,977	-	81,471	1,016,076
Equipment					
Furniture	351,330	21,501	(33)	12,169	384,967
Office equipment	120,693	5,661	(143)	-	126,211
Computer equipment	1,711,158	37,446	(39,928)	3,450	1,712,126
Interior installations	738,970	60,811	(3,184)	17,394	813,991
Motor vehicles	403,962	130,703	(47,889)	2,898	489,674
Security equipment	290,148	15,874	-	2,335	308,357
Other tangible assets	39,620	1,035	36	8	40,627
Fixed assets in progress	439,007	301,475	(19,449)	(155,764)	565,269
	9,186,321	580,255	(224,181)	-	9,542,394
Accumulated depreciation					
Real estate properties	(580,942)	(92,540)	1,592	(2,322)	(674,212)
Works in rented buildings	(404,608)	(73,979)	69	2,323	(476,195)
Equipment					
Furniture	(174,186)	(34,148)	57	(1)	(208,279)
Office equipment	(103,810)	(5,942)	318	-	(109,434)
Computer equipment	(1,341,179)	(153,724)	21,879	46	(1,472,978)
Interior installations	(375,896)	(66,310)	1,605	-	(440,601)
Motor vehicles	(280,668)	(65,069)	37,152	-	(308,585)
Security equipment	(214,567)	(22,639)	-	(46)	(237,252)
Other tangible assets	(31,932)	(2,618)		-	(34,550)
	(3,507,788)	(516,969)	62,671	-	(3,962,086)
Net book value	5,678,533	63,286	(161,510)	-	5,580,308

The transactions under the heading of tangible assets during 2017, for the Group, are analysed as follows:

MZN '000

	Balance as at 1 January 2017	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2017
Cost					
Real estate properties	4,085,755	57,197	-	17,854	4,160,806
Works in rented buildings	727,905	10,156	-	192,567	930,628
Equipment					
Furniture	304,148	41,954	(325)	5,553	351,330
Office equipment	112,973	7,744	(24)	-	120,693
Computer equipment	1,528,868	109,248	(30,104)	103,146	1,711,158
Interior installations	644,849	56,258	(3,757)	41,620	738,970
Motor vehicles	377,644	61,416	(35,098)	-	403,962
Security equipment	253,691	19,028	(7)	17,436	290,148
Other tangible assets	36,166	3,304	30	120	39,620
Fixed assets in progress	378,455	438,848	-	(378,296)	439,007
	8,450,453	805,153	(69,286)	-	9,186,321
Accumulated depreciation					
Real estate properties	(490,460)	(90,482)	-	-	(580,942)
Works in rented buildings	(345,471)	(59,137)	-	-	(404,608)
Equipment					
Furniture	(144,458)	(30,865)	1,137	-	(174,186)
Office equipment	(96,604)	(7,265)	59	-	(103,810)
Computer equipment	(1,216,526)	(155,389)	30,736	-	(1,341,179)
Interior installations	(318,923)	(60,136)	3,163	-	(375,896)
Motor vehicles	(267,853)	(54,318)	40,647	856	(280,668)
Security equipment	(187,908)	(26,666)	7	-	(214,567)
Other tangible assets	(28,178)	(3,045)	147	(856)	(31,932)
	(3,096,381)	(487,303)	75,896	-	(3,507,788)
Net book value	5,354,072	317,850	6,612	-	5,678,533

The transactions under the heading of tangible assets during 2018, for the Bank, are analysed as follows:

MZN '000

	Balance as at 1 January 2018	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2018
Cost					
Real estate properties	3,327,604	61,340	(5,692)	36,039	3,419,291
Works in rented buildings	930,628	3,977	-	81,471	1,016,076
Equipment					
Furniture	338,903	20,357	-	12,169	371,429
Office equipment	117,281	5,626	(143)	0	122,764
Computer equipment	1,693,744	35,549	(39,892)	3,450	1,692,851
Interior installations	732,200	60,811	(3,184)	17,394	807,221
Motor vehicles	340,011	116,362	(45,762)	2,898	413,509
Security equipment	290,148	15,874	-	2,335	308,357
Other tangible assets	26,103	745	36	8	26,820
Fixed assets in progress	438,143	301,121	(18,231)	(155,764)	565,269
	8,234,765	621,762	(112,940)	-	8,743,587
Accumulated depreciation					
Real estate properties	(383,341)	(75,376)	1,592	(2,322)	(459,447)
Works in rented buildings	(404,608)	(73,979)	69	2,323	(476,195)
Equipment					
Furniture	(168,422)	(31,777)	33	(1)	(200,167)
Office equipment	(100,597)	(5,886)	318	-	(106,165)
Computer equipment	(1,328,303)	(152,897)	21,843	46	(1,459,311)
Interior installations	(371,105)	(65,582)	1,605	-	(435,082)
Motor vehicles	(244,324)	(52,262)	35,025	-	(261,561)
	.4,567)	(22,639)	-	(46)	(237,252)
	.9,513)	(1,483)	2	-	(20,994)
	(3,234,780)	(481,881)	60,487	-	(3,656,174)
Net book value	4,999,985	139,881	(52,453)	-	5,087,413

The transactions under the heading of tangible assets during 2017, for the Bank, are analysed as follows:

MZN '000

	Balance as at 1 January 2017	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2017
Cost					
Real estate properties	3,307,212	2,538	-	17,854	3,327,604
Works in rented buildings	727,905	10,156	-	192,567	930,628
Equipment					
Furniture	297,699	35,976	(325)	5,553	338,903
Office equipment	109,646	7,693	(58)	-	117,281
Computer equipment	1,515,637	106,475	(31,514)	103,146	1,693,744
Interior installations	638,079	56,258	(3,757)	41,620	732,200
Motor vehicles	322,646	51,313	(33,948)	-	340,011
Security equipment	253,691	19,028	(7)	17,436	290,148
Other tangible assets	24,933	1,020	30	120	26,103
Fixed assets in progress	378,456	437,983	-	(378,296)	438,143
	7,575,904	728,440	(69,579)	-	8,234,765
Accumulated depreciation					
Real estate properties	(310,023)	(73,318)	-	-	(383,341)
Works in rented buildings	(345,471)	(59,137)	-	-	(404,608)
Equipment					
Furniture	(139,758)	(28,940)	276	-	(168,422)
Office equipment	(93,444)	(7,211)	58	-	(100,597)
Computer equipment	(1,204,673)	(154,366)	30,736	-	(1,328,303)
Interior installations	(314,860)	(59,408)	3,163	-	(371,105)
Motor vehicles	(240,424)	(42,174)	38,274	-	(244,324)
Security equipment	(187,908)	(26,666)	7	-	(214,567)
Other tangible assets	(18,181)	(1,478)	146	-	(19,513)
	(2,854,742)	(452,698)	72,660	-	(3,234,780)
Net book value	4,721,162	275,742	3,081	-	4,999,985

23. Goodwill and intangible assets

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Intangible assets				
Software	**807,028**	676,469	**806,802**	690,994
Investments in progress	**221,780**	162,791	**120,641**	64,243
	1,028,808	839,260	**927,443**	755,237
Accumulated depreciation	**(654,193)**	(565,936)	**(592,555)**	(510,200)
	374,615	273,324	**334,888**	245,037
Consolidation and revaluation differences (Goodwill)				
Seguradora Internacional de Moçambique, S.A	**122,313**	122,313	**-**	-
	496,928	395,637	**334,888**	245,037

The transactions under the heading of Goodwill and intangible assets during 2018, for the Group, are analysed as follows:

MZN '000

	Balance as at 1 January 2018	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2018
Cost					
Software	676,469	128,094	2,465	-	807,028
Investments in progress	162,791	72,335	(13,346)		221,780
	839,260	200,429	(10,881)	-	1,028,808
Goodwill	122,313	-	-	-	122,313
	961,573	200,429	(10,881)	-	1,151,121
Accumulated depreciation					
Software	(565,936)	(88,257)	-	-	(654,193)
Net book value	395,637	112,172	(10,881)	-	496,928

The transactions under the heading of Goodwill and intangible assets during 2017, for the Group, are analysed as follows:

MZN '000

	Balance as at 1 January 2017	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2017
Cost					
Software	624,851	51,618	-	-	676,469
Investments in progress	99,061	65,311	(1,581)		162,791
	723,912	116,929	(1,581)	-	839,260
Goodwill	122,313	-	-	-	122,313
	846,225	116,929	(1,581)	-	961,573
Accumulated depreciation					
Software	(493,604)	(72,332)	-	-	(565,936)
Net book value	352,621	44,597	(1,581)	-	395,637

The transactions under the heading of intangible assets during 2018, for the Bank, are analysed as follows:

MZN '000

	Balance as at 1 January 2018	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2018
Cost					
Software	690,994	99,443	2,465	13,900	806,802
Fixed assets in progress	64,243	70,095	203	(13,900)	120,641
	755,237	169,538	2,668	-	927,443
Accumulated depreciation					
Software	(510,200)	(82,355)	-	-	(592,555)
Net book value	245,037	87,183	2,668	-	334,888

The transactions under the heading of intangible assets during 2017, for the Bank, are analysed as follows:

MZN '000

	Balance as at 1 January 2017	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2017
Cost					
Software	555,991	51,618	-	83,385	690,994
Fixed assets in progress	85,272	62,356	-	(83,385)	64,243
	641,263	113,974	-	-	755,237
Accumulated depreciation					
Software	(442,416)	(67,784)	-	-	(510,200)
Net book value	198,847	46,190	-	-	245,037

Pursuant to the accounting policy described in Note 1 l), the recoverable Goodwill amount is assessed annually during the second semester of each year, regardless the existence of signs of impairment or, as established in paragraph 9 of IAS 36, whenever there are signs that the asset under review is impaired.

Pursuant to IAS 36, the recoverable goodwill amount should be the greater figure between its value in use (i.e., the present value of the future cash flows expected from its use) and its fair value minus selling costs. Based on these criteria, in 2018, the Group valued the financial holding for which goodwill is recorded in the assets, having considered, among others, the following factors:

(i) an estimate of the future cash flow generated by the subsidiary;

(ii) an expectation of potential changes in the amounts and timing of this cash flow;

(iii) the time value of money;

(iv) a risk premium associated to the uncertainty derived from holding the asset;

(v) other factors associated to the current situation of financial markets.

The evaluation was based on duly substantiated assumptions representing the Executive Committee's best estimate of the economic conditions that will affect the subsidiary, the budget and the latest projections approved by this subsidiary and their extrapolation for future periods.

The assumptions for this valuation could change with alterations in economic and market conditions.

The calculation of the estimated value as at 31 December 2018 of the Bank's 91.997% stake in Seguradora Internacional de Moçambique, SARL (SIM), subject to the annual goodwill impairment test, considered the historical economic and financial information of SIM, the budget for 2019 and its projections for the period of 2020 to 2023, provided by this company. The estimated value was prepared based on the application of market multiples (price-to-earnings ratio (PER) and price-to-book value (PBV)) and the dividend discount model (DDM) method. The projected financial statements have neither been audited nor subject to any adjustments.

The calculation of the estimated value of Millennium bim's financial holding in SIM, and in view of the results arising from the application of the internal valuation methods considered (where the estimates via DDM and PER lead to significantly higher amounts than the book value of the holding), led to the conclusion that on the present date and according to merely financial criteria as in 2017, it was not necessary to deduct any impairment from the goodwill amount as at 31 December 2018.

24. Current tax assets and liabilities

MZN '000

	Group 2018		Group 2017	
	Assets	**Liabilities**	Assets	Liabilities
IRPC recoverable	**956,900**	**-**	527,595	-
IRPC payable	**-**	**37.345**	-	-
	956,900	**37.345**	527,595	-

	Bank 2018		Bank 2017	
	Assets	**Liabilities**	Assets	Liabilities
IRPC recoverable	**956,900**	**-**	354,783	-
IRPC payable	**-**	**3**	-	-
	956,900	**3**	354,783	-

The variation in the IRPC recoverable derives from the payments on account made over 2018.

25. Deferred tax assets and liabilities

The deferred tax assets and liabilities were generated by temporary differences of the following nature:

MZN' 000

	Group 2018		Group 2017	
	Assets	**Liabilities**	Assets	Liabilities
Tangible assets and tax losses	**572,628**	**-**	2,349	-
Available-for-sale financial assets	**-**	**12,857**	-	12,613
Other	**2,507**	**19,668**	-	9,317
Deferred tax assets/liabilities	**575,135**	**32,525**	2,349	21,930
	542,610		(19,581)	

	Bank 2018		Bank 2017	
	Assets	**Liabilities**	Assets	Liabilities
Tangible assets	**572,628**	-	2,349	-
Deferred tax assets	**572,628**	-	2,349	-

The movement for the year under the heading of net Deferred taxes is as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**(19,581)**	(8,154)	**2,349**	10,892
Allocation for the year	**(483,884)**	(8,543)	**483,884**	(8,543)
Other transactions	**(78,307)**	(2,884)	**86,395**	-
	(542,610)	(19,581)	**572,628**	2,349

26. Other assets

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Debtors	**150,635**	103,664	**85,145**	783,065
Other receivables	**14,195**	1,901	**114,527**	124,874
Prepaid expenses	**110,377**	103,005	**110,377**	102,999
Balances receivable of the insurance activity	**445,502**	583,142	**-**	-
Miscellaneous accounts	**344,952**	349,833	**372,480**	362,016
Reinsurance provisions assigned	**369,698**	910,745	**-**	-
	1,435,359	2,052,290	**682,529**	1,372,954
Impairment for other assets	**(89,828)**	(115355)	**(16,235)**	(15,855)
	1,345,531	1,936,935	**666,294**	1,357,099

As at 31 December 2018, the heading of Miscellaneous accounts includes the amount of 185,585 thousand Meticais (31 December 2017: 224,783 thousand Meticais) relative to cheques of Other Credit Institutions sent for clearing.

The transactions under Impairment of other assets, for the Group and for the Bank, are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**115,355**	83,954	**15,855**	17,766
Allocation for the year	**-**	33,312	-	-
Reversal for the year	**(25,907)**	-	-	-
Exchange rate fluctuation	**380**	(1,911)	**380**	(1,911)
Balance at the end of the period	**89,828**	115,355	**16,235**	15,855

27. Amounts owed to other credit institutions

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Resources from the Central Bank of Mozambique				
Medium to long term loans	**90,138**	107,118	**90,138**	105,118
Resources of other credit institutions in the country				
Demand deposits	**87,445**	49,522	**87,445**	49,522
Resources of other credit institutions abroad				
Demand deposits	**35,362**	80,960	**35,362**	80,960
Short term loans	**19,339**	308,658	**19,339**	308,658
Medium to long term loans	**698,523**	938,955	**698,523**	938,955
	930,807	1,483,213	**930,807**	1,483,213

28. Customer funds

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Demand deposits	**55,964,391**	51,170,870	**56,003,168**	51,234,438
Term deposits	**53,102,606**	47,915,541	**54,209,786**	49,464,502
Other funds	**1,660,232**	535,230	**2,622,040**	2524,368
	110,727,229	99,621,641	**112,834,994**	103,223,308

29. Debt securities issued

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Bond loans				
BIM bonds 2017-2022	**-**	**-**	**1,029,333**	**1,042,167**
	-	**-**	**1,029,333**	**1,042,167**

MZN '000

Description of the issue	Issue date	Reimbursement date	Interest rate %	Nominal value	Reimbursements	Book Value 2017
BIM bonds 2017-2022	26-10-2017	15-10-2022	16,5% (*)	1,000,000	-	1,000,000

(*) Rate corresponding to the Interbank Money Market rate, rounded to 1/16 of a percentage point, plus a margin of 1.5%

30. Provisions

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Provisions for indirect credit	**149,745**	228,823	**149,745**	228,823
Provisions for general banking risks	**113,271**	106,624	**113,271**	106,624
Provisions for other risks and costs	**110,757**	190,609	**110,757**	190,609
Technical provision of the insurance activity	**1,878,041**	4,087,927	**-**	-
	2,251,814	4,613,983	**373,773**	526,056

The transactions under Provisions for indirect credit are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**228,823**	541,594	**228,823**	541,594
Allocation for the year	**85,823**	143,080	**85,345**	143,080
Reversal for the year	**(165.027)**	(424,009)	**(165.027)**	(424,009)
IFRS 9 Adjustment	**(5.604)**	-	**(5.604)**	-
Exchange rate differences	**6,208**	(31,842)	**(6,208)**	(31,842)
Balance at the end of the period	**149,745**	228,823	**149,745**	228,823

The transactions under the Provisions for general banking risks are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**106,624**	66,596	**106,624**	66,596
Allocation for the year	**6,218**	46,902	**6,218**	46,902
Reversal for the year	**-**	(435)	**-**	(435)
Exchange rate differences	**913**	(4,596)	**913**	(4,596)
Uses for the year	**(484)**	(1,843)	**(484)**	(1,843)
Balance at the end of the period	**113,271**	106,624	**113,271**	106,624

The Provision for general banking risks seek to cover potential contingencies arising from on-going lawsuits.

