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ANNUAL REPORT

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Millennium bim

CONTENTS

MESSAGE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

The macroeconomic environment continued challenging in 2017, with national Gross Domestic Product having decelerated to a historically low level due to the low aggregate demand, influenced by the restrictive monetary conditions and the reduction of private investment.

In a favourable political context, a substantial improvement was observed in some economic indicators, namely the stabilisation of the Metical, the slowdown of domestic inflation and, consequently, the gradual reduction of reference interest rates in the interbank market.

Even so, the effects of the economic shocks that we have faced since 2016, implied the adoption of a conservative lending attitude within the bank system which was reflected in the cooling down of credit to the economy throughout 2017. In this context, Millennium bim continued to implement preventive measures aimed at assuring rigorous supervision of the loan portfolio and monitoring of risks.

Despite the challenges, we managed to maintain our positive trend of consistent and sustainable results, being the best Bank of the market in terms of solidity, equity, efficiency and profitability indicators. This, combined with rigorous and disciplined management, allows us to ensure an appropriate level of regulatory solvency, in line with the good practices instituted by the bank supervisory entity.

With a vision aimed at improving service quality, a critical factor to strengthen our positioning in the market as a modern and innovative bank which actively contributes to promoting financial inclusion, in 2017 we increased our number of customers by 178 thousand, having surpassed the threshold of one million and eight hundred thousand. In turn, we have increased our branch network to 186 branches, while the cashpoint or automatic teller machine (ATM) and electronic transfer at point of sale (POS) facilities grew by 26 and 1423, respectively. The satisfaction demonstrated by the Customers of our remote channels is strongly positive, with the numbers of IZI subscribers having reached the milestone of 450 thousand, demonstrating the adequacy of the functionalities available to the needs of the customers. We also reached another historical milestone in 2017, having finally reached all the districts of the country through our network of Já Já Agents.

Aware that innovation takes us further, in December we inaugurated the Innovation Branch at the Baía Mall in Maputo. This is a new concept, differentiating in the market, in which we offer new digital solutions and a paperless concept to the Customers and public in general. In particular, we provide Self-Service for cash deposits and exchange of cards, a digital signature for account opening, demonstrations of products and services through access to tablets, smartphones, interactive table, Wi-Fi free of charge, advertising campaigns through dynamic panels and digital price lists.

For 22 years, we have believed that Millennium bim is more than just the sum of its inputs and outputs. We believe that people are the bank's most important asset. As they are responsible for the habits, behaviours, beliefs, ethical and moral values of the institution, thus creating an organisational culture that differentiates us. In this perspective, we launched the “Millennium bim Academy” project which seeks to promote the continuous learning and development of human capital.

This year, Millennium bim was also distinguished with the awards “Bank of the Year” by the magazine *The Banker*, “Best Bank in Mozambique” by the magazine *Euromoney*, “Best Bank in Mozambique” and “Best Bank in Trade Finance” by the magazine *Global Finance*. Our dedication to operative efficiency once again brought in the distinction of the VISA Global *Service Quality Awards* in the “*Efficiency*” category, while the renewal of the security certification PCI-SSC (*Payment Card Industry – Security Standards Council*) maintains the Bank as the first and only financial institution in Mozambique, and one of the 16 in the entire African Continent to receive this important recognition.

Focused on excellence, trust, responsibility, Customer driven and with an innovative attitude, which are the corporate values that define us, Millennium bim will continue to offer the market modern and safe financial solutions, with a view to contributing to the country's socioeconomic development. 2018 will continue to be a challenging year but we believe in our values and in the professional competences and qualities of our teams to achieve the goals that we set before us.

In this context, we define the following guidelines aimed at consolidating our position in the national financial system:

- Prudence in the management of liquidity and credit policy;
- Maintenance of high solvency and efficiency ratios, assuring a solid and distinctive position in the market;
- Diversification of the offer and improvement of service quality.
- Definition of a digital vision focusing on 2 dimensions: Customer experience and processes.

Finally, a word of acknowledgement and gratitude to our Employees, for the commitment and dedication with which they dealt with the challenges faced in 2017 and, to our Customers, for their demonstrated preference and trust.

Together, we can do it.

Rui Cirne Plácido de Carvalho Fonseca

(Presidente)

Key Indicators

Million Meticais

Key Indicators	2017	2016	2015	2014	Change % 17/16
Balance sheet					
Total assets	**134,980**	133,780	117,066	101,502	0.90%
Loans to customers (net)	**61,413**	78,283	66,331	56,795	-21.60%
Total customer funds	**104,265**	100,687	91,450	80,412	3.60%
Shareholders' equity	**26,315**	21,496	18,760	16,552	22.40%
Profitability					
Net operating revenues	**15,061**	13,332	9,953	8,820	13.00%
Operating costs	**5,995**	5,485	4,592	4,054	9.30%
Impairment and Provisions	**1,879**	1,617	1,268	590	16.19%
Income taxes	**1,613**	1,720	702	682	-6.24%
Net income attributable to the Bank's Shareholders	**5,574**	4,510	3,391	3,494	23.60%
Cost to income ratio	**39.81%**	41.14%	46.10%	46.00%	
Return on average equity (ROE)	**23.64%**	22.50%	19.40%	23.00%	
Return on average total assets (ROA)	**4.15%**	3.58%	3.20%	3.98%	
Credit Quality					
Loans overdue > 90 days / total loans	**5.05%**	3.54%	4.20%	2.20%	
Non-performing loans / total loans	**5.55%**	4.04%	4.30%	2.50%	
Loan impairment / loans overdue > 90 days	**191.48%**	205.40%	141.70%	241.30%	
Cost of risk	**262 b.p.**	188 b.p.	158 b.p.	97 b.p.	
Solvency (*)					
Tier I	**28.03%**	20.15%	20.00%	19.00%	
Total	**17.10%**	18.82%	19.80%	19.00%	
Business Indicators					
Customers (thousand)	**1,810**	1,632	1,454	1,306	10.91%
Branches	**186**	176	169	166	5.68%
Employees	**2,476**	2,402	2,351	2,367	3.08%

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

SUMMARY OF THE REPORT OF THE BOARD OF DIRECTORS

OECD economic forecasts point to global growth of 3.5% in 2017. The IMF foresees growth slightly above 3.6%. The recovery of international trade and private investment constitute the drivers boosting the acceleration of the world economy. However, there are some prevailing risks, in particular: (i) consequences of Brexit; (ii) political tensions in Europe; (iii) fragility of the banking sector in some European countries; (iv) economic slowdown in China.

In the oil market, the stabilisation of prices was achieved through an agreement between the OPEC countries and Russia aimed at reducing production, with a view to assuring greater balance between supply and demand in the market. According to the international energy agency, the outlook is of consolidation of the recovery of prices in the international markets, underpinned by the strengthening of the rate of activity in the main economic blocks.

Stronger or weaker economic dynamics in the USA and China are of major relevance in assuring stability in the commodity markets, due to their potential as consumers and producers.

In the Sub-Saharan African region, the IMF forecasts that the economic recovery should continue in 2018, although there are factors that limit a faster recovery, namely the political uncertainty in the two main economies of the region, Nigeria and South Africa. Economic growth should reach 3.4% in 2018, essentially reflecting the good performance of the oil exporting countries.

However, risk factors persist, especially the high stock of public debt and sustainability levels, and increased non-performing loans affecting the stability of the financial sector.

For South Africa, the IMF made a downward revision of estimated economic growth to 0.7% in 2017, recovering slightly in 2018 to 1.1%. The increased volatility in world financial markets, the political instability, the impact of the downward revisions of the rating of sovereign debt and the effects of Brexit constitute the main risk factors.

According to the press release of the IMF Mission, under Article IV, Mozambique's economic growth continues to be weak, requiring an effective adjustment of policies to assure macroeconomic stability and promote sustainable and inclusive growth. The restrictive policy conduct adopted by the central bank has enabled attenuating the inflationary and exchange rate pressure. External accounts improved in 2017, which contributed to strengthen the stock of international reserves, sufficient to ensure 6 months of coverage of imports of non-factorial goods and services, excluding large projects.

With a view to securing the balance of public finance, the IMF recommended greater fiscal consolidation through the elimination of VAT exemptions and other taxes to increase revenue, as well the reduction of current expenditure, safeguarding social protection and investment in infrastructures.

The IMF forecasts that national GDP should grow by 3% in 2017, corresponding to a deceleration of 80 basis points (bp) compared to the previous year.

The weak internal demand (public and private consumption), reduction of private investment (gross fixed capital formation), slowdown of credit to the economy in part associated to the high interest rates, constitute the key factors underlying the deceleration of economic activity.

Bank credit to the private sector fell by 11% in annual terms, which reflects the lower demand of economic agents due to the high interest rates in the interbank market. In view of the low level of inflation, the monetary policy committee of Banco de Moçambique decided, in December 2017, to reduce the reference interest rates by 150 bp namely the Permanent Liquidity Assignment Facility to 20.5%, the Permanent Deposit Facility to 14%, the monetary policy interest rate (MIMO) to 19.5%, and keeping the Compulsory Reserve Coefficient at 14%.

According to data published by the National Institute of Statistics (INE), at the end of December 2017, annual inflation recorded a year-on-year variation of 5.65%, lower than the average inflation in the SADC region. In annual terms, the general price level slowed down by 18 percentage points, with the category of food products and non-alcoholic beverages having contributed most during the period in question.

The monthly series of the Consumer Price Index show an inversion of the inflationary cycle in 2017, reflecting the effects of the restrictive monetary policy that affect aggregate demand.

On the supply side, the increased agricultural production arising from the better weather conditions combined with the normalised circulation of people and goods contributed to attenuating inflationary pressure, in a context of stabilisation in the foreign exchange market and reinforcement of the stock of external reserves.

The foreign exchange market recovered throughout 2017, contributing to lower inflationary pressure and the recovery of international reserves. Data disclosed by Banco de Moçambique indicate that the Metical appreciated in annual terms by 16% in relation to the American Dollar, 7% against the Rand and 5% relative to the Euro.

The appreciation of the Metical essentially reflects the combined effect of the restrictive monetary policy and increased national exports (in particular of coal and aluminium), which enabled constituting net international reserves which, by October, had increased to USD 2.2 million, sufficient to cover 6 months of imports of goods and services, excluding the large-scale projects.

Provisional data of Banco de Moçambique, relative to the third quarter of 2017, indicate a year-on-year reduction of the external deficit to USD 378 million.

The improvement of the deficit is fundamentally explained by the combined effect of the reduction of imports associated to the weak domestic demand and the increased exports of the large projects, especially coal and aluminium benefiting from the recovery of commodity prices in the international market.

Despite the challenges faced in 2017, the Bank continued solid and resilient, sustained by good governance, the adequate capital level, robustness of the balance sheet, comfortable liquidity position, prudent risk management, adoption of good practices of transparency with customers and rigour in compliance with the regulations.

The strategic plan for 2017 sought to strengthen the Bank's leadership in the segments of the operation, based on the continuous improvement of service quality, in order to boost the growth of the customer base and expansion of the channels, towards increasing proximity to the customers. Likewise, Millennium bim maintained its focus on increasing the financial inclusion and economic development of Mozambique, having expanded the network by opening Millennium bim branches at premises of Correios de Moçambique (the national postal service). The expansion of the network involved the inauguration of 10 branches, 6 Mass Market of which 4 in partnership with Correios de Moçambique and 4 Prestige in 2017, increasing the total to 186 branches. The network of authorised agents was also strengthened, with a growth rate of 45%, having closed the year with 294 agents. The physical expansion of the network enabled increasing the customer base by around 178 thousand new customers in 2017, having reached 1.8 million.

In addition to providing the branch network to the customers, Millennium bim maintained its investment in remote and digital channels, having reached 504 ATM and 9,526 POS by the end of the year. Along similar lines, various computer development activities were conducted in the area of digital banking in which the great innovation of 2017 centres on the machine which exchanges non-personalised cards upon expiry for new cards. Everything is carried out at the ATM in a rapid and secure form. The total number of POS was greatly expanded and the family of debit and credit cards grew with the launch of Platinum cards and cards for companies.

Stronger and more secure, Millennium bim is the only financial institution in Mozambique to be certified by PCI-SSC (Payment Card Industry – Security Standards Council) for the security systems applied to the use of credit cards.

In an adverse macroeconomic context, Millennium bim wished to reaffirm its presence in the market as a Universal Commercial Bank of reference in Mozambique, making the most of its larger presence on national territory and the proximity and relations with its customers, and the efficient delivery of solutions and financial services to its customers.

Notwithstanding the challenges, the consistency of the Bank's economic and financial indicators, assessed by the profitability of the assets, robustness of own funds and capital adequacy level of 17.1%, considerably above the regulatory threshold of 8 %, reflects the resilience and financial solidity of the institution. In 2017, the assets reached 134,980 million Meticais, compared to 133,780 million Meticais recorded in the same period of

2016. Customer funds increased to 103,223 million Meticais, compared to 100,687 million Meticais recorded in the same period of 2016. While net loans to customers fell by 22% to 61,413 million Meticais.

Net interest income evolved by 24% in relation to the previous year, levered by the significant increase of rates of interest earning assets, which more than offset the increased rates paid in borrowing operations.

On the other hand, and maintaining the conservative management policy and the rationale of balance sheet solidity, Millennium bim increased its impairments by 360 million Meticais year-on-year, having constituted 2,004 million Meticais.

Even so, the net income was positive by 5,574 million Meticais in 2017. This figure corresponds to growth of 24 % in relation to the net income of 4,510 million Meticais recorded in 2016.

The net income of Seguradora Internacional de Moçambique was 507 million Meticais as at 31 December 2017, representing a decrease of 75.9% in relation to the same period of 2016. This performance is essentially explained by the negative impact of the revaluation of the real estate properties carried out in 2017, which compares with higher capital gains of real estate properties recorded in 2016. Excluding the effect of the revaluation of the real estate properties in the two years, we find a growth of recurring net income of around 20.6%, corresponding to an increase of 135.6 million Meticais in relation to the same period of the previous year.

Millennium bim believes that the Bank's excellent performance is due to its employees.

In the context of Employee Learning and Development, this year was marked by the launch of the Millennium bim Academy (MBA), created for the purpose of reinforcing the professional competences and qualifications of BIM's management staff in an environment of continuous learning, characterised by the sharing of knowledge.

In this first year, we highlight the training programme in the commercial area “Charming the Customers and Selling Solutions”, which sought to strengthen skills, particularly in terms of customer service. This programme has already covered close to 130 Mass Market branches distributed over the entire country with a positive impact that is already visible in the results.

Other initiatives were also introduced aimed at the development of the Employees, not only at a professional level but also in a personal capacity, namely through the promotion of lectures on various topics, among which: “Management in Complexity”; “How to Leverage your Career”; “An Inspiring Story of Surpassing”; “What Bankers have to learn from Basketball Players” and “The Socioeconomic Impact of the Maputo-Katembe Bridge”. These lectures were complemented by other initiatives dedicated to art and culture.

Also with a view to supporting the learning and development of qualifications of its staff, Millennium bim launched a programme attributing Scholarships for Master's and Licentiate courses for Employees who wish to pursue formal education.

The Programme “More Mozambique for Me” expresses the Bank's vision that being socially responsible is exercising a series of duties and obligations in relation to the community, creating initiatives that lead to the country's economic and social development. The Bank has subscribed to the Principles of the United Nations Global Pact since 2003. The objective is to contribute to the construction of a more sustainable global market and share values that enable the poorer and more vulnerable populations to have access to opportunities. The subscribing companies should adopt and promote a series of key values in the areas of Human Rights, Labour Standards, Environment and Anti-Corruption.

Rui Cirne Plácido de Carvalho Fonseca

(Presidente)

Miguel Maya Dias Pinheiro

(1º Vice-Presidente)

José Reino da Costa

(2º Vice-Presidente)

Maria da Conceição Mota S. O. Callé Lucas

(Administrador)

Manuel Alfredo de Brito Gamito

(Administrador)

Jacinto Zacarias Uqueio

(Administrador)

João Manuel R. T. da Cunha Martins

(Administrador)

João Nuno Oliveira Jorge Palma

(Administrador)

Jorge Octávio Neto dos Santos

(Administrador)

Moisés Jorge

(Administrador)

Liliana Marisa Catoja da Costa Lemos

(Administrador)

Fernando Manuel Nobre de Carvalho

(Administrador)

Nuno Pedro da Silva do Carmo Vaz

(Administrador)

INFORMATION ABOUT MILLENNIUM BIM

SHAREHOLDER STRUCTURE

Meticais

Shareholder	Nr. Shares	% of share capital	Underwritten and paid-up share capital
BCP AFRICA SGPS LDA	30,008,460	66.90%	3,000,846,000
State of Mozambique	7,704,747	17.12%	770,474,700
INSS (National Social Security Institute)	2,227,809	4.95%	222,780,900
EMOSE - Empresa Moçambicana de Seguros, SARL	1,866,309	4.15%	186,630,900
FDC (Foundation for the Development of the Community)	487,860	1.08%	48,786,000
Managers, Technicians and Employees (GTT)*	2,704,815	6.01%	270,481,500
Total	**45,000,000**	**100.00%**	4,500,000,000

* Other - 1,828 investors, with individual holdings of less than 1%, acquired under the process of sale of State shares to the Employees.

GOVERNING BODIES

Board of the General Meeting

Chairman	(to be appointed)
Deputy Chairman	Flávio Prazeres Lopes Menete
Secretary	Horácio de Barros Chimene

Supervisory Board

Chairman	Teotónio Jaime dos Anjos Comiche
Member	Eulália Mário Madime
Member	Daniel Filipe Gabriel Tembe
Alternate Member	Maria Iolanda Wane

Board of Directors

Chairman	Rui Cirne Plácido de Carvalho Fonseca
1st Deputy Chairman	Miguel Maya Dias Pinheiro
2nd Deputy Chairman	José Reino da Costa
Director	Maria da Conceição Mota S. O. Callé Lucas
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	Member Fernando Manuel Nobre de Carvalho
Director	Nuno Pedro da Silva do Carmo Vaz
Director	João Nuno Oliveira Jorge Palma

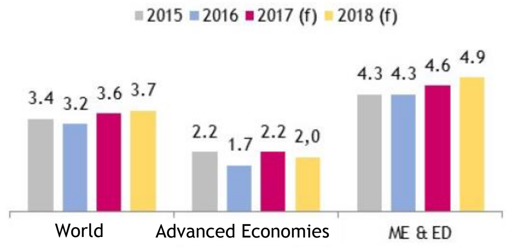
ECONOMIC ENVIRONMENT

INTERNATIONAL ECONOMY

OECD economic forecasts point to global growth of 3.5% in 2017. The IMF foresees growth slightly above 3.6%. The recovery of international trade and private investment constitute the drivers boosting the acceleration of the world economy. However, some risks prevail, in particular the: (i) consequences of the Brexit; (ii) political tensions in Europe; (iii) fragility of the banking sector in some European countries; (iv) economic slowdown in China.

Graph 1. Global Economy

Real GDP %

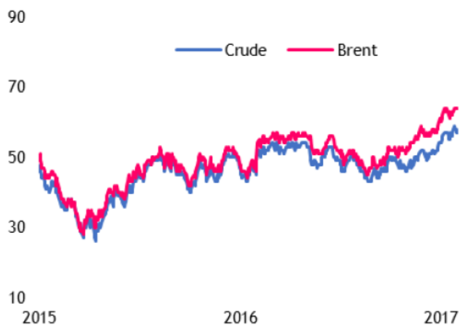


In the oil market, the stabilisation of prices was achieved through an agreement between the OPEC countries and Russia aimed at reducing production, with a view to assuring greater balance between supply and demand in the market. According to the international energy agency, the outlook is of consolidation of the recovery of prices in the international markets, underpinned by the strengthening of the rate of activity in the main economic blocks.

Stronger or weaker economic dynamics in the USA and China are of major relevance in assuring stability in the commodity markets, due to their potential as consumers and producers.

Graph 2. Evolution of the price of oil

Price (USD/barrel)

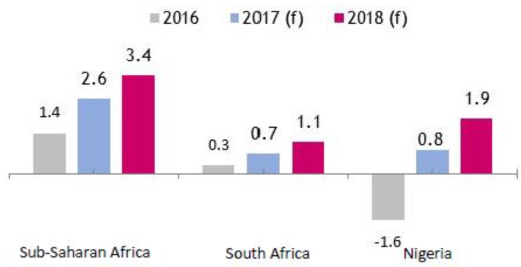


In the Sub-Saharan African region, the IMF forecasts that the economic recovery should continue in 2018, although there are factors that limit a faster recovery, namely the political uncertainty in the two main economies of the region, Nigeria and South Africa. Economic growth should reach 3.4% in 2018, essentially reflecting the good performance of the oil exporting countries. Nonetheless, some risk factors persist, such as: (i) the high stock of public debt and sustainability levels, and (ii) increased non-performing loans affecting the stability of the financial sector.

For South Africa, the IMF made a downward revision of estimated economic growth to 0.7% in 2017, recovering slightly in 2018 to 1.1%.

Graph 3. Sub-Saharan Africa

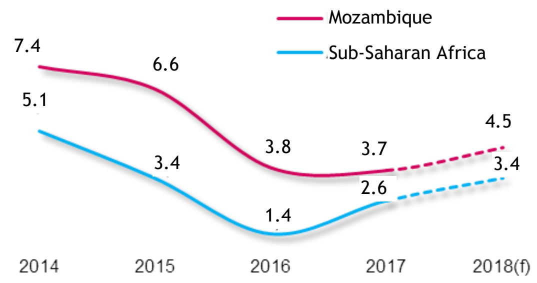
GDP Growth %



NATIONAL ECONOMY

Gross Domestic Product continues on a trajectory of weak growth

According to data published by the National Institute of Statistics (INE), the Mozambican economy grew, in real terms, by 3.7% in 2017, representing a deceleration of 0.1 percentage points when compared to 2016. The performance of economic activity in 2017 was strongly driven by the primary sector which grew by 9%, especially the mining extraction industry which expanded by around 32.4%, explained by the increased production of VALE, underpinned by the improvements of its logistical conditions and the higher price of coal in the international market.



The weak economic growth observed in 2016 and 2017 was essentially the result of the sovereign debt crisis (following the revelation of undeclared foreign loans in April 2016), which led to the suspension of the IMF's support and the freezing of external assistance. This influenced the adoption of a restrictive monetary policy and fiscal austerity measures, affecting the growth of aggregate demand which fell to historically low levels.

Business activity continues to be affected by the weak domestic demand, difficulties of access to financing, liquidity restrictions in the market and reduction of direct foreign investment. On the other hand, the economy also increased in 2017 in terms of concentration, given that national exports are dominated by only two commodities (coal and aluminium) which represent the main source of capture of foreign exchange, making the economy vulnerable to external shocks.

Despite the favourable evolution of inflation which led to the gradual slowdown of interest rates in 2017, economic recovery in the medium term will depend on the following factors: (i) development of the natural gas projects; (ii) return to negotiations with the International Monetary Fund; (iii) resuming of programme support for the General State Budget; (iv) outcome of negotiations with the international creditors for restructuring of the external debt; and (v) favourable political environment.

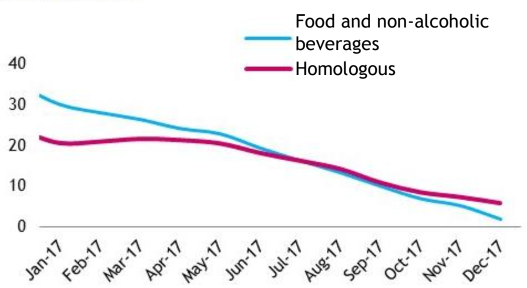
Adjustment of policies helps to stabilise financial markets

Domestic inflation slowed down in annual terms to 5.7% in December 2017 (after a peak of 26.8% in November 2016), reflecting the stability of the national currency in relation to the main foreign currencies traded on the market, and the greater offer of foodstuffs, combined to the better weather conditions, in a context in which domestic demand continued repressed, due to the effects of the monetary tightening.

In view of the deceleration of inflation, in an environment of sluggish dynamics of economic activity, the Central Bank decided to relax the restrictiveness of monetary policy, having lowered the reference interest rate by 200 bp, in order to create new stimuli for the economy, especially by relieving the debt service of companies and families, and attenuating the pressures on public accounts (reduction of domestic debt charges).

Graph 5. Inflation Rate

Percentage change



Taking into account the expectations of less inflationary pressure in 2018, despite the existing risks (volatility of commodity prices and spill overs), a more aggressive attitude is forecast in the cutting of reference rates in the interbank money market, with the Central Banking having space to make a downward revision of 600 bp if economic conditions evolve favourably, primarily on the side of fiscal policy. The expected crowding-in effect in the economy will depend on a better coordination of monetary and fiscal policies, to help manage the macroeconomic imbalances.

The appreciation of the metical, combined with the increased volume of Central Bank purchases from the Commercial Banks, in the interbank money market, contributed to the strengthening of net international reserves, which increased to USD 3,038 million at the end of December 2017 (compared to USD 2,196 in December 2016), sufficient to cover 7 months of imports of goods and services, excluding the operations of large scale projects.