The transactions under Provisions for other risks and costs are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Balance on 1 January	**190,609**	143,517	**190,609**	143,517
Allocation for the year	**24,102**	47,092	**24,102**	47,092
Uses for the year	**(103,954)**	-	**(103,954)**	-
Balance at the end of the period	**110,757**	190,609	**110,757**	190,609

Transactions under the Technical provision of the insurance activity are analysed as follows:

MZN '000

	Group	
	2018	2017
Balance on 1 January	**4,087,927**	4,630,607
Allocation for the year	**114.964**	496,535
Transfers	**(2.183.461)**	75,094
Uses for the year	**(141.211)**	(1,116.916)
Exchange rate differences	**(178)**	2,607
Balance at the end of the period	**1,878,041**	4,087,927

In 2018, Seguradora Internacional de Moçambique concluded a complex and high-impact process in its accounts, with the ring-fencing of the BIM/SIM pension fund and the transfer of its assets and liabilities to off-balance-sheet accounts. This measure, which is in line with the legislation in force in this area, resulted in a significant change in the amounts of certain items on the insurer's balance sheet, namely technical provisions.

31. Other liabilities

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Suppliers	**97,364**	54,087	**84,532**	43,134
Miscellaneous creditors	**386,658**	567,080	**131,848**	140,472
VAT payable	**20,444**	18,115	**19,756**	18,115
Withholding Taxes	**169,747**	216,681	**157,830**	197,128
Social Security contributions	**9,227**	-	**9,227**	-
Costs payable	**483,195**	412,713	**449,792**	380,259
Staff costs payable	**906,028**	775,293	**852,326**	727,864
Deferred income	**228,247**	258,065	**228,247**	258,065
Consigned funds	**22,492**	22,511	**22,492**	22,511
Other payables	**938,898**	604,590	**936,124**	602,804
	3,262,300	2,929,135	**2,892,174**	2,390,352

32. Share capital

The Bank's share capital, of the amount of 4,500,000 thousand Meticais, is represented by 45,000,000 shares of the nominal value of 100 Meticais each and is fully underwritten and paid-up.

As at 31 December, the shareholder structure is presented as follows:

	2017 Nr. Shares	% Share capital holding	2016 Nr. Shares	% Share capital holding
BCP África, SGPS	**30,008,460**	**66.69%**	30,008,460	**66.69%**
State of Mozambique	**7,704,747**	**17.12%**	7,704,747	**17.12%**
INSS (National Social Security Institute)	**2,227,809**	**4.95%**	2,227,809	**4.95%**
EMOSE - Empresa Moçambicana de Seguros, SARL	**1,866,309**	**4.15%**	1,866,309	**4.15%**
FDC (Foundation for the Development of the Community)	**487,860**	**1.08%**	487,860	**1.08%**
Managers, Technicians and Employees (GTT)	**2,704,815**	**6.01%**	2,704,815	**6.01%**
	45,000,000	**100.00%**	45,000,000	**100.00%**

33. Reserves and retained earnings

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Legal reserve	**4,529,645**	4,529,645	**4,529,645**	4,529,645
Other reserves and retained earnings	**17,552,581**	13,318,911	**15,425,178**	11,711,202
Net income for the year	**6,739,262**	6,100,553	**6,367,208**	5,574,017
	28,821,488	23,949,109	**26,322,031**	21,814,864

Under the terms of the Mozambican legislation in force, Law number 15/99 - Credit Institutions, the Bank must reinforce the legal reserve on an annual basis by at least 15% of the annual net profit, until the reserve equals the share capital, with this reserve usually not distributable. In this financial year, the Bank did not allocate any amount to the legal reserve in 2018 since it reached the amount of its share capital (2017:676,452 thousand Meticais)

34. Dividends

Pursuant to the deliberation of the Ordinary General Meeting, held on 23 March 2018, the Board of Directors decided on the distribution of 35% of the Net Income recorded, as at 31 December 2017, amounting to 1,950,906 thousand Meticais (2017: 1,578,387 thousand Meticais).

35. Guarantees and other commitments

The off-balance sheet amounts are analysed as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Guarantees provided				
Personal guarantees	**15,794,068**	14,018,807	**15,794,068**	14,081,807
Asset-backed guarantees	**1,269,399**	1,308,182	**1,269,399**	1,308,182
Guarantees and vouchers received				
Personal guarantees	**258,028,402**	266,617,485	**258,028,402**	266,617,485
Asset-backed guarantees	**78,876,937**	72,794,254	**78,876,937**	72,794,254
Commitments to third parties	**4,792,015**	11,797,934	**4,792,015**	11,797,934
Foreign exchange spot transactions:				
Purchases	**186,118**	215,829	**186,118**	215,829
Sales	**185,168**	216,593	**185,168**	216,593
Foreign exchange forward transactions:				
Purchases	**307,084**	118,040	**307,084**	118,040
Sales	**302,920**	124,700	**302,920**	124,700

36. Related parties

As at 31 December, the debits and credit held by the Bank arising from the Group's transactions with related parties (Millennium bcp Group) and its subsidiary, Seguradora Internacional de Moçambique, S.A., are represented as follows:

MZN '000

	2018				2017			
	Assets			Off-balance sheet	Assets			Off-balance sheet
	Disposable Assets of CIs	Investments of CIs	Other Assets	Asset-backed guarantees	Disposable Assets of CIs	Investments of CIs	Other Assets	Asset-backed guarantees
Banco Comercial Português, S.A.	121,543	-	-	-	159,594	-	-	-
Millennium BCP Bank & Trust (Cayman)	2,404	8,636	-	8,606	2,398	8,280	-	8,263
Seguradora Internacional de Moçambique,SA	-	-	104,890	-	-	-	111,878	-
	123,947	8,636	104,890	8,606	161,992	8,280	111,878	8,263

MZN '000

	2018				2017			
	Liabilities				Liabilities			
	CI Debits	Customer Deposits	Other liabilities	Subordinated Liabilities	Debits CI	Customer Deposits	Other liabilities	Subordinated Liabilities
Banco Comercial Português S.A.	13,173	-	187,884	-	13,259	-	163,710	-
Millennium BCP Partic SGPS LDA	-	38,529	-	-	-	38,532	-	-
Millennium BCP Africa SGPS	73	-	-	-	6	-	-	-
Seguradora Internacional de Moçambique,SA	-	2,107,765	-	-	-	3,601,666	-	-
	13,265	2,146,294	187,884	-	13,265	3,640,198	163,710	-

As at 31 December, the incomes and costs incurred by the Bank arising from the Group's transactions with related parties (Millennium BCP Group) and its subsidiary, Seguradora Internacional de Moçambique, S.A., are represented as follows:

MZN' 000

	2018			2017		
	Operating income			Operating income		
	Interest receivable and similar income	Earnings from Services and Fees	Other operating income	Interest receivable and similar income	Earnings from Services and Fees	Other operating income
Banco Comercial Português S.A	82,819	-	-	9,958	-	-
Millennium bcp Bank & Trust (Cayman)	168	-	-	152	-	-
Seguradora Internacional de Moçambique,	-	43,235	98,819	-	39,275	153,789
	82,987	43,235	98,819	10,110	39,275	153,789

MZN' 000

	2018				2017			
	Operating costs				Operating costs			
	Interest receivable and similar income	Earnings from Services and Fees	Staff Costs	Other Admin Costs	Interest receivable and similar income	Earnings from Services and Fees	Staff Costs	Other Admin Costs
Banco Comercial Português S.A	203,376	-	-	783,593	266	-	-	751,927
Millennium BCP Partic SGPS LDA	-	-	-	-	-	-	-	-
Millennium BCP Africa SGPS	-	-	-	-	-	-	-	-
Seguradora Internacional de Moçambique,SA	805,709	-	222,405	140,298	981,281	-	216,862	132,962
	1,009,085	-	222,405	923,891	981,547	-	216,862	884,889

Loans to Managing Bodies and their direct family, recorded as at 31 December 2017, reached 18,150 thousand Meticais (2017: 10,938 thousand Meticais). These loans were granted in accordance with the applicable legal and regulatory standards.

As at 31 December 2018, Deposits reached 308,701 thousand Meticais (2017: 270,836 thousand Meticais).

37. Cash and cash equivalents

For the purposes of the cash flow statement, the heading of Cash and cash equivalents is broken down as follows:

MZN '000

	Group		Bank	
	2018	2017	**2018**	2017
Available funds in cash	**4,549,849**	4,593,464	**4,549,849**	4,593,464
Available funds in domestic credit institutions	**82,253**	84,206	**79,937**	72,601
Available funds in credit institutions abroad	**2,727,245**	1,160,042	**2,727,245**	1,160,042
	7,359,347	5,837,712	**7,357,031**	5,826,107

38. Fair value

Fair value is based on market prices, whenever available. If market prices are not available, as is the case of many products placed with customers, the fair value must be estimated through internal models based on discounted cash flow techniques.

The main methods and assumptions used in estimating the fair value for the assets and liabilities are presented as follows:

Loans to customers

The financial instruments referred to above are mostly remunerated at variable interest rates, associated to index reference rates of the period corresponding to the interest period of each contract, which are close to the rates in force in the market for each type of financial instrument, hence their fair value is identical to their book value, which is deducted from the impairment losses.

Financial assets at fair value through other comprehensive income

The Group uses the following Fair value hierarchy with 3 levels in the valuation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of parameters applied in determining the fair value measurement of the instrument in accordance with the provisions of IFRS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving financial instruments identical to those instruments to be reviewed. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the instrument's main market, or in the most advantageous market for which access exists.

- Level 2: Fair value is determined based on valuation techniques supported by observable data in active markets, either direct data (prices, rates, spreads, etc.) or indirect data (derived), and valuation assumptions similar to those that an unrelated party would use in estimating the fair value of the same financial instrument.

- Level 3: The fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, including assumptions about the inherent risks, the valuation technique used, inputs used and contemplated review processes of the accuracy of the resulting figures.

Financial assets at amortised cost by valuation levels, for the Group and the Bank as of 31 December 2018 are:

- Level 1 - Bonds and other fixed-income securities - Bonds and Treasury Bills of the Mozambican State

- Level 3 - Shares and other variable income securities

Customer Deposits

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by the Bank. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

Debt securities issued and subordinated liabilities

Both Debt securities issued and Subordinated liabilities consist of contracts signed, which are remunerated, mostly, at variable rates, namely at the average rate weighted by maturity and amounts, of the last 6 issues of Treasury Bills; therefore, their fair value is identical to their book value. None of the alterations observed in the value of these liabilities due to the change of the interest rates used affect the outstanding principal, and merely affect the amount of interest payable.

39. Other employee benefits

Post-employment benefits

The Group has contributed to the following defined post-employment benefit plan:

Active employees recruited up to 31 December 2011 are entitled to a redeemed pension when they reach 60 years old in the case of men and 55 years old in the case of women, where it is a compulsory condition that the employee is already receiving a retirement pension attributed by the National Social Security Institute (INSS) or should the Executive Committee decide so.

The Group determined that, pursuant to the terms and conditions of the retirement benefit plan and in conformity with the local legislation, the present value of the repayments or reductions of future contributions is not lower than the total fair value of the asset plan deducted from the present value of the liabilities.

Additionally, there are retirement obligations and pensioners associated with pension supplement allocated through Employee income who have switched from the institutions acquired by the Group in 2000. The income benefit is reversible in 50% regardless of the number of beneficiaries.

As at 31 December, the Group's number of participants is as follows:

Number of participants	2018	2017
Active Employees	**1,523**	1,616
Retired former employees and pensioners	**518**	509
	2,041	2,125

According to the policy described in note 1. o), the Group's pension obligations and other benefits and coverage on 31 December are analysed as follows:

MZN '000

	2018	2017
Projected benefit liabilities		
Retired and pensioners	(936,423)	(779,669)
Employees	(997,683)	(1,109,207)
	(1,934,106)	(1,888,876)
Value of the assets	2,120,763	2,953,507
Net assets	186,656	1,064,631
Accumulated actuarial deviations recognised in other comprehensive income	**(595,551)**	**(651,649)**

The evolution of obligations for projected benefits is analysed as follows:

MZN '000

	2018			2017
	Retirement pensions	Retirement pension supplement	Total	Total
Balance as at 01 January	**779,669**	**1,109,207**	**1,888,876**	2,308,356
Included in the net income for the year				
Current service cost	**-**	**53,048**	**53,048**	67,568
Interest costs	**104,404**	**155,694**	**260,098**	179,471
Actuarial (gains) and losses	**136,958**	**(80,861)**	**56,098**	(459,933)
Benefits paid	**(84,608)**	**(76,989)**	**(161,598)**	(206,586)
Liabilities at the end of the year	**936,423**	**1,160,099**	**2,096,522**	1,888,876

The analysis of sensitivity to variation of the assumptions, in accordance with IAS 19, is as follows:

MZN '000

	2018		2017	
	+1,00%	-1,00%	+1,00%	-1,00%
Discount rate	-145,466	165,805	-82,844	94,631
Future wage growth	93,515	-83,172	113,315	-98,930

Other employee Benefits – Bank

At the reporting date, the Bank's number of participants is as follows:

Number of participants	2018	2017
Active persons	**1,428**	1,512
Retired former employees and pensioners	**518**	509
	1,946	2,021

According to the policy described in note 1. o), the Group's pension obligations and other benefits and coverage, on 31 December, are analysed as follows:

MZN '000

	2018	2017
Projected benefit liabilities		
Retired and pensioners	**(936,423)**	(779,669)
Employees	**(1,078,891)**	(1,032,135)
	(2,015,314)	(1,811,804)
Value of the assets	**2,017,296**	2,534,739
Net Assets(liabilities) in Balance	**1,955**	722,935
	(710.658)	**(723.553)**
Accumulated recognized actuarial deviations		

The evolution of obligations for projected benefits is analysed as follows:

MZN '000

	2018			2017
	Retirement pensions	Retirement pension supplement	Total	Total
Balance as at 01 January	**779,669**	**1,032,135**	**1,811,804**	2,224,316
Included in the net income for the year				
Current service cost	**-**	**49,096**	**49,096**	62,200
Interest costs	**104,404**	**145,790**	**250,194**	173,069
Actuarial (gains) and losses	**(136,958)**	**(73,048)**	**63,910**	(445,173)
Benefits paid	**(84,608)**	**(75,082)**	**(159,691)**	(202,608)
Liabilities at the end of the year	**936,423**	**1,078.891**	**2,015,314**	1,811,804

The evolution of the value of the premiums underlying the Bank's Benefit Plan may be analysed as follows:

		MZN '000
	2018	**2017**
Balance as at 01 January	**2,534,739**	2,333,933
Actuarial gains	**51,015**	213,626
Millennium BIM contributions	**63,946**	8,281
Business contributions e other (excess of actuarial deviations)	**(722,935)**	-
Benefits paid by the fund	**(159,691)**	(202,608)
Expected income	**250,194**	181,506
Balance as at 31 December	**2,017,269**	2,534,739

The evolution of assets/net liabilities of the Bank is analysed as follows:

		MZN '000
	2018	**2017**
Balance as at 01 January	**(722,935)**	(109,618)
Business contributions e other (excess of actuarial deviations)	**722,935**	-
(Gains) and losses - liabilities	**63,910**	(445,173)
(Gains) and losses - plan assets	**(51,015)**	(213,626)
Group's contributions	**(63,946)**	(8,281)
Attribution of benefits for the year		
Current service cost	**49,096**	62,200
Net interest cost/(income) of the liability coverage balance	**-**	(8,437)
Balance as at 31 December	**(1,955)**	(722,935)

The asset portfolio is composed of the following securities (in percentage):

	2018	**2017**
Ordinary shares	**-**	
Bonds and other fixed income securities	**61.32%**	63.00%
Real estate properties	**33.34%**	23.00%
Term Deposits	**5.34%**	14.00%
	100%	100%

The cost recognised by the Bank in the exercise relative to the attribution of benefits is analysed as follows:

		MZN '000
	2018	2017
Current service cost	**49,096**	62,200
Net interest cost/(income) in the liability coverage balance	**-**	(8,438)
Cost of the year	**49,096**	53,762

The Bank used the following actuarial assumptions as at the closing date for the calculation of pension liabilities (as a percentage):

	2018	**2017**
Normal retirement age:		
Men	60	60
Women	55	55
Wage Growth	5.50%	10.57%
Growth of pensions	4.50%	5.59%
Rate of return of the fund	10.00%	14.31%
Discount rate	10.10%	14.31%
Mortality table	SA 85/90	PF 60/64

As at 31 December 2018, the weighted average duration of the liabilities is 17 years (2017: 18 years).

The analysis of sensitivity to variation of the assumptions, in accordance with IAS 19, is as follows:

MZN '000

	2018		2017	
	+1,00%	-1,00%	+1,00%	-1,00%
Discount rate	-139,095	158,413	-76,714	87,484
Future wage growth	86,182	-76,759	85,329	-76,008

Other long-term benefits - seniority bonus

The seniority bonus is attributed to the employees of the Group and of the Bank according to the years of service provided, whereby they are paid one, two and three salaries upon reaching fifteen, twenty and thirty years of service, respectively.

The present amount of the seniority bonuses is accrued in each year, with the provision being recognised in the Balance Sheet against staff costs, which includes the cost of current services, the cost of interest and actuarial gains/losses.

MZN '000

	Group		Bank	
	2018	2017	2018	2017
Seniority bonus	**146,608**	133,275	**133,639**	121,670

40. Consolidated income statement by operating segment

The segmental reporting presented below, with respect to the business and geographic segments, complies with the provisions in IFRS 8.

The Bank develops a series of banking activities and financial services with particular emphasis on the business of Commercial Banking and Insurance.

Segments description

Commercial Banking remained the dominant business in the Bank's activity, both in terms of volume and regarding its contribution to net income.

The Commercial Bank business, directed at the Retail Banking and Corporate segments, focuses its activity on meeting the needs of Customers, both individual and companies.

The strategic approach of Retail Banking is defined in consideration of Customers who appreciate a value proposition based on innovation and speed, referred to as mass market Customers, and Customers whose specific interests, size of financial net worth or income level, justify a value proposition based on innovation and personalised attendance through a dedicated Customer manager, referred to as prime Customers.

Under its cross-selling strategy, Retail Banking also operates as a distribution channel for the products and services of the Insurer.

The Corporate segment, directed at institutional entities and companies whose size of activity places them within the selection criteria established for this segment, offers a complete range of products and services of value added and adapted to their needs.

The "Other" segment includes other residual segments, which individually represent less than 10% of the total income, net income and assets of the Group.

The reporting used by the management is essentially based on the accounting principles established in the IFRS.

Activity of the business segments as at 31 December 2018

The amounts of the operating account reflect the process of allocation of net income, based on average amounts, reported by each business segment.

The net contribution of the Insurer reflects the individual result, regardless of the Bank's percentage holding. The "Other" column refers to consolidation adjustments.

The information presented below was prepared based on the financial statements drawn up in accordance with the IFRS.

MZN '000

31 December 2018	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Net Interest Income	5,444,626	6,896,445	805,708	887	**13,147,666**
Earnings from services and fees	1,554,677	641,882	(52,259)	-	**2,144,300**
Net income from financial transactions	497,368	173,056	10,620	-	**681,044**
Other operating income	1,045,058	209,055	800,901	(601,279)	**1,453,734**
Total operating income	**8,541,729**	**7,920,438**	**1,564,970**	**(600,392)**	**17,426,745**
Staff costs	2,188,124	529,762	222,405	(5,762,524)	**(2,822,233)**
Other administrative costs	2,491,264	639,617	140,297	(6,388,607)	**(3,117,429)**
Amortisation for the year	461,526	102,709	23,826	(1,193,286)	**(605,255)**
Total operating costs	**5,140,914**	**1,272,088**	**386,528**	**(13,344,417)**	**(6,544,887)**
Loan impairment	708,659	1,728,232	-	-	**2,436,891**
Other provisions	(11,805)	(28,790)	25,905	(33,772)	**(48,462)**
Pre-tax profit	**2,703,961**	**4,948,908**	**1,152,537**	**12,777,797**	**8,396,504**
Taxes	625,635	660,026	302,047	-	**1,587,708**
Non-controlling interests	-	-	-	69,535	**69,535**
Net Income for the Year Attributable to Shareholders	**2,078,326**	**4,288,882**	**850,490**	**12,708,262**	**6,739,262**

MZN '000

31 December 2018	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Asset					
Loans to Customers	14,588,251	35,576,859	-	-	50,165,110
Liability					
Customer deposits	68,183,382	42,543,847	-	-	110,727,229

MZN '000

31 December 2017	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Net Interest Income	3,405,529	8,023,540	981,281	6,863	**12,417,213**
Earnings from services and fees	1,556,404	699,256	(75,302)	-	**2,180,358**
Net income from financial transactions	712,209	69,145	-6,513	1	**774,842**
Other operating income	555,772	38,718	108,893	1,355	**704,738**
Total operating income	**6,229,914**	**8,830,659**	**1,008,359**	**8,219**	**16,077,151**
Staff costs	1,423,692	1,147,959	216,862	(132,814)	**2,655,699**
Other administrative costs	1,550,876	1,351,971	132,962	(161,905)	**2,873,904**
Amortisation for the year	291,073	229,409	21,989	17,165	**559,636**
Total operating costs	**3,265,641**	**2,729,339**	**371,813**	**(277,554)**	**6,089,239**
Loan impairment	571,421	1,432,092	-	-	**2,003,513**
Other provisions	(35,597)	(89,214)	44,476	-	**(80,335)**
Pre-tax profit	**2,428,449**	**4,758,442**	**592,070**	**285,773**	**8,064,734**
Taxes	767,247	845,626	87,827	203,412	**1,904,112**
Non-controlling interests	-	-	-	60,069	**60,069**
Net Income for the Year Attributable to Shareholders	**1,661,202**	**3,912,816**	**504,243**	**22,292**	**6,100,553**

MZN '000

31 December 2017	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Asset					
Loans to Customers	17,515,597	43,897,496	-	-	61,413,093
Liability					
Customer deposits	64,318,380	35,303,260	-	-	99,621,641

41. Risk management

As mentioned in the report of the management, the Group is subject to several risks during the course of its business. Its risk management policy is designed to ensure a suitable ratio, at all times, between its own funds and the activity developed, as well the corresponding assessment of the risk/return profile by business line. In this context, it is of extreme importance to follow-up and control the main types of risks -credit, market, liquidity and operating- to which the activity of the Group is subject.

Main Types of Risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfils their obligations.

Market – The concept of market risk reflects the potential loss which might be recorded in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the different financial instruments included in the portfolio, considering both the correlations that exist between them and the respective price volatility.

Liquidity - Liquidity risk reflects the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operating – Operating risk is defined as the potential loss arising from failures or inadequacies in internal procedures, persons or systems, as well as potential losses resulting from external events.

Credit Risk

The granting of credit is based on prior assessment of the customers and on accurate assessment of the level of protection provided by the underlying collaterals. To this purpose is applied a scoring and rating model, which allows to identify the probability of failure, allowing a greater discriminating capacity in assessing customers and a better ranking of associated risk.

During the monitoring phase of this risk, the Bank implemented the impairment calculation model.

As at reference date, the Bank's book was characterized as follows:

Reference Date
31 December 2018

(000) Thousand

Products	Asset	Direct Credit Impairment	*Exposure At Default*
Consumer Loans	6,954,775	1,179,724	6,956,862
Mortgage Loans	736,501	46,730	742,693
Companies	31,009,268	3,984,935	37,067,375
Companies - DDA	356,989	75,043	498,283
Leasing & ALD	14,497,983	399,956	14,606,061
Privates	2,807,576	553,645	1,744,086
Privates - DDA	185,777	143,728	186,591
Total	**56,548,870**	**6,383,760**	**61,801,951**

Reference Date
31 December 2017

Products	Asset	Direct Credit Impairment IFRS 9	Direct Credit Impairment IAS39	*Exposure At Default*
Consumer Loans	8,089,192	1,090,479	896,405	8,089,207
Mortgage Loans	804,358	55,201	52,907	815,445
Companies	52,081,496	4,428,120	4,425,305	63,303,496
Companies - DDA	1,161,769	157,520	194,605	1,307,416
Leasing & ALD	2,456,637	294,521	294,272	2,456,637
Privates	3,101,961	518,957	486,073	1,677,649
Privates - DDA	288,675	262,174	221,427	274,221
Total	**67,984,088**	**6,806,972**	**6,570,995**	**77,924,071**

Notes: Gross exposure considers limits which were not used, guarantees and documentary payments without applying Credit Conversion Factor.

Negative variation in the total Exposure At Default (EAD) is justified by the most restrictive credit concession policy adopted by the Bank, given the macroeconomic context, in conjunction with the pre-payment of credit operations, write-offs paid-up (according to the rules in force) and receipts in restitution.

Assessment of the risk associated with the loan portfolio and quantification of losses incurred thereof takes into account the following methodological notes:

Collaterals and Guarantees

In assessing the risk of an operation or set of operations are taken into account the elements of mitigation of credit risk associated to them, in accordance with internal rules and procedures that meet the requirements set out in current regulations.

The relevant guarantees and collaterals can be grouped in the following categories:

- Financial collaterals, real estate collaterals or other collaterals;
- Sovereign guarantees.

With regard to evaluation of real estate, the procedures are broken down into three major groups, the first on the subsequent verification of the value of real estate by the institution, the second on the review of the assessment of the value of real estate by an official and independent evaluator and the last on the revaluation of overdue credit-related guarantees.

With regard to the subsequent verification of the value of real estate by the institution the following prudential procedure shall be respect:

- Check, at least once every three years, the value of the pledged real estate;
- Carry out frequent checks, if the market conditions are subject to significant changes;
- Document clearly and strictly the checking of the value of real estate, including the description of the criteria and the periodicity of the review;
- Resort, for the purposes of checking the value of real estate, to the indexes or statistical methods recognised and which it considers appropriate, indicating the reasons for its use.

With regard to the review of the assessment of the value of real estate by an official and independent evaluator must:

- Ensure the review of the assessment of real estate mortgage for the Bank by an official evaluator, whenever the information available suggest that may have occurred a substantial decrease in the value of real estate or that this value may have decreased materially in relation to general market prices;
- Ensure that loans which exceed 5% of the own funds of the institution or when the value of the mortgaged real estate exceeds MZN 30,000,000.00, the evaluation of real estate is reviewed by an official and independent evaluator, at least every three years.

Regarding the revaluation of overdue credit-related guarantees the following prudential procedure must be complied with:

- Ensure the revaluation of mortgage guarantee, by an independent evaluator, within 90 days after the first non-compliance, if more than 720 days have elapsed since the last revaluation; and
- Ensure the revaluation of non-mortgage guarantee associated with the overdue credits, by the creditor, within 90 days after the first non-compliance, if more than 180 days have elapsed from the last evaluation. It must also be ensured that the subsequent reviews occur at every six months.

Impairment

The process of calculating the impairment of credit, as at 30 December 2018 and 31 December 2017, is the part of the General principles set out in the International Financial Reporting Standards (IFRS 9 from 1 January 2018 and IAS 39 to 31 December 2017).

Taking into account the transition adjustment, the impairment variation for total credit (direct and indirect) was 230.4 million MZN, of which 236 million were allocated to direct credit and -5.6 million MZN to indirect credit.