The external deficit also showed an improvement in 2017, having fallen to USD 1,740 million (-56.6%) in the first nine months of the year, explained by the combined effect of the increased exports of the megaprojects and lower imports, reflecting the weak aggregate demand, as a result of the restrictive monetary conditions and decline of direct foreign investment.

In the foreign exchange market, data up to the closing of January 2018 showed a slight depreciation of the metical in relation to the American dollar, explained by the mismatch between the demand and supply of foreign currency, partly as a result of changes in the foreign exchange regulation (Notice 20/GBM/2017), which foresees, among other measures, exemption from the compulsory conversion of 50% of export revenues. This regulatory measure will lead to a temporary adjustment of the foreign exchange market in the next six months, at a time when the demand for currency (imports) continues repressed due to the adverse economic circumstances.

Despite the progresses achieved in the conduct of monetary and foreign exchange policies, the Mozambican economy continues exposed to systemic risks that limit short and medium term growth, in particular the high domestic public indebtedness (which threatens the solidity of the financial system and weakens the private sector), in a context of uncertainty as to the resumption of the external flows intended for direct support of the State Budget. Mozambique's rating continues in selective default, following the successive failure to pay the instalments of the sovereign debt issue of 2016.

Negotiations between the IMF and Government

A technical team of the IMF visited Mozambique at the end of 2017, to conclude the discussions in the context of the consultation under Article IV. The IMF's mission recommended, among other measures, fiscal consolidation to restore macroeconomic stability, the faster relief of monetary conditions, taking into account the deceleration of inflation to a more pronounced level than that expected, and the adoption of additional measures to restore the public business sector so as to contain fiscal risks.

The mission favourably appraised the approval of a Decree, which establishes the regulatory framework for the issue of public debt and guarantees. Regarding the follow-up of the audit to the companies Ematum, Proindicus and MAM, the mission reiterated the need to fill in the information gaps in the audit report and took note of the Government's recommendation to wait for the result of the investigations in course by the Prosecutor General's Office.

Notwithstanding the positive results achieved with adjustment of economic policies (monetary, foreign exchange, fiscal) and the legislative reforms underway, uncertainty prevails in the negotiations between the IMF and Government, with a view to the approval of the new financial assistance programme, whose materialisation in 2018 is not entirely certain as information is missing in Kroll's audit report and there is an absence of financial accountability for the debts incurred by the companies backed by the Mozambican State.

Solution for restructuring public debt

The negotiation process for restructuring external public debt continues to represent a challenge in the management of public finance, as the international creditors await with expectations the outcome of the negotiations between the Mozambican Government and the IMF, an essential condition to restore macroeconomic stability and re-establish trust with cooperation partners.

Recent developments indicate that the Mozambique Government is negotiating an extension of the repayment deadlines and reduction of the interest rates of the external loans taken out by the three public companies (Ematum, MAM, and Proindicus). Moreover, the chairman of Banco VTB has shown willingness to initiate conversations with the Mozambican authorities with a view to the restructuring of sovereign debt. The foreign exchange appreciation contributed to reduce the ratio of debt over GDP (forecast 2017: 88%), but Mozambique's foreign debt continues to embody an unsustainable debt distress, according to the parameters defined by the IMF.

An analytical note of the World Bank recommends that "Mozambique should restructure its debt in the near future so as to reduce uncertainty. The Mozambican Government should restructure its debt as soon as possible, in order to clarify the country's macroeconomic situation and return to robust growth". The feasibility of the plan to repay the external debt continues to be supported by the long term expectations of the revenues of the natural gas projects (areas 1 and 4 developed by the consortiums of Anadarko and ENI), which will enable generating capital gains for the State's treasury, in order to attenuate the fiscal pressures and reduce the public deficit.

Mozambican Financial System

In the first quarter of 2017, in order to reinforce the mechanism of definition of interest rates, in the market as a whole, and make it more transparent, Banco de Moçambique created the MIMO rate, the monetary policy interest rate, an instrumental variable of the mechanism of interventions in the Interbank Money Market, replacing the monetary base, up to then the operational variable of monetary policy.

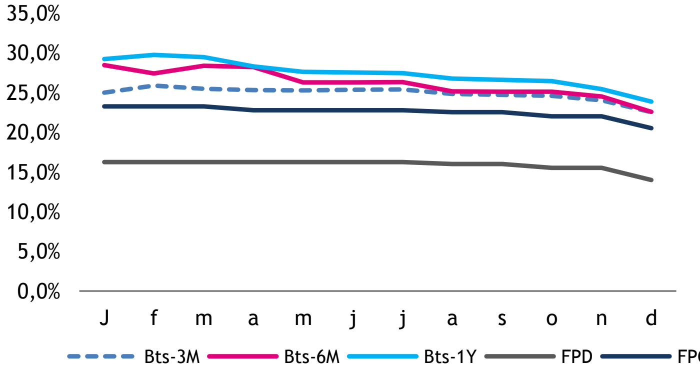
This rate, MIMO, constitutes the base for the determination of the single reference rate that all the Banks have undertaken to adopt in the process of determining loan interest rates, through the agreement signed between Banco de Moçambique, the commercial banks and the Mozambican Association of Banks. Based on this reference rate, the financial system now has a uniform prime interest rate.

Also at that time, Banco de Moçambique introduced the principle of a single reference exchange rate, derived from the average exchange rate applied by the banks in the operations with its customers. With a view to making the financial system more robust and solid, in the context of prudential measures, the minimum capital for credit institutions was strengthened, in particular the minimum share capital of banks, the composition of the own funds of credit institutions was altered, the prudential ratios and limits of credit institutions were elevated, especially increasing the solvency ratio of banks, the liquidity ratio was introduced to monitor liquidity levels in the banking system, and it now compulsory for banks to regularly publish information on their solvency and liquidity levels.

Reference rates

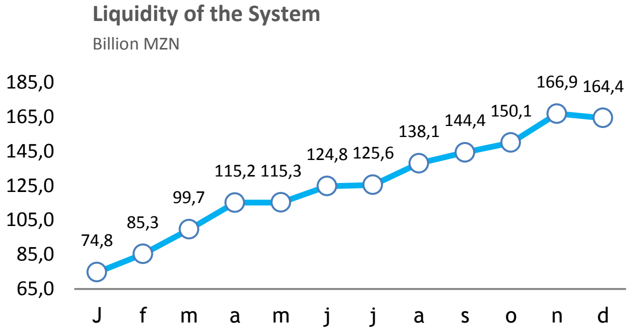
In October 2017, Banco de Moçambique gave the first signs of relaxing the strongly restrictive policy, started one year previously, with a downward adjustment of the MIMO rate by 50 bp and the level of compulsory reserves by 100 bp, both in national currency and in American dollars, for all other currencies. At the end of the year, in an environment of rapid deceleration of inflation year-on-year, to a one-digit band (7.15% in November), and GDP growth below 3%, far from the average of 7% of the last decade, Banco de Moçambique further relaxed the restrictive monetary policy, lowering the MIMO rate by 150 bp.

Reference Rates 2017
in %



Liquidity of the System

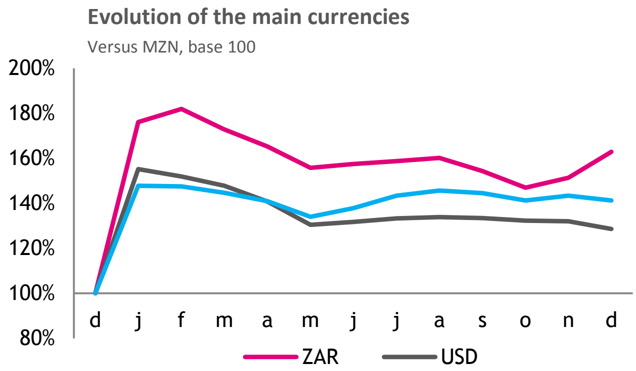
At the end of 2017 the high surplus liquidity of the money market, visible in the live amount of Treasury Bills, in November 2017, reflected the strong slowdown of credit, with an annual fall around 11.5%, the effect of the net purchases of foreign exchange by Banco do Moçambique as well as the reduction of the compulsory reserve coefficient by 100 bp, decided at the CPMO, last October.



Evolution of the major currencies relative to the Metical

Throughout 2017, the volatility of the exchange rate of the metical in relation to the main international currencies traded on the Mozambican foreign exchange market, decreased substantially.

The metical showed a strong recovery in relation to the dollar of the United States of America, which fell from almost 70.5 meticais in December 2016, to around 58.5 meticais per dollar at the end of the year.



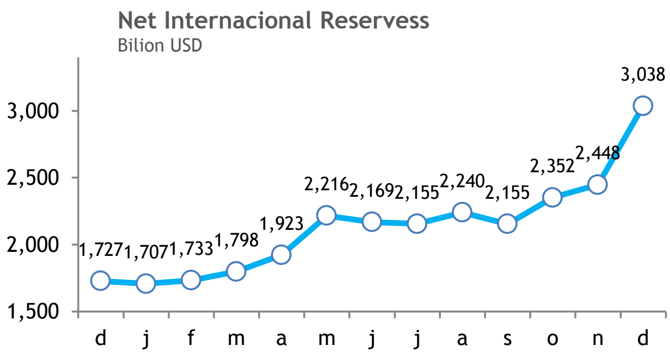
Reference interest rates of Banco de Moçambique at the end of 2017
USD/MZN 59.02, EUR/MZN 70.70 and ZAR/MZN 4.79.

The appreciation of the metical, relative to the main international currencies, was due to the improvement of Mozambican exports linked to the mining industry which, combined with the strong slowdown of economic growth and consequent retraction of demand for foreign exchange of the import sector, enabled the central bank to make a net purchase of USD 711 million from the market.

The introduction of a reference foreign exchange rate and the principle of a single exchange rate favoured the goal of foreign exchange stability.

Evolution of the balance of net international reserves

Data relative to 31 December 2017 point to a balance of Net International Reserves of USD 3,038 million. The balance of Gross International Reserves now stands at USD 3,294 million, sufficient to cover 7.3 months of imports of non-factorial goods and services, excluding large projects.

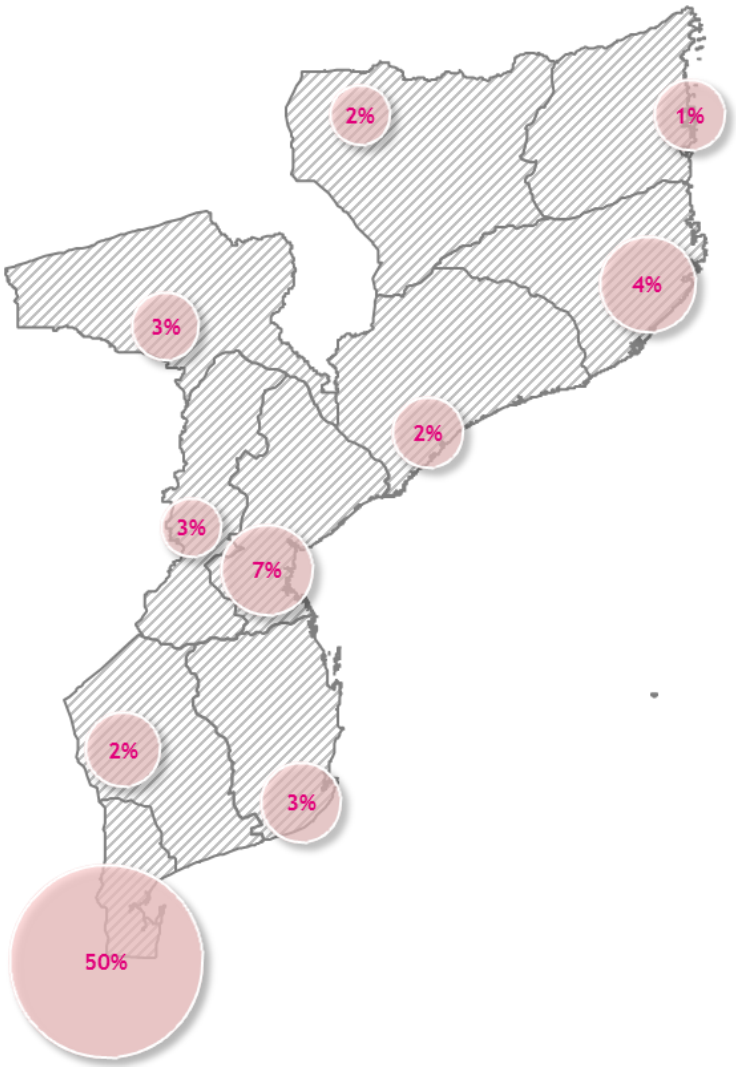


THE BANK

THE MILLENNIUM BIM NETWORK

Network of Branches

% per province



	Customers	Branches	ATM	POS
Northern Zone	263,550	37	101	1,321
Central Interior Zone	184,338	18	54	755
Central Zone	331,877	29	86	1,188
Southern Zone	1,030,247	102	263	6,262
	1,810,012	**186**	**504**	**9,526**

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 reference bank in customer service and one of its main objectives is to achieve a higher level of efficiency, reflected in a commitment to an efficiency ratio through a judicious management of capital and costs.

Mission

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

Company Values

The Millennium bim Group is governed by the Regard for people and institutions, operating with Vocation for Excellence and with Customer focus constantly in mind, in a relationship of mutual Trust and following clear standards of Ethics and Responsibility.

Strategy

- Committed contribution to the relaunch of the banking uptake of the Mozambican economy;
- Maintenance of high levels of satisfaction, loyalty and involvement with Customers;
- Expansion of the Customer base and assets under management in the traditional business areas;
- Promotion of new initiatives in high potential growth areas;
- Taking a leading position through the exploration of new business opportunities created by new technologies;
- Consolidation of sectoral and regional technological leadership;
- Sustained improvement of profitability and financial robustness levels;
- Recognition of the value, motivation and compensation of Employees;
- Maximisation of value for Shareholders.

SOCIAL RESPONSIBILITY PROGRAMME

Social responsibility - “More Mozambique for Me”

Since 2006, Millennium bim has supported and developed projects that contribute to improve the quality of life of communities, through its social responsibility programme, More Mozambique for Me. The strategy of action concentrates on the development of a series of initiatives that focus on human capital as the driving engine for the country's socioeconomic development.

Guiding principles of the social responsibility of the Bank

The Bank has subscribed to the Principles of the United Nations Global Pact since 2003. The objective is to contribute to the construction of a more sustainable global market and share values that enable the poorer and more vulnerable populations to have access to opportunities. The subscribing companies should adopt and promote a series of key values in the areas of Human Rights, Labour Standards, Environment and Anti-Corruption.

Sports

Millennium bim Mini Basketball Tournament

In its 12th edition, the event involved the participation of 1,400 athletes, aged between 6 and 11 years old, from schools, clubs and districts of 11 cities of the country: Maputo, Matola, Xai-Xai, Inhambane, Chimoio, Manica, Beira, Quelimane, Tete, Nampula and Nacala. In partnership with Musiarte (School of Music and Dramatic Art), various cultural workshops were organised simultaneously with the sports activities. At the closing party, under the supervision of the Soprano Stella Mendonça, the athletes presented a musical play, accompanied by the instruments that they had made in the different workshops, constructed from recyclable waste.

Helpo Race

Millennium bim once again supported yet another edition of the Helpo Mozambique charity race. Around 600 children participated, under the supervision of the race's ambassador, Vanessa Fernandes, Portuguese triathlon champion.

Clarisse Machanguana Foundation

The Bank supports the Clarisse Machanguana foundation which, through the practice of Basketball, develops awareness-raising projects among children and young people, on issues of sexuality and HIV-Aids.

Education

Banking Olympics

The objective of this financial literacy project is to introduce financial concepts and educate students and teachers on responsible financial management and the creation of entrepreneurial projects. Through workshops, ministered at the Bank's head office, topics such as entrepreneurism, savings, insurance and social volunteering were presented and discussed. In this 8th edition, and with the participation of 400 students from 10 secondary schools, the project inserted the topic Voluntary Work for the first time. The students placed theory in practice and developed a project together: creation of a library at Coop Primary School, in Maputo. The winning project, the "Mega Extra Classes Online", of Namaacha Secondary School, will be implemented at the beginning of the academic year of 2018 with the Bank's support.

Saving

The "Saving at Schools" project was carried out in 34 schools of the provinces of Inhambane, Tete, Sofala, Nampula and Maputo. It covered around 2,500 students. Among others, its activities included workshops, training actions for teachers and students and craftwork created from recycled material, allusive to the topic.

"A Clean City for Me"

The objective of this project is to raise the awareness of the students on the importance of the processing of waste, recycling and cleanliness of the city. Each school has a recycling station within its facilities, where the correct sorting of waste deposited by teachers and students is undertaken. The cleaning of the school and city and the production of educational material allusive to environmental topics are some of the activities carried out by teachers and students at the Environment clubs.

“Games without frontiers”

Millennium bim supported the 2nd edition of the Festival of Entertainment Activities / Games without frontiers, a project of the Ministry of Education and Human Development which offers disabled children aged 6 to 12 years old an opportunity to enjoy physical exercise, with games and fun aimed at developing their interpersonal relations, respect, tolerance, self-esteem, among other values.

“Musiarte”

The Musiarte (National School of Music and Dramatic Art), created in 2014 by the reputed opera singers, Stella Mendonça and Sónia Mocumbi. Musiarte relies on Millennium bim as its principal sponsor. This project of musical education aims to contribute to quality musical education, to the identification and promotion of young talent of all social backgrounds.

Gorongosa National Park

Millennium bim signed a protocol with Gorongosa Business Club, directly supporting the “Girls Clubs” programme. This programme directly aims to fight against the high rate of early marriages and school drop-out, by stimulating activities about the education of girls, their personal safety, nutrition and access to family planning.

Girl Move Foundation

Support to the Girl Move Foundation, through the Advanced Programme of Leadership and Social Entrepreneurism. The goal is to train and endow young graduates with skills to be agents of the social, economic and political development of their communities and the country.

Environment

Garbage Bins – Project developed in partnership with ISARC (Higher Education Institute of Arts and Culture), for the 2nd consecutive year, of decoration and painting of garbage bins in the city of Maputo. These bins, decorated with different motifs allusive to fauna, citizenship, urbanism and elements of Mozambican traditional culture, were painted by 2nd year students of the course of Visual Arts of the Faculty of Arts.

Christmas Tree - The Ecological Christmas Tree of Millennium bim is the result of the collection and recycling of 7,000 plastic bottles that students and teachers gathered together at their schools, under the A Clean City for Me project. 7 metres tall and displayed in a central zone of the capital, this tree represents the collective work of the 10 schools participating in the project.

Community Development

Dineo Cyclone - Offer of more than 9 tons of construction material to the Government of the Province of Inhambane, to help the communities affected by the tropical cyclone Dineo, which hit the southern coast of Mozambique, causing severe damage to diverse infrastructures, leaving a number of families without the minimum conditions for survival.

Corporate Volunteering

Millennium bim Responsible, the Bank's corporate voluntary work project, involves employees and their families in actions of social and community interest, accomplishing structural projects in institutions without human and financial resources to implement them.

This year, 180 employees participated in 7 actions, covering a total of 1,080 hours. We highlight the creation of 3 school libraries in the primary schools of Nacala (Nampula), Impire (Cabo Delgado) and Jardim (Maputo). Also, Nursery 2, of the Neonatology Unit of Maputo Central Hospital, received a thorough intervention of its facilities, effectively improving the conditions for accommodating and treating babies with healthcare needs. On a final note, a reference to the “Solidarity Soup” project of the Makobo Association, where the employees made soup, having distributed it along various main roads of the city of Maputo, to some 400 people, primarily children and elderly people.

ACTIVITY OF MILLENNIUM BIM IN 2017

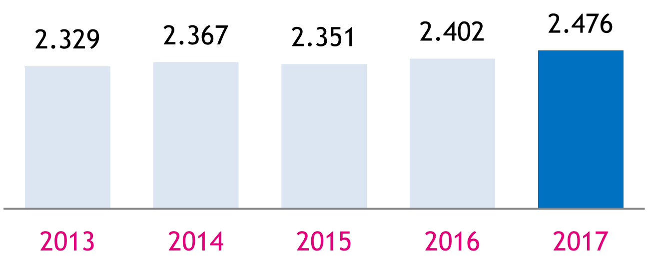
EMPLOYEES

Demographic Characterisation

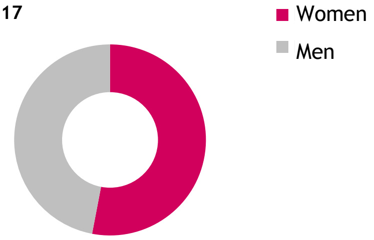
At the end of 2017, Millennium bim had a team of 2,476 Employees, 2.5% more than in the previous year, with 68% distributed throughout the commercial area and the remaining 32% in the central services.

Constituted of a team with an average age of 35 years old and 10 years of service, Millennium bim shows a gender distribution of 53% of women and 47% of men. Throughout 2017, the focus, especially of these last few years, was continued in recruiting young staff members with higher education qualifications or attending higher education, represented the majority of the recruits, in particular, for the commercial area, including the new Branches.

Evolution over time



Gender
Dec 2017



Talent attraction and retention

In 2017, the focus on internal mobility was maintained, through the Opportunities Internship, with the disclosure of 50 new challenges, of which 44 for the central services and 6 for the commercial area.

Concerning the initiatives to attract talent, a memorandum of understanding was signed between Millennium bim and the Mozambican Embassy in Portugal to identify young Mozambican talents resident in Portugal who wish to return to Mozambique and thus contribute to the socioeconomic development of the country.

The 3rd edition of the “People Grow” programme was launched, with the campaign signature being “Take the right step towards your future”, which had its own visual identity and platform, peoplegrow.millenniumbim.co.mz. The programme involved lectures in some of the main universities of the country, and received around 1,200 applicants.

Employees Training and Development

In the context of Employee Learning and Development, this year was marked by the launch of the Millennium bim Academy (MBA), created for the purpose of reinforcing the professional competences and qualifications of BIM's management staff in an environment of continuous learning, characterised by the sharing of knowledge.

In this first year, we highlight the training programme in the commercial area “Charming the Customers and Selling Solutions”, which sought to strengthen skills, particularly in terms of customer service. This programme has already covered close to 130 Mass Market branches distributed over the entire country with a positive impact that is already visible in the results.

Other initiatives were also introduced aimed at the development of the Employees, not only at a professional level but also in a personal capacity, namely through the promotion of lectures on various topics, among which: “Management in Complexity”; “How to Leverage your Career”; “An Inspiring Story of Surpassing”; “What Bankers have to learn from Basketball Players” and “The Socioeconomic Impact of the Maputo-Katembe Bridge”. These lectures were complemented by other initiatives dedicated to art and culture.

Also with a view to supporting the learning and development of qualifications of its staff, Millennium bim launched a programme attributing Scholarships for Master's and Licentiate courses for Employees who wish to pursue formal education.

Management of Performance Assessment

In order to make the Individual Performance Assessment System (SAID) increasingly more efficient and adjusted to the new requirements, new measures were added to the improvement initiatives introduced in 2016, aimed at making them even more effective, in line with the Group's strategy.

Among these initiatives, we highlight the introduction of the calibration meeting, the alignment of the objectives with the Network Incentive System and the fact that the levels of Satisfaction of the Internal Customer and Organisational Climate are now part of the objectives of a larger number of Employees.

Employee Experience

Over recent times, a series of actions have been implemented, according to the identified needs, aimed at improving the experience of the Employees. Exemption from wearing a tie at the central services, the provision of meals at the social centre, including a take-away service for dinner, the creation of the Millennium bim Club are examples of this.

In order to improve the Employees' experience even more, the “Improving the Employee Experience” challenge was launched, in which everyone was challenged to give ideas that will now be voted on, in order to identify those that will be implemented.

Health and wellbeing of the Employees

In what concerns promotion of the health and wellbeing of the Employee, a huge and diversified range of sports and social initiatives were part of the agenda of activities developed by the Office of Social Affairs, HIV Office and Millennium bim Club.

Regarding social issues, we highlight: (i) Training for attendance of social issues at all branches of the South Region; (ii) Support to employees in situations of indebtedness; (iii) Holding of lectures on Domestic Violence in 6 provinces; and (iv) Offer of around 2500 Christmas presents for the children of employees.

The HIV Office carried out the following initiatives: accompanied lectures on Health Counselling and Testing sessions; Training of Peer Instructors on matters of Bridges of Hope; Contracting of Pharmaceutical services for supply of Anti-Retrovirals; and Health testing at the head office building on World AIDS Day, the international day for stressing the fight against HIV.

Also in 2017, as a result of the business sector's recognition of its involvement in raising awareness on the need for behavioural change, testing and encouragement in the fight against HIV, Millennium bim was appointed to hold the chair of EcoSIDA (Association of Business Persons for the Health and Wellbeing of the Worker).