Financial instruments subject to impairment requirements set out in IFRS 9 recorded in customer loans analysed by stage, are detailed in the following tables:

Reference Date
31 December 2018

(000) Thousand

Analysis	Stage 1		Stage 2		Stage 3		Total	
	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment
Collective	7,710,239	261,133	1,382,066	247,104	1,267,607	1,092,846	10,359,912	1,601,083
Individual	7,034,528	142,312	29,214,180	815,277	9,940,249	3,825,089	46,188,957	4,782,677
Total	**14,744,767**	**403,445**	**30,596,247**	**1,062,380**	**11,207,856**	**4,917,935**	**56,548,870**	**6,383,760**

Reference Date
Transition December 2017 to January 2018

(000) Thousand

Analysis	Stage 1		Stage 2		Stage 3		Total		
	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit Impairment IAS39
Collective	6,707,613	213,762	3,675,772	345,607	1,314,587	1,022,562	11,697,973	1,581,931	5,263,211
Individual	16,433,865	325,993	39,852,250	4,899,048	0	0	56,286,115	5,225,041	1,307,784
Total	**23,141,478**	**539,755**	**43,528,023**	**5,244,656**	**1,314,587**	**1,022,562**	**67,984,088**	**6,806,972**	**6,570,995**

Financial assets at amortised cost, guarantees and other commitments, analysed by product and stage, are as follows:

Reference Date
31 December 2018

(000) Thousand

Products	Stage 1		Stage 2		Stage 3		Total	
	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment
Consumer Loans	5,055,792	181,363	975,839	171,527	923,144	826,834	6,954,775	1,179,724
Mortgage Loans	596,984	5,219	52,454	9,357	87,064	32,154	736,501	46,730
Companies	7,009,334	149,394	15,123,662	411,733	8,876,272	3,423,808	31,009,268	3,984,935
Companies - DDA	181,583	3,871	21,475	1,568	153,931	69,605	356,989	75,043
Leasing & ALD	440,283	5,059	13,802,860	280,273	254,840	114,624	14,497,983	399,956
Privates	1,453,386	57,965	596,931	180,413	757,260	315,267	2,807,576	553,645
Privates - DDA	7,406	575	23,025	7,510	155,346	135,643	185,777	143,728
Total	**14,744,767**	**403,445**	**30,596,247**	**1,062,380**	**11,207,856**	**4,917,935**	**56,548,870**	**6,383,760**

Reference Date
01 January 2018

(000) Thousand

Products	Stage 1		Stage 2		Stage 3		Total		
	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit Impairment IAS39
Consumer Loans	4,374,113	153,783	2,860,224	264,903	854,856	671,793	8,089,192	1,090,479	896,405
Mortgage Loans	601,565	5,068	191,017	42,725	11,776	7,408	804,358	55,201	52,907
Companies	16,123,003	320,742	35,926,938	4,093,995	31,556	13,383	52,081,496	4,428,120	4,425,305
Companies - DDA	357,372	1,252	793,067	146,210	11,330	10,058	1,161,769	157,520	194,605
Leasing & ALD	365,695	4,417	2,075,157	278,331	15,785	11,774	2,456,637	294,521	294,272
Privates	1,386,973	36,985	1,491,631	345,224	223,358	136,748	3,101,961	518,957	486,073
Privates - DDA	29,142	17,508	93,605	73,267	165,927	171,399	288,675	262,174	221,427
Total	**23,237,863**	**539,755**	**43,431,638**	**5,244,656**	**1,314,587**	**1,022,562**	**67,984,088**	**6,806,972**	**6,570,995**

Financial assets at amortised cost, guarantees and other commitments, analysed by sector of activity and stage, are as follows:

Reference Date
31 December 2018

(000) Thousand

Sectors of Activity	Stage 1		Stage 2		Stage 3		Total	
	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment	Direct Credit	Direct Credit Impairment
AGRICULTURE and FORESTRY	1,319,431	26,540	177,409	14,019	35,325	12,416	1,532,165	52,975
FOOD, BEVERAGES and TOBACCO	30,392	685	0	0	30,449	3,313	60,841	3,997
TRADE	515,733	11,297	6,012,294	177,265	1,198,269	476,996	7,726,296	665,558
CONSTRUCTION	235,486	5,175	341,323	7,890	1,088,785	799,017	1,665,595	812,081
CONSUMPTION	6,626,165	240,593	1,638,748	360,953	1,923,102	1,309,010	10,188,015	1,910,555
ELECTRICITY WATER and GAS	1,113,454	22,325	27,859	6,030	9,992	654	1,151,305	29,010
MOZAMBICAN STATE	303,303	6,556	17,662,417	355,411	134,969	102,631	18,100,689	464,599
MINING	670,130	13,403	1,980	248	18,362	8,860	690,472	22,510
HOUSING	596,984	5,219	52,454	9,357	87,064	32,154	736,501	46,730
MACHINERY, EQUIPMENT and STEELWORKS	14,728	209	1,532,368	30,961	198,626	60,383	1,745,722	91,552
OTHER ACTIVITIES	465,324	11,022	46,750	3,187	461,840	225,119	973,914	239,328
PAPER_PRINTING_PUBLISHING	22,119	783	14,405	290	7,746	5,104	44,270	6,177
CHEMICALS	614,134	12,327	38,772	1,939	1,223,709	333,221	1,876,615	347,487
RESTAURANTS and HOTELS	541,571	11,064	471,562	35,033	151,211	37,693	1,164,344	83,790
SERVICES	1,009,870	21,741	593,725	18,747	4,594,376	1,491,566	6,197,970	1,532,055
TEXTILES	4,537	176	0	0	0	0	4,537	176
TRANSPORT AND COMMUNICATIONS	661,406	14,332	1,984,181	41,050	44,031	19,798	2,689,618	75,180
Total	**14,744,767**	**403,445**	**30,596,247**	**1,062,380**	**11,207,856**	**4,917,935**	**56,548,870**	**6,383,760**

Reference Date
01 January 2018

(000) Thousand

Sectors of Activity	Stage 1		Stage 2		Stage 3		Total		
	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit	Direct Credit Impairment IFRS 9	Direct Credit Impairment IAS39
AGRICULTURE and FORESTRY	78,550	1,401	2,781,955	1,221,580	205	82	2,860,710	1,223,062	1,223,444
FOOD, BEVERAGES and TOBACCO	4,784	28	774,396	17,848	578	164	779,758	18,040	18,053
TRADE	700,723	13,621	8,706,999	561,473	7,902	4,167	9,415,624	579,262	581,810
CONSTRUCTION	382,059	7,305	6,243,735	535,377	6,845	4,031	6,632,640	546,713	546,219
CONSUMPTION	5,840,972	208,062	4,630,092	648,740	1,254,598	988,348	11,725,662	1,845,150	1,577,763
ELECTRICITY WATER and GAS	5,601,394	112,123	47,104	17,859	160	113	5,648,658	130,095	130,014
MOZAMBICAN STATE	49,095	973	5,709,682	183,373	418	398	5,759,195	184,744	184,666
MINING	592,897	11,854	54,432	4,641	0	0	647,329	16,496	16,498
HOUSING	601,565	5,068	191,017	42,725	11,776	7,408	804,358	55,201	52,907
MACHINERY, EQUIPMENT and STEELWORKS	20,231	398	1,690,854	41,453	640	396	1,711,724	42,247	42,102
OTHER ACTIVITIES	786,177	15,265	879,371	210,908	17,484	10,175	1,683,032	236,348	236,787
PAPER_PRINTING_PUBLISHING	9,685	73	49,591	7,452	85	7	59,361	7,532	7,481
CHEMICALS	838,972	10,765	1,534,020	34,436	44	44	2,373,035	45,244	50,911
RESTAURANTS and HOTELS	168,692	3,298	680,608	70,231	1,475	828	850,775	74,356	74,229
SERVICES	6,617,202	130,846	6,239,567	847,422	10,240	5,107	12,867,008	983,376	983,703
TEXTILES	0	0	5,450	3,471	9	6	5,459	3,477	3,478
TRANSPORT AND COMMUNICATIONS	944,866	18,676	3,212,765	795,667	2,128	1,287	4,159,759	815,629	840,930
Total	**23,237,863**	**539,755**	**43,431,638**	**5,244,656**	**1,314,587**	**1,022,562**	**67,984,088**	**6,806,972**	**6,570,995**

Market Risk

Market risks can be classified into different categories, such as interest rate risk, exchange rate risk, commodity price risk and share price risk. Each category represents the risk of occurrence of losses as a result of fluctuations in variation and in their respective variable.

(i) Sensitivity Analysis and Gaps (Interest rate differential)

For the measurement of interest rate risk (being gaps consisting of residual repricing terms of contracts in effect), as shown in the tables below for 2018:

MZN' 000

	Group						
31 December 2018	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Without interest rate risk**	**Total**
Assets							
Cash and deposits at Central Bank of Mozambique	28,071,933	-	-	-	-	-	28,071,933
Cash and deposits with other credit institutions	2,809,498	-	-	-	-	-	2,809,498
Loans and advances to credit institutions	6,184,311	887,336	131,545	-	-	4,286	7,207,478
Loans to customers	20,953,482	11,468,854	109,567	1,145,712	17,863,906	(1,376,411)	50,165,110
Financial assets at amortised cost	4,972,919	4,206,253	41,954,883	-	-	(1,905,763)	49,228,292
Financial assets at fair value through other comprehensive income	-	-	-	-	-	120,341	120,341
Other assets	-	-	-	-	-	13,205,423	13,205,423
Total assets	**62,992,143**	**16,562,443**	**42,195,995**	**1,145,712**	**17,863,906**	**10,047,876**	**150,808,075**
Liabilities							
Deposits from other credit institutions	130,285	229,618	139,705	419,114	-	12,085	930,807
Customer deposits	68,766,671	20,163,960	20,796,879	-	-	999,719	110,727,229
Total Liabilities	**68,896,956**	**20,393,578**	**20,936,584**	**419,114**	**-**	**6,595,788**	**117,242,020**
Total Liabilities and equity	**68,896,956**	**20,393,578**	**20,936,584**	**419,114**	**-**	**40,161,843**	**150,808,075**
Interest rate risk Gaps	**(5,904,813)**	**(3,831,135)**	**21,259,411**	**726,598**	**17,863,906**	**(30,113,967)**	**-**
Accumulated interest rate risk Gap	**(5,904,813)**	**(9,735,948)**	**11,523,463**	**12,250,061**	**30,113,967**	**-**	**-**

MZN' 000

	Bank						
31 December 2018	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Without interest rate risk**	**Total**
Assets							
Cash and deposits at Central Bank of Mozambique	28,071,933	-	-	-	-	-	28,071,933
Cash and deposits with other credit institutions	2,807,182	-	-	-	-	-	2,807,182
Loans and advances to credit institutions	6,175,711	880,096	131,545	-	-	4,061	7,191,413
Loans to customers	20,953,481	11,468,854	109,567	1,145,712	17,863,906	(1,376,411)	50,165,109
Financial assets at amortised cost	4,956,790	4,206,253	41,401,906	-	-	(1,916,245)	48,648,704
Financial assets at fair value through other comprehensive income	-	-	-	-	-	80,958	80,958
Other assets	-	-	-	-	-	11,917,816	11,917,816
Total assets	**62,965,097**	**16,555,203**	**41,643,018**	**1,145,712**	**17,863,906**	**8,710,179**	**148,883,115**
Liabilities							
Deposits from other credit institutions	130,285	229,618	139,705	419,114	-	12,085	930,807
Customer deposits	70,420,465	20,248,123	21,161,391	-	-	1,005,015	112,834,994
Debt securities issued	-	-	1,000,000	-	-	29,333	1,029,333
Subordinated liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	3,265,950	3,265,950
Total liabilities	**70,550,750**	**20,477,741**	**22,301,096**	**419,114**	**-**	**4,312,383**	**118,061,084**
Total Liabilities and equity	**70,550,750**	**20,477,741**	**22,301,096**	**419,114**	**-**	**35,134,414**	**148,883,115**
Interest rate risk Gaps	**(7,585,653)**	**(3,922,538)**	**19,341,922**	**726,598**	**17,863,906**	**(26,424,235)**	**-**
Accumulated interest rate risk Gap	**(7,585,653)**	**(11,508,191)**	**7,833,731**	**8,560,329**	**26,424,235**	**-**	**-**

For 2017 the interest rate sensitivity analysis is analysed as follows:

MZN' 000

Group						
31 December 2017	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Total**
Assets						
Cash and deposits at Central Bank of Mozambique	18.540.507	-	-	-	-	18.540.507
Cash and Deposits with other credit institutions	1.244.248	-	-	-	-	1.244.248
Loans and advances to credit institutions	7.669.272	1.876.870	603.701	-	-	10.149.843
Loans to customers	2.468.089	691.376	13.450.658	11.912.583	35.688.994	64.211.700
Available-for-sale financial assets	680.168	3.396.449	27.094.963	3.426.473	7.053	34.605.106
Financial assets at fair value through other comprehensive income	-	-	-	-	57.153	57.153
Total assets	**30.602.284**	**5.964.695**	**41.149.322**	**15.339.056**	**35.753.200**	**128.808.557**
Liabilities						
Deposits from other credit institutions	439.141	134.136	373.391	402.409	134.136	1.483.213
Customer deposits	61.611.252	13.092.661	24.859.688	58.039	-	99.621.640
Total Liabilities	**62.050.393**	**13.226.797**	**25.233.079**	**460.448**	**134.136**	**101.104.853**
Liquidity Gaps	**(31.448.109)**	**(7.262.102)**	**15.916.243**	**14.878.608**	**35.619.064**	**27.703.704**
Accumulated Liquidity Gap	**(31.448.109)**	**(38.710.211)**	**(22.793.968)**	**(7.915.360)**	**27.703.704**	

MZN' 000

Bank						
31 December 2017	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Total**
Assets						
Cash and deposits at Central Bank of Mozambique	18.540.507	-	-	-	-	18.540.507
Cash and Deposits with other credit institutions	1.232.643	-	-	-	-	1.232.643
Loans and advances to credit institutions	7.665.486	1.873.701	603.701	-	-	10.142.888
Loans to customers	2.468.089	691.376	13.450.658	11.912.583	35.688.994	64.211.700
Available-for-sale financial assets	680.122	3.396.449	26.918.989	2.846.459	7.098	33.849.117
Financial assets at fair value through other comprehensive income	-	-	-	-	24.976	24.976
Total Assets	**30.586.847**	**5.961.526**	**40.973.348**	**14.759.042**	**35.721.068**	**128.001.831**
Liabilities						
Amounts owed to other credit institutions	439.141	134.136	373.391	402.409	134.136	1.483.213
Customer funds	65.108.774	13.096.079	24.960.415	58.039	-	103.223.307
Debt securities issued	-	-	42.167	-	1.000.000	1.042.167
Total Liabilities	**65.547.915**	**13.230.215**	**25.375.973**	**460.448**	**1.134.136**	**105.748.687**
Liquidity Gaps	**(34.961.068)**	**(7.268.689)**	**15.597.375**	**14.298.594**	**34.586.932**	**22.253.144**
Accumulated Liquidity Gap	**(34.961.068)**	**(42.229.757)**	**(26.632.382)**	**(12.333.788)**	**22.253.144**	-

(ii) Sensitivity analysis to interest rate risk in the banking portfolio

Interest rate risk is defined as the possible occurrence of financial losses derived from adverse movements in market interest rates through a reduction of earnings and/or through a reduction of the value of assets. The relationship between the earnings and the interest rates arises from a mismatch between interest rate maturities or refixing periods, the lack of a perfect correlation between the interest rates of lending and borrowing operations in different instruments and/or the existence of embedded options in the positions of assets, liabilities and off-balance sheet items.

The interest rate risk derived from the loan portfolio is monitored every semester through a process of risk sensitivity analysis for all the Bank's operations for the purpose of assessing the Bank's exposure to this risk and inferring its capacity to absorb adverse variations in these rates. The respective interest rate gaps are measured both for the total portfolio and the portfolio in dollars.

Interest rate variations affect the Bank's net interest income through the impact on its economic value. The risk factors arise from the repricing mismatch of portfolio positions (repricing risk) and from the risk of variation in market interest rates. Moreover, although of a lesser impact, there is the risk of unequal variations in different reference rates with the same repricing period.

The results of the sensitivity analysis are presented as follows:

Group Sensitivity Analysis to Interest Rate Risk in Banking Portfolio

	17 December		18 December	
	100 bps	**200 bps**	**100 bps**	**200 bps**
MZN	369	739	322	644
USD	77	155	30	59
ALL CURRENCIES*	452	903	370	741

* it includes other currencies

Bank Sensitivity Analysis to Interest Rate Risk in Banking Portfolio

In Million MZN

	Dec.17		Dec.18	
	100 bp	**200 bp**	**100 bp**	**200 bp**
MZN	354	708	302	605
USD	77	155	30	59
ALL CURRENCIES*	436	873	349	698

*includes other currencies

Exchange Rate Risk

This is assessed by measuring the indicators defined in the Bank of Mozambique's prudential regulations, which are analyzed using indicators such as:

a) Net open position per currency - Collected at the level of the Bank's computer system by the Risk Office, and validated by the Accounting Department and the Finance Department, being reported on the last day of each month.
b) Sensitivity Indicator - This is calculated by simulating the impact on Group and Bank results of a hypothetical 1% change in valuation exchange rates.

The exposure of the Group and the Bank to foreign exchange risk is presented in the following tables:

	Group			MZN' 000		
	2018			2017		
	US Dollars	Other foreign currencies	Total	US Dollars	Other foreign currencies	Total
Assets						
Cash and deposits at Central Bank of Mozambique	7,620,945	539,741	8,160,686	3,938,225	431,467	4,369,693
Cash and deposits at other credit institutions	1,795,314	901,589	2,696,903	244,549	899,354	1,143,903
Loans and advances to credit institutions	7,186,277	7,277	7,193,554	6,588,376	28,266	6,616,642
Loans to customers	6,634,635	2,155,603	8,790,238	13,061,627	1,351,030	14,412,657
Financial assets at fair value through other income	-	1,446		-	1,455	1,455
Other assets	1,465,051	100,141	1,565,192	723,434	64,592	788,026
	24,702,222	3,705,797	28,408,019	24,556,211	2,776,164	27,332,376
Liabilities						
Amounts owed to other credit institutions	735,757	17,972	753,729	1,258,746	29,223	1,287,969
Customer funds	23,280,253	1,759,525	25,039,778	22,335,658	1,961,401	24,297,059
Provisions	382,126	105,141	487,267	429,939	31,347	461,286
Other liabilities	4,807	1,685,196	1,690,003	700,660	726,679	1,427,339
	24,402,943	3,567,834	27,970,777	24,725,003	2,748,650	27,473,653
GLOBAL OPERATIONAL POSITION	299,279	137,963	437,242	(168,792)	27,514	(141,277)

	Bank			MZN' 000		
	2018			2017		
	US Dollars	Other foreign currencies	Total	US Dollars	Other foreign currencies	Total
Assets						
Cash and deposits at Central Bank of Mozambique	7,620,945	539,741	8,160,685	3,938,225	431,467	4,369,692
Cash and deposits at other credit institutions	1,795,314	901,447	2,696,761	244,549	897,005	1,141,554
Loans and advances to credit institutions	7,186,277	5,137	7,191,413	6,588,376	28,266	6,616,642
Loans to customers	6,634,635	2,155,603	8,790,238	13,061,627	1,351,030	14,412,656
Financial assets at fair value through other income	-	1,446	1,446	-	1,455	1,455
Other assets	1,202,799	-	1,202,799	78,226	24,448	102,674
	24,439,969	3,603,373	28,043,342	23,911,003	2,733,671	26,644,674
Liabilities						
Amounts owed to other credit institutions	735,757	17,972	753,728	1,258,746	29,223	1,287,969
Customer funds	23,356,906	1,765,585	25,122,491	22,425,532	1,976,362	24,401,894
Provisions	80,085	11,459	91,544	157,521	21,649	179,169
Other liabilities	87,852	1,682,792	1,770,644	567,372	681,989	1,249,361
	24,260,600	3,477,807	27,738,407	24,409,170	2,709,223	27,118,393
GLOBAL OPERATIONAL POSITION	179,369	125,566	304,935	(498,168)	24,448	(473,719)

The figures presented for the exposure to foreign exchange risk show that the predominant foreign currency on the balance sheet of the Group and the Bank is the US dollar.

The results show that the Group and the Bank fall within the limits of exchange rate risk tolerance, defined within the scope of prudential rules established by the Bank of Mozambique, both for each currency and for all the currencies.

Currency risk exposure is managed daily using currency and aggregate exposure limits based on prudential indicators set by the Central Bank of Mozambique. Both currency positions and global positions at 31 December 2018 were within the limits set by the Central Bank of Mozambique.

The capital requirements to cover the Group's and the Bank's exchange rate risk as at 31 December 2018 were as follows respectively:

MZN'000

	Long position	Short position	Maximum between Positions	Final Overall Position	1% Impact	Capital Requirement for Market Risk Coverage
USD	-	299,279	299,279	299,279	302,272	58,440
Other Currencies	-	137,963	137,963	137,963	139,343	

MZN'000

	Long position	Short position	Maximum between Positions	Final Overall Position	1% Impact	Capital Requirement for Market Risk Coverage
USD	-	179,369	179,369	179,369	181,163	58,440
Other Currencies	-	125,566	125,566	125,566	126,821	

The capital requirements to cover the Group's and the Bank's exchange rate risk as at 31 December 2017 were as follows respectively:

MZN'000

	Long position	Short position	Maximum between Positions	Final Overall Position	1% Impact	Capital Requirement for Market Risk Coverage
USD	168,792		168,792	- 168,792	- 170,480	41,344
Other Currencies	-	27,514	27,514	27,514	27,789	

MZN'000

	Long position	Short position	Maximum between Positions	Final Overall Position	1% Impact	Capital Requirement for Market Risk Coverage
USD	498.168	-	498.168	- 498.168	- 503.149	41.344
Other Currencies	-	24.448	24.448	24.448	24.693	

Liquidity Risk

The following tables analyse the Bank's and Group's financial and off-balance sheet assets and liabilities by relevant maturity groups, the amounts consisting of the value of assets, liabilities and off-balance sheet considering the residual contractual maturity.

Group						
31 December 2018	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Total**
Assets						
Cash and deposits at Central Bank of Mozambique	28,071,933	-	-	-	-	28,071,933
Cash and Deposits with other credit institutions	2,809,498	-	-	-	-	2,809,498
Loans and advances to credit institutions	6,188,371	887,562	131,545	-	-	7,207,478
Loans to customers	1,129,247	1,235,026	2,673,374	12,042,040	36,376,823	53,456,510
Financial assets at amortised cost	4,565,448	3,003,953	28,120,243	5,900,001	7,638,647	49,228,292
Financial assets at fair value through other comprehensive income	-	-	-	-	120,341	120,341
Total assets	**42,764,497**	**5,126,541**	**30,925,162**	**17,942,041**	**44,135,811**	**140,894,052**
Liabilities						
Deposits from other credit institutions	130,285	139,705	241,704	419,114	-	930,808
Customer deposits	71,169,127	20,157,702	19,400,400	-	-	110,727,229
Total Liabilities	**71,299,412**	**20,297,407**	**19,642,104**	**419,114**	**-**	**111,658,037**
Liquidity Gaps	**(28,534,915)**	**(15,170,866)**	**11,283,058**	**17,522,927**	**44,135,811**	**29,236,015**
Accumulated Liquidity Gap	**(28,534,915)**	**(43,705,781)**	**(32,422,723)**	**(14,899,796)**	**29,236,015**	

MZN' 000

Bank						
31 December 2018	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Total**
Assets						
Cash and deposits at Central Bank of Mozambique	28,071,933	-	-	-	-	28,071,933
Cash and Deposits with other credit institutions	2,807,182	-	-	-	-	2,807,182
Loans and advances to credit institutions	6,179,771	880,096	131,545	-	-	7,191,412
Loans to customers	1,129,247	1,235,026	2,673,374	12,042,040	36,376,823	53,456,510
Financial assets at amortised cost	4,539,663	3,003,953	27,566,439	5,900,001	7,638,647	48,648,703
Financial assets at fair value through other comprehensive income	-	-	-	-	80,958	80,958
Total assets	**42,727,796**	**5,119,075**	**30,371,358**	**17,942,041**	**44,096,428**	**140,256,698**
Liabilities						
Deposits from other credit institutions	130,285	139,705	241,704	419,114	-	930,808
Customer deposits	72,824,745	20,245,017	19,765,232	-	-	112,834,994
Subordinated Liabilities	-	-	29,333	-	1,000,000	1,029,333
Total Liabilities	**72,955,030**	**20,384,722**	**20,036,269**	**419,114**	**1,000,000**	**114,795,135**
Liquidity Gaps	**(30,227,234)**	**(15,265,647)**	**10,335,089**	**17,522,927**	**43,096,428**	**25,461,563**
Accumulated Liquidity Gap	**(30,227,234)**	**(45,492,881)**	**(35,157,792)**	**(17,634,865)**	**25,461,563**	**-**

For demand deposits, the Management firmly believes that the contractual maturities do not adequately represent the holding period of these deposits with the Bank.

Therefore, by correcting the contractual maturity (up to 1 month) by the historical maturity of the associated core deposits, the Bank's liquidity gap is as stated in the Risk Policy and Management chapter in the opening part of this report.

For 2017 the liquidity risk is analysed as follows:

MZN' 000

Group							
31 December 2017	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Without interest rate risk**	**Total**
Assets							
Cash and deposits at Central Bank of Mozambique	18.540.507	-	-	-	-	-	18.540.507
Cash and deposits with other credit institutions	1.244.248	-	-	-	-	-	1.244.248
Loans and advances to credit institutions	7.625.823	1.876.701	603.701	-	-	43.618	10.149.843
Loans to customers	16.525.856	25.364.874	921.644	2.851.793	14.216.261	1.532.665	61.413.093
Financial assets at amortised cost	600.000	17.753.837	15.369.270	3.276.362	-	(2.394.363)	34.605.106
Financial assets at fair value through other comprehensive income	-	-	-	-	-	57.153	57.153
Other assets	-	-	-	-	-	11.321.344	11.321.344
Total assets	**44.536.434**	**44.995.412**	**16.894.615**	**6.128.155**	**14.216.261**	**10.560.417**	**137.331.294**
Liabilities							
Deposits from other credit institutions	426.148	239.035	268.273	402.409	134.136	13.212	1.483.213
Customer deposits	60.002.319	13.188.976	25.040.852	58.039	-	1.331.455	99.621.641
Other liabilities	-	-	-	-	-	7.565.048	7.565.048
Total Liabilities	**60.428.467**	**13.428.011**	**25.309.125**	**460.448**	**134.136**	**8.909.715**	**108.669.902**
Total Liabilities and equity	**60.428.467**	**13.428.011**	**25.309.125**	**460.448**	**134.136**	**37.571.107**	**137.331.294**
Interest rate risk Gaps	**(15.892.033)**	**31.567.401**	**(8.414.510)**	**5.667.707**	**14.082.125**	**(27.010.690)**	**-**
Accumulated interest rate risk Gap	**(15.892.033)**	**15.675.368**	**7.260.858**	**12.928.565**	**27.010.690**	**-**	**-**

MZN' 000

Bank							
31 December 2017	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Without interest rate risk**	**Total**
Assets							
Cash and deposits at Central Bank of Mozambique	18.540.507	-	-	-	-	-	18.540.507
Cash and deposits with other credit institutions	1.232.643	-	-	-	-	-	1.232.643
Loans and advances to credit institutions	7.625.823	1.873.701	603.701	-	-	39.663	10.142.888
Loans to customers	16.525.855	25.364.874	921.644	2.851.793	14.216.261	1.532.665	61.413.092
Financial assets at amortised cost	600.000	17.753.837	15.069.044	2.846.459	-	(2.420.224)	33.849.116
Financial assets at fair value through other comprehensive income	-	-	-	-	-	24.796	24.796
Other assets	-	-	-	-	-	9.776.739	9.776.739
Total assets	**44.524.828**	**44.992.412**	**16.594.389**	**5.698.252**	**14.216.261**	**8.953.639**	**134.979.781**
Liabilities							
Deposits from other credit institutions	426.148	239.035	268.273	402.409	134.136	13.213	1.483.214
Customer deposits	61.496.436	13.882.839	26.440.270	58.039	-	1.345.724	103.223.308
Debt securities issued	-	1.000.000	-	-	-	42.167	1.042.167
Other liabilities	-	-	-	-	-	2.916.408	2.916.408
Total liabilities	**61.922.584**	**15.121.874**	**26.708.543**	**460.448**	**134.136**	**4.317.512**	**108.665.097**
Total Liabilities and equity	**61.922.584**	**15.121.874**	**26.708.543**	**460.448**	**134.136**	**30.632.196**	**134.979.781**
Interest rate risk Gaps	**(17.397.756)**	**29.870.538**	**(10.114.154)**	**5.237.804**	**14.082.125**	**(21.678.557)**	**-**
Accumulated interest rate risk Gap	**(17.397.756)**	**12.472.782**	**2.358.628**	**7.596.432**	**21.678.557**	**-**	**-**

Operating Risk

The Bank and the Group have adopted principles and practices that ensure efficient management of the operating risk, especially through the definition and documentation of these principles and through implementation of the respective control mechanisms. Examples of this include segregation of duties, lines of responsibilities and respective authorisations, the limits of tolerance and exposure to risks; the ethical codes and codes of conduct; the key risk indicators; the access controls, both physical and logical; the reconciliation activities; the exception reports; the contracting of insurance; the planning of contingencies; the internal training on processes, products and systems, among other measures.

Operating risk is a direct and indirect risk of loss arising from various causes associated to Bank and Group process, personnel, technology and infrastructure and external factors but not from credit risk, market risk and liquidity risk. For example, risks arising from legal requirements and regulations and generally accepted standards of corporate behaviour. Operating risks arising from all Bank and Group operations.

The Bank and Group aim at managing operating risk so as to balance the financial losses and damages to the reputation of the Bank and Group with cost-effectiveness and innovation. In all cases, the Bank and Group policy requires compliance with all legal and regulatory requirements.

The Board of Directors must approve the Group standards for operating risk management in the following areas:

- Requirements for segregation of duties, including independent authorization of transactions;
- Requirements for transactions monitoring and reconciliation;
- Compliance with regulatory and legal requirements;
- Controls and procedures documentation;
- Requirements for periodic assessment of operating risk and controls adequacy and procedures to mitigate identified risks;
- Requirements for operating report on losses and proposed operating actions;
- Development of contingency plans;
- Professional and training development;
- Ethical and business standards;
- Technological Information and cyber risks; and
- Risk mitigation, including where insurance is cost effective.

Compliance with the Bank and Group standards is supported by a periodic reviews schedule of the internal audit responsibility.

42. Solvency

The equity of Banco Internacional de Moçambique is determined according to the applicable regulatory rules, namely the provisions in Central Bank of Mozambique Notice number 12/GBM/2013. The total equity results from the adding the Core capital (Tier 1) to the complementary own funds (Tier 2) and from subtracting the component of Deductions.

Core capital includes the paid-up capital, the reserves and the deferred impacts related to the IFRS transition adjustments.

At the same time, the determination of core capital requires the deduction of the other intangible assets, the goodwill stated in the assets, the positive/negative actuarial deviations and costs related to past services, associated to post-employment benefits attributed by the entity which, in accordance with IAS 19 - Employee Benefits (Corridor method), have not been recognised under profit or loss for the year, retained earnings or reserves.

Core capital may also be influenced by the existence of revaluation differences in other assets, in cash flow hedge operations or in financial liabilities at fair value through profit or loss, in the proportion corresponding to the actual credit risk, by the existence of a fund for general banking risks and due to insufficiency of provisions, if the credit impairment charges, calculated pursuant to the International Financial Reporting Standards, are less than the provisioning required by Central Bank of Mozambique Notice number 7/GBM/07, calculated on an individual basis.

The complementary capital includes the subordinated debt, the reserves derived from the revaluation of tangible fixed assets and, through prior authorisation of Central Bank of Mozambique, the inclusion of balance sheet items that may be freely used to hedge risks normally linked to the activity of the institutions even if the losses or capital losses have not yet been identified.

For the calculation of regulatory capital, it is necessary to carry out various further deductions to total own funds, namely the book value of non-financial assets received in the repayment of own loans.