In terms of the Millennium bim Club, more than 200 Employees participated in different sports activities such as athletics, basketball, futsal, football 11-aside, volleyball and chess, representing the colours of Millennium bim and having performed with distinction in several of these sports.

REVIEW OF THE BUSINESS AREAS

During 2017 there was a positive evolution in the Bank's expansion strategy, which enabled access to financial products and services by a large part of the population, including those in the rural areas. The opening of new Branches, some of which in partnership with Correios de Moçambique (with integration of the Millennium bim branches in CdM facilities), the expansion of the network of JáJá Agents and the development of new functionalities in the electronic banking channels, ATM and POS, were determinant for the Bank to be currently present in the 11 provinces of the country, covering 164 districts. Millennium bim was the first Bank to be present in all the districts of Mozambique.

Business Segments

In response to the demanding socioeconomic context of Mozambique, the Bank implemented a restructuring project of the entire commercial network, designed in 2016, and respective reframing of its Customer base. This initiative has assured greater proximity to the Customers - Private and Corporate – with a value proposition that is more suited to each segment/ Customer. At the same time, a strong investment was made in training the Employees of the commercial area, assuring complete integration and alignment between all the participants in the process.

Innovation, Products and Campaigns

Aware of the importance of small and medium-sized enterprises (SME) for the development of the economy, the MLider Programme was continued, an initiative which distinguishes and certifies the best SME, Customers of Millennium bim, in each year. This certification is added to access to a differentiated offer of financial and non-financial products and services, which assist in the development of the business.

Platinum debit and credit cards were launched, exclusively for the Private segment, and Corporate and Business cards for the corporate segment. In the capture of funds, the “Deposit Grows Now” term deposit was implemented and the Health Saving Plan was reformulated. The offer was also reformulated for the Employees, with the launch of the “Employee Deposit”, with attractive rates and special subscription conditions.

The Mobile Banking penetration strategy was strengthened, via implementation of the “free of charge” campaign and the launch of new functionalities. At this point, we highlight: (i) the expansion of the base of products and services to be acquired or paid via IZI; (ii) “IZI Withdrawal”, functionality for cash withdrawal at ATM or POS without use of any debit or credit card; and (iii) the subscription of Travel Insurance on this platform.

The Internet Banking website also received a strong investment in security in the transactional area, with the introduction of the “Captcha” functionality in the process of login to the website for Private Customers and Companies. In alignment with the process of restructuring the commercial network, a website was created specifically Prestige Customers, with all the information about the offer of products and services for this segment.

In consumer credit, for civil servants a service was created for withholding at source to pay the instalment, made in the processing of their salary, with the instalment submitted to the Bank directly via the Ministry of Finance.

The year of 2017 closed with the inauguration of the first “Innovation Branch”, a space endowed with the highest technology, where Customers can benefit from a truly digital experience, having at their disposal an interactive table to consult information, an area for demonstration of products and services via tablets and smartphones, and ATM for cash deposits and issue of new non-personalised debit cards. All this with the support of a welcoming manager and customer care areas where the traditional branches have given way to new furniture which strengthens the proximity between Employee and Customer.

In terms of communication, communication cycles were defined, where we highlight the conveyance of the following campaigns:

- “Youth Offer”, a financial solution directed at the younger customers;
- “Prestige Segment”, which communicates the value proposition of this network with special focus on personalised customer care, rooms assuring greater privacy and Wi-Fi free of charge at the Branches;
- “Mleader”, aimed at raising the awareness of the Companies of the need for controlled management and encouragement for all those certified;
- “Grow Now Term Deposit”;
- Electronic Banking Channels and their new functionalities.

In the social networks, and after 18 months of presence on Facebook, the sharing of information and contents was increased, enabling the Bank to achieve 270 thousand fans. The YouTube Channel has been an excellent platform for sharing various projects, in particular the tutorial videos supporting Customers in the use of some of the Bank's products and services.

In order to strengthen its support to the country's sustainable development, Millennium bim sponsored the Mozefo Project and organised the Millennium Meetings. The Mozefo Project is an initiative which seeks to promote the debate of ideas between national and international speakers of various sectors of activity, with the presence of civil society. More restricted, organised in partnership with IPEME and BEI, the Millennium Meetings were aimed at SME business persons. They were held in Chimoio and Tete, with a clear intention of decentralising initiatives of this nature.

Expansion of the Network, Capture and Loyalty of Customers

The strategy of expansion of the branch network was based on 3 pillars:

- Construction of Branches “from scratch”, in areas of less financial inclusion;
- Consolidation of the partnership with Correios de Moçambique, maintaining the recovery of this institution's buildings, contributing to the valorisation of national heritage and adjusting their interior space to the provision of banking and postal services;
- Expansion of the network of Jájá Agents (e.g. in commercial establishments), that represent the Bank in the offer of previously defined products and services.

As the pace of life is increasingly faster and more demanding, we have more Branches and Jájá Agents open on Saturday, meeting the needs of our Customers.

For a stronger monitoring of the daily performance and Customer relations with the Bank, the entire commercial network was provided with new computer applications (e.g. “Millepac” and “Bom Dia”). These tools enable assessing the level of the Customer's involvement with the Bank, defining proactive action strategies and monitoring the defined commercial objectives at all times.

Prestige and Private

This year was marked by the implementation of new criteria to classify the Customers in segments, according to their profile and degree of involvement with the Bank. The aim is to offer an increasingly more personalised and distinctive service, where the quality of the monitoring carried out by the managers is of particular relevance. In view of the high number of Customers belonging to the Prestige segment, the Bank increased its network of Branches of this segment, inaugurating new premises and strengthening its proximity to the Customers.

Companies

In a particularly adverse context at an economic level, the Bank continued in counter-cycle and invested in the robustness of its network of Companies. More appropriate products and services were developed and more Branches were inaugurated to meet the need to provide increasingly more support to SME. In order to facilitate the financial management of Companies, updates were made to the technological platforms supporting the Customer (Internet Banking) and pertinent financial solutions were created to support treasury and insurance.

Corporate

After an exhaustive assessment of the structure of this network and market performance in view of the economic context and impact associated to the mega-projects, the Bank decided to resize this network, endowing it for the acquisition of more business from large-scale players. Breakfast meetings were held with the main Customers, a proactive dynamic of business acquisition. At the moment, the Bank has Corporate Branches in Maputo, Beira, Nampula and Nacala.

ATM, POS and CARDS

Stronger and more secure, Millennium bim is the only financial institution in Mozambique to be certified by PCI-SSC (Payment Card Industry – Security Standards Council) for the security systems applied to the use of credit cards.

New ATM were also implemented, for cash deposits in areas of major population movement, minimising the need for Customers to go to the Branches to carry out this operation. However, the great innovation of 2017 is the machine which exchanges non-personalised cards upon expiry for new cards. Everything is carried out at an ATM in a rapid, intuitive and secure form.

The total number of POS was greatly expanded and the family of debit and credit cards grew with the launch of Platinum cards and cards for companies.

Present in all districts of the country, the Bank has:

- More than 500 ATM;
- More than 9,500 POS;
- More than 320 Jájá Agents;
- More than 1.5 active cards (debit and credit).

These figures reflect Millennium bim's clear focus on being closer to the Customer and providing the Customer with products and services that facilitate daily life.

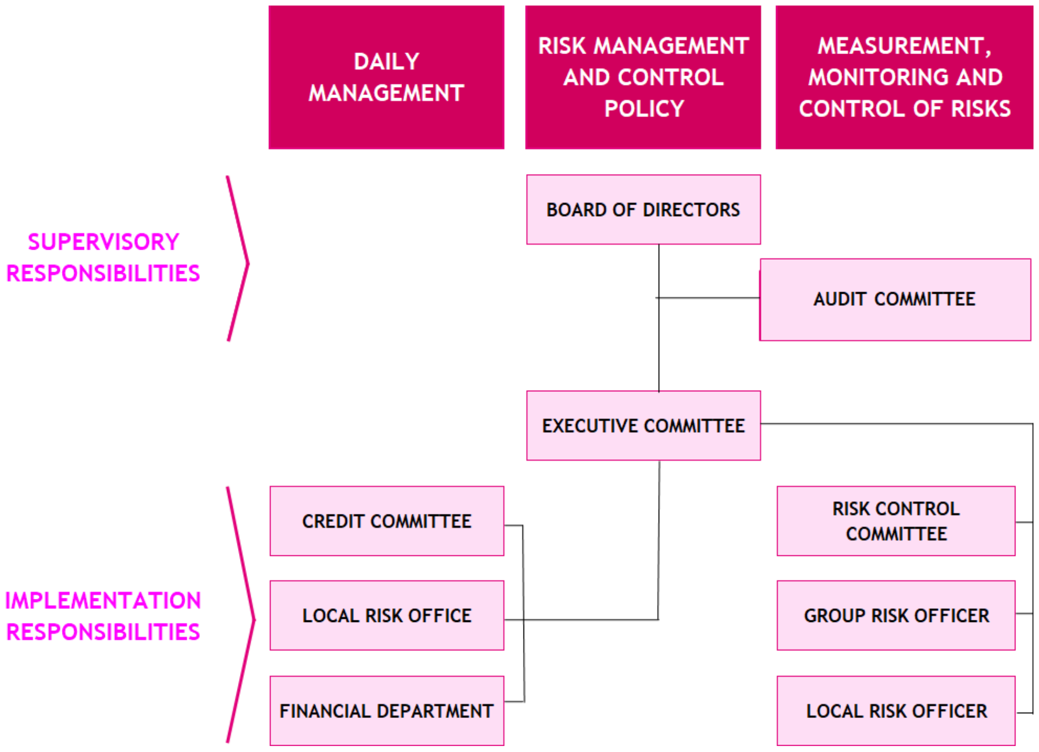
Electronic banking channels

The website, mobile an customer support line are 3 strong platforms which strengthen the Bank-Customer relationship. In 2017 the website presented a structure with improved browsing, more intuitive menus and easy to consult. New tools were provided, as is the case of the credit simulator and focus continued on Secure Internet use, with the introduction of the Captcha system. Regarding mobile banking, the Smart IZI version was implemented for tablets, with Android and IOS. Through this tool, the Customer can block and unblock credit and debit cards, request a warning management system and subscribe to travel insurance.

RISK MANAGEMENT

The Risk Management System of Millennium bim continues to be reinforced and consolidated, both regarding the mechanisms of control and monitoring of the diverse risks incident on the activities developed, as well as concerning their measurement and assessment.

The Governance of Risk Management of Millennium bim, with the structure indicated below, assures control of the institution's integrated 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.

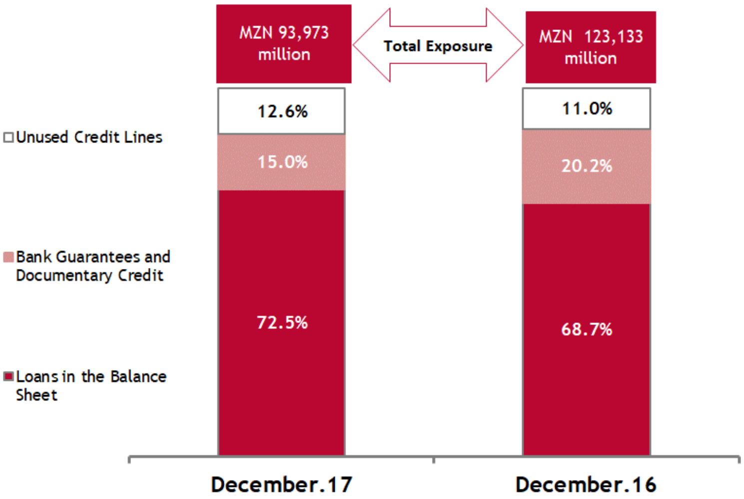
Various activities were developed in this regard, in particular:

- Consolidation of the process of calculation of concentration indices (ICI and ICS);
- Matrix for Control and Monitoring of the Decisions of the CCR, the action plans for mitigation of deviations occurred in relation to the measurements of the Risk Appetite Statement (RAS);
- Capacity-building on specific matters of integrated analysis, management and control of credit risks;
- Implementation of the new model for calculation of credit impairment and the respective methodology for calculation of more robust Parameters of Probability of Default (PD) and Loss Given Default (LGD);
- In the context of IFRS 9, the first test was done on the impact of impairment losses for credit based on the current model and on IAS 39.

EVOLUTION AND COMPOSITION OF THE LOAN PORTFOLIO

The loan portfolio recorded a reduction of total exposure of around 23.7%, derived from the appreciation of the metical in relation to the dollar.

The distribution of the exposure illustrates the evolution of the composition of the credit risk of Millennium bim, in conformity with the strategies approved for the development of the activity.



MAIN INDICATORS OF CREDIT RISK

Quarterly evolution of the main indicators in terms of loans with signs of risk and coverage of credit exposure, December 2016 to December 2017:

	Dec-17	Sep-17	Jun-17	Mar-17	Dec-16
Expos. Loans overdue > 90 days / Total Expos.	14.2%	15.3%	14.8%	7.4%	4.5%
NPL > 90 days / EAD	12.5%	12.4%	12.3%	6.5%	4.8%
Impairment / Total loans	9.7%	9.3%	9.0%	8.1%	7.3%
Impairment / Total Expos.	7.2%	7.2%	7.2%	6.2%	5.4%

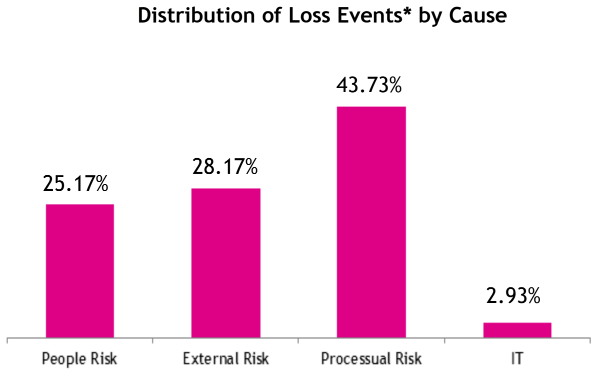
NPL = Non performing loans
EAD = Exposure at Default

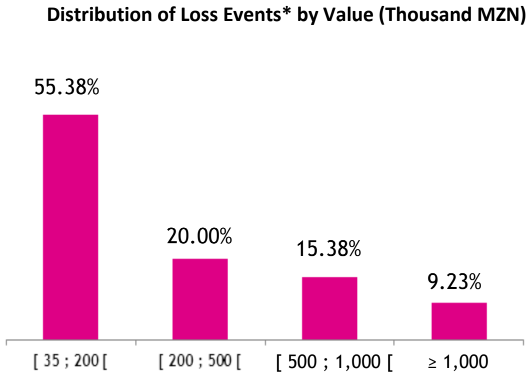
The deterioration of the Bank's loan portfolio was due to the adverse macroeconomic environment which consequently affected business activity and reduced levels of employment/income generation.

Operational Risk

At Millennium bim the management of operational risk is based on the structure of processes. Internationally recommended methodologies are to measure risk, such as: definition of Key Risk Indicators, conduct of Risk Self-Assessment and the recording and analysis of Operating Losses.

The profile of the accumulated losses from January 2017 to December 2017 is presented in the figures below:





* Material Losses ≥ EUR 500

Market risk

Interest Rate Risk

For the measurement of this risk, Millennium bim adopts methodologies defined by Banco de Moçambique, through Circular number 04/SCO/2013, and also uses methodologies defined in-house based on gap analysis, distributed over residual repricing periods, followed by sensitivity analysis. To control this risk, transversal limits to the bcp Group are defined annually, indexed to the Bank's Own Funds, according to which Millennium bim should not show an overall sensitivity (shocks of +200 bp in interest rates) above an amount corresponding to a certain % of the Bank's Own Funds as at 31 December of the previous year.

Million MZN

	dez/16	dez/17
MZN	581,789	519,765
USD	155,655	140,837
	737,444	**660,602**

The variation of sensitivity in December 2017 in relation to the values recorded in December 2016 result from the change over time of the portfolio referred to above.

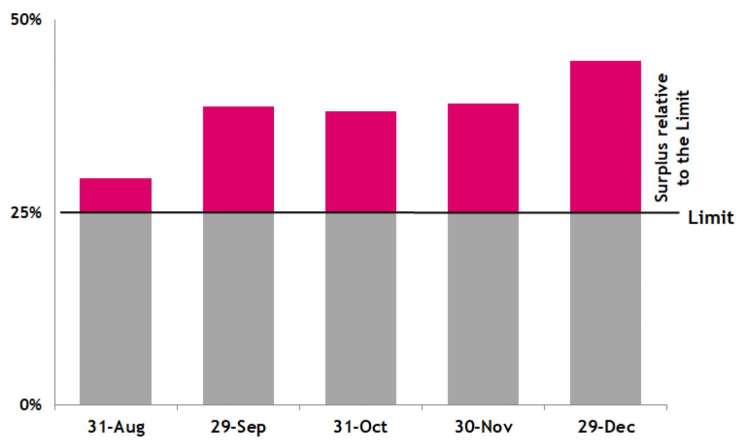
Foreign exchange risk

For the control of this risk, Banco de Moçambique defined limits (Overall Position should not be > 20% of Own Funds and the Position per Currency should not be > 10%), which will be permanently monitored and respected by Millennium bim.

Liquidity Risk

At Millennium bim Liquidity Risk is measured by a series of indicators, namely: Immediate and Quarterly Liquidity, Commercial Gap (By Currency), Internal Liquidity Ratio and Stress Tests, Liquidity Coverage Rate (LCR), for which limits of exposure are defined.

In 2017, Banco de Moçambique introduced the Liquidity Ratio, which is monitored daily by this entity. According to Banco de Moçambique Notice number 14/GBM/2017 of 09/06, the Banks should maintain a daily Liquidity Ratio of not less than 25%. Millennium bim has been monitoring and strictly complying with this indicator, with results very much above 25%, as illustrated in the following table.



This table presents the overall liquidity position in December 2017, described by maturities and by the main balance sheet headings, demonstrating the structural solidity of Millennium bim.

Total Liquidity Gap for the Balance Sheet

MZN '000

31 December 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Above 3 years
Written-off					
Cash and deposits at Banco de Moçambique	8,326,027	3,954,007	6,209,912	50,562	0
Loans and advances to other credit institutions	1,232,643	0	0	0	0
Deposits in banks	7,625,823	1,873,701	603,701	0	0
Loans to customers	2,306,345	1,375,311	9,428,265	11,852,394	34,438,497
Financial assets available for sale	6,347,484	12,321,226	17,753,837	0	0
Total Assets	**25,838,322**	**19,524,244**	**33,995,714**	**11,902,956**	**34,438,497**
Liabilities					
Deposits from other credit institutions	426,148	0	0	0	0
Customer deposits (includes other liabilities)	26,680,516	29,957,333	45,923,539	361,010	0
Debt securities issued	0	0	0	0	0
Subordinated liabilities	0	0	0	0	1,000,000
Total Liabilities	**27,106,664**	**29,957,333**	**45,923,539**	**361,010**	**1,000,000**
Total Liabilities and Equity	**27,106,664**	**29,957,333**	**45,923,539**	**361,010**	**1,000,000**
Liquidity Gaps	**(1,268,342)**	**(10,433,088)**	**(11,927,825)**	**11,541,946**	**33,438,497**
Accumulated Liquidity Gap	**(1,268,342)**	**(11,701,431)**	**(23,629,256)**	**(12,087,309)**	**21,351,188**

31 December 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Above 3 years
Total Assets	47,707,242	16,521,123	19,957,140	12,054,806	34,124,243
Total Liabilities and Equity	37,650,308	27,424,464	43,428,745	445,929	0
Liquidity Gaps	**10,056,933**	**(10,903,341)**	**(23,471,604)**	**11,608,877**	**34,124,243**
Accumulated Liquidity Gap	**10,056,933**	**(846,408)**	**(24,318,013)**	**(12,709,135)**	**21,415,108**

(*) Net Loans

Economic capital

The internal capital adequacy assessment process (ICAAP) is a key component of the Bank's risk management. ICAAP consists of an exercise carried out in order to identify the capital required by the Bank to adequately cover the risks incurred during the development of its current business strategy and projected for the medium term, through stress tests and respective impact on regulatory capital ratios.

ICAAP is endowed 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 ICAAP are detailed in the Bank's Risk Classification matrix, which incorporates material and immaterial risks.

These risks are analysed quarterly by the Bank during the stress tests - Sensitivity Analyses and annually 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).

In the light of Notice number 16/GBM/2017 of 30/06, on Market Discipline, Millennium bim annually submits an autonomous report to Banco de Moçambique on the results of the Stress Tests. The objective is to assess the Bank's capacity of resilience in view of certain adverse economic factors.

The reports submitted to the regulator up to 2017 lead to the conclusion that the Bank's capital levels are adequate to the different risks that it takes on and which are inherent to its activity.

Financial Review

Results and Balance Sheet

BIM – Banco Internacional de Moçambique, S.A., in conformity with the provisions in Notice number 04/GBM/2007 and supplementary provisions issued by Banco de Moçambique, presents the individual and consolidated financial statements relative to the financial years of 2016 and 2017, pursuant to the International Financial Reporting Standards (IFRS).

In a context of strong competitiveness, the Bank remained focused on profitability, ensuring prudent liquidity levels and continuing to expand the network. The reduction of loans and the rise in interest rates enabled minimising the impact of the increased credit risk.

In 2017 the growth of the Mozambican economy in real terms stood at 3.7%, representing a deceleration of 0.1, when compared to the previous year. This weak performance was essentially the result of the sovereign debt crisis (following the revelation of undeclared foreign loans in April 2016), which led to the suspension of the IMF's support and the freezing of external assistance. This influenced the adoption of a restrictive monetary policy and fiscal austerity measures, affecting the growth of aggregate demand which fell to historically low levels.

In October 2017, Banco de Moçambique gave the first signs of relaxing the strongly restrictive policy, started one year previously, with a downward adjustment of the MIMO rate by 50 bp and the level of compulsory reserves by 100 bp, both in national currency and in American dollars, for all other currencies. At the end of the year. Banco de Moçambique enhanced the relaxation of the restrictive monetary policy, once again lowering the MIMO rate, this time by 150 bp.

The total assets of the Bank reached 134,980 million Meticais as at 31 December 2017, compared with 133,780 million Meticais as at 31 December 2016, supported by the increased financial assets available for sale.

Total customer funds grew to 103,223 million Meticais as at 31 December 2017, compared to 100,687 million Meticais recorded as at 31 December 2016, benefiting from the good performance of the growth of customer term deposits and other funds which remained the main funding source of the activity.

Net income was positive at 5,574 million Meticais in 2017 compared with the positive net income of 4,510 million Meticais recorded in 2016, representing a growth of 24% compared to the previous year.

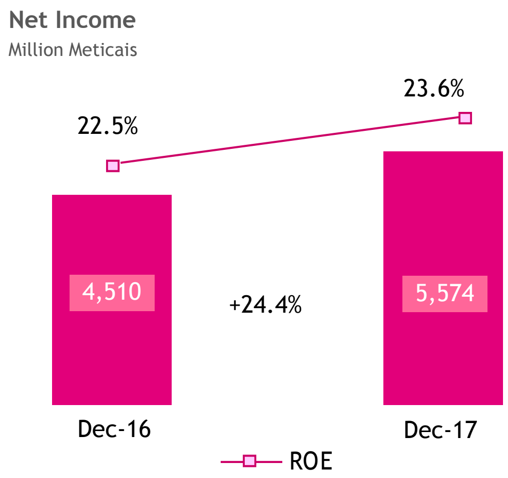
Profitability Analysis

Net Income

The performance of the net income recorded in 2017 essentially reflects the following positive impacts:

- The favourable evolution of net interest income was essentially due to the improvement of the profitability of loans to customers and financial assets through effect of the increased rate, attenuated by the increased cost of deposits;
- The positive variation of the value of net fees and commissions, in particular those associated to the card business and provision of services.

Additionally, the net income of 2017 also reflects the moderate increase in operating costs, in line with the current plan to expand the network of branches and the foreign exchange impact.



Net Interest Income

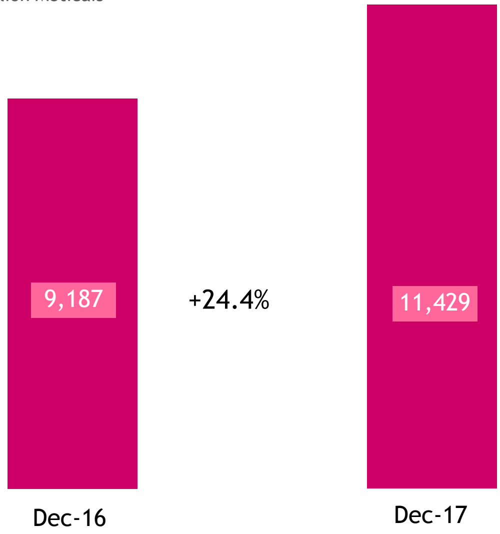
Net interest income increased by 24%, to stand at 11,429 million Meticais in 2017, compared to the 9,187 million Meticais recorded in 2016, driven by the positive effect of the profitability of the interest earning assets, in particular of the loans granted and the financial assets, due to the rate effect, attenuated by the increase cost of deposits, reflecting the market reference rates.

During 2017, Banco de Moçambique introduced the Interbank Money Market (MIMO) rate, strengthening the interest rate formation mechanism in the market. From June onwards all new loan operations began to have a single reference rate, derived from the average of the overnight interest rates plus the premium of the cost of the system, which is established by the Mozambican Association of Banks.

Bank loans, in accumulated terms, fell in relation to 2016 by around 16% reflecting a scenario of weak demand essentially brought about by the high interest rates.

In turn, in terms of funds, the fact that they continue to be the main source of funding to the banking activity, combined with the continuous market pressure on their attraction, led to a rise in cost attenuated by the macroeconomic scenario at the end of the year characterised by a deceleration of year-on-year inflation and a reduction of rates from the last quarter of 2017 onwards.

Net Interest Income
Million Meticais



Regarding the portfolio of financial assets, which mainly consists of securities issued by the Mozambican State, namely Treasury Bills and Bonds, the positive effect on net interest income in 2017 was primarily due to the rate effect of these assets.

The evolution of net interest income reflects the growth of the portfolio of financial assets and the performance of the loan portfolio where the Bank continues to adopt a careful policy of selection of the operations to be funded for strict control of credit risk, reflecting the priority given to the attraction and retention of customer funds, through the strengthening of an interesting offer of products and attractive remuneration rates.

Other net income

Other net income amounted to 3,631.5 million Meticais in 2017, 12.4% below the value recorded for the same period of 2016.

Other net income — Million MZN

	Dec-17	Dec-16	Change 17/16
Income from equity instruments	**360.1**	**286.9**	**25.5%**
Net Commissions			
Cards	1,141.7	934.8	22.1%
Credit and guarantees	513.4	579.1	-11.3%
Foreign operations	346.9	376.1	-7.8%
Other banking services	253.7	287.9	-11.9%
Total net commissions	**2,255.7**	**2,177.9**	**3.6%**
Earnings from financial transactions	781.4	1,518.2	-48.5%
Other net operating income	234.4	161.7	44.9%
Total other net income	**3,631.5**	**4,144.8**	**-12.4%**
Other income / Net Operating Income	**24%**	**31%**	

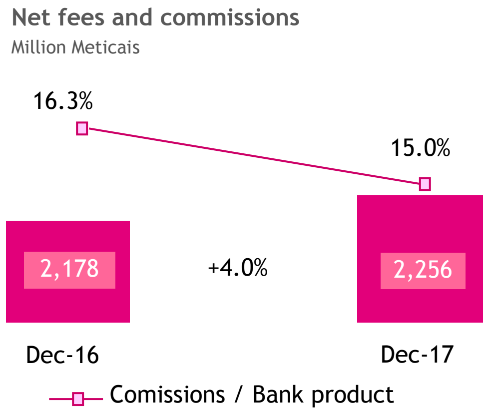
Income from equity instruments

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

Net fees and commissions

Net fees and commissions reached 2,255.7 million Meticais in 2017, representing growth of 3.6% in relation to the 2,177.9 million Meticais recorded in the same period of 2016. The increased fees and commissions was supported by the favourable evolution of card fees.

The low intensification of cross-selling resulted in a decrease of approximately 17.7% for use of the network in bancassurance operations.



Earnings from trading activity

The earnings from trading activity reached 781.3 million Meticais in 2017. This value represents a decrease of 48.6% relative to 2016 due to the effect of the lower volume of foreign exchange operations and the squeezing of intermediation margins essentially related to the strong exchange rate volatility in the market.

The context of stronger pressure in the foreign exchange market was reflected in the lower volume of foreign exchange operations as well as in the reduction of margins which led to a decline in earnings from trading activity.

Other net operating income

Other net operating income amounted to 234.4 million Meticais in 2017, compared to 161.7 million Meticais in 2016. This increase was essentially influenced by the recording of higher income from services rendered in 2017.

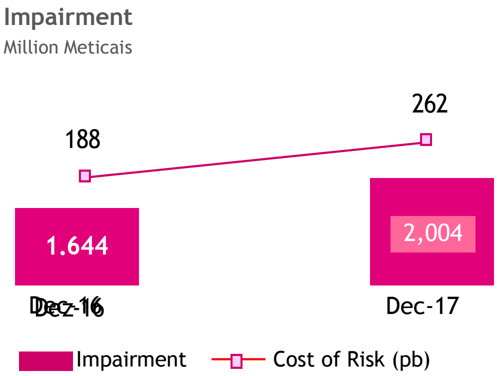
Operating Costs

Operating Costs

Million MZN

	Dec-17	Dec-16	Change 17/16
Staff costs	2,571.7	2,401.1	7.1%
Other administrative costs	2,902.8	2,587.5	12.2%
Depreciation	520.5	496.6	4.8%
	5,995.0	**5,485.2**	**9.3%**

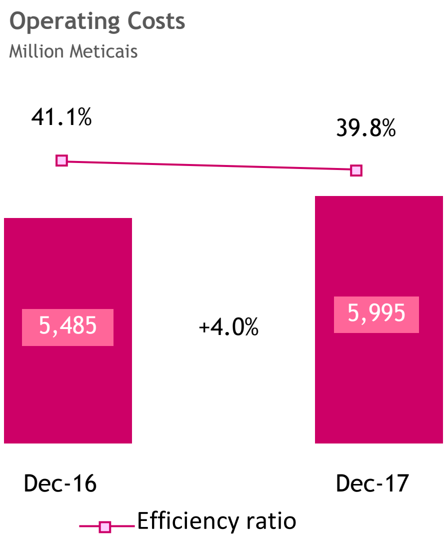
Operating costs, which incorporate staff costs, other administrative costs and depreciation and amortisation for the year, stood at 5,994.9 million meticais in 2017, representing an increase of 9.3% compared to 2016.



The evolution of operating costs was conditioned by the strengthening of the commercial structure and the support of the ongoing growth and segmentation strategy of the branch network and of the distribution of more ATM.

The 7.1% increase in staff costs in relation to the same period of the previous year is related to the impact of the annual wage updating as well as to the wage adjustments arising from the evolution of the professional career of the employees.

Other administrative costs increased by 12.2% influenced by the increased expenses related to information technology and consulting, communications, water and energy.



The amortisation for the year reached 520.5 million Meticais in 2017, representing growth of 4.8% in relation to the value for 2016. The increase in depreciation and amortisation for the year essentially reflects the sequence of investments made in the IT platform with a view to supporting the growth of the network, the quality and innovation of a better service in the future.

Cost to income ratio

The efficiency ratio (cost to income), on a comparable basis, stood at 39.8% in 2017, compared to 41.1% recorded in 2016. The improvement of the ratio was due to the strong growth of net operating income in relation to the moderate growth of operating costs.

Credit impairment and other impairments and provisions

Loan impairment (net of recoveries of loans written off) amounted to 2,003.5 million Meticais in 2017 compared to 1,644.3 million Meticais in 2016. This evolution was driven by the increased allocations for loan impairment related to the increased loan portfolio, with higher impairment in corporate customers which are subject to individual analysis with high values of exposure and regular risk monitoring.

In 2017, 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 loans written off from the loan portfolio, stood at 262 bp in 2017, compared to the 188 bp recorded in 2016.

Review of the Balance Sheet

In 2017, Millennium bim continued to promote a careful management of assets and liabilities. In a macroeconomic context that discourages 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 attracted deposits, which enabled maintaining the loan-to-deposit ratio below 80%.

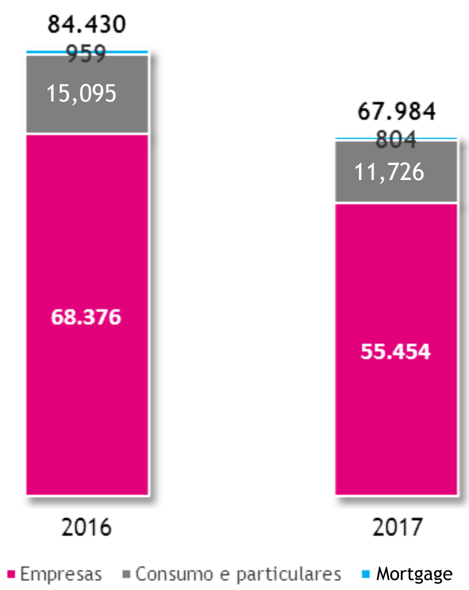
Total assets reached 134,980 million Meticais in 2017, compared to 133,780 million Meticais recorded in 2016, registering a 1% growth.

The increase of total assets was influenced by the growth of financial assets available for sale.

Net loans to Customers represent 45% of total assets, with gross loans corresponding to 67,984 million Meticais, equivalent to a 20% reduction in relation to 2016 (84,430 million Meticais). This evolution reflects the adverse conditions in which Millennium bim operated in a context of dismal macroeconomic conditions for the economy, with growth of the corporate segment having fallen to 19%.

Loans to Customers (gross)

Million Meticais



Total Assets

Million MZN

	2017	2016	Change %
Cash and deposits at BdM	18,541	20,137	-7.9%
Deposits and credit in credit institutions	11,376	12,827	-11.3%
Loans to customers (net)	61,413	78,283	-21.6%
Financial assets available for sale	29,295	8,878	230.0%
Financial assets held to maturity	4,579	6,067	-24.5%
Investments in subsidiaries	416	356	16.8%
Tangible and intangible assets	5,245	4,920	6.6%
Other assets	4,116	2,312	78.0%
	134,980	**133,780**	**0.9%**

Loans to Customers (gross)

In a context of discouragement of credit concession, 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.

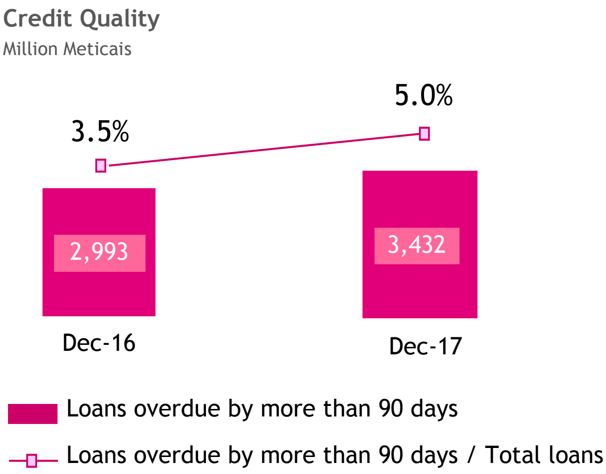
Loans to customers (gross), on a comparable basis, reached 67,984 million meticais in 2017, having fallen by 20% in relation to the 84,429 million meticais recorded in 2016. This evolution was especially determined by loans to companies (-29%), although loans to individuals also fell by 22%.

The structure of the loan portfolio maintained the same patterns of diversification, with loans to companies continuing to hold a dominant position in the portfolio of loans granted to customers, with a weight of 82% (81% in 2016).

Credit Quality

Credit quality, measured by the proportion of loans overdue by more than 90 days as a percentage of total loans, stood at 5.0% in 2017 compared to 3.5% in 2016. This increase was due to the rise in default among loans granted to companies. However, the Bank pursues a prudential credit policy, with the identification of higher risk segments in Individuals and individual monitoring of companies, aimed at strengthening prevention and stimulating credit recovery.

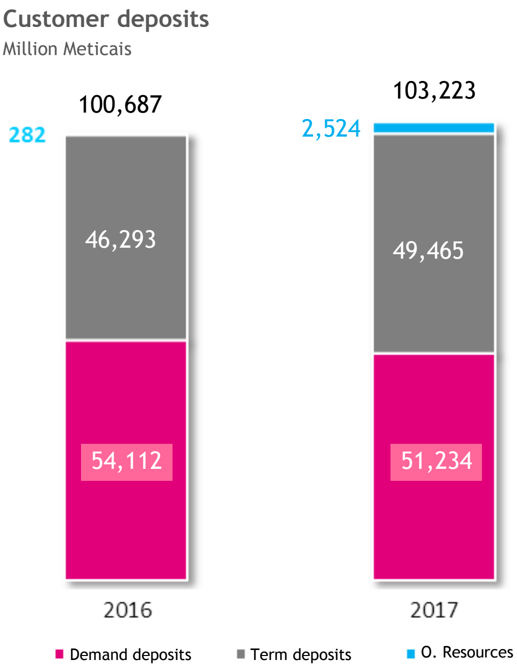
The coverage ratio of loans overdue by more than 90 days by impairment stood at 191% in 2017, with the Bank maintaining prudential criteria and having made sufficient impairment charges to keep a comfortable coverage of loans overdue.



Customer deposits

In a context of a significantly higher competition for the attraction of customer funds, the Bank continued to have a large and diversified offer of products and services, associated to the additional performance of the commercial networks and a strict pricing management combined with attractive maturities and remuneration, which contributed to total customer funds having grown by 3%, amounting to 103,223 million meticais in 2017.

The focus on the attraction and growth of customer funds continued in 2017, especially on higher customer loyalty and expansion of the customer base supported by a larger network of branches, by a broader offer of solutions for scheduled small saving and medium and long term investment aimed at private customers and reinforcing involvement in company treasury. These factors were determinant for the result obtained in 2017. Furthermore, the reinforcement of excellence and innovation in customer service were also distinctive factors driving the commercial capabilities of the distribution networks.



Capital

The capital ratios for 2017 were calculated in accordance with the regulatory standards of Banco de Moçambique. 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 2017, stood at 17.1%, with Tier I having reached 20%, significantly above the minimum limit of 8% recommended by Banco de Moçambique.

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 in the individual balance sheet relative to the financial year of 2017, of the value of 5,574,017,036.16 Meticais, should be distributed as follows:

Meticais

	%	Value
Free Reserve	62.50%	3,483,760,647.60
Dividend stabilisation reserve	2.50%	139,350,425.90
Distribution to Shareholders	35.00%	1,950,905,962.66

Rui Cirne Plácido de Carvalho Fonseca

(Presidente)

Miguel Maya Dias Pinheiro

(1º Vice-Presidente)

José Reino da Costa

(2º Vice-Presidente)

Maria da Conceição Mota S. O. Callé Lucas

(Administrador)

Manuel Alfredo de Brito Gamito

(Administrador)

Jacinto Zacarias Uqueio

(Administrador)

João Manuel R. T. da Cunha Martins

(Administrador)

João Nuno Oliveira Jorge Palma
(Administrador)

Jorge Octávio Neto dos Santos
(Administrador)

Moisés Jorge
(Administrador)

Liliana Marisa Catoja da Costa Lemos
(Administrador)

Fernando Manuel Nobre de Carvalho
(Administrador)

Nuno Pedro da Silva do Carmo Vaz
(Administrador)

FINANCIAL STATEMENTS FOR 2017

Banco Internacional de Moçambique

Consolidated Income Statement

for the year ended on 31 December 2017

	Notes	2017	2016
			MZN '000
Interest and equivalent income	2	**20,719,581**	14,684,346
Interest and similar costs	2	**(8,302,368)**	(4,973,627)
Net interest income		**12,417,213**	9,710,719
Income from equity instruments	3	**1,355**	1,806
Earnings from services and commissions	4	**2,180,358**	2,129,471
Earnings from trading activity	5	**774,842**	1,749,068
Other operating income	6	**703,383**	955,955
Total operating income		**16,077,151**	14,547,019
Staff costs	7	**(2,655,699)**	(2,496,053)
Other administrative costs	8	**(2,873,903)**	(2,547,536)
Depreciation	9	**(559,635)**	(532,720)
Total operating costs		**(6,089,237)**	(5,576,309)
Loans impairment	10	**(2,003,513)**	(1,644,298)
Other provisions	11	**80,335**	(348,675)
Net (loss) / income before income tax		**8,064,736**	6,977,737
Taxes			
Current	12	**(1,895,569)**	(1,952,423)
Deferred	12	**(8,543)**	(10,817)
		(1,904,112)	(1,963,240)
Profit after income tax		**6,160,624**	5,014,497
Consolidated net income for the year attributable to:			
Shareholders of the Bank		**6,100,553**	4,950,640
Non-controlling interests		**60,069**	63,857
Net income for the year		**6,160,622**	5,014,497
Earnings per share	13	**MZN 135.57**	MZN 110.01

See accompanying notes to the consolidated financial statements.

Banco Internacional de Moçambique

Consolidated Statement of Comprehensive Income for the financial year

ended on 31 December 2017

		MZN '000
	2017	2016
Items that might be reclassified to the income statement		
Financial assets available for sale - fair value changes	**390,256**	(654,334)
	390,256	**(654,334)**
Items that will not be reclassification of net income for the year		
Actuarial gains for the year	**318,285**	(105,838)
	318,285	(105,838)
Other comprehensive income for the period after taxes	**708,541**	(760,172)
Consolidated net income for the year	**6,160,622**	5,014,497
Total Comprehensive income for the year	**6,869,163**	4,254,324
Attributable to:		
Shareholders of the Bank	**6,806,367**	4,191,393
Non-controlling interests		
Consolidated net income for the year	**60,069**	63,858
Fair value reserves	**1,021**	(256)
Taxes	**(247)**	-
Actuarial gains for the year	**1,952**	(670)
	62,795	62,931
Total Comprehensive income for the year	**6,869,163**	4,254,324

See accompanying notes to the consolidated financial statements.

Banco Internacional de Moçambique

Consolidated Balance Sheet as at 31 December 2017

MZN '000

	Notes	2017	2016
Written-off			
Cash and deposits at Banco de Moçambique	14	**18,540,507**	20,136,892
Loans and advances to other credit institutions	15	**1,244,248**	1,230,242
Deposits in banks	16	**10,149,843**	11,612,719
Loans to customers	17	**61,413,093**	78,283,110
Financial assets available for sale	18	**29,800,919**	9,582,843
Financial assets held to maturity	19	**4,861,340**	7,635,754
Investments in associated companies	20	**267,500**	267,500
Investment properties		**111,458**	97,713
Non current assets held for sale	21	**2,401,337**	993,811
Other tangible assets	22	**5,678,533**	5,354,072
Goodwill and intangible assets	23	**395,637**	352,621
Current tax assets	24	**527,595**	17,319
Deferred tax assets	25	**2,349**	10,892
Other assets	26	**1,936,935**	2,883,230
Total Assets		**137,331,294**	**138,458,718**
Liabilities			
Amounts owed to other credit institutions	27	**1,483,213**	7,778,010
Customer funds	28	**99,621,641**	97,818,868
Provisions	30	**4,613,983**	5,382,315
Current income tax liabilities	24	**-**	926,042
Deferred income tax liabilities	25	**21,930**	19,046
Other liabilities	31	**2,929,135**	3,028,067
Total Liabilities		**108,669,902**	**114,952,348**
Equity			
Share	32	**4,500,000**	4,500,000
Reserves and retained earnings	33	**23,949,109**	18,777,779
Total equity attributable to the Group		**28,449,109**	**23,277,779**
Non-controlling interests		**212,283**	228,591
Total Equity		**28,661,392**	**23,506,370**
Total equity and liabilities		**137,331,294**	**138,458,718**

See accompanying notes to the financial statements

Banco Internacional de Moçambique

Consolidated Cash Flow Statement

for the year ended on 31 December 2017

MZN '000

	Notes	2,017	2,016
Cash flow from operating activities			
Interest and commissions received		**23,694,910**	15,832,496
Interest and commissions paid		**(8,451,620)**	(5,154,071)
Payments to employees and suppliers		**(5,301,250)**	(4,977,303)
Recoveries on loans previously written off		**165,741**	61,811
Net earned premiums		**1,330,228**	1,301,819
Claims incurred		**(813,429)**	(640,271)
Operating flows before changes in operating funds		**10,624,580**	6,424,481
Increases/decreases of operating assets			
Financial assets available for sale		**(19,022,449)**	6,570,955
Deposits in banks		**2,405,838**	(5,036,368)
Deposits at Central Banks		**1,265,062**	(5,471,356)
Loans to customers		**15,728,004**	(12,495,766)
Other assets		**(492,632)**	(2,249,566)
Increases/decreases of operating liabilities			
Deposits from other credit institutions		**(6,281,401)**	3,999,691
Customer deposits and other loans		**3,360,263**	8,976,487
Other liabilities		**(77,480)**	866,999
Net cash flow from operating activities before payment of income tax		**7,509,785**	1,585,557
Income tax paid		**(3,331,887)**	(1,094,843)
Net cash flow from operating activities		**4,177,898**	490,714
Cash flow from investment activities			
Acquisition/reinforcement of holdings		**-**	(294)
Dividends received		**1,355**	1,806
Acquisition of tangible assets		**(1,008,874)**	(955,709)
Sale of tangible assets		**(5,030)**	98,882
Net cash flow from investment activities		**(1,012,549)**	(855,315)
Cash flow from financing activities			
Dividends paid		**(1,578,387)**	(1,187,020)
Net cash flow from financing activities		**(1,578,387)**	(1,187,020)
Effect of change in exchange rate on cash and cash equivalents		**(1,904,278)**	1,842,421
Decrease/increase in cash and cash equivalents		**(317,316)**	290,800
Cash and cash equivalents at the beginning of the year		**6,155,028**	5,864,228
Cash and cash equivalents at the end of the year	37	**5,837,712**	6,155,028

See accompanying notes to the financial statements

Banco Internacional de Moçambique

Consolidated Statement of Changes in Equity

for the year ended on 31 December 2017

MZN '000

	Total equity	Share	Legal reserve	Reserves and retained earnings	Total equity attributable to the Group	Non-controlling interests
Balance as at 01 January 2016	**20,471,252**	**4,500,000**	**3,344,470**	**12,428,936**	**20,273,406**	**197,846**
Transfer to the legal reserve	-	-	508,723	(508,723)	-	-
Dividends paid in 2016	(1,219,206)	-	-	(1,187,020)	(1,187,020)	(32,186)
Comprehensive income	4,254,324	-	-	4,191,393	4,191,393	62,931
Balance as at 31 December 2016	**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 of 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	-	-	6,806,367	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**	**19,419,463**	**28,449,109**	**212,283**

See accompanying notes to the financial statements

BIM - Banco Internacional de Moçambique, S.A.

Income Statement of the Bank

for the year ended on 31 December 2017

MZN '000

	Notes	2017	2016
Interest and equivalent income	2	**20,422,948**	14,420,365
Interest and similar costs	2	**(8,993,879)**	(5,233,084)
Net interest income		**11,429,069**	9,187,281
Income from equity instruments	3	**360,103**	286,935
Earnings from services and commissions	4	**2,255,660**	2,177,900
Earnings from trading activity	5	**781,354**	1,518,186
Other operating income	6	**234,387**	161,736
Total operating income		**15,060,573**	13,332,038
Staff costs	7	**(2,571,651)**	(2,401,090)
Other administrative costs	8	**(2,902,847)**	(2,587,547)
Depreciation	9	**(520,482)**	(496,576)
Total operating costs		**(5,994,980)**	(5,485,213)
Loans impairment	10	**(2,003,513)**	(1,644,298)
Other provisions	11	**124,810**	27,390
Profit before income taxes		**7,186,890**	6,229,917
Taxes			
Current	12	**(1,604,330)**	(1,709,423)
Deferred	12	**(8,543)**	(10,817)
		(1,612,873)	(1,720,240)
Net income for the year		**5,574,017**	4,509,677
Earnings per share	13	**MZN 123.87**	MZN 100.22

See accompanying notes to the financial statements

BIM - Banco Internacional de Moçambique, S.A.

Comprehensive Income Statement of the Bank

for the year ended on 31 December 2017

		MZN '000
	2017	2016
Items that will not be reclassification of net income for the year		
Financial assets available for sale - fair value changes	**377,337**	(651,791)
Items that might be reclassified to the income statement		
Actuarial gains for the year	**445,958**	64,754
Other comprehensive income for the period after taxes	**823,295**	(587,037)
Net income for the year	**5,574,017**	4,509,677
Total comprehensive income for the year	**6,397,312**	3,922,640

See accompanying notes to the financial statements

BIM - Banco Internacional de Moçambique, S.A.

Balance Sheet of the Bank as at 31 December 2017

MZN '000

	Notes	2017	2016
Written-off			
Cash and deposits at Banco de Moçambique	14	**18,540,507**	20,136,892
Loans and advances to other credit institutions	15	**1,232,643**	1,228,499
Deposits in banks	16	**10,142,888**	11,598,205
Loans to customers	17	**61,413,093**	78,283,110
Financial assets available for sale	18	**29,294,603**	8,877,880
Financial assets held to maturity	19	**4,579,489**	6,067,068
Investments in subsidiaries	20	**416,148**	356,148
Non current assets held for sale	21	**2,401,337**	993,811
Other tangible assets	22	**4,999,985**	4,721,162
Intangible assets	23	**245,037**	198,847
Current tax assets	24	**354,783**	17,319
Deferred tax assets	25	**2,349**	10,892
Other assets	26	**1,357,099**	1,289,717
Total assets		**134,979,961**	**133,779,550**
Liabilities			
Amounts owed to other credit institutions	27	**1,483,214**	7,778,010
Customer funds	28	**103,223,308**	100,686,608
Debt securities issued	29	**1,042,167**	-
Provisions	30	**526,056**	751,708
Subordinated liabilities		-	17
Current income tax liabilities	24	-	910,578
Other liabilities	31	**2,390,352**	2,156,690
Total liabilities		**108,665,097**	**112,283,611**
Equity			
Share	32	**4,500,000**	4,500,000
Reserves and retained earnings	33	**21,814,864**	16,995,939
Total Equity		**26,314,864**	**21,495,939**
Total Equity and Liabilities		**134,979,961**	**133,779,550**

See accompanying notes to the financial statements

BIM - Banco Internacional de Moçambique, S.A.