MZN '000

	2018	2017
CORE OWN FUNDS		
***Tier 1* Capital**		
Paid-up capital	**4,500,000**	4,500,000
Reserves and retained earnings	**19,952,280**	16,066,801
Intangible assets	**(334,889)**	(245,037)
Shortfall in provisions	**(6,891,234)**	(6,350,691)
Total *Tier* 1 Capital	**17,226,157**	13,971,073
***Tier 2* Capital**		
Subordinated loans	-	-
Other	**7,553**	(265,942)
Total *Tier* 2 Capital	**7,553**	(265,942)
Deduction to total own funds	**578,220**	5,180,967
Eligible own funds	**16,655,489**	8,524,163
Risk weighted assets		
In the balance sheet	**35,737,761**	45,100,921
Off balance sheet	**4,338,702**	2,649,133
Operating risk	**1,895,074**	1,585,297
Market risk	**730,506**	516,796
Ratio of adequacy of core own funds (*Tier 1*)	**40.3%**	28.0%
Ratio of adequacy of own funds (*Tier 2*)	**0.0%**	-0.5%
Solvency ratio	**39.0%**	17.1%

43. Risk concentration

The concentration of financial assets with credit risk by sector, in the Group and in the Bank, is as follows:

MZN '000

Group											
Sector	Deposits from credit institutions	Loans and advances to credit institutions	Loans to Customers	Other financial assets at amortised cost	Financial Assets at fair value through other comprehensive income	Investments in associated companies	Other assets	2018		2017	
								Total	%	Total	%
Public Sector	-	-	17,653,153	49,228,292	-	-	-	66,881,445	60.2%	40,232,058	24.5%
Financial institutions	2,809,498	7,207,478	-	-	87,072	-	-	10,104,048	9.1%	11,400,205	11.5%
Agriculture and forestry	-	-	1,479,190	-	-	-	-	1,479,190	1.3%	1,637,249	2.0%
Mining	-	-	667,962	-	-	-	-	667,962	0.6%	630,831	1.2%
Food, beverages and tobacco	-	-	56,844	-	33,269	-	-	90,113	0.1%	785,033	0.7%
Textiles	-	-	4,361	-	-	-	-	4,361	0.0%	1,981	0.0%
Paper, printing and publishing	-	-	38,093	-	-	-	-	38,093	0.0%	51,880	0.1%
Chemicals	-	-	1,529,128	-	-	-	-	1,529,128	1.4%	2,321,837	2.1%
Machinery and equipment	-	-	1,654,170	-	-	-	-	1,654,170	1.5%	1,669,622	1.8%
Electricity, water and gas	-	-	1,122,295	-	-	-	-	1,122,295	1.0%	5,518,821	6.2%
Construction	-	-	851,118	-	-	-	-	851,118	0.8%	6,086,397	5.7%
Trade	-	-	7,046,479	-	-	-	-	7,046,479	6.3%	8,830,630	9.7%
Restaurants and hotels	-	-	1,080,554	-	-	-	-	1,080,554	1.0%	776,546	1.0%
Transport and communications	-	-	2,614,443	-	-	9,407	-	2,623,850	2.4%	3,334,722	3.9%
Services	-	-	4,665,682	-	-	250,212	-	4,915,894	4.4%	12,112,745	13.0%
Consumer credit	-	-	8,290,860	-	-	-	-	8,290,860	7.5%	10,142,934	11.7%
Mortgage loans	-	-	689,771	-	-	-	-	689,771	0.6%	751,451	0.8%
Other activities	-	-	721,007	-	-	-	1,345,531	2,066,538	1.9%	3,388,936	4.0%
	2,809,498	7,207,478	50,165,110	49,228,292	120.341	259,619	1,345,531	111,135,869	100.0%	109,673,878	100.0%

MZN '000

Bank											
Sector	Deposits from credit institutions	Loans and advances to credit institutions	Loans to Customers	Other financial assets at amortised cost	Financial Assets at fair value through other comprehensive income	Investments in subsidiaries	Other assets	2018		2017	
								Total	%	Total	%
Public Sector	-	-	17,653,153	48,648,704		-	-	66,301,857	60.3%	39,476,069	36.4%
Financial institutions	2,807,182	7,191,413	-	-		416,148	-	10,495,701	9.5%	11,791,679	10.9%
Agriculture and forestry	-	-	1,479,190	-	-	-	-	1,479,190	1.3%	1,637,249	1.5%
Mining	-	-	667,962	-	-	-	-	667,962	0.6%	630,831	0.6%
Food, beverages and tobacco	-	-	56,844	-	-	-	-	56,844	0.1%	759,015	0.7%
Textiles	-	-	4,361	-	-	-	-	4,361	0.0%	1,981	0.0%
Paper, printing and publishing	-	-	38,093	-	-	-	-	38,093	0.0%	51,880	0.0%
Chemicals	-	-	1,529,128	-	-	-	-	1,529,128	1.4%	2,321,837	2.1%
Machinery and equipment	-	-	1,654,170	-	-	-	-	1,654,170	1.5%	1,669,622	1.5%
Electricity, water and gas	-	-	1,122,295	-	-	-	-	1,122,295	1.0%	5,518,821	5.1%
Construction	-	-	851.118	-	-	-	-	851,118	0.8%	6,086,397	5.6%
Trade	-	-	7.046.479	-	-	-	-	7,046,479	6.4%	8,830,630	8.1%
Restaurants and hotels	-	-	1.080.554	-	-	-	-	1,080,554	1.0%	776,546	0.7%
Transport and communications	-	-	2.614.443	-	-	-	-	2,614,443	2.4%	3,317,430	3.1%
Services	-	-	4.665.682	-	-	-	-	4,665,682	4.2%	11,862,491	10.9%
Consumer credit	-	-	8.290.860	-	-	-	-	8,290,860	7.5%	10,142,934	9.4%
Mortgage loans	-	-	689,771	-	-	-	-	689,771	0.6%	751,451	0.7%
Other activities	-	-	721,007	-	-	-	666,294	1,387,301	1.3%	2,809,100	2.6%
	2,807,182	7,191,413	50,165,110	48,648,704	80,958	416,148	666,294	109,975,809	100.0%	108,435,963	100.0%

44. Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for periods starting after 1 January 2018 and their early application is permitted. The Bank has not decided against the early adoption of the following new standards or amendments in the preparation of these financial statements.

Up to the date of authorisation of the financial statements for the year ended on 31 December 2017, the following Standards and Interpretations had been issued but were not yet adopted:

IFRS 16 Leases

IFRS 16 was published in January 2016. It establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties of a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous standard on leases, IAS 17 Leases and related interpretations. IFRS 16 presents a model for lessees which will result in almost all the leases being included in the Statement of the Financial Position. Significant changes for the lessors were not included.

The standard is effective for annual periods starting on or after 1 January 2018, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for the lessees and lessors. The Bank has started to assess the potential impact on the financial statements arising from the application of IFRS 16. No significant impact is expected for the Bank's financial leases.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)

The amendments require that the full gain should be recognised when the assets transferred between an investor and its associate or joint venture meet the definition of "business activity" pursuant to IFRS 3 Business Combinations. When the transferred assets do not meet the definition of a business activity, a partial gain is recognised in the interests of the independent investors in the associate or joint venture. The definition of business activity is fundamental to determine the extent of the gain to be recognised.

The IASB decided to postpone the effective date for these amendments indefinitely. Adoption is still permitted.

Other Standards

For the following regulatory changes are not expected significant impacts on the individual and consolidated financial statements of the Bank and the Group:

- Annual improvements in the standards of the IFRS Cycle 2015-2017
- Long-term interests in associates and joint ventures (changes to IAS 28)
- Plan Amendment or Settlement Plan (changes to IAS 19)
- IFRIC 23 - Uncertainty regarding tax processing
- Changes to conceptual references in IFRS standards
- IFRS 17- Insurance Contracts

45. Subsequent Events

Cyclone IDAI, which hit Sofala province and the city of Beira in particular at the end of March 2019, caused considerable damage in terms of people and property, affecting the electricity supply network and causing a breakdown in telecoms and other infrastructures. The Bank is aware of the direct and indirect negative impacts of the storm, which will certainly be felt in the near future in the region's economy. The Bank has implemented measures to monitor and recover, as soon as possible, the operation of the branches, while supporting, to every possible extent, people, customers and employees. The Bank has clients in its loan portfolio based in Sofala Province that may have been affected by the cyclone. Efforts are being made to contact clients to assess the impact on their activities and consequently their ability to service debt. At this stage it has not yet been possible to quantify any impact.

KPMG Auditores e Consultores, SA
Edifício HOLLARD
Rua 1.233, Nº 72 C
Maputo, Moçambique

Telefone: +258 (21) 355 200
Telefax: +258 (21) 313 358
Caixa Postal, 2451
Email: mz-fminformation@kpmg.com
Web:www.kpmg.co.mz

Relatório dos Auditores Independentes

Para os Accionistas do BIM – Banco Internacional de Moçambique S.A

Opinião

Auditámos as demonstrações financeiras consolidadas e individuais do BIM – Banco Internacional de Moçambique S.A (o Grupo e o Banco) constantes das páginas 43 a 124, que compreendem o Balanço consolidado e individual em 31 de Dezembro de 2018, a Demonstração dos Resultados consolidada e individual, a Demonstração do Rendimento Integral consolidada e individual, a Demonstração das Alterações nos Capitais Próprios consolidada e individual e a Demonstração dos Fluxos de Caixa consolidada e individual do exercício findo naquela data, bem como as notas às demonstrações financeiras consolidadas e individuais, incluindo um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras consolidadas e individuais apresentam de forma apropriada, em todos aspectos materiais, a posição financeira do BIM – Banco Internacional de Moçambique S.A em 31 de Dezembro de 2018, e o seu desempenho financeiro e fluxos de caixa do ano findo naquela data, de acordo com as Normas Internacionais de Relato Financeiro.

Base de opinião

Realizamos a nossa auditoria de acordo com as Normas Internacionais de Auditoria (ISAs). As nossas responsabilidades nos termos dessas normas estão descritas na secção *Responsabilidades do Auditor pela Auditoria das Demonstrações Financeiras consolidadas e individuais* na secção do nosso relatório. Somos independentes do Banco e Grupo de acordo com o *Código de Ética para Revisores Oficiais de Contas da Federação Internacional de Contabilistas (Código IESBA)* e de acordo com outros requisitos de independência aplicáveis à realização de auditorias de demonstrações financeiras em Moçambique. Cumprimos as nossas outras responsabilidades éticas, de acordo com estes requisitos e o Código IESBA. Acreditamos que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Outra Informação

Os administradores são responsáveis pela outra informação. A outra informação compreende a declaração de responsabilidade dos Administradores como exigido pelo Código Comercial de Moçambique e o Relatório de Gestão, que obtivemos antes da data do relatório. A outra informação não inclui as demonstrações financeiras consolidadas e individuais e o nosso relatório de auditoria sobre as mesmas.

A nossa opinião sobre as demonstrações financeiras consolidadas e individuais não abrange a outra informação e não expressamos uma opinião de auditoria ou qualquer outra forma de garantia sobre a mesma.

Em conexão à nossa auditoria das demonstrações financeiras consolidadas e individuais , a nossa responsabilidade é de ler a outra informação e, ao fazê-lo, considerar se a outra informação é materialmente inconsistente com as demonstrações financeiras consolidadas e individuais ou nosso conhecimento obtido na auditoria, ou se de outra forma parecer conter distorções materiais. Se, com base no trabalho que realizamos na outra informação, concluímos que existe uma distorção material nessa outra informação, somos obrigados a reportar esse facto. Não temos nada a reportar a este respeito.

Responsabilidade dos Administradores pelas demonstrações financeiras consolidadas e individuais

Os administradores são responsáveis pela preparação e apresentação apropriada das demonstrações financeiras consolidadas e individuais de acordo com as Normas Internacionais de Relato Financeiro, e pelo controlo interno que os Administradores determinem ser necessário para permitir a preparação de demonstrações financeiras consolidadas e individuais que estão isentas de distorção material devido a fraude ou erro.

Na preparação das demonstrações financeiras consolidadas e individuais, os administradores são responsáveis por avaliar a capacidade do Banco e Grupo se manter em continuidade, divulgando, quando aplicável, as matérias relativas a continuidade e usando o pressuposto da continuidade a menos que os administradores tenham a intenção de liquidar o Banco e Grupo e cessar as operações, ou não tenham alternativa realista senão faze-lo.

Responsabilidades dos Auditores pela Auditoria das demonstrações financeiras consolidadas e individuais

Os nossos objetivos consistem em obter segurança razoável sobre se as demonstrações financeiras consolidadas e individuais como um todo estão isentas de distorção material, quer devido a fraude ou erro, e em emitir um relatório de auditoria onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança mas não é uma garantia de que uma auditoria executada de acordo com as ISAs detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas na base dessas demonstrações financeiras consolidadas e individuais .

Como parte de uma auditoria de acordo com ISAs, exercemos o julgamento profissional e mantemos o cepticismo profissional durante a auditoria. Igualmente:

- Identificamos e avaliamos os riscos de distorção material das demonstrações financeiras consolidadas e individuais, quer devido a fraude ou erro, desenhamos e executamos procedimentos de auditoria que respondam a esses riscos e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material resultante de fraude é maior do que para uma resultante de erro, uma vez que a fraude pode envolver conluio, falsificação, omissões intencionais, declarações falsas ou a derrogação do controlo interno.

- Obtemos um entendimento do controlo interno relevante para a auditoria, a fim de desenhar procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para propósitos de expressarmos uma opinião sobre a eficácia do controlo interno do Banco e Grupo.

- Avaliamos a adequação das políticas contabilísticas utilizadas e a razoabilidade das estimativas contabilísticas e respectivas divulgações feitas pelos administradores.

- Concluímos sobre a adequação do uso por parte dos administradores do pressuposto contabilístico da continuidade e com base na prova de auditoria obtida, se existe uma incerteza material relacionada a acontecimentos ou condições que possam suscitar uma dúvida significativa sobre a capacidade do Banco e Grupo de continuar a operar de acordo com o pressuposto da continuidade. Se concluirmos que existe uma incerteza material, somos obrigados a chamar a atenção, no relatório do auditor, para as respectivas divulgações nas demonstrações financeiras individuais e consolidadas ou, caso tais divulgações sejam inadequadas, modificar a nossa opinião. As nossas conclusões baseiam-se na prova de auditoria obtida até a data do nosso relatório de auditoria. No entanto, acontecimentos ou condições futuras podem fazer com que o Banco e Grupo deixe de operar segundo o pressuposto da continuidade.

- Avaliamos a apresentação geral, a estrutura e o conteúdo das demonstrações financeiras consolidadas e individuais, incluindo as divulgações, e se as demonstrações financeiras consolidadas e individuais representam as transações e acontecimentos subjacentes de forma a alcançar uma apresentação apropriada.

KPMG

Comunicamos com os administradores sobre, entre outros assuntos, o âmbito planeado e os prazos da auditoria e as constatações de auditoria significativas, incluindo quaisquer deficiências significativas no controlo interno que identificamos durante a nossa auditoria.

KPMG, Sociedade de Auditores Certificados, 04/SCA/OCAM/2014

Representada por:

Abel Jone Guaiaguaia, 04/CA/OCAM/2012
20 de Março de 2019
Maputo

Declaração de responsabilidade dos Administradores

Os administradores do Banco são responsáveis pela preparação e apresentação adequada das demonstrações financeiras individuais e consolidadas que incluem o Balanço do BIM – Banco Internacional de Moçambique S.A, e as demonstrações dos resultados e rendimento integral, alterações nos capitais próprios e fluxos de caixa do exercício findo em 31 de Dezembro de 2018, assim como as notas às demonstrações financeiras, as quais incluem um sumário das principais políticas contabilísticas e outras notas explicativas, de acordo com as Normas Internacionais de Relato Financeiro.