Cash Flow Statement of the Bank

for the year ended on 31 December 2017

MZN '000

	Notes	2017	2016
Cash flow from operating activities			
Interest and commissions received		**23,319,693**	15,483,181
Interest and commissions paid		**(8,992,985)**	(5,326,493)
Payments to employees and suppliers		**(5,359,323)**	(5,048,450)
Recoveries on loans previously written off		**165,741**	61,811
Operating earnings before changes in operating funds		**9,133,126**	5,170,049
Increases/decreases of operating assets			
Financial assets available for sale		**(20,834,654)**	6,901,126
Investments in credit institutions		**2,184,265**	(5,033,801)
Deposits at central banks		**1,265,062**	(5,471,356)
Loans to customers		**17,684,047**	(12,495,766)
Other assets		**(1,513,189)**	(887,849)
Increases/decreases of operating liabilities			
Deposits from other credit institutions		**(6,281,400)**	3,999,691
Customer deposits and other loans		**3,670,889**	8,845,149
Liabilities represented by securities		**1,000,000**	-
Other liabilities		**(557,704)**	1,077,473
Net cash flow from operating activities before payment of income tax		**5,750,442**	2,104,716
Income tax paid		**(1,941,794)**	(1,760,828)
Net cash flow from operating activities		**3,808,648**	343,888
Cash flow from investment activities			
Purchase of holdings		**(60,000)**	
Dividends received		**360,103**	286,935
Acquisition of tangible assets		**(946,636)**	(834,658)
Values received from the sale of tangible assets		**(6,611)**	14,611
Net cash flow from investment activities		**(653,144)**	(533,112)
Cash flow from financing activities			
Dividends paid		**(1,578,387)**	(1,187,020)
Repayment of subordinated debt		**(17)**	(175,619)
Net cash flow from financing activities		**(1,578,404)**	(1,362,639)
Effect of change in exchange rate on cash and cash equivalents		**(1,904,278)**	1,842,421
Decrease/increase in cash and cash equivalents		**(327,178)**	290,558
Cash and cash equivalents at the beginning of the period		**6,153,285**	5,862,727
Cash and cash equivalents at the end of the period	37	**5,826,107**	6,153,285

See accompanying notes to the financial statements

BIM - Banco Internacional de Moçambique, S.A.

Statement of Changes in Equity of the Bank

for the year ended on 31 December 2017

MZN '000

	Total equity	Share	Legal reserve	Reserves and retained earnings
Balance as at 01.01.16	**18,760,319**	**4,500,000**	**3,344,470**	**10,915,849**
Transfer to the legal reserve	-	-	508,723	(508,723)
Dividends paid in 2016	(1,187,020)	-	-	(1,187,020)
Comprehensive income	3,922,640	-	-	3,922,640
Balance as at 31.12.16	**21,495,939**	**4,500,000**	**3,853,193**	**13,142,746**
Transfer to the 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**

See accompanying notes to the financial statements

BIM - Banco Internacional de Moçambique, S.A.

ANNUAL REPORT MILLENNIUM BIM 2017 - 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 (collectively "Group").

The Group and the Bank present financial statements that reflect the earnings of its operations for the financial year ended on 31 December 2017.

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).

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 2017.

All references in this document related to any rules always refer to the current version.

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 consolidated and individual financial statements are presented in Meticais, which is the functional currency of the Group and Bank. All the values 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 note u).

1. Accounting policies

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

a) Basis of consolidation

As from 1 January, 2010, the Group applied IFRS 3 (revised) for the accounting of business combinations. 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 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.

b) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date they are originated. All other financial instruments (including regular purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes part of the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, for an item not at fair value through profit or loss.

(ii) Classification

The Bank classifies its financial assets in the following categories:

- Loans and debtors;
- Held to maturity;
- Available for sale; and
- At fair value through profit or loss, and in this category:
- Held for trading; or
- At fair value through profit or loss.

The Bank classifies its financial liabilities that are not financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the asset's cash flow expire, or transfers the rights to receive the contractual cash flow in a transaction in which substantially all risks and benefits of the financial asset ownership are transferred or when the Bank neither transfers nor retains substantially all risks and benefits of ownership and does not retain control of the financial asset.

On the derecognition of a financial asset, the difference between the book value of the asset (or the book value allocated to the part of the derecognised asset) is the sum of:

(i) the consideration received (including any new asset obtained minus any new liability assumed) and

(ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition and are created or retained by the Bank, are recognised as a separate asset or liability.

The Bank operates in transferring the assets recognised in the Balance Sheet, but retains all or substantially all risks and benefits of the transferred assets or a part of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities borrowing and lending business and repurchase transactions.

When assets are sold to third parties, with a simultaneous swap rate of return on the transferred assets, the transaction will be accounted for as a financing transaction, warranted as a sale and repurchase transaction, because the Bank retains all or substantially all risks and benefits for the ownership of such assets.

In transactions where the Bank does not retain or transfer substantially all risks and benefits of ownership of the financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank continues to have the obligation to establish for the transferred financial asset in exchange for fees. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the maintenance agreement if the maintenance fee is more than adequate (asset) or is less than adequate (liability) for performing the maintenance.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are met, cancelled or when they expire.

(iv) Offset

Financial assets and liabilities are offset, and the net amount presented in the Balance Sheet when, and only when, the Bank has the legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenue and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions as in the Bank's commercial activity.

(v) Measurement of amortised cost

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

(vi) Measurement of fair value

"Fair value" is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the time of initial measurement or, in its absence, in the most advantageous active market to which the Bank has access on that date. The fair value of a liability reflects its default risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered active when the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of observable relevant data and minimise the use of unobservable data. The chosen valuation technique incorporates all factors that market participants take into account when determining the price of a transaction.

The best evidence of fair value of a financial instrument on initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to take into account the difference between the fair value on initial recognition and the transaction price. Later, this difference is recognised in profit or loss on an appropriate basis over the instrument's life, but at the latest when the valuation is fully supported by observable market data or the transaction is closed.

If an asset or liability measured at fair value has a purchase price and a selling price, then the Bank measures assets and long positions at an offer price, and liabilities and short positions at a selling price.

The portfolios of financial assets and liabilities that are exposed to market risk and credit risk, which are managed by the Bank on the basis of the net exposure to markets or the credit risk is measured based on the price that would be received to sell a long net position (or paid to transfer a short net position) for a particular risk exposure. These portfolio-level adjustments are allocated to the individual assets and liabilities based on risk adjustment for each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which payment of the amount could be required.

The Bank recognises transfers between levels of fair value hierarchy as of the end of the reporting period in which the change occurs.

The Bank classifies its financial assets under the following categories:

1) Loans to Customers

The heading of Loans to Customers includes loans derived from the Bank 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) use of impairment losses when they correspond to 100% of the value of the loans; (ii) the contractual rights of the Group expire or (iii) the Group has substantially transferred all the risks and benefits associated to these loans.

Subsequent recoveries of these loans are recorded as a reduction of impairment losses for the year when they occur.

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

2) Financial assets available for sale

Financial assets available for sale are 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.

Financial assets available for sale are subsequently measured at their fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. In the sale of the financial assets available for sale, the accumulated gains or losses recognised as fair value reserves are recorded under Earnings from financial assets available for sale in the income statement.

The interest from debt instruments is recognised based on the effective interest, considering the expected useful life of the asset. In situations where there is premium or discount associated to the assets, the premium or discount is accrued monthly to maturity and recognised in the corresponding cost/income accounts as interest which is the expression of the effective rate in a linear manner. Dividends are recognized in the income statement when the right to receive the dividends is attributed.

3) 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 Bank has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit or loss or financial assets available for sale. These Financial Assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognized in Net interest income. The impairment losses are recognized in profit or loss when identified.

Any reclassification or sale of financial assets included in this category that occurs close to its maturity, or in case it does not fall under the exceptions foreseen in the rules, necessarily requires the Bank to reclassify the entire portfolio to assets available for sale and the Bank will not be allowed to classify any assets under this category for the following two years.

4) 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.

These financial liabilities are initially recognized at fair value and subsequently at the amortized cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognised under net interest income.

The financial gains or losses calculated in the time of the repurchase of other financial liabilities are recognised as "Earnings from trading activity" when they occur.

Impairment of financial instruments

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, such as: (i) for listed securities, a prolonged devaluation or a significant decrease in its quotation price, and (ii) for unlisted securities, when this event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reasonably. According to the Group's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation, and the period of 1 year is assumed as a prolonged decrease in fair value below acquisition cost.

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 financial assets available for sale is recognised as a gain in fair value reserves when it occurs (if there are no reversal in the income statement).

The policy of impairment of the Customer loan portfolio is described below.

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.

(i) 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 Bank 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 ranking of all creditor claims;
- The expected amount and timing of recoveries.

Impairment losses are calculated by comparing the present value of the expected future cash flow discounted at the original effective interest rate of each contract and the book value of each loan, where losses are stated against profit or loss.

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

For loans with a variable interest rate, the discount rate used corresponds to the effective annual interest rate, which was applicable in the period that the impairment was determined.

The present value of the estimated future cash flow of an asset-backed loan corresponds to the cash flow that may arise from the recovery and sale of the collateral, minus any costs inherent to its recovery and sale.

Loans which do not comply with the classification requirements for individual analysis are grouped into portfolios with similar credit risk characteristics and assessed collectively.

(ii) 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 (parametric analysis); or
- In respect of losses which have been incurred but have not yet been identified (IBNR) on loans for which there is no objective evidence of impairment (see paragraph (i) above).

The collective impairment loss is determined considering the following factors:

- Historical experience of loss in portfolios with similar risk characteristics;
- Knowledge of the current economic and credit conditions and its influence on the level of historical losses; and
- The estimated period between the occurrence of the loss and its identification.

The methodology and assumptions used to estimate the future cash flow are reviewed regularly by the Bank in order to monitor the differences between the estimated and real losses.

Loans for which no objective evidence of impairment has been identified are grouped together based on similar credit risk characteristics for the purpose of calculating the collective impairment losses. This analysis allows the Bank to recognise losses whose identification, in individual terms, will only occur in future periods.

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 are recognized in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity 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 in a future date are not be 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) Non-current assets held for sale

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) Leasing

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 of 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

Interest income and expense for financial instruments measured at amortized cost are recognized in the interest income or expenses (net interest income) according to the effective interest rate method.

The interest related to financial assets available for sale calculated at the effective interest rate method are also recognised in net interest income as well as those from assets and liabilities at fair value through profit or loss.

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, except for assets and liabilities at fair value through profit or loss.

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.

h) Recognition of Earnings from services and commissions

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.

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) Other tangible assets

Property and equipment 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

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

i) Intangible assets

Other intangible assets acquired by the Group 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 values recorded in the balance sheet with maturity less than three months counted as of the reporting date, which include cash and deposits in other credit institutions.

Cash and cash equivalents exclude the compulsory deposits at Banco de Moçambique.

n) Foreign currency transactions

Transactions in foreign currencies are translated into the respective 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 Banco de Moçambique 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 already receiving a retirement pension attributed by the National Social Security Institute (INSS) or should the Executive Commission decide so.

The Group's net liability related to the defined pension plan is estimated annually, as at 31 December.

The Group’s net liability relative to the plan is calculated through estimation of the value of the future benefits that each employee should receive in return for their work during the current period and past periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

The net liability is determined after deduction of the fair value of the assets covering the liabilities.

The Group calculates the interest income/cost related to the pension plan by multiplying the net asset/liability related to retirement pensions (liabilities minus the fair value of the fund’s assets) by the discount rate used to determine the liabilities related to the aforesaid plan. On this basis, the net income/cost of interest includes the cost of interest associated to retirement pension liabilities and the expected income of the fund’s assets, where both are measured based on the discount rate used to calculate the liabilities.

Measurement gains and losses, namely (i) actuarial gains and losses, arising from differences between the actuarial assumptions used and the values that are actually observed (experience gains and losses) and from changes to actuarial assumptions, and (ii) gains and losses arising from the difference between the expected income of the assets and the values obtained, are recognised against equity under the heading of other comprehensive income.

The Group recognises, in its income statement, a net total value which includes: (i) the current service cost, (ii) the net income/cost of interest related to the pension plan, (iii) the effect of early retirement, (iv) costs related to past services and (v) the effects of any settlement or cut occurred in the period. The net income/ cost of the pension plan is recognised as interest and similar income or interest and similar costs, according to their nature. Costs related to early retirement correspond to the increased liabilities arising from retirement occurring before the employee has reached retirement age.

(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 financial assets available for sale).

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 ongoing 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 value 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 values of costs 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) Accounting estimates in the application of accounting policies

IFRS set forth a range of accounting treatments that require the Executive Committee and management 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 equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the volatility in the prices of the financial assets. According to the Group's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation, and the period of 1 year is assumed as a prolonged decrease in fair value below acquisition cost.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

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

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis, as described in Note 1 c).

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 different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the consolidated income statement of the Group.

Entities included in the consolidation perimeter

To determine the entities to be included in the consolidation perimeter, the Group assesses to what extent 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 (de facto control).

The determination of the entities that need to be consolidated by the Group requires the use of judgement, assumptions and estimates in determining to what extent the Group is exposed to the variability of return and to the ability to take over those entities through its power.

Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in consolidated net income.

Income taxes

The Group is subject 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 four years or six years, in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, 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 at the level of the financial statements.

Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

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.

2. Net interest income

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Interest and equivalent income				
Interest on loans and advances	**15,233,154**	12,329,074	**15,233,154**	12,329,074
Interest on deposits and other investments	**468,212**	158,961	**451,526**	155,139
Interest on securities available for sale	**4,153,733**	2,130,515	**4,022,562**	1,870,357
Interest on held to maturity securities	**864,482**	65,796	**715,706**	65,795
	20,719,581	14,684,346	**20,422,948**	14,420,365
Interest and similar costs				
Interest on deposits and other funds	**8,290,702**	4,971,805	**8,940,046**	5,214,164
Interest on securities issued	**-**	-	**42,167**	17,099
Other similar costs and interest	**11,666**	1,822	**11,666**	1,821
	8,302,368	4,973,627	**8,993,879**	5,233,084
Net interest income	**12,417,213**	9,710,719	**11,429,069**	9,187,281

3. Income from equity instruments

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Income from investments in subsidiaries	**-**	-	**360,103**	286,935
Income from securities available for sale	**1,355**	1,806	**-**	-
	1,355	1,806	**360,103**	286,935

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 commissions

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Services rendered				
From guarantees provided	**642,159**	694,034	**642,159**	694,034
From banking services rendered	**1,109,984**	920,585	**1,149,782**	976,086
Insurance activity commissions	**75,596**	86,114	**-**	-
Other commissions	**739,466**	782,604	**739,466**	782,604
	2,567,205	2,483,337	**2,531,407**	2,452,724
Services received				
From guarantees provided	**57,564**	43,642	**57,564**	43,642
From banking services rendered	**531**	1,075	**58**	1,074
Insurance activity commissions	**110,627**	79,041	**-**	-
Other commissions	**218,125**	230,108	**218,125**	230,108
	386,847	353,866	**275,747**	274,824
Earnings from services and commissions	**2,180,358**	2,129,471	**2,255,660**	2,177,900

5. Earnings from trading activity

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Profits from financial transactions				
Foreign exchange transactions	**1,038,173**	2,007,075	**859,840**	1,410,226
Other transactions	**34,854**	148,514	**11,776**	142,671
	1,073,027	2,155,589	**871,616**	1,552,897
Losses from financial transactions				
Foreign exchange transactions	**298,185**	404,270	**90,262**	32,460
Other transactions	**-**	2,251	**-**	2,251
	298,185	406,521	**90,262**	34,711
	774,842	1,749,068	**781,354**	1,518,186

6. Other operating income

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Other operating income				
Income from real estate properties	**27,333**	9,513	**20,417**	2,359
Income from services	**8,967**	7,985	**162,733**	80,003
Reimbursement of expenses	**146,167**	148,596	**146,190**	148,632
Insurance premiums	**1,330,228**	1,301,819	**-**	-
Other operating income	**325,664**	201,470	**16,400**	34,162
	1,838,359	1,669,383	**345,740**	265,156
Other operating costs				
Taxes	**33,392**	43,559	**31,467**	41,162
Donations and levies	**15,798**	14,372	**15,384**	14,012
Costs related to claims	**1,017,098**	602,472	**-**	-
Other operating costs	**68,688**	53,025	**64,502**	48,246
	1,134,976	713,428	**111,353**	103,420
	703,383	955,955	**234,387**	161,736

In December 2017, the value of other operating income in the Group includes the recognition in the consolidated amount of positive actuarial deviations of the value of 222,481 thousand Meticais (2016: 156,826 thousand Meticais).

7. Staff costs

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Remunerations	**2,537,218**	2,380,619	**2,341,882**	2,201,481
Mandatory social security charges	**89,965**	77,079	**82,819**	70,775
Voluntary social security charges	**4,166**	20,565	**124,194**	120,877
Other staff costs	**24,350**	17,790	**22,756**	7,957
	2,655,699	2,496,053	**2,571,651**	2,401,090

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

	Group		Bank	
	2017	2016	**2017**	2016
Senior management	**132**	163	**116**	143
Specific /Technical staff	**877**	947	**798**	862
Other positions	**1,339**	1,416	**1,293**	1,369
	2,348	2,526	**2,207**	2,374

The total value of the remunerations attributed by the Group and Bank to the Management and Supervisory bodies during the year ended on 31 December 2017, recorded under the heading of Remunerations, stood at 319,523 thousand Meticais and 290,526 thousand Meticais, respectively (2016: 283,996 thousand Meticais and 258,158 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 2017 of the value of 21,757 thousand Meticais and 8,281 thousand Meticais, respectively (2016: 59,884 thousand Meticais and 54,496 thousand Meticais).

8. Other administrative costs

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Water, electricity and fuel	**128,668**	88,249	**123,392**	83,927
Consumables	**158,014**	144,719	**152,175**	138,162
Hire and rental charges	**289,149**	278,034	**352,013**	339,430
Communications	**225,975**	179,765	**221,397**	176,072
Travel, hotel and representation costs	**83,885**	71,082	**82,349**	67,831
Advertising	**115,968**	121,841	**99,397**	109,019
Costs related to independent work	**148,917**	110,827	**116,164**	86,880
Maintenance and repair	**169,834**	176,623	**161,606**	167,207
Insurance	**11,526**	8,538	**89,648**	82,454
Legal and notary services	**11,093**	11,882	**10,950**	11,834
IT and Consulting	**1,242,960**	1,106,025	**1,209,917**	1,078,049
Security and surveillance	**135,637**	114,280	**131,566**	111,010
Cleaning of premises	**35,010**	30,104	**35,010**	30,104
Transport of values	**91,243**	81,546	**91,243**	81,546
Staff training	**23,632**	21,186	**23,632**	21,186
Other third party services	**2,392**	2,835	**2,388**	2,836
	2,873,903	2,547,536	**2,902,847**	2,587,547

9. Depreciation

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Intangible assets				
Software	**72,333**	70,117	**67,784**	64,958
Tangible assets				
Real estate properties	**149,619**	141,469	**132,455**	124,305
Equipment	**337,661**	321,105	**320,220**	307,285
Furniture	**30,865**	26,686	**28,940**	25,178
Office equipment	**7,265**	8,027	**7,211**	7,976
Computer equipment	**155,389**	145,781	**154,366**	144,553
Interior installations	**60,136**	53,955	**59,408**	53,228
Motor vehicles	**54,318**	55,022	**42,174**	46,389
Security equipment	**26,666**	28,501	**26,666**	28,501
Other equipment	**3,022**	3,133	**1,455**	1,460
Other tangible assets	**23**	28	**23**	28
	487,303	462,602	**452,698**	431,618
	559,636	532,719	**520,482**	496,576

10. Loans impairment

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Loans granted to customers				
Net allocation for the year	**2,169,254**	1,706,110	**2,169,254**	1,706,110
Recovery of loans and interest written off from assets	**(165,741)**	(61,812)	**(165,741)**	(61,812)
	2,003,513	1,644,298	**2,003,513**	1,644,298

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 c).

11. Other provisions

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Provisions for indirect credit risks				
Impairment for the year	**143,080**	95,369	**143,080**	95,369
Write-back for the year	**(424,009)**	(149,956)	**(424,009)**	(149,956)
Provisions for general banking risks				
Impairment for the year	**46,902**	5,469	**46,902**	5,469
Write-back for the year	**(435)**	-	**(435)**	-
Other provisions				
Impairment for the year	**47,092**	21,438	**47,092**	21,438
Insurance technical provisions				
Impairment for the year	**11,163**	354,286	**-**	-
Provisions for other assets				
Impairment for the year	**33,312**	21,779	**-**	-
Provisions for non-current assets held for sale				
Impairment for the year	**65,179**	290	**65,179**	290
Write-back for the year	**(2,619)**	-	**(2,619)**	-
	(80,335)	348,675	**(124,810)**	(27,390)

12. Taxes

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Current tax	**1,895,569**	1,952,423	**1,604,330**	1,709,423
Deferred tax				
Tangible assets	**8,543**	10,817	**8,543**	10,817
Total tax costs	**1,904,112**	1,963,240	**1,612,873**	1,720,240
Reconciliation of the effective tax cost				
Net (loss) / income before income tax	**8,064,736**	6,977,737	**7,186,890**	6,229,917
Current taxes	**2,622,362**	2,300,704	**2,299,805**	2,014,295
Tax adjustments:				
Impact of non-deductible expenses	**22,164**	32,388	**21,093**	30,963
Impact of non-deductible costs	**40,571**	23,178	**38,440**	22,047
Revenue exempt from tax or not taxable	**(21,098)**	(9,663)	**(21,098)**	(9,663)
Amortisation of deferred cost	**(9,459)**	(26,025)	**(9,459)**	(26,025)
Impact of actuarial deviations	**71,440**	-	**-**	-
Tax benefits	**(132,454)**	(91,819)	**(115,233)**	(91,819)
Income from securities from Public Debt - withholding tax	**(1,847,427)**	(735,197)	**(1,624,579)**	(613,107)
Tax at withholding interest rate from Public Debt	**1,149,470**	458,857	**1,015,362**	382,731
Tax cost	**1,895,569**	1,952,423	**1,604,330**	1,709,423

13. Earnings per share

MZN

	Group 2017	Group 2016	Bank 2017	Bank 2016
Net income	**6,100,553,013**	**4,950,639,079**	**5,574,017,036**	**4,509,677,050**
Number of shares	**45,000,000**	**45,000,000**	**45,000,000**	**45,000,000**
Earnings per share	**135.57**	110.01	**123.87**	100.22

14. Cash and deposits at Banco de Moçambique

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Cash	**4,593,464**	4,924,787	**4,593,464**	4,924,787
Banco de Moçambique	**13,947,043**	15,212,105	**13,947,043**	15,212,105
	18,540,507	20,136,892	**18,540,507**	20,136,892

The balance of deposits at Banco de Moçambique seek 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 constitution of cash reserves, pursuant to Banco de Moçambique Notice number 12/GBM/2017 establishes the maintenance of a deposit balance at Banco de Moçambique, equivalent to 14.0% of the daily average amount of deposits and other liabilities (2016: 15.5%).

15. Loans and advances to other credit institutions

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Domestic credit institutions	**84,206**	63,918	**72,601**	62,175
Credit institutions abroad	**1,160,042**	1,166,324	**1,160,042**	1,166,324
	1,244,248	1,230,242	**1,232,643**	1,228,499

The heading of Deposits in credit institutions in the country includes collectible values of 72,601 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 2017. (2016: 47,506 thousand Meticais).