Os administradores são igualmente responsáveis pela: concepção, implementação e manutenção de um sistema de controlo interno relevante para a preparação e apresentação apropriada destas demonstrações financeiras individuais e consolidadas que estão livres de distorções materiais, devidas quer a fraude, quer a erro, e registos contabilísticos adequados e um sistema de gestão de risco eficiente e eficaz.

Os administradores fizeram uma avaliação para determinar se o Banco e o Grupo tem capacidade para continuar a operar com a devida observância do princípio da continuidade, e não têm motivos para duvidar da capacidade do Banco e do Grupo poder continuar a operar segundo esse pressuposto no futuro próximo.

O auditor é responsável por reportar sobre se as demonstrações financeiras individuais e consolidadas estão adequadamente apresentadas em conformidade com as Normas Internacionais de Relato Financeiro.

Aprovação das demonstrações financeiras individuais e consolidadas

As demonstrações financeiras individuais e consolidadas para o ano findo em 31 de Dezembro de 2018 do BIM – Banco Internacional de Moçambique S.A, conforme mencionado no primeiro parágrafo, foram aprovadas pelo Conselho de Administração em 20 de Março de 2019 e foram assinadas em seu nome, por:

José Reino da Costa

Presidente da Comissão Executiva

Presidente do Conselho de Administração

RELATÓRIO E PARECER DO CONSELHO FISCAL

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

RELATORIO E CONTAS 2018

PARECER DO CONSELHO FISCAL

Nos termos da Lei e das disposições estatutárias, submetemos aos Excelentíssimos Senhores Accionistas, o resumo da acção fiscalizadora realizada no BIM - Banco Internacional de Moçambique, S.A., bem como o parecer sobre as Demonstrações Financeiras em base individual e Consolidadas do Banco, relativos ao exercício findo em 31 de Dezembro de 2018.

O ano fiscal em referência, continuou desafiante para o sector financeiro, face a incerteza dos mercados financeiros (cambial, monetário e dívida soberana), num contexto de mudanças estruturais no quadro regulatório e de supervisão registadas no período.

Do acompanhamento efectuado à actividade do Banco, o Conselho Fiscal observou, que apesar deste contexto, a acção estratégica desenvolvida pelo Conselho de Administração, assente no aprimoramento do modelo de governação corporativa e no fortalecimento da estrutura de capital, permitiu superar com êxito os desafios decorrentes da conjuntura macroeconómica e de negócio.

No decurso do exercício acompanhamos, com a periodicidade e extensão calendarizada, a actividade do Banco. Verificamos a regularidade dos registos contabilísticos, bem como a eficácia do sistema de controlo interno. Zelamos pela observância da Lei, regulamentos e estatutos. Fiscalizamos a qualidade e integridade da informação contabilística, bem assim das políticas contabilísticas e dos critérios valorimétricos adoptados.

No âmbito das nossas funções e da prática já institucionalizada, realizamos encontros regulares com áreas de Auditoria, *Compliance Office*, Crédito, *Risk Office*, Recuperação do Crédito de Retalho, Recuperação de *Corporate* e Centro Corporativo, bem como com o Auditor Externo, para além da nossa participação nas reuniões do Conselho de Administração.

Mantivemos o foco no acompanhamento e avaliação das recomendações das auditorias Prudencial e Comportamental do Regulador, do Relatório de Controle Interno e do Relatório de Auditoria da casa Mãe (BCP).

Constatamos que, como suporte a actividade da Auditoria Interna, e, no âmbito do reforço e melhoria do controlo e acompanhamento das entidades de Supervisão e Auditores Externos encontra-se em pleno funcionamento o *Steering Comittee*, criado com o objectivo de assegurar o adequado acompanhamento e monitoramento de todas as acções decorrentes do relacionamento com essas entidades.

Registamos evolução na qualidade das auditorias realizadas decorrente do refinamento do processo de acompanhamento e controlo da actividade de auditoria, assim como, da introdução de medidas adequadas com a finalidade de mitigação dos riscos subjacentes à actividade de controlo interno.

Do acompanhamento efectuado, notamos não terem sido detectadas ocorrências susceptíveis de alterar a avaliação positiva dos sistemas de identificação e gestão de riscos, de controlo interno do Banco.

No âmbito do *Compliance Office* constatamos que a actividade esteve muito focalizada nas acções relacionadas com a Avaliação do Risco de Branqueamento de Capitais e Financiamento ao Terrorismo (BC/FT) e de monotorização de transacções atípicas.

Page 1 of 4

Parecer CF_BIM - 200319.doc

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

RELATORIO E CONTAS 2018

PARECER DO CONSELHO FISCAL

No quadro do cumprimento das disposições impostas pela Legislação de BC/FT, tomamos conhecimento de terem sido desencadeados adequados mecanismos para assegurar a Mitigação do risco de *Compliance* e de Reputação, tendo sido promovidos ajustamento de políticas e normas de procedimento AML e realizadas acções de formação em matérias de AML. Também tomamos conhecimento do aperfeiçoamento das ferramentas IT de avaliação de "Risco AML" e monotorização de transacções suspeitas de BC/FT, decorrente da revisão normativa.

Constatamos que o Banco fez comunicações de transacções suspeitas ao GIFIM e respondeu pedidos de informação do GIFIM, Procuradoria-Geral da Republica e do Banco de Moçambique (BM). Também constatamos o bom desempenho do tratamento de alertas gerados que situou-se acima do nível de apetite de risco estabelecido - RAS.

O Banco respondeu a dois processos de contra-ordenação instaurados pelo BM, sobre BC/FT, e apelou a uma decisão final, no tribunal, e o processo corre os seus termos.

O Regulador realizou inspecção no âmbito de AML e deixou recomendações para alinhar algumas práticas e procedimentos a nível do sistema financeiro.

O trabalho realizado, e em curso, indica uma melhoria crescente na conformidade legal do Banco.

No domínio do *Risk Office*, registamos que o processo de implementação da IFRS9 no Millennium bim decorre dentro da normalidade desejada. Tomamos conhecimento do estágio de desenvolvimento do processo de operacionalização da nova metodologia para o cálculo de imparidade do crédito, bem como da adequação dos sistemas e processos de IT, para o efeito.

Notamos que o trabalho está focado no refinamento dos Modelos de cálculo ao nível da Análise Individual e da Imparidade Colectiva e no cálculo do impacto da IFRS9 ao nível de perdas por imparidade, numa perspectiva corrente.

Foi objecto do nosso interesse e particular atenção a apreciação dos indicadores de risco constantes da Declaração de Apetite de Risco do Banco (Matriz RAS). Da análise da RAS verificamos que todos os resultados apurados, a nível dos indicadores de capital, do Risco de liquidez, Mercado, Operacional, de *Compliance* e Reputação estão dentro do nível aceitável de Apetite de Risco. A nível do risco de crédito e concentração, verificamos que, de uma forma geral, os indicadores evoluíram positivamente, contudo os que estavam fora da zona de conforto, mantiveram-se. No entanto, importa salientar que em todas as observações, o Millennium bim não apresenta qualquer excesso face aos limites instituídos, não justificado.

Dos encontros de trabalho realizados com o Auditor Externo (KPMG Auditores & Consultores S A) concentramo-nos na análise das questões que, pela sua materialidade e/ou relevância, considerámos mais críticas ou significativas tendo por base as principais conclusões do trabalho relativo à revisão limitada das contas reportadas a 30 de Junho de 2018 e à auditoria das demonstrações financeiras consolidadas do exercício findo em 31 de Dezembro de 2018.

Com referência à política IFRS9, tomamos conhecimento que os Auditores testaram e verificaram o registo dos instrumentos financeiros em relação ao novo modelo de mensuração e registo de perdas e constataram que o reconhecimento e mensuração dos instrumentos financeiros são apropriados. Foram, igualmente, avaliados as contrapartes com que os instrumentos financeiros são detidos para evidência de imparidade, não tendo sido constatadas excepções.

Observamos que as políticas contabilísticas de reconhecimento de rédito e a sua aplicação foram avaliadas para assegurar o cumprimento da norma internacional de contabilidade IFRS 15, não tendo sido detectadas excepções.

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

RELATORIO E CONTAS 2018

PARECER DO CONSELHO FISCAL

Verificamos que as transacções do rédito que são electronicamente iniciadas, processadas e registadas foram testadas quanto à eficácia operacional dos controlos de aplicações subjacentes tendo em vista assegurar que as mesmas efectivamente ocorreram, estão completas e exactas;

No diálogo com o Auditor Externo, foi igualmente objecto da nossa atenção, a análise individual das maiores exposições do Estado, sector público e privado e do crédito em mora e em contencioso, com destaque para as situações materialmente relevantes e com impacto na conta de exploração e ou consumo de capital, nomeadamente os empréstimos com sinais de imparidade, bem como a análise individual efectuada pelos Auditores à carteira de credito do Banco de entidades seleccionadas com base em critérios de risco de auditoria.

Notamos que, como resultado da diminuição da carteira crédito, derivado do abrandamento da actividade económica e da procura no ano de 2018, o Banco passou a investir em outros activos (títulos de investimento) que registaram um crescimento notório, cuja contabilização e mensuração foi objecto de verificação, tendo os títulos de investimento sido reclassificados de activos financeiros disponíveis para venda para uma rúbrica designada Activos Financeiros mensurados ao Custo Amortizado, em conformidade com a IFRS 9. Observamos, ainda, que na sequência desta classificação, o Banco passou a efectuar a análise e registo de imparidade prospectiva destes títulos para fazer face aos novos requisitos da IFRS 9, tendo estabelecido uma imparidade mínima, consentânea com o risco de crédito reduzido, neste tipo de activos.

No âmbito das nossas funções e nos termos das disposições legais e regulamentares, pronunciamo-nos sobre casos relativos a crédito concedido a entidades correlacionadas, bem assim a sociedades ou outros entes colectivos, directa ou indirectamente dominados pela entidade correlacionada, ou que com ela estejam em relação de grupo, nos termos da legislação em vigor.

Nos termos do disposto no nº 2 do Art.º 42º dos Estatutos do Banco, analisamos e concordamos com o Relatório dos Auditores Independentes, emitido pela KPMG Auditores e Consultores, SA.

Nos termos da lei e do mandato que nos conferiram, examinámos as Demonstrações Financeiras, bem como os respectivos anexos, incluindo as políticas contabilísticas e os critérios valorimétricos adoptados.

Procedemos à análise do Relatório de Gestão do exercício de 2018 preparado pelo Conselho de Administração e da proposta de aplicação de resultados, nele incluído, tendo constatado que o Relatório de Gestão é suficientemente esclarecedor da evolução dos negócios, da situação do Banco, da envolvente económica e do mercado.

Da apreciação efectuada a Proposta de aplicação de resultados constatamos que não contraria as disposições legais e estatutárias aplicáveis.

Não nos foi reportada, nem verificamos, no decorrer da nossa actividade, qualquer irregularidade por parte da sociedade, seus accionistas, colaboradores ou outros, nomeadamente de natureza lesiva aos interesses da Instituição ou de algum ou alguns dos accionistas.

As Demonstrações Financeiras do Banco e Consolidadas auditadas pelo Auditor Externo evidenciam:

- Que o Balanço Consolidado e o Balanço do Banco, BIM - Banco Internacional de Moçambique, S.A., à data de 31 de Dezembro de 2018, reflectem adequadamente a situação financeira do Grupo e do Banco;
- Que a Demonstração de Resultados Consolidados e a Demonstração de Resultados do Banco espelham um lucro consolidado de 6.808,79 milhões de Meticais e um lucro do Banco de 6.367,20 milhões de Meticais, os quais traduzem o resultado da actividade do Grupo e do Banco;

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

RELATORIO E CONTAS 2018

PARECER DO CONSELHO FISCAL

- Que a Demonstração de Rendimento Integral Consolidado e a Demonstração de Rendimento Integral do Banco apresentam um rendimento integral do Grupo de 7.077,01 milhões de Meticais e um rendimento integral do Banco de 6.632,89 milhões de Meticais, respectivamente;

- Que a Demonstração dos Fluxos de Caixa Consolidados e a Demonstração dos Fluxos de Caixa do Banco apresentam um aumento durante o ano em Caixa e seus equivalentes de 1.521,63 milhões de Meticais para o Grupo e 1.530,92 milhões de Meticais para o Banco; e

- Que a Demonstração das Alterações nos Capitais Próprios Consolidados e a Demonstração das Alterações nos Capitais Próprios do Banco evidenciam um Capital Próprio em 31 de Dezembro de 2018 de 33.321,49 milhões de Meticais para o Grupo e de 30.822,03 milhões de Meticais para o Banco.

Como resultado das verificações efectuadas e informações obtidas:

- Somos de opinião que as Demonstrações Financeiras Consolidadas e as Demonstrações Financeiras do Banco (compostas pelas seguintes peças do Grupo e do Banco: Balanço, Demonstração de Resultados, Demonstração de Rendimento Integral, Demonstração dos Fluxos de Caixa e Demonstração das Alterações nos Capitais Próprios e respectivas Notas):

  i). Estão em conformidade com a Lei e satisfazem as disposições estatutárias, bem como as normas emanadas do Banco Central;

  ii). Foram preparadas de acordo com as Normas Internacionais de Relato Financeiro (NIRF); e

  iii). Reflectem, de forma verdadeira, a situação financeira do Grupo e do Banco em 31 de Dezembro de 2018, bem como o resultado das operações realizadas pelo Grupo e pelo Banco durante o exercício.

- Somos de parecer que a Assembleia Geral:

  i). Aprove as Contas relativas ao Exercício de 2018;

  ii). Aprove o Relatório de Gestão do Conselho de Administração e as Demonstrações Financeiras Consolidadas do BIM - Banco Internacional de Moçambique, referentes ao exercício findo em 31 de Dezembro de 2018;

Expresse um voto de louvor ao Conselho de Administração e a todos os restantes colaboradores pela forma notável como, no âmbito das respectivas competências procederam a gestão do Banco durante o exercício.

Maputo, 20 de Março de 2019

O CONSELHO FISCAL

Teotonio Jaime dos Anjos Comiche - Presidente

Daniel Filipe Gabriel Tembe - Vogal

Eulália Mário Madime - Vogal

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

PARECER DO CONSELHO FISCAL

O Conselho Fiscal analisou a proposta do Conselho de Administração relativa à distribuição do Resultado Líquido, tendo constatado que não contraria as disposições legais e estatutárias aplicáveis.

Considerando a situação de robustez financeira do BIM, nomeadamente pela justeza dos capitais próprios elegíveis, no valor de 16.655 milhões de Meticais e do confortável rácio de solvabilidade de 39%, assim como a natural expectativa dos accionistas de verem remunerados os capitais por si investidos no BIM, a proposta afigura-se adequada.

Como resultado da análise efectuada, o Conselho Fiscal é de parecer que a Assembleia Geral aprove a proposta de **Distribuição de Resultados no valor de 6.367.207.791,07** Meticais do seguinte modo:

	%	Valor
Reserva Livre	47,5	3.024.423.700,76
Reserva de Estabilização de Dividendos	2,5	159.180.194,77
Distribuição aos Accionistas	50	3.183.603.895,54

Maputo, 20 de Março de 2019

O CONSELHO FISCAL

Teotónio dos Anjos Comiche - Presidente

Daniel Filipe Gabriel Tembe - Vogal

Eulália Mário Madime - Vogal

(draft)

Independent Auditors' Report

To the shareholders of BIM – Banco Internacional de Moçambique S.A

Audit Report on the Financial Statements

Opinion

We have audited the financial statements of BIM – Banco Internacional de Moçambique (the Group and the Bank) presented on pages 43 to 124, which consist of the Balance Sheet as at 31 December 2018, and the Statements of Income and Comprehensive Income, Changes in Equity and Cash Flow for the financial year ended on that date, as well as the notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, these individual and consolidated financial statements present, in an appropriate form, in all material aspects, the financial position of BIM – Banco Internacional de Moçambique, S.A as at 31 December 2018, and its financial performance and cash flow for the financial year ended on that date, in accordance with the International Financial Reporting Standards.

Basis of opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under the terms of these standards are described in the *Responsibilities of the Auditor for the Audit of the individual and consolidated Financial Statements* section in our report. We are independent of the Bank and the Group in accordance with the *Code of Ethics for professional Accountants of the international Federation of accountants (IESBA Code)* and in accordance with other requirements for independence applicable to the conduct of audits of financial statements in Mozambique. We have complied with our ethical responsibilities, pursuant to these requirements and the IESBA code. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors have been responsible for other information. The other information consists of the declaration of responsibility of the Directors as required by the Commercial Code of Mozambique and the Management Report, that we have acquired before the report. The other information does not include the individual and consolidated Financial Statements and our audit report on these financial Statements.

Our opinion on the individual and consolidated Financial Statements does not cover the other information and we do not express an audit opinion or any other form of assurance on it.

In connection with our audit of the individual and consolidated financial statements, it has been our responsibility to read the other information and, in doing so, consider whether the other information is materially consistent with the individual and consolidated financial statements, or our knowledge obtained during the audit, or if it in any other manner appears to contain material distortions. If, based on our work with other information obtained, we conclude that there is material distortion in this other information, we are obliged to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors in relation to the individual and consolidated financial statements

The directors have been responsible for the preparation and appropriate presentation of the individual and consolidated financial statements in accordance with the International Financial Reporting Standards, and for a pertinent internal control system for the preparation and presentation of individual and consolidated financial statements in a manner free of material distortions, due to fraud or error.

In the preparation of the individual and consolidated financial statements, the directors have been responsible for appraising the capacity of the Bank and the Group to continue to operate according to the going concern principle, disclosing, as applicable, issues related to the going concern principle, unless the directors intend to undertake the dissolution of the Bank and the Group and cease operations, or have no other alternative but to do so.

Responsibility of the Auditors for the Audit of the individual and consolidated financial statements

Our objectives are to obtain reliability assurance on whether the individual and consolidated financial statements as a whole are free of material distortions, due to fraud or error, and issue an audit report which includes our opinion. Reliability assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material distortion when it exists. Distortions may arise from fraud or error and are considered material if, individually or as a whole, they could reasonably influence the economic decisions of the users taken based on the individual and consolidated financial statements.

As part of an audit pursuant to the ISAs, we have exercised professional judgment and maintained professional scepticism throughout the audit and also:

- We have identified and assessed the risks of material distortions of the individual and consolidated financial statements, due to fraud or error, we have designed and implemented audit procedures which tackle these risks and obtained audit evidence that is sufficient and appropriate to substantiate our opinion. The risk of not detecting a material distortion arising from fraud is higher than arising from error, as fraud may involve collusion, falsification, international omissions, false declaration or the derogation of internal control.

- We have obtained relevant comprehension of the material control for the audit, in order to design audit procedures that are appropriate under the circumstances, but not to express an opinion on the efficacy of the Bank and the Group's internal control.
- We have appraised the adequacy of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the directors.
- We have concluded on the adequacy of the directors' use of the going concern principle and, based on the audit evidence obtained, whether there is a material uncertainty related to events or conditions that might raise significant doubts on the Bank and the Group's capacity to continue to operate in accordance with the going concern principle. If we conclude that there is material uncertainty, we are obliged to draw attention, in the auditor's report, to the related disclosures in the individual and consolidated financial statements or, in the event that these disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events and conditions might imply that the Bank and the Group is no longer operating in accordance with the going concern principle that time.
- We have appraised the general presentation, the structure and the content of the individual and consolidated financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in order to obtain an appropriate presentation. We have communicated with the directors on, among other issues, the planned scope, and the time limit of the audit and the significant findings of the audit, including any significant flaws in the internal control that we have detected during our audit.

KPMG, Certified Auditors Firm, 04/SCA/OCAM/2014

Represented by:

____

Abel Jone Guaiaguaia, 04/CA/OCAM/2012

20 March 2019
Maputo

BANCO INTERNACIONAL DE MOCAMBIQUE, S.A.
REPORT AND ACCOUNTS 2018
OPINION OF THE SUPERVISORY BOARD

Pursuant to legal and statuary dispositions, the supervisory board hereby submits to the shareholders the report of the supervisory action exercised at BIM – Banco Internacional de Moçambique, S.A., as well as its opinion on the individual and consolidated Financial Statements of the Bank, relative to the year ended as at 31 December 2018.

The financial year in question, continued to be challenging for the financial sector, given the uncertainty of the financial (foreign exchange, money and sovereign debt) markets, in a context of structural changes in the regulatory and supervisory framework recorded in the period.

From the follow-up carried out to the Bank's business, the Supervisory Board noted that despite this context, the strategic action developed by the Board of Directors, based on the enhancement of the corporate governance model and strengthening of the capital structure, has successfully allowed it to surpass the challenges arising from the economic and business environment.

During the year we have monitored the Bank's business, with the scheduled timing and extension. We have verified the regularity of the accounting records, as well as the effectiveness of the internal control system. We have ensured compliance with the law, regulations and articles of association. We have supervised the quality and completeness of the accounting data, as well as the accounting policies and the valuation criteria adopted.

Within the scope of our duties and the already institutionalised practice, we have held regular meetings with the Audit, Compliance Office, Credit, Risk Office, Retail Credit Recovery, Corporate Recovery and Corporate Centre areas, as well as with the External Auditor, in addition to our participation in the meetings of the Board of Directors.

We have kept the focus on the monitoring and evaluation of the recommendations of the Prudential and Behavioural audits from the Regulator, the Internal Control Report and the Audit Report of the Holding Company, BCP.

We have found that, as support to the Internal Audit activity, and, in the scope of strengthening and improving control and monitoring of the Supervisory institutions and External Auditors, the Steering Committee is in full operation. It was created with the aim of ensuring adequate follow up and monitoring of all actions arising from the relationship with these entities.

We have noted developments in the quality of audits carried out due to the refinement of the monitoring and control process of the audit activity, as well as the introduction of appropriate measures for the purpose of mitigating the underlying risks to internal control activity.

From the monitoring carried out, we have noticed that events, which might alter positive assessment of the systems for risk identification and management and internal control of the Bank, have not been detected.

Within the Compliance Office we have found that the activity has been very focused on actions related to the assessment of the money laundering and terrorist financing risk and monitoring atypical transactions.

Within the framework of the provisions laid down in the money laundering and terrorist financing Laws, we have been aware that appropriate mechanisms have been triggered to ensure Mitigation of the Compliance and Reputational risk, and adjustment of AML policies and rules of procedure have been promoted and training activities in AML matters carried out. We have also been aware of the improvement of the IT tools for "AML Risk" assessment and monitoring of suspicious money laundering and terrorist financing transactions, arising from regulatory review.

We have found that the Bank reported suspicious transactions to the GIFIM and responded to requests for information from the GIFIM, the General Attorney's Office of the Republic and the Bank of Mozambique (BM). We have also noted strong performance on tackling generated alerts, which stood above the level of the established Risk Appetite Statement (RAS).

The Bank responded to two cases of alleged infringement initiated by the BM on money laundering and terrorist financing, and appealed a final decision in court whose proceedings remain pending.

The Regulator carried out inspection within the AML framework and left recommendations to align some practices and procedures at the financial system level.

The work done, and in progress, indicates an increasing improvement in the Bank's legal compliance.

In the field of Risk Office, we have noted that the IFRS9 implementation process at Millennium bim takes place within the desired normality. We have noted the stage of development of the operationalization process of the new methodology for credit impairment calculation, as well as the adequacy of the IT systems and processes, for this purpose.

We have noted that the work is focused on the refinement of calculation Models at the level of Individual Analysis and Collective Impairment and on the calculation of the IFRS9 impact at the impairment level, on a current perspective.

Appraisal of risk indicators contained in the Risk Appetite Statement (RAS Matrix) has been subject to our interest and particular attention. From the RAS analysis we have noted that all findings determined, at the level of Capital, Liquidity, Market, Operational, Compliance and Reputational risk indicators are within the acceptable level of Risk Appetite. At the level of credit and concentration risk, we have noted that, in general, the indicators have developed positively, but those which were outside the comfort zone remained there. However, it should be noted that in all observations, Millennium bim shows no unjustified excess vis-à-vis the established limits.

From the work meetings held with the External Auditor (KPMG Auditores & Consultores SA) we have focused on the analysis of issues, which due to their materiality and/or relevance, we consider them more critical and significant, based on the main conclusions of the work relative to the limited review of the consolidated accounts reported as at 30 June 2018 and to the audit of the consolidated financial statements for the year ended on 31 December 2018.

With reference to the IFRS9, we were aware that the Auditors have tested and have verified the registration of financial instruments in relation to the new loss measurement and registration model and have found that the recognition and measurement of financial instruments are appropriate. The counterparties which the financial instruments are held with, for evidence of impairment, were also evaluated and no exceptions have been found.

We have noted that the revenue recognition accounting policies and their application were assessed to ensure compliance with the IFRS 15 and no exceptions have been detected.

We have noted that revenue transactions, that are initiated, processed and recorded electronically were tested, by the External Auditor, with regard to the operational effectiveness of the underlying application controls in order to ensure that they have effectively occurred, and these are complete and accurate;

In dialogue with the External Auditor, it was also object of our attention, the individual analysis of the largest exposures from the Government, public and private sector and credit in arrears and in litigation, with emphasis on the materially relevant situations and that have an impact on the operating account and or capital consumption, namely, loans with indications of impairment, as well as the individual analysis carried out by the Auditors to the Bank's credit portfolio of selected entities based on audit risk criteria.

We have noted that, as a result of the reduction in the credit portfolio, derived from the economic activity slowdown and from demand in 2018, the Bank started to invest in other assets (investment securities) that experienced significant growth, whose accounting and measurement has been subject to verification by the External Auditor, the investment securities having been reclassified as available-for-sale financial assets, a heading designated Financial Assets at amortized cost, in accordance with the IFRS 9. We have also noted that as a result of this classification, the Bank started to carry out the analysis and registration of prospective impairment of these securities to meet the new requirements of the IFRS 9, having established minimum impairment, consistent with the risk of reduced credit, in this type of assets.

Within the scope of our duties and in accordance with the legal and regulatory provisions, we are expressing our opinion on cases concerning loans granted to correlated entities, as well as to companies or other collective entities, directly or indirectly dominated by the correlated entity, or those entities having a group relationship with, in accordance with the legislation in force.

Pursuant to the provisions of paragraph 2, Article 42, of the Bank's Articles of Association, we have reviewed and agreed with the Independent Auditors' Report, issued by KPMG Auditores e Consultores, S.A.

In accordance with the law and the mandate conferred to us, we have examined the Financial Statements, as well as their annexes, including the accounting policies and valuation criteria adopted.

We have proceeded with the analysis of the Management Report for the financial year 2018, prepared by the Board of Directors, and of the proposal of application of net income included therein, having found that the Management Report is sufficiently revealing as to the evolution of the business, the Bank's situation, the economic and market environment.

From the appraisal carried out to the proposal of application of net income we have found that it is not against the applicable legal and statutory provisions.

In the course of our activity, no irregularity - on the part of the company, its shareholders, employees or others, namely, of a detrimental nature to the interests of the institution or of one or more of its shareholders - was reported to or observed by us.

The Bank's and Consolidated Financial Statements audited by external auditors indicate:

- That the Consolidated Balance Sheet and the Balance Sheet of the Bank, BIM - Banco Internacional de Moçambique, S.A., as at 31st December 2018 correctly reflect the financial situation of the Group and the Bank.
- That the Consolidated Income Statement and the Bank's Income Statement show a consolidated profit of 6,808.80 million Meticais and a profit for the Bank of 6,367.21 million Meticais, which reflect the results of the activity of the Group and the Bank.
- That the Consolidated Comprehensive Income Statement and the Bank's Income Statement present a comprehensive income of the Group of 7,085.79 million meticais and a comprehensive income of the Bank of 6,632.89 million Meticais, respectively;
- That the Consolidated Cash Flow Statement and the Bank's Cash Flow Statement present an increase during the year in terms of Cash and cash equivalents of 1,521.63 million Meticais for the Group and 1,530.92 million Meticais for the Bank; and
- That the Consolidated Statements of Changes in Equity and the Bank's Statements of Changes in Equity show an Equity as at 31 December 2018 of 33,321.49 million Meticais for the Group and 30,822.03 million Meticais for the Bank.

As a result of the verifications and information obtained:

- We are of the opinion that the Consolidated Financial Statements and the Bank's Financial Statements (composed of the following items of the Group and of the Bank: Balance Sheet, Income Statement, Comprehensive Income Statement, Cash Flow Statement and Statement Of Changes In Equity and respective Notes):
  i). Are in conformity with the Law and comply with the statutory provisions, as well as the rules issued by the Central Bank;
  ii). Were prepared in accordance with International Financial Reporting Standards (IFRS); and
  iii). Reflect, in a true form, the financial situation of the Group and the Bank as at 31 December 2018, as well as the result of operations carried out by the Group and by the Bank during the financial year.
- We are of the opinion that the General Meeting should:
  i). Approve the accounts relative to the Financial Year of 2018;
  ii) Approve the Management Report of the Board of Directors and the Financial Statements of BIM – Banco Internacional de Moçambique, relative to the financial year ended on 31 December 2018;

It expresses its praise to the Board of Directors and to all other employees for the notable manner in which, under their respective competences, they proceeded with the management of the Bank during the year.
Maputo, 28 March 2019

THE SUPERVISORY BOARD

Teotónio Jaime dos Anjos Comiche – The Chairman

Daniel Filipe Gabriel Tembe - Member

Eulália Mário Madime – Member

BANCO INTERNACIONAL DE MOCAMBIQUE, S.A.

OPINION OF THE SUPERVISORY BOARD

The Supervisory Board has examined the Board of Directors' proposal relative to the distribution of the Net Income, having found that it is not against the applicable legal and statutory provisions.

In view of BIM's financial robustness, namely due to the pertinence of eligible own funds, of the amount of 16,655 million Meticais, and the comfortable solvency ratio, 39%, as well as the natural expectation of the shareholders to see their capital invested in BIM remunerated, the proposal appears appropriate.

As a result of our analysis, the Supervisory Board is of the opinion that the General Meeting should approve the proposed **Distribution of Net Income of the amount of 6,367,207,791.07** Meticais as follows:

	%	Amount
To the Free Reserve	47.50	3,024.423,700.76
To the Dividend Stabilization Reserve	2.50	159,180,194.77
Distribution to Shareholders	50.00	3,183,603,895.54

Maputo, 28 March 2019

THE SUPERVISORY BOARD

Teotónio Jaime dos Anjos Comiche – The Chairman

Daniel Filipe Gabriel Tembe – Member

Eulália Mário Madime – Member

Opinion of the SB_BIM – Prop Aplic Res – Fin 02 – 2019-03-28261/1