Breakdown of Deposits in other credit institutions abroad by currency:

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
USD	**268,378**	394,181	**268,378**	394,181
CAD	**10,748**	1,199	**10,748**	1,199
ZAR	**14,451**	44,105	**14,451**	44,105
DKK	**743**	2,666	**743**	2,666
GBP	**15,020**	9,279	**15,020**	9,279
JPY	**488**	944	**488**	944
NOK	**1,780**	58,888	**1,780**	58,888
SFK	**838**	3,472	**838**	3,472
CHF	**4,754**	8,656	**4,754**	8,656
EUR	**841,150**	640,537	**841,150**	640,537
AUD	**1,692**	2,397	**1,692**	2,397
	1,160,042	1,166,324	**1,160,042**	1,166,324

16. Deposits in banks

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Investments in domestic credit institutions	**3,656,258**	949,927	**3,649,303**	935,413
Investments in credit institutions abroad	**6,493,585**	10,662,792	**6,493,585**	10,662,792
	10,149,843	11,612,719	**10,142,888**	11,598,205

17. Loans to Customers

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Asset-backed loans	**787,979**	1,427,509	**787,979**	1,427,509
Personal guaranteed loans	**54,404,327**	58,742,015	**54,404,327**	58,742,015
Unsecured loans	**1,039,457**	5,472,722	**1,039,457**	5,472,722
Public sector	**5,723,189**	12,436,331	**5,723,189**	12,436,331
Loans under financial leasing	**2,188,652**	2,853,661	**2,188,652**	2,853,661
Factoring	**68,096**	84,153	**68,096**	84,153
	64,211,700	81,016,391	**64,211,700**	81,016,391
Overdue loans - less than 90 days	**340,640**	420,841	**340,640**	420,841
Overdue loans - more than 90 days	**3,431,748**	2,992,639	**3,431,748**	2,992,639
	67,984,088	84,429,871	**67,984,088**	84,429,871
Impairment for credit risks	**(6,570,995)**	(6,146,761)	**(6,570,995)**	(6,146,761)
	61,413,093	78,283,110	**61,413,093**	78,283,110

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

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Short term				
Loans represented by discounted bills	**337,117**	1,721,059	**337,117**	1,721,059
Current account credits	**2,699,233**	6,211,731	**2,699,233**	6,211,731
Overdrafts	**884,961**	2,478,355	**884,961**	2,478,355
Loans	**12,527,630**	23,564,132	**12,527,630**	23,564,132
Mortgage loans	**504**	625	**504**	625
Finance leases	**92,582**	122,385	**92,582**	122,385
Factoring	**68,096**	84,153	**68,096**	84,153
	16,610,123	34,182,440	**16,610,123**	34,182,440
Medium and long term				
Loans represented by discounted bills				
Loans	**45,506,011**	44,103,301	**45,506,011**	44,103,301
Mortgage loans	**109,322**	124,410	**109,322**	124,410
Finance leases	**1,986,244**	2,606,240	**1,986,244**	2,606,240
	47,601,577	46,833,951	**47,601,577**	46,833,951
Overdue loans - less than 90 days	**340,640**	420,841	**340,640**	420,841
Overdue loans - more than 90 days	**3,431,748**	2,992,639	**3,431,748**	2,992,639
	3,772,388	3,413,480	**3,772,388**	3,413,480
Impairment for credit risks	**(6,570,995)**	(6,146,761)	**(6,570,995)**	(6,146,761)
	61,413,093	78,283,110	**61,413,093**	78,283,110

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

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Agriculture and forestry	**2,860,710**	3,402,416	**2,860,710**	3,402,416
Mining	**647,329**	1,365,694	**647,329**	1,365,694
Food, beverage and tobacco	**779,748**	771,038	**779,748**	771,038
Textiles	**5,459**	5,857	**5,459**	5,857
Printing and publishing	**59,361**	171,790	**59,361**	171,790
Chemicals	**2,373,031**	2,393,956	**2,373,031**	2,393,956
Machinery and equipment	**1,711,724**	2,135,700	**1,711,724**	2,135,700
Electricity, water and gas	**5,648,664**	7,056,066	**5,648,664**	7,056,066
Construction	**6,632,640**	6,766,553	**6,632,640**	6,766,553
Trade	**9,415,623**	11,255,722	**9,415,623**	11,255,722
Restaurants and hotels	**850,775**	1,164,713	**850,775**	1,164,713
Transport and communications	**4,159,759**	4,961,267	**4,159,759**	4,961,267
Services	**12,867,000**	14,835,181	**12,867,000**	14,835,181
Consumer credit	**11,725,662**	15,154,017	**11,725,662**	15,154,017
Mortgage loans	**804,358**	958,726	**804,358**	958,726
Mozambican State	**5,759,195**	10,385,380	**5,759,195**	10,385,380
Other activities	**1,683,050**	1,645,795	**1,683,050**	1,645,795
	67,984,088	84,429,871	**67,984,088**	84,429,871
Impairment for credit risks	**(6,570,995)**	(6,146,761)	**(6,570,995)**	(6,146,761)
	61,413,093	78,283,110	**61,413,093**	78,283,110

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

	2017	2016
Agriculture and forestry	**463,004**	2,430,524
Mining	**934,790**	-
Food, beverage and tobacco	**2,678**	2,628
Textiles	**4,956**	4,816
Printing and publishing	**9,100**	7,287
Chemicals	**-**	17,485
Machinery and equipment	**438,875**	146,679
Electricity, water and gas	**38,066**	23,817
Construction	**862,002**	623,420
Trade	**6,868,730**	351,170
Restaurants and hotels	**144,686**	334,882
Transport and communications	**6,290,361**	465,489
Services	**3,036,017**	79,148
Consumer credit	**452,197**	248,711
Mortgage loans	**-**	6,276
Other activities	**23,187**	764,610
	19,568,649	5,506,942

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

MZN '000

	2017	2016
Asset-backed loans	**22,103**	12,909
Personal guaranteed loans	**3,437,335**	3,135,107
Unsecured loans	**38,927**	28,820
Public sector	**13,171**	310
Loans under financial leasing	**260,852**	236,334
Factoring	**-**	-
	3,772,388	3,413,480

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

MZN '000

	2017	2016
Agriculture and forestry	**343,853**	195,573
Mining	**41,481**	718
Food, beverage and tobacco	**30,942**	31,609
Textiles	**9**	17
Printing and publishing	**3,574**	8,172
Chemicals	**4,946**	133,623
Machinery and equipment	**24,096**	16,579
Electricity, water and gas	**1,477**	6,413
Construction	**294,814**	127,432
Trade	**523,455**	365,503
Restaurants and hotels	**75,406**	61,333
Transport and communications	**784,698**	808,785
Services	**547,485**	130,168
Consumer credit	**952,637**	1,462,664
Mortgage loans	**22,103**	12,702
Mozambican State	**18,676**	6,068
Other activities	**102,736**	46,121
	3,772,388	3,413,480

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

MZN '000

	Group		**Bank**	
	2017	2016	**2017**	2016
Balance on 1 January	**6,146,761**	4,177,409	**6,146,761**	4,177,409
Net allocation for the year	**2,169,254**	1,784,978	**2,169,254**	1,784,978
Amounts charged-off	**(1,391,029)**	(404,250)	**(1,391,029)**	(404,250)
Exchange rate differences	**(353,991)**	588,624	**(353,991)**	588,624
Balance on 31 December	**6,570,995**	6,146,761	**6,570,995**	6,146,761

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	436,564	1,033,351	2,263,546	3,733,461
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				(4,469,562)
Total impairment for credit risks				**(6,570,995)**

The table below shows the breakdown of impairment for credit risks by default category as at 31 December 2016:

MZN '000

	Classes of overdue			
	Up to 6 months	**6 months to 1 year**	**Over 1 year**	**Total**
Secured overdue loans	517,333	240,468	2,633,929	3,391,730
Existing impairment	(100,469)	(127,819)	(1,823,329)	(2,051,617)
Unsecured overdue loans	1,915	14,717	5,118	21,750
Existing impairment	(569)	(7,511)	(4,130)	(12,210)
Total overdue loans	**519,248**	**255,185**	**2,639,047**	**3,413,480**
Total impairment for overdue loans	(101,038)	(135,330)	(1,827,459)	(2,063,827)
Total impairment for outstanding loans				(4,082,933)
Total impairment for credit risks				**6,146,761**

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

MZN '000

	2017	2016
Agriculture and forestry	**1,223,461**	1,197,856
Mining	**16,498**	27,364
Food, beverage and tobacco	**20,733**	20,264
Textiles	**3,478**	130
Printing and publishing	**7,481**	10,523
Chemicals	**51,194**	49,994
Machinery and equipment	**42,102**	151,230
Electricity, water and gas	**129,843**	146,792
Construction	**546,243**	370,078
Trade	**584,993**	405,143
Restaurants and hotels	**74,229**	56,902
Transport and communications	**842,329**	652,554
Services	**1,029,485**	585,070
Consumer credit	**1,582,728**	2,144,463
Mortgage loans	**52,907**	62,393
Mozambican State	**132,242**	207,797
Other activities	**231,049**	58,208
	6,570,995	6,146,761

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

MZN '000

	2017	2016
Asset-backed loans	**54,943**	74,249
Personal guaranteed loans	**6,002,936**	5,315,774
Unsecured loans	**91,261**	119,079
Public sector	**128,560**	248,816
Loans under financial leasing	**291,933**	387,160
Factoring	**1,362**	1,683
	6,570,995	6,146,761

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

MZN '000

	2017	2016
Agriculture and forestry	**205**	-
Food, beverage and tobacco	**14,780**	-
Machines and equipment	**84**	7,248
Construction	**293,580**	-
Trade	**7,741**	-
Restaurants and hotels	**966**	-
Transport and communications	**1,503**	-
Services	**29,548**	-
Consumer credit	**1,026,777**	74,017
Other activities	**15,845**	322,985
	1,391,029	404,250

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

MZN '000

	2017	2016
Personal guaranteed loans	**1,275,438**	344,767
Unsecured loans	**115,591**	59,483
	1,391,029	404,250

The recovery of annulled loans and interest during the year or in previous years, carried out during 2017, presented by type of credit, is as follows:

MZN '000

	2017	2016
Personal guaranteed loans	**146,288**	26,954
Unsecured loans	**19,453**	34,857
	165,741	61,811

18. Financial assets available for sale

The heading of Financial assets available for sale is analysed as follows:

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Bonds and other fixed income securities				
Issued by Government and public entities	**29,743,765**	9,519,052	**29,269,627**	8,852,812
Issued by other entities	**-**	6,591	**-**	-
	29,743,765	9,525,643	**29,269,627**	8,852,812
Shares and other variable income securities	**64,252**	64,298	**32,074**	32,166
Impairment of shares and other variable income securities	**(7,098)**	(7,098)	**(7,098)**	(7,098)
	29,800,919	9,582,843	**29,294,603**	8,877,880

The heading of Securities available for sale essentially corresponds to securities issued by the State of Mozambique, in particular Treasury Bills and Treasury Bonds.

There were no movements of impairment of the portfolio of financial assets available for sale.

19. Financial assets held to maturity

MZN '000

	Group		Bank	
	2016	2015	**2016**	2015
Bonds and other securities held to maturity				
Issued by Government and public entities	**4,861,340**	**7,635,754**	**4,579,489**	**6,067,068**
	4,861,340	7,635,754	**4,579,489**	6,067,068

The heading of financial assets held to maturity is essentially composed of Treasury Bills issued by the Mozambican State with a fixed yield.

20. Investments in subsidiaries and associates

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Subsidiary:				
Seguradora Internacional de Moçambique, S.A	**-**	**-**	**416,148**	356,148
	-	**-**	**416,148**	356,148

The investment in the subsidiary Seguradora Internacional de Moçambique S.A., of the value of 416,148 thousand Meticais, corresponds to the acquisition cost of the holding. As at 31 December 2017, the equity of the subsidiary amounted to 3,936,255 thousand Meticais (as at 31 December 2016: 3,808,084 thousand Meticais).

As at 31 December 2017, 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 Banco de Moçambique and in compliance with Notice nr. 08/GBM/2007, the Bank consolidates through the Equity method.

The Group's stake in SIM – Seguradora Internacional de Moçambique changed in relation to the previous year derived from the Group's acquisition, on 5 January 2017, of 30,716 shares representing 2.0824% of TDM's holding in SIM of the total value of 60 million Meticais.

As at 31 December 2017, the Group's percentage holding in the associates is demonstrated as follows:

MZN '000

Associate	Head office	Share Capital	Economic Activity	Effective holding (%)		Book Balance sheet	
				2017	2016	2017	2016
Constellation, S.A.	Maputo	1,053,500	Management Real estate	17,98	17,98	250.208	250.208
Beira Nave	Beira	2,850	Shipyards	20,54	20,54	17.292	17.292
						267.500	267.500

21. Non-current assets held for sale

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Investments due to recovered loans				
Real estate properties	**1,514,763**	1,164,677	**1,514,763**	1,164,677
Equipment and other	**1,125,253**	8,845	**1,125,253**	8,845
	2,640,016	1,173,522	**2,640,016**	1,173,522
Impairment	**(238,679)**	(179,711)	**(238,679)**	(179,711)
	2,401,337	993,811	**2,401,337**	993,811

The growth of this heading essentially corresponds to payment in kind received from ADC S.A. of the value of 1,120,000 thousand Meticais.

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

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Balance on 1 January	**179,711**	179,421	**179,711**	179,421
Impairment for the year	**65,179**	290	**65,179**	290
Reversal for the year	**(2,619)**	-	**(2,619)**	-
Uses	**(3,591)**	-	**(3,591)**	-
Balance at the end of the year	**238,679**	179,711	**238,679**	179,711

22. Other tangible assets

The movements under the heading of Other tangible assets during 2017, for the Group and for the Bank, are analysed as follows:

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Real estate properties	**4,160,806**	4,085,755	**3,327,604**	3,307,212
Works in rented buildings	**930,628**	727,905	**930,628**	727,905
Equipment				
Furniture	**351,330**	304,148	**338,903**	297,699
Office equipment	**120,693**	112,973	**117,281**	109,646
Computer equipment	**1,711,158**	1,528,868	**1,693,744**	1,515,637
Interior installations	**738,970**	644,849	**732,200**	638,079
Motor vehicles	**403,962**	377,644	**340,011**	322,646
Security equipment	**290,148**	253,691	**290,148**	253,691
Other tangible assets	**39,621**	36,165	**26,103**	24,933
Investments in progress	**439,007**	378,455	**438,143**	378,456
	9,186,321	8,450,453	**8,234,765**	7,575,904
Accumulated depreciation and impairment	**(3,507,788)**	(3,096,381)	**(3,234,780)**	(2,854,742)
	5,678,533	5,354,072	**4,999,985**	4,721,162

The movements under the heading of Other 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	3,305	30	120	39,621
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 movements under the heading of Other tangible assets during 2016, for the Group, are analysed as follows:

MZN '000

	Balance as at 1 January 2016	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2016
Cost					
Real estate properties	4,112,886	14,684	(59,658)	17,843	4,085,755
Works in rented buildings	732,581	16,030	(43,384)	22,678	727,905
Equipment					
Furniture	324,454	21,197	(82,920)	41,417	304,148
Office equipment	148,341	3,238	(38,606)	-	112,973
Computer equipment	1,571,881	91,840	(163,648)	28,796	1,528,868
Interior installations	678,093	51,430	(86,904)	2,230	644,849
Motor vehicles	412,871	32,169	(67,396)	-	377,644
Security equipment	261,308	25,347	(31,676)	(1,288)	253,691
Other tangible assets	55,144	3,380	(22,358)	-	36,166
Fixed assets in progress	155,507	339,125	(4,501)	(111,676)	378,455
	8,453,065	598,439	(601,051)	-	8,450,453
Accumulated depreciation					
Real estate properties	(401,171)	(89,150)	612	(752)	(490,460)
Works in rented buildings	(336,752)	(52,319)	42,848	752	(345,471)
Equipment					
Furniture	(189,791)	(26,686)	72,019	-	(144,458)
Office equipment	(127,142)	(8,027)	38,556	9	(96,604)
Computer equipment	(1,232,112)	(145,781)	161,367	-	(1,216,526)
Interior installations	(350,891)	(53,955)	85,930	(7)	(318,923)
Motor vehicles	(273,489)	(55,022)	60,658	-	(267,853)
Security equipment	(191,083)	(28,501)	31,676	-	(187,908)
Other tangible assets	(44,283)	(3,161)	19,268	(2)	(28,178)
	(3,146,713)	(462,602)	512,934	-	(3,096,381)
	5,306,352	135,837	(88,117)	-	5,354,072

The movements under the heading of Other 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

The movements under the heading of Other tangible assets during 2016, for the Bank, are analysed as follows:

MZN '000

	Balance as at 1 January 2016	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2016
Cost					
Real estate properties	3,275,297	14,684	(612)	17,843	3,307,212
Works in rented buildings	732,581	16,030	(43,384)	22,678	727,905
Equipment					
Furniture	318,005	14,669	(76,392)	41,417	297,699
Office equipment	145,014	3,188	(38,556)	-	109,646
Computer equipment	1,558,650	89,681	(161,490)	28,796	1,515,637
Interior installations	671,323	51,430	(86,904)	2,230	638,079
Motor vehicles	357,872	17,914	(53,140)	-	322,646
Security equipment	261,308	25,347	(31,676)	(1,288)	253,691
Other tangible assets	43,911	1,147	(20,125)	-	24,933
Fixed assets in progress	155,507	339,125	(4,500)	(111,676)	378,456
	7,519,468	573,215	(516,779)	-	7,575,904
Accumulated depreciation					
Real estate properties	(237,897)	(71,986)	612	(752)	(310,023)
Works in rented buildings	(336,752)	(52,319)	42,848	752	(345,471)
Equipment					
Furniture	(185,780)	(25,178)	71,200	-	(139,758)
Office equipment	(124,033)	(7,976)	38,556	9	(93,444)
Computer equipment	(1,221,485)	(144,553)	161,365	-	(1,204,673)
Interior installations	(347,556)	(53,228)	85,931	(7)	(314,860)
Motor vehicles	(243,950)	(46,389)	49,915	-	(240,424)
Security equipment	(191,083)	(28,501)	31,676	-	(187,908)
Other tangible assets	(36,756)	(1,488)	20,065	(2)	(18,181)
	(2,925,292)	(431,618)	502,168	-	(2,854,742)
Net book value	4,594,176 #	141,597 #	(14,611) #	-	4,721,162

23. Goodwill and Other intangible assets

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Intangible assets				
Software	**676,469**	624,851	**690,994**	555,991
Investments in progress	**162,791**	99,061	**64,243**	85,272
	839,260	723,912	**755,237**	641,263
Accumulated depreciation	**(565,936)**	(493,604)	**(510,200)**	(442,416)
	273,324	230,308	**245,037**	198,847
Consolidation and revaluation differences (Goodwill)				
Seguradora Internacional de Moçambique, S.A	**122,313**	122,313	**-**	-
	395,637	352,621	**245,037**	198,847

The movements 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 movements under the heading of Goodwill and intangible assets during 2016, for the Group, are analysed as follows:

MZN '000

	Balance as at 1 January 2016	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2016
Cost					
Software	646,087	37,305	(68,757)	10,216	624,851
Investments in progress	23,216	89,309	(3,248)	(10,216)	99,061
	669,303	126,614	(72,005)	-	723,912
Goodwill	122,313	-	-	-	122,313
	791,616	126,614	(72,005)	-	846,225
Accumulated depreciation					
Software	(492,364)	(70,116)	68,876	-	(493,604)
Net book value	299,252	56,498	(3,129)	-	352,621

The movements 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					
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

The movements under the heading of tangible assets during 2016, for the Bank, are analysed as follows:

MZN '000

	Balance as at 1 January 2016	Acquisitions /Allocations	Disposals /Write-offs	Transfers	Balance as at 31 December 2016
Cost					
Software	587,443	37,305	(68,757)	-	555,991
Fixed assets in progress	8,172	77,100	-	-	85,272
	595,615	114,405	(68,757)	-	641,263
Accumulated depreciation					
Software	(446,334)	(64,958)	68,876	-	(442,416)
Net book value	149,281	49,447	119	-	198,847

Pursuant to the accounting policy described in Note 1 a), the recoverable value of the Goodwill 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 value of goodwill 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 2017, 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 valuation 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 2017 of the Bank's 91.99% 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 2018 and its projections for the period of 2019 to 2022, 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 values than the book value of the holding), led to the conclusion that on the present date and according to merely financial criteria as in 2016, it was not necessary to deduct any impairment from the value of the goodwill as at 31 December 2017.

24. Current tax assets and liabilities

MZN '000

	Group 2017		Group 2016	
	Assets	**Liabilities**	Assets	Liabilities
IRPC recoverable	**527,595**	-	17,319	-
IRPC payable	-	-	-	926,042
	527,595	-	17,319	926,042

	Bank 2017		Bank 2016	
	Assets	**Liabilities**	Assets	Liabilities
IRPC recoverable	**354,783**	-	17,319	-
IRPC payable	-	-	-	910,578
	354,783	-	17,319	910,578

25. Deferred tax assets and liabilities

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

MZN '000

	Group 2017		Group 2016	
	Assets	**Liabilities**	Assets	Liabilities
Tangible assets	**2,349**	-	10,892	11,963
Financial assets available for sale	-	**12,613**	-	2,777
Other	-	**9,317**	-	4,306
Deferred tax assets/liabilities	**2,349**	**21,930**	10,892	19,046
	(19,581)		(8,154)	

	Bank 2017		Bank 2016	
	Assets	**Liabilities**	Assets	Liabilities
Tangible assets	**2,349**	-	10,892	-
Deferred tax assets	**2,349**	-	10,892	-

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

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Balance on 1 January	**(8,154)**	4,172	**10,892**	21,710
Impairment for the year	**(8,543)**	(10,817)	**(8,543)**	(10,817)
Other movements	**(2,884)**	(1,509)	**-**	-
	(19,581)	(8,154)	**2,349**	10,892

26. Other assets

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Debtors	**103,664**	142,298	**783,065**	179,285
Other amounts receivable	**1,901**	8,527	**124,874**	84,094
Prepayments and deferred costs	**103,005**	47,392	**102,999**	47,385
Balances receivable of the insurance activity	**583,142**	868,164	**-**	-
Miscellaneous accounts	**349,833**	997,142	**362,016**	996,719
Reinsurance provisions assigned	**910,745**	903,661	**-**	-
	2,052,290	2,967,184	**1,372,954**	1,307,483
Impairment for other assets	**(115,355)**	(83,954)	**(15,855)**	(17,766)
	1,936,935	2,883,230	**1,357,099**	1,289,717

As at 31 December 2017, the heading of Miscellaneous accounts includes the value of 224,783 thousand Meticais (31 December 2016: 635,625 thousand Meticais) relative to cheques of Other credit institutions sent for clearing.

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

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Balance on 1 January	**83,954**	58,230	**17,766**	13,822
Impairment for the year	**33,312**	21,779	-	-
Exchange rate fluctuation	**(1,911)**	3,945	**(1,911)**	3,944
Balance at the end of the period	**115,355**	83,954	**15,855**	17,766

27. Amounts owed to other credit institutions

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Resources of the Banco de Moçambique				
Medium to long term loans	**105,118**	157,676	**105,118**	157,676
Amounts owed to Central Banks	**-**	5,832,757	**-**	5,832,757
Resources of other credit institutions in Portugal				
Demand deposits	**49,522**	108,668	**49,522**	108,668
Resources of other credit institutions abroad				
Demand deposits	**80,960**	115,304	**80,961**	115,304
Short term loans	**308,658**	104,173	**308,658**	104,173
Medium to long term loans	**938,955**	1,459,432	**938,955**	1,459,432
	1,483,213	7,778,010	**1,483,214**	7,778,010

28. Customer funds

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Repayable on demand	**51,170,870**	54,075,357	**51,234,438**	54,111,516
Term deposits	**47,915,541**	43,461,177	**49,464,502**	46,292,758
Other Resources	**535,230**	282,334	**2,524,368**	282,334
	99,621,641	97,818,868	**103,223,308**	100,686,608

29. Debt securities issued

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Bonds				
BIM bonds 2017-2022	**-**	-	**1,042,167**	-
	-	-	**1,042,167**	-

MZN '000

Description of the issue	Date of issue	Redemption date	Interest rate %	Nominal value	Repayments	Book Value 2017
BIM bonds 2017-2022	10/26/2017	10/26/2022	23,00% (*)	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 2017	Group 2016	Bank 2017	Bank 2016
Provisions for indirect credit	**228,823**	541,594	**228,823**	541,594
Provisions for general banking risks	**106,624**	66,596	**106,624**	66,596
Provisions for other risks and costs	**190,609**	143,518	**190,609**	143,518
Technical provision of the insurance activity	**4,087,927**	4,630,607	**-**	-
	4,613,983	5,382,315	**526,056**	751,708

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

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Balance on 1 January	**541,594**	473,386	**541,594**	473,386
Impairment for the year	**143,080**	95,369	**143,080**	95,369
Write-back for the year	**(424,009)**	(149,956)	**(424,009)**	(149,956)
Exchange rate differences	**(31,842)**	122,795	**(31,842)**	122,795
Balance at the end of the period	**228,823**	541,594	**228,823**	541,594

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

MZN '000

	Group 2017	Group 2016	Bank 2017	Bank 2016
Balance on 1 January	**66,596**	59,641	**66,596**	59,641
Impairment for the year	**46,902**	5,469	**46,902**	5,469
Write-back for the year	**(435)**	-	**(435)**	-
Exchange rate differences	**(4,596)**	9,486	**(4,596)**	9,486
Uses for the year	**(1,843)**	(8,000)	**(1,843)**	(8,000)
Balance at the end of the period	**106,624**	66,596	**106,624**	66,596

The Provision for general banking risks seek to cover potential contingencies arising from lawsuits underway.

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

MZN '000

	Group		Bank	
	2017	2016	2017	2016
Balance on 1 January	143,517	128,826	143,517	128,826
Impairment for the year	47,091	21,438	47,091	21,438
Uses for the year	-	(6,746)	-	(6,746)
Balance at the end of the period	190,608	143,518	190,608	143,518

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

MZN '000

	Group	
	2017	2016
Balance on 1 January	4,630,607	3,744,520
Impairment for the year	496,535	956,758
Reversal for the year	434	(41,861)
Transfers	75,094	-
Uses for the year	(1,117,350)	(21,667)
Exchange rate differences	2,607	(7,143)
Balance at the end of the period	408,797	4,630,607

31. Other liabilities

MZN '000

	Group		Bank	
	2017	2016	2017	2016
Suppliers	54,087	124,374	43,134	100,005
Miscellaneous creditors	567,080	1,033,922	140,472	291,917
VAT payable	18,115	20,783	18,115	18,257
Tax withholdings	216,681	180,394	197,128	158,475
Social Security contributions	-	7,775	-	7,775
Costs payable	412,713	350,989	380,259	310,881
Staff costs payable	775,293	608,664	727,864	570,714
Deferred income	258,065	297,706	258,065	297,706
Consigned funds	22,511	23,418	22,511	23,418
Other payables	604,590	380,042	602,804	377,542
	2,929,135	3,028,067	2,390,352	2,156,690

32. Share capital

The Bank's share capital, of the value 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	
	2017	2016	**2017**	2016
Legal reserve	**4,529,645**	3,853,193	**4,529,645**	3,853,193
Other reserves and retained earnings	**13,318,911**	9,973,947	**11,711,202**	8,633,069
Net income for the year	**6,100,553**	4,950,639	**5,574,017**	4,509,677
	23,949,109	18,777,779	**21,814,864**	16,995,939

Under the terms of the Mozambican legislation in force, Law number 15/99 - Credit Institutions, the Bank should reinforce the legal reserve on an annual basis by at least 15% of the annual net profit, until the reserve equals the share capital, where this reserve is not distributable. Pursuant to the net profit for the financial year of 2016, the Bank allocated the value of 676,452 thousand Meticais to the legal reserve in 2017 (2016: 508,723 thousand Meticais).

34. Dividends

Pursuant to the deliberation of the Ordinary General Meeting held on 31 March 2017, the Board of Directors decided to distribute 35% of the Net Income recorded as at 31 December 2016, after the constitution of the Legal Reserve, to the value of 1,578,387 thousand Meticais (2016: 1,187,020 thousand Meticais).

35. Guarantees and other commitments

The off-balance sheet values are analysed as follows:

MZN '000

	Group		Bank	
	2017	2016	**2017**	2016
Guarantees provided				
Personal guarantees	**14,081,807**	24,912,165	**14,081,807**	24,912,165
Asset-backed guarantees	**1,308,182**	5,772,947	**1,308,182**	5,772,947
Guarantees received				
Personal guarantees	**266,617,485**	273,020,840	**266,617,485**	273,020,840
Asset-backed guarantees	**72,794,254**	90,193,419	**72,794,254**	90,193,419
Commitments to third parties	**11,797,934**	13,571,880	**11,797,934**	13,571,880
Spot foreign exchange transactions:				
Purchases	**215,829**	27,133	**215,829**	27,133
Sales	**216,593**	27,239	**216,593**	27,239
Forward foreign exchange transactions:				
Purchases	**118,040**	386,903	**118,040**	386,903
Sales	**124,700**	377,313	**124,700**	377,313

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

	2017				2016			
	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.	159,594	-	-	-	440,357	1,631	-	-
Millennium bcp Bank & Trust (Cayman)	2,398	8,280	-	8,263	3,024	10,121	-	9,989
Seguradora Internacional de Moçambique,SA	-	-	111,878	-	-	-	111,878	-
	161,992	8,280	111,878	8,263	443,381	11,752	111,878	9,989

MZN '000

	2017				2016			
	Liabilities				Liabilities			
	Securities Issued of CIs	Customer Deposits	Other liabilities	Liabilities Liabilities	Securities Issued of CIs	Customer Deposits	Other liabilities	Liabilities Liabilities
Banco Comercial Português S.A.	13,259	-	163,710	-	14,096	-	299,374	-
Millennium BCP Partic SGPS LDA	-	38,532	-	-	-	38,534	-	-
Millennium BCP Africa SGPS	6	-	-	-	6	-	-	-
Seguradora Internacional de Moçambique,SA	-	3,601,666	-	-	-	2,867,740	-	17
	13,265	3,640,198	163,710	-	14,102	2,906,274	299,374	17

As at 31 December, the income received 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

	2017			2016		
	Operating income			Operating income		
	Interest and equivalent Income	Earnings from services and commissions	Other income op. income	Interest and equivalent Income	Earnings from services and commissions	Other income op. income
Banco Comercial Português S.A.	9,958	-	-	1,498	-	-
Millennium bcp Bank & Trust (Cayman)	152	-	-	116	-	-
Seguradora Internacional de Moçambique,SA	-	39,275	153,789	-	49,782	72,054
	10,110	39,275	153,789	1,614	49,782	72,054

MZN '000

	2017				2016			
	Operating costs				Operating costs			
	Interest and Income	Earnings from services and commissions	Staff Staff	Other admin. costs	Interest and Income	Earnings from services and commissions	Staff Staff	Other admin. costs
Banco Comercial Português S.A.	266	-	-	751,927	-	-	-	652,013
Millennium bcp Bank & Trust (Cayman)	-	-			-	-	-	-
Seguradora Internacional de Moçambique,SA	981,281	-	216,862	132,962	259,457	-	112,216	153,699
	981,547	-	216,862	884,889	259,457	-	112,216	805,712

Loans to members of the Management and Supervisory Boards and their direct family, recorded as at 31 December 2017, reached 10,939 thousand Meticais (2016: 7,650 thousand Meticais). These loans were granted in accordance with the applicable legal and regulatory standards.

As at 31 December 2017, Deposits stood at 270,836 thousand Meticais (2016: 182,306 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	
	2017	2016	**2017**	2016
Available funds in cash	**4,593,464**	4,924,787	**4,593,464**	4,924,787
Available funds in domestic credit institutions	**84,206**	63,918	**72,601**	62,175
Available funds in credit institutions abroad	**1,160,042**	1,166,324	**1,160,042**	1,166,324
	5,837,712	6,155,029	**5,826,107**	6,153,286

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 should 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 of the Bank are presented as follows:

Loans to customers

The majority of the financial instruments referred to above are remunerated at variable interest rates, associated to 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 recorded minus impairment losses.

Financial assets available for sale

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 that 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 available for sale by valuation levels, for the Group and the Bank as of 31 December 2017 are:

- Level 1 - Bonds and other fixed-income securities - Treasury Bonds and 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 debt

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 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 contributes to the following post-employment defined 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 Commission 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 minus the present value of the liabilities.

Additionally, there are retirement obligations and pensioners associated with pension supplement allocated through Employee income who have switched 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	**2017**	**2016**
Assets	**1,616**	1,686
Retired former employees and pensioners	**509**	525
	2,125	2,211

According to the policy described in note 1. t), the Group's pension obligations and other benefits and coverage on 31 December are analysed as follows:

		MZN '000
	2017	**2016**
Projected benefit liabilities		
Retired and pensioners	(779,669)	(1,028,677)
Employees	(955,063)	(1,279,678)
	(1,734,732)	(2,308,355)
Value of the assets	2,245,894	2,165,500
Assets/liabilities	511,162	(142,855)

The change in the present value of obligations is analysed as follows:

	2017			2016
	Retirement pensions	**Retirement pension supplement**	**Total**	**Total**
				MZN '000
Balance as at 01 January	**1,028,677**	**1,279,679**	**2,308,356**	2,133,867
Included in the net income for the year				
Current service cost	**-**	**67,568**	**67,568**	62,840
Interest costs	**79,037**	**100,434**	**179,471**	166,310
Actuarial gains and losses	**(238,313)**	**(221,620)**	**(459,933)**	106,125
Benefits paid	**(89,733)**	**(116,853)**	**(206,586)**	(160,788)
Liabilities at the end of the year	**779,668**	**1,109,208**	**1,888,876**	2,308,355

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

MZN '000

	2017		2016	
	+1,00%	-1,00%	+1,00%	-1,00%
Discount rate	-82,844	94,631	-110,981	128,996
Future wage growth	92,402	-82,176	123,872	-108,624
Pensions increase rate	84,615	-74,280	91,845	-79,926

Other employee benefits – Bank

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

Number of participants	**2017**	**2016**
Assets	**1,512**	1,580
Retired former employees and pensioners	**509**	525
	2,021	2,105

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

	2017	**2016**
Projected benefit liabilities		
Retired and pensioners	**(779,669)**	(1,028,677)
Employees	**(1,032,135)**	(1,195,639)
	(1,811,804)	(2,224,316)
Value of the assets	**2,534,739**	2,333,933
Assets	**722,935**	109,618

The change in the present value of obligations is analysed as follows:

	2017			2016
MZN '000	Retirement pensions	Retirement pension supplement	Total	Total
Balance as at 01 January	**1,028,677**	**1,195,639**	**2,224,316**	2,063,335
Included in the net income for the year				
Current service cost	**-**	**62,200**	**62,200**	57,611
Interest costs	**79,037**	**94,032**	**173,069**	160,786
Actuarial gains and losses	**(238,313)**	**(206,860)**	**(445,173)**	93,783
Benefits paid	**(89,733)**	**(112,875)**	**(202,608)**	(151,199)
Liabilities at the end of the year	**779,699**	**1,032,135**	**1,811,804**	2,224,316

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

MZN '000	2017	2016
Balance as at 01 January	**2,333,933**	2,107,881
Actuarial gains and losses	**213,626**	158,537
Millennium bim contributions	**8,281**	54,496
Benefits paid by the fund	**(202,608)**	(151,199)
Expected income	**181,507**	164,218
Balance as at 31 December	**2,534,739**	2,333,933

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

MZN '000	2017	2016
Balance as at 01 January	**(109,618)**	(44,546)
(Gains) and losses - liabilities	**(445,173)**	93,783
(Gains) and losses - plan assets	**(213,626)**	(158,537)
Group’s contributions	**(8,281)**	(54,497)
Attribution of benefits for the year		
Current service cost	**62,200**	57,611
Net interest cost/(income) in the liability coverage balance	**(8,437)**	(3,432)
Balance as at 31 December	**(722,935)**	(109,618)

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

	2017	2016
Ordinary shares	**0.00%**	0.47%
Bonds and other fixed income securities	**63.00%**	62.20%
Real estate properties	**23.00%**	30.15%
Term Deposits	**14.00%**	7.18%
	100%	100%

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

MZN '000

	2017	2016
Current service cost	**62,200**	57,611
Net interest cost/(income) in the liability coverage balance	**(8,438)**	(3,431)
Cost of the year	**53,762**	54,180

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

	2017	2016
Normal retirement age:		
Men	60	60
Women	55	55
Wage Growth	10.57%	6.50%
Growth of pensions	5.59%	4.00%
Rate of return of the fund	14.31%	8.00%
Discount rate	14.31%	8.00%
Mortality tables	PF 60/64	PF 60/64

As at 31 December 2017, the weighted average duration of the liabilities is 18 years (2016: 18 years).

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

MZN '000

	2017		2016	
	+1,00%	-1,00%	+1,00%	-1,00%
Discount rate	-76,714	87,484	-102,684	119,193
Future wage growth	85,329	-76,008	114,357	-100,416
Future growth of the pension fund	169,944	-150,288	206,201	-180,342

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 value 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	
	2017	2016	2017	2016
Seniority bonus	**133,275**	120,817	**121,670**	108,330

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 continued 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 2017

The values of the operating account reflect the process of allocation of net income, based on average values, 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

31.12.17	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 commissions	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

31.12.17	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Written-off					
Loans to Customers	17,515,597	43,897,496	-	-	61,413,093
Liabilities					
Customer deposits	64,318,380	35,303,260	-	-	99,621,641

MZN '000

31.12.16	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Net Interest Income	3,265,261	5,922,020	523,438	-	**9,710,719**
Earnings from services and commissions	1,128,520	1,049,380	(48,429)	-	**2,129,471**
Net income from financial transactions	750,945	767,241	236,205	(5,323)	**1,749,068**
Other operating income	271,534	177,137	3,032,650	(2,523,560)	**957,761**
Total operating income	**5,416,260**	**7,915,778**	**3,743,864**	**(2,528,883)**	**14,547,019**
Staff costs	1,390,012	1,011,078	207,179	(112,216)	**2,496,053**
Other administrative costs	1,497,147	1,090,400	113,688	(153,699)	**2,547,536**
Amortisation for the year	301,662	194,914	18,980	17,164	**532,720**
Total operating costs	**3,188,821**	**2,296,392**	**339,847**	**(248,751)**	**5,576,309**
Loan impairment	441,832	1,202,466	-	-	**1,644,298**
Other provisions	(7,360)	(20,030)	376,065	-	**348,675**
Pre-tax profit	**1,792,967**	**4,436,950**	**3,027,952**	**(2,280,132)**	**6,977,737**
Taxes	442,025	1,278,215	925,179	(682,179)	**1,963,240**
Non-controlling interests	-	-	-	63,858	**63,858**
Net Income for the Year Attributable to Shareholders	**1,350,942**	**3,158,735**	**2,102,773**	**(1,661,811)**	**4,950,639**

MZN '000

31.12.16	Retail Banking	*Corporate Banking*	Insurance	Other	Consolidated total
Activo					
Loans to Customers	21,035,084	57,248,026	-	-	78,283,110
Liabilities					
Depósitos de Clientes	57,394,421	40,424,447	-	-	97,818,868

41. Risk management

The Group is subject to several risks during the course of its business. Risk management is conducted in a centralised manner by Millennium bcp in coordination with the local departments and considering the specific risks of each business in each region.

The risk management policy of Millennium bim 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, the main types of risks (credit, market, liquidity and operating) are presented below, in a strictly accounting perspective, to which the activity of the Group and Bank 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.

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.

Interest Rate Risk

Interest rate risk refers to the risk of losses arising from fluctuations observed in interest rates. Incurring interest rate risk is a natural situation of banking activity.

Exchange Rate Risk

Exchange rate risk refers to the possibility of losses arising from fluctuations in exchange rates, that is, it consists of the risk arising from the value of a financial instrument floating due to changes in the exchange rate.

The Bank, with respect to interest rate and exchange rate risks, uses internal models to follow and monitor these risks, namely:

(i) – Sensitivity and Gap analysis (interest rate differential)

For the measurement of interest rate risk (where the gaps are constituted by repricing residual periods of outstanding contracts), as shown in the tables below:

MZN '000

Group							
31.12.17	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Above 3 years**	**With no interest rate risk**	**Total**
Written-off							
Cash and deposits at Banco de Moçambique	18,540,507	-	-	-	-	-	18,540,507
Loans and advances to other credit institutions	1,244,248	-	-	-	-	-	1,244,248
Deposits in banks	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 available for sale	600,000	17,753,837	13,727,268	150,113	-	(2,430,299)	29,800,919
Financial assets held to maturity	-	-	1,642,002	3,126,249	-	93,089	4,861,340
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**	**-**	**-**

31.12.16	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Above 3 years**	**With no interest rate risk**	**Total**
Total assets	61,315,786	30,473,639	14,879,896	7,697,164	14,416,293	9,675,940	138,458,718
Total liabilities and equity	66,842,028	13,909,662	22,803,554	666,158	486,477	33,750,839	138,458,718
Interest rate risk gaps	(5,526,242)	16,563,977	(7,923,658)	7,031,006	13,929,816	(24,074,899)	-
Accumulated interest rate risk gap	(5,526,242)	11,037,735	3,114,077	10,145,083	24,074,899	-	-

MZN '000

Bank							
31.12.17	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Above 3 years**	**With no interest rate risk**	**Total**
Written-off							
Cash and deposits at Banco de Moçambique	18,540,507	-	-	-	-	-	18,540,507
Loans and advances to other credit institutions	1,232,643	-	-	-	-	-	1,232,643
Deposits in banks	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 available for sale	600,000	17,753,837	13,427,042	-	-	(2,486,276)	29,294,603
Financial assets held to maturity	-	-	1,642,002	2,846,459	-	91,028	4,579,489
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**	**8,953,819**	**134,979,961**
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
Subordinated liabilities	-	-	-	-	-	-	-
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**	**30,632,376**	**134,979,961**
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**	**-**	**-**

31.12.16	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Above 3 years**	**With no interest rate risk**	**Total**
Total assets	61,311,681	30,224,162	13,147,884	7,483,758	14,416,293	7,195,772	133,779,550
Total liabilities and equity	69,170,838	13,914,539	23,329,737	666,158	486,477	26,211,801	133,779,550
Interest rate risk gaps	(7,859,157)	16,309,623	(10,181,853)	6,817,600	13,929,816	(19,016,029)	
Accumulated interest rate risk gap	(7,859,157)	8,450,466	(1,731,387)	5,086,213	19,016,029	-	

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

Interest rate risk is defined as the possible occurrence of financial losses derived from adverse movements in market interest rates via a reduction of earnings and/or via 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.

(iii) – Exchange Rate Risk

Exchange rate risk is assessed through the measurement of the indicators defined in the regulations of prudential scope of Banco de Moçambique, which is analysed using indicators such as:

- Net Open Position by Currency - Collected through the Bank's computer system by the Risk Office, and validated by the Accounting Department and Financial Department, reported relative to the last day of each month.
- Sensitivity Indicator – calculated through the simulation of the impact, on the Bank's earnings, of a hypothetical variation of 1% in the measurement exchange rates.

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

	Group					MZN' 000
	2017			2016		
	US dollars	Other foreign currency	Total	US dollars	Other foreign currency	Total
Written-off						
Cash and deposits at Banco de Moçambique	3,938,225	431,467	4,369,692	6,282,615	317,084	6,599,700
Available funds in other credit institutions	244,549	899,354	1,143,903	393,319	772,923	1,166,242
Investments in credit institutions	6,588,376	28,266	6,616,642	10,662,497	-	10,662,497
Loans to Customers	13,061,627	1,351,030	14,412,657	18,046,617	1,621,553	19,668,170
Financial assets available for sale	-	1,455	1,455	-	1,547	1,547
Other assets	723,434	64,592	788,026	25,694	1,313	27,007
	24,556,211	2,776,164	27,332,375	35,410,742	2,714,420	38,125,163
Liabilities						
Deposits of other credit institutions	1,258,746	29,223	1,287,969	7,438,801	18,967	7,457,768
Customer deposits	22,335,658	1,961,401	24,297,059	26,734,185	2,004,781	28,738,966
Provisions	429,939	31,347	461,286	767,135	34,684	801,819
Other liabilities	700,660	726,679	1,427,339	335,065	539,592	874,657
	24,725,003	2,748,650	27,473,653	35,275,186	2,598,024	37,873,210
OVERALL OPERATING POSITION	(168,792)	27,514	(141,278)	135,556	116,396	251,953

	Bank			MZN' 000		
	2017			2016		
	US dollars	**Other foreign currency**	**Total**	**US dollars**	**Other foreign currency**	**Total**
Written-off						
Cash and deposits at Banco de Moçambique	3,938,225	431,467	4,369,692	6,282,615	317,084	6,599,699
Available funds in other credit institutions	244,549	897,005	1,141,554	393,319	772,142	1,165,461
Investments in credit institutions	6,588,376	28,266	6,616,642	10,662,497	-	10,662,497
Loans to Customers	13,061,627	1,351,030	14,412,656	18,046,617	1,621,553	19,668,170
Financial assets available for sale	-	1,455	1,455	-	1,547	1,547
Other assets	78,226	24,448	102,674	25,694	123	25,817
	23,911,003	2,733,671	26,644,674	35,410,742	2,712,449	38,123,191
Liabilities						
Deposits of other credit institutions	1,258,746	29,223	1,287,969	7,438,801	18,967	7,457,768
Customer deposits	22,425,532	1,976,362	24,401,894	27,248,511	2,036,662	29,285,173
Provisions	157,521	21,649	179,169	307,200	25,613	332,813
Other liabilities	567,372	681,989	1,249,361	241,981	515,083	757,064
	24,409,170	2,709,223	27,118,393	35,236,494	2,596,325	37,832,819
OVERALL OPERATING POSITION	(498,168)	24,448	(473,719)	174,248	116,124	290,373

The values presented above relative to exposure to exchange rate risk show that the predominant foreign currency in the balance sheet of the Group and Bank is the USD.

The results show that the Group and Bank are within the limits of tolerance to exchange rate risk, defined under the prudential rules established by Banco de Moçambique, both for any particular currency and for all currencies as a whole.

The exposure to exchange rate risk is managed daily using limits of exposure by currency and aggregates based on prudent indicators established by Banco de Moçambique. Both the positions by currency and the total positions as at 31 December 2017 were within the limits established by Banco de Moçambique.

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

MZN '000

	Long Position	Short Position	Maximum between the Positions	Final Total Position	Impact 1%	Capital requirements for Coverage of Market Risk
USD	498,168	-	498,168	- 498,168	- 503,149	41,344
Other Currencies	-	24,448	24,448	24,448	24,693	

The capital requirements to cover the Bank's exchange rate risk as at 31 December 2016 were as follows:

MZN '000

	Long Position	Short Position	Maximum between the Positions	Final Total Position	Impact 1%	Capital requirements for Coverage of Market Risk
USD	-	174,249	174,249	174,249	175,991	54,036
Other Currencies	-	116,124	116,124	116,124	117,285	

Liquidity Risk

The tables below analyse the financial assets and liabilities and off-balance sheet items of the Bank and Group by relevant maturity groups, with the amounts being composed of the value of assets, liabilities and off-balance sheet items taking account their residual contractual maturity.

MZN '000

Group

31.12.17	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Above 3 years	Total
Written-off						
Cash and deposits at Banco de Moçambique	18,540,507	-	-	-	-	18,540,507
Loans and advances to other credit institutions	1,244,248	-	-	-	-	1,244,248
Deposits in banks	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
Financial assets available for sale	680,168	3,365,397	25,390,923	300,225	64,206	29,800,919
Financial assets held to maturity	-	31,052	1,704,040	3,126,248	-	4,861,340
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
Subordinated liabilities	-	-	-	-	-	
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**	

31.12.16	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Above 3 years	
Total assets	54,783,829	5,104,493	16,932,269	17,769,164	36,625,086	131,214,841
Total liabilities	67,711,219	13,929,142	22,803,882	666,158	486,477	105,596,878
Liquidity Gaps	(12,927,390)	(8,824,649)	(5,871,613)	17,103,006	36,138,609	25,617,963
Accumulated Liquidity Gap	(12,927,390)	(21,752,039)	(27,623,652)	(10,520,646)	25,617,963	-

MZN '000

Bank

31.12.17	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Above 3 years	Total
Written-off						
Cash and deposits at Banco de Moçambique	18,540,507	-	-	-	-	18,540,507
Loans and advances to other credit institutions	1,232,643	-	-	-	-	1,232,643
Deposits in banks	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
Financial assets available for sale	680,122	3,365,397	25,217,010	-	32,074	29,294,603
Financial assets held to maturity	-	31,052	1,701,979	2,846,459	-	4,579,490
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**	**-**

31.12.16	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Above 3 years	Total
Total assets	54,779,085	5,087,460	15,148,679	17,342,780	36,566,930	128,924,934
Total liabilities	70,047,917	13,934,018	23,330,065	666,158	486,477	108,464,635
Liquidity Gaps	(15,268,832)	(8,846,558)	(8,181,386)	16,676,622	36,080,453	20,460,299
Accumulated Liquidity Gap	(15,268,832)	(24,115,390)	(32,296,776)	(15,620,154)	20,460,299	-

For demand deposits, the Management firmly believes that the contractual maturities do not appropriately represent the period of permanency of these deposits at the Bank.

Therefore, correcting the contractual maturity (up to 1 month) by the historical maturity of the associated core deposits, the Bank's liquidity gap is as described in the chapter on Risk Policy and Management at the beginning of this report.

Operational Risk

The Bank has adopted principles and practices that ensure efficient management of the operational 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.

42. Solvency

The own funds of Banco Internacional de Moçambique are determined according to the applicable regulatory rules, namely the provisions in Banco de Moçambique Notice number 12/GBM/2013. The total own funds result from the adding the Core capital (Tier 1) to the complementary own funds (Tier 2) and 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 can 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 Banco de Moçambique Notice number 7/GBM/07, calculated on an individual basis.

The supplementary capital includes the subordinated debt, the reserves derived from the revaluation of tangible fixed assets and, through prior authorisation of Banco de Moçambique, 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.

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		2017	2016
CORE OWN FUNDS			
***Tier* 1 Capital**			
Paid-up share capital		**4,500,000**	4,500,000
Reserves and retained earnings		**16,066,801**	13,135,511
Intangible assets		**(245,037)**	(198,847)
Shortfall in provisions		**(6,350,690)**	(2,053,152)
	Total *Tier* 1 Capital	**13,971,073**	15,383,512
***Tier* 2 Capital**			
Subordinated loans		-	-
Other		**(265,942)**	(639,958)
	Total *Tier* 2 Capital	**(265,942)**	(639,958)
Deduction to total own funds		**5,180,967**	380,763
	Eligible own funds	**8,524,163**	14,362,791
Risk weighted assets			
In the balance sheet		**45,100,921**	65,942,155
Off balance sheet		**2,649,133**	8,389,220
Operating risk		**1,585,297**	1,323,621
Market risk		**516,796**	675,448
Ratio of adequacy of core own funds (*Tier 1*)		**28.0%**	20.2%
Ratio of adequacy of own funds (*Tier 2*)		**-0.5%**	-0.8%
	Solvency ratio	**17.1%**	18.8%

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	Deposits in banks	Loans to Customers	Financial assets available for sale	Investments held until maturity	Investments in associated companies	Other assets	2016		2015	
								Total	%	Total	%
Public Sector	-	-	5,759,195	29,743,765	4,861,340	-	-	40,364,300	34.7%	27,332,389	24.5%
Financial institutions	1,244,248	10,149,843	-	6,114	-	-	-	11,400,205	9.8%	12,849,075	11.5%
Agriculture and forestry	-	-	2,860,710	-	-	-	-	2,860,710	2.5%	2,204,560	2.0%
Mining	-	-	647,329	-	-	-	-	647,329	0.6%	1,338,330	1.2%
Food, beverages and tobacco	-	-	779,748	26,018	-	-	-	805,766	0.7%	776,792	0.7%
Textiles	-	-	5,459	-	-	-	-	5,459	0.0%	5,727	0.0%
Paper, printing and publishing	-	-	59,361	-	-	-	-	59,361	0.1%	161,267	0.1%
Chemicals	-	-	2,373,031	-	-	-	-	2,373,031	2.0%	2,343,962	2.1%
Machinery and equipment	-	-	1,711,724	-	-	-	-	1,711,724	1.5%	1,984,470	1.8%
Electricity, water and gas	-	-	5,648,664	-	-	-	-	5,648,664	4.9%	6,909,274	6.2%
Construction	-	-	6,632,640	-	-	-	-	6,632,640	5.7%	6,396,475	5.7%
Trade	-	-	9,415,623	-	-	-	-	9,415,623	8.1%	10,850,579	9.7%
Restaurants and hotels	-	-	850,775	-	-	-	-	850,775	0.7%	1,107,811	1.0%
Transport and communications	-	-	4,159,759	-	-	17,292	-	4,177,051	3.6%	4,326,004	3.9%
Services	-	-	12,867,000	25,022	-	250,208	-	13,142,230	11.3%	14,531,978	13.0%
Consumer credit	-	-	11,725,662	-	-	-	-	11,725,662	10.1%	13,009,554	11.7%
Mortgage loans	-	-	804,358	-	-	-	-	804,358	0.7%	896,333	0.8%
Other activities	-	-	1,683,050	-	-	-	1,936,935	3,619,985	3.1%	4,470,820	4.0%
	1,244,248	10,149,843	67,984,088	29,800,919	4,861,340	267,500	1,936,935	116,244,873	100.0%	111,495,398	100.0%

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Bank											
Sector	Deposits from credit institutions	Deposits in banks	Loans to Customers	Financial assets available for sale	Investments held until maturity	Investments in subsidiaries	Other assets	2017		2016	
								Total	%	Total	%
Public Sector	-	-	5,759,195	29,269,627	4,579,489	-	-	39,608,311	34.4%	25,097,460	23.3%
Financial institutions	1,232,643	10,142,888	-	-		416,148	-	11,791,679	10.3%	13,182,852	12.2%
Agriculture and forestry	-	-	2,860,710	-		-	-	2,860,710	2.5%	2,204,560	2.0%
Mining	-	-	647,329	-		-	-	647,329	0.6%	1,338,330	1.2%
Food, beverages and tobacco	-	-	779,748	-		-	-	779,748	0.7%	750,774	0.7%
Textiles	-	-	5,459	-		-	-	5,459	0.0%	5,727	0.0%
Paper, printing and publishing	-	-	59,361	-		-	-	59,361	0.1%	161,267	0.1%
Chemicals	-	-	2,373,031	-		-	-	2,373,031	2.1%	2,343,962	2.2%
Machinery and equipment	-	-	1,711,724	-		-	-	1,711,724	1.5%	1,984,470	1.8%
Electricity, water and gas	-	-	5,648,664	-		-	-	5,648,664	4.9%	6,909,274	6.4%
Construction	-	-	6,632,640	-		-	-	6,632,640	5.8%	6,396,475	5.9%
Trade	-	-	9,415,623	-		-	-	9,415,623	8.2%	10,850,579	10.1%
Restaurants and hotels	-	-	850,775	-		-	-	850,775	0.7%	1,107,811	1.0%
Transport and communications	-	-	4,159,759	-		-	-	4,159,759	3.6%	4,308,713	4.0%
Services	-	-	12,867,000	24,976		-	-	12,891,976	11.2%	14,275,179	13.3%
Consumer credit	-	-	11,725,662	-		-	-	11,725,662	10.2%	13,009,554	12.1%
Mortgage loans	-	-	804,358	-		-	-	804,358	0.7%	896,333	0.8%
Other activities	-	-	1,683,050	-		-	1,357,099	3,040,149	2.6%	2,877,307	2.7%
	1,232,643	10,142,888	67,984,088	29,294,603	4,579,489	416,148	1,357,099	115,006,958	100.0%	107,700,627	100.0%

44. Standards issued but not adoption

A number of new standards and amendments to standards are effective for periods starting after 1 January 2017 and their early application is permitted. The Bank has 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 15 Revenue from contracts with customers

This standard replaces IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets to Customers, and IAS-31 - Revenue - Barter Transactions Involving Advertising Services.

The standard contains a single model that is applicable to the customer contract and two approaches for recognition of revenue: one only or over time. The model presents a contract for analysis of transactions based on five stages to determine who much and when the revenue is recognised.

This new standard will probably have a significant impact on the Bank, which will include a possible change in the time when the revenue and the value of the revenue is recognised. The Bank is currently in the process of implementing an assessment.

The standard is effective for annual periods starting on or after 1 January 2018, with early adoption permitted.

IFRS 9 - Financial instruments

IFRS 9 – Financial Instruments enters into force for periods starting on or after 1 January 2018. IFRS 9 will replace IAS 39 – Financial Instruments: Recognition and Measurement, and will establish new rules for the accounting of financial instruments, presenting significant alterations especially with respect to impairment requirements. For this reason, it is standard that has been subject to a detailed and complex process of implementation, which has involved all the key stakeholders, in order to understand the impacts and changes in processes, governance and business strategy.

The requirements presented by IFRS 9 are applied retrospectively by adjustment of the opening balance sheet on the date of its initial application.

1 - Strategy of Implementation of IFRS 9

Banco Internacional de Moçambique in close articulation with Banco Comercial Português ('Group') has been working on this process since the beginning of 2017. At a first stage this work concentrated on identifying the necessary changes relative to the accounting classifications and credit risk impairment models and developing a governance structure that could meet the requirements and challenges derived from the adoption of IFRS 9. Currently, this entails implementation, improvement and automation of processes.

In this context, the Bank's Administration and the organic unit responsible for credit risk impairment models were involved in a process transversal to the Group for the taking of key decisions on the requirements defined by IFRS 9 and by the monitoring of the status of the process, analysis and implementation of this new standard. The main areas involved in this stage of the project are the Risk Office, Planning, Accounting, Credit and Information Technology (IT) Departments. Internal Audit and the Office for monitoring and validation of models of the Bank will participate in the project, in due time, namely in the component of its validation.

2 - Main phases and milestones of the project

The implementation plan was divided into 4 main phases:

- **Training and preliminary analysis:** a preliminary analysis was conducted with the support of external consultants to determine the main impacts arising from the application of IFRS 9. Workshops were also carried out involving the Bank's Administration and main organic units related to concepts of business models, solely payment of principal and interest (SPPI) and impairment methodology (including significant increase of credit risk and forward-looking criteria).

- **Analysis of operations, accounting and disclosure:** this phase was designed in a transversal way across the Group, for a detailed analysis of the differences between the accounting principles of IAS 39 and IFRS 9 and the related technical implications. In view of the complexity and scope of some topics, various specialised teams of the parent company were brought in for the definition of the necessary IT requirements.

- **Conversion plan:** a detailed conversion plan was prepared, transversally for the Group, including an action plan for the IT systems.

- **Implementation:** Under the process of implementation of IFRS 9 at the Bank, in the impairment component, at a first stage the process of calculation at the level of Individual Analysis will continue to be made, as it is currently done, based on the application currently in use at the Bank for Calculation of Loan Impairment. For the calculation of Collective Impairment a transversal solution was transitionally developed for the Millennium Group (SAS), which will henceforth process this calculation. The results of this calculation will then be reported to the Bank's Accounting Department for the required book-keeping.

At a second stage, whose completion is foreseen for the end of the 2nd Semester of 2018, the Software House of the application for calculation of impairment in use at the Bank will carry out the required changes to the Bank's Impairment Model (KIWI), so as to enable the calculation of collective impairment under IFRS 9 to also be done by this application.

In this context and in order to implement the process described in the point above, the project is scheduled to start in the 2nd Quarter of 2018, which should include the phase of consulting (conceptual analysis, definition of models for the calculation of the PD and LGD pursuant to the transversally defined methodologies and training) and the development phase.

KIWI's Individual Analysis component includes the Questionnaire Module and the Module of Estimation of Impairment Rates based on the Discounted Cash Flow Method, considering the “going e gone” credit recovery approaches.

The implementation phase is long and complex, where it is presumed that various processes will continue to be subject to modifications and tests, namely conversion of financial information and reporting processes.

The design and development phases will include some milestones, namely:

- Design of the operational model which enables alignment with the requirements of IFRS 9, including the definition of functional requirements;

- Development of a training plan for the employees who will deal with the requirements of IFRS 9 on a daily basis;

Identification of the necessary adjustments in the IT applications to comply with the new standard.

The main focus of the Bank at this stage will be related to the efficiency of the entire process, assuring that the model takes places in a business as usual environment. Various simulations will be programmed to assess the performance of the model before it becomes operational. This includes the calculation of impairment according to the requirements of IFRS 9 in parallel run, enabling the comparison of the results between the two solutions (the transitional SAS and KIWI).

In view of the current status of the process and the situations that have already been identified, the following paragraphs present information relative to the main changes in different areas:

Classification of financial instruments

IFRS 9 presents relevant changes in how the financial instruments are classified. The new model for the classification of financial assets is more based on principles and requires consideration not only of the business model for the management of financial assets but also the analysis of the characteristics of the contractual cash flows of these assets (SPPI criterion). The financial assets will consequently be measured at amortised cost, at fair value through comprehensive income or at fair value through profit or loss, depending on the business model applied and its specific characteristics.

In order to classify the financial assets according to IFRS 9 on 1 January 2018, the Bank made a review of the financial assets in portfolio, aimed at determining and allocating groups of financial assets to the appropriate business model, taking into consideration the management method applied to the portfolios of financial assets, through the:

- Identification and analysis of the contractual terms of the financial assets that might not comply with the SPPI criterion;

- Review and assessment of relevant qualitative data and objectives that might have impact on the allocation of the portfolios of financial assets to the appropriate business model (e.g. the way that specific financial assets are managed);

- Review and assessment of relevant qualitative data and objectives that might have impact on the allocation of the portfolios of financial assets to the appropriate business model (e.g. the value of the sales of financial assets of certain portfolios which occurred in previous reporting periods and the frequency of these sales);

- Analysis of the expectations related to the value and frequency of past and future sales of certain portfolios.

With respect to the portfolios of securities, Millennium bim does not expect significant changes in the method of classification and measurement of the financial assets applied, which might have a significant impact on the balance sheet and/or earnings of the Bank. The analysis of the loan portfolio enables concluding that the majority of the contracts comply with the SPPI criterion and as such the amortised cost can be kept as the measurement criterion for these financial assets.

Regarding the assessment of business models, the Bank analysed the historical sales of the current portfolios whose results enable the Bank to maintain the business models. Consequently and considering the current strategy, the business models will be maintained.

Impairment of Financial Assets

The main changes arising from IFRS 9 are related to the requirements on impairment. IFRS 9 introduces a new model for calculation of impairment based on expected losses while the model of IAS 39 is based on losses incurred.

The impairment model of IFRS 9 is applicable to all financial assets valued at amortised cost, to debt instruments measured at fair value through comprehensive income, and to contingent risks and commitments not measured at fair value.

Under the project of implementation of IFRS 9, Millennium bim, in close collaboration with the parent company and external consultants, is working on the operationalisation of the new methodology recently approved for the calculation of credit impairment losses, as well as the implementation of the necessary changes to the IT systems and processes used by the Bank. Specifically, the work focuses on the design of processes and tools and the calculation of the impact of IFRS 9 in terms of impairment losses, in a current perspective.

In methodological terms, adjustments were made to PD, LGD, EAD and CCF so as to reflect the requirements of the new standard in terms of the estimation of the expected loan losses, including the in-house definition of allocation criteria to the stages and the inclusion of expectations relative to future macroeconomic prospects to estimate the levels of impairment losses.

It should be stressed that the implementation of the new standard requires the application of more complex credit risk models with a greater predictive component, which requires a significantly larger set of sources of information compared to the models applied up to 31 December 2017.

The probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") are used as main components to measure expected loan losses. The Bank uses its existing capacities in terms of information, IT structure and governance in the estimation of the new parameters. Pursuant to IFRS 9, the impairment for credit risk losses is affected by various features, namely the expected capital in default and the associated repayment profile, as well as the expected life of the financial asset. The impairment for loan losses at each stage will also be influenced by the forecast economic conditions, as they are used to estimate the expected loan losses. In order to calculate the expected loan loss for the contract lifetime, the Bank derives the corresponding lifetime PDs which reflect the economic forecasts. To classify a financial asset in stage 3, one or more events should be identified which represent an adverse impact on the estimated future cash flows.

Methodology for estimating impairment

The financial instruments subject to impairment are divided into three stages taking into consideration their credit risk level, as follows:

- **Stage 1**: no significantly increased risk since the moment of initial recognition. In this case, the value correction will reflect the expected loan losses arising from defaults to occur in the 12 months following the reporting date.

- **Stage 2:** financial instruments in which it is considered that there has been a significant increase of credit risk since the initial recognition, but for which the loss has not yet materialised. In this case, the value correction for losses will reflect the expected losses of defaults throughout the residual life of the financial instrument. In order to determine the existence of a significant increase of credit risk, consideration will be taken not only of quantitative variables, namely indicators related to credit risk management, but also qualitative variables.

- **Stage 3:** financial instruments for which there is objective evidence of impairment as a result of events that have given rise to losses. In this case, the value correction will reflect the expected losses of credit risk throughout the expected residual life of the financial instrument.

The assessment of the credit risk and the quantification of the expected losses for credit events should not be biased and weighted by the probability of occurrence. Rather, they should take into account all the existing information considered relevant, namely information related to past events, current conditions, forecasts on future economic conditions and time value of money.

Transition adjustments to be stated as at 1 January 2018

Based on the governance model defined in-house for the implementation of IFRS 9, Millennium bim, with the advice of external consultants, made an analysis of the Bank's credit impairment to calculate the respective impact. This work entailed the analysis of the information currently available in the Bank's information systems, and its reconciliation with the accounting information provided for the effect.

Below we highlight the assumptions used by the Bank to determine the transition adjustments stated as at 1 January 2018:

For customers that currently have individual impairment there are no significant impacts;

For customers subject to collective analysis the main impact resulted from the fact that for the customers with a significant increase of credit risk the probability of default is henceforth measured by the estimated customers that will enter into default by the end of the contract (lifetime) instead of in the next 12 months;

The concept of significant increase of credit risk reflects a downgrade in the internal or external rating. In view of the current state of maturity of the Bank's risk models and Master scale, it is concluded that the Risk Levels of the Rating Models in use at the Bank will not be used at this stage, until the Bank's new rating application "BIMRATING" reaches the necessary maturity (entry into production foreseen for March 2018).

The impact studies carried out by the Bank under the supervision of external consultants enabled the objective calculation of the transition adjustment stated as at 1 January 2018.

As this involves a transition impact of an accounting standard (IAS 39 to IFRS 9), it was recorded on 1 January 2018 in the Balance Sheet impairment account, directly against Retained Earnings.

This positive impact occurred in the calculation of the collective impairment, being essentially due to the customers marked in stage 2 (i.e. that had a significant increase in credit risk since the loans were granted), for which the impairment is calculated in a lifetime perspective.

Effectively, the allocation of the contracts to the different stages is carried out according to the following criteria:

Stage 3: (i.e. with objective evidence of impairment): all the contracts are in the Default Risk Bucket;

Stage 2: (i.e. with significant increase of credit risk since the initial recognition): contracts which are in Restructured Risk Buckets or EWS, or contracts of customers that have at least one contract in arrears (at least 1 day);

Stage 1: remaining contracts;

Forward-looking information

As the credit risk impairment losses will be based on forward-looking information, IFRS 9 will lead to an increase of subjectivity. The aforesaid forward-looking information takes into account the assessment of future macroeconomic conditions which are monitored on a continuous basis and are also used for effects of internal management and planning.

Loan losses are defined as expected contractual cash flows that were not received during the estimated period of life of the financial instrument, discounted at the original interest rate. Taking into consideration this definition, the expected loan losses correspond to the determined loan losses taking into account the future economic conditions.

Recording of impairment

The main change of IFRS 9 is related to the assets recorded at fair value through comprehensive income. For these assets, the changes in fair value derived from expected loan losses will be recorded through profit or loss.

Hedge accounting

IFRS 9 presents a new model which seeks to align the accounting with economic hedge accounting, thus enabling the Bank to have a larger number of hedged instruments, hedged risks and hedge instruments (derivative and non-derivative). The new requirements align the hedge accounting with risk management, and give a more objective approach to hedge accounting, simplifying the current model. The standard requires a greater scrutiny of its effects on the financial statements and risk management strategy of the Bank. The Bank expects to maintain the hedge accounting model of IAS 39.

Clarifications about the accounting of share-based payments (Amendment to IFRS 2)

Currently, there is ambiguity about how a company should account for certain types of agreements of payments based on shares. The IASB responded by publishing amendments to IFRS 2 Share-Based Payment.

The amendments cover three areas of accounting:

Measurement of payment transactions based on shares and settled in cash - The new requirements do not change the accumulated value of expense which is ultimately recognised, because the total value of a payment transaction based on shares and settled in cash is still equal to the value paid in the settlement.

Classification of payment transactions based on shared settled net of withholdings at source - The amendments introduce an exception, indicating that, for purposes of classification, a share-based payment transaction with employees is accounted as settled with equity if certain criteria are met.

Accounting of a modification of a share-based payment transaction settled in cash to settled with equity. The amendments clarify the approach that the companies should apply.

The new requirements can affect the classification and/or measurement of these agreements - and, potentially, the time and the value of the expense recognised for new and pending premiums. The amendments are effective for annual periods starting on or after 1 January 2018.

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 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 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.

[KPMG logo]

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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 individual and consolidated financial statements of BIM – Banco Internacional de Moçambique, S.A. ("the Company") presented on pages 40 to 114, which consist of the Balance Sheet as at 31 December 2017, 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, 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 2017, and its financial performance and cash flow for the financial year ended on that date, in conformity with the International Financial Reporting Standards.

Basis of opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under the terms of these standards are described in the section *Responsibilities of the Auditor for the Audit of the Financial Statements* in of our report. We are independent of the Bank in accordance with the *Code of Ethics for Professional Accountants of the International Federation of Accountants (IESBA Code)* and in accordance with other independence requirements 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 obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information consists of the Management report and the declaration of responsibility of the Directors as required by the Commercial Code of Mozambique. The other information does not include the financial statements and our audit report on these financial statements.

Our opinion on the 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 financial statements, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or if it in any other manner appears to contain material distortions. If, based on our work with other information obtained before the date of the present audit report, we conclude that there is a material distortion in this other information, we are obliged to report this fact. We have nothing to report in this regard.

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Responsibilities of the Administration in relation to the financial statements

The directors are responsible for the preparation and appropriate presentation of the financial statements in conformity with the International Financial Reporting Standards in force, and for the internal control deemed necessary by the directors to enable the preparation of financial statements that are free of material distortion due to fraud or error.

In preparing the financial statements, the directors are responsible for appraising the ability of the Bank and Group to remain in business in the foreseeable future, when applicable disclosing the issues relative to business continuity and using the going concern principle unless the directors intend to liquidate the Bank and Group and terminate the operations or have no realistic alternative other than to do so.

Responsibility of the Auditors for the Audit of the Financial Statements

Our objectives consist of obtaining reasonable certainty as to whether the financial statements as a whole are exempt of material distortion, due to fraud or error, and issuing an audit report presenting our opinion. Reasonable certainty is a high level of certainty but not an assurance that an audit conducted in accordance with the ISAs will always detect a material distortion when existent. The distortions may be caused by fraud or error and are considered material if, separate or together, it can be reasonably expected that they influence economic decisions of the users taken based on these financial statements.

An audit conducted in accordance with ISAs requires that we exercise professional judgement and uphold professional scepticism during the audit. Likewise, that we:

- Identify and assess the risks of material distortion of the financial statements, due to fraud or error, we design and implement audit procedures which tackle these risks and obtain 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 that arising from error, as fraud may involve collusion, falsification, intentional omissions, false declarations or the derogation of internal control.

- Obtain an understanding of the internal control of relevance for the audit, in order to design audit procedures that are suitable under the circumstances, but not for the purpose of expressing an opinion on the efficacy of the internal control of the Bank and Group.

- Appraise the adequacy of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the directors.

- Conclude on the adequacy of the use by the directors of the accounting assumption of the going concern principle and based on the obtained audit evidence, whether there is a material uncertainty related to events or conditions that could raise significant doubt on the ability of the Bank and Group to continuing operating in accordance with the going concern principle. If we conclude that there is a material uncertainty, we are obliged to draw attention, in the auditor's report, to the related disclosures in the 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 or conditions could imply that the Bank and Group no longer operates pursuant to the going concern principle.

- Appraise the general presentation, the structure and the content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in order to obtain an appropriate presentation.

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Communicate with the directors on, among other issues, the planned scope and the time limits of the audit and the significant findings of the audit, including any significant flaws in the internal control that we detect during our audit.

KPMG, Sociedade de Auditores Certificados

Represented by:

[Illegible Signature]

Abel Jone Guaiaguaia OCAM no. 04/CA/COM/2012)
Partner
14 March 2018
Maputo

Declaration of responsibility of the Directors

The Bank's directors are responsible for the preparation and appropriate presentation of the individual and consolidated financial statements which include the Balance Sheet of BIM – Banco Internacional de Moçambique, S.A. and the statements of income and comprehensive income, changes in equity and cash flow for the financial year ended on 31 December 2017, as well as the notes to the financial statements, which include a summary of the main accounting policies and other explanatory notes, pursuant to the International Financial Reporting Standards.

The directors are also responsible for the design, implementation and maintenance of a pertinent internal control system for the preparation and presentation of these individual and consolidated financial statements in a manner free of material distortions, whether due to fraud or error, and appropriate accounting records and an efficient and effective risk management system.

The directors made an appraisal to determine whether the Bank and the Group has capacity to continue to operate with due observance of the going concern principle and does not have motives to doubt the Bank and the Group's capacity to be able to continue operating under this assumption in the near future.

The auditor is responsible for reporting on whether the individual and consolidated financial statements are appropriately presented in conformity with the International Financial Reporting Standards.

Approval of the individual and consolidated financial standards

The individual and consolidated financial standards for the year ended on 31 December 2017 of BIM – Banco Internacional de Moçambique, S.A., as mentioned in the first paragraph, were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

[Illegible Signature]	*[Illegible Signature]*
Chairman of the Executive Committee	Chairman of the Board of Directors

REPORT AND OPINION OF THE SUPERVISORY BOARD

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

OPINION OF THE SUPERVISORY BOARD

In conformity with the legislation in force, we hereby submit to the Shareholders the summary of the supervisory action exercised at BIM – Banco Internacional de Moçambique, S.A., as well as the opinion on the Consolidated Financial Statements of the Millennium bim Group, the Financial Statements on an individual basis of the Bank and the Report of the Board of Directors relative to the financial year ended on 31 December 2017.

Pursuant to its duties, during 2017, the Supervisory Board regularly supervised the management and evolution of the Bank's business, the correctness and orderliness of the accounting records and compliance with the applicable legal provisions, through the management and accounting information provided as well as the monthly meetings with the Bank's Accounting division.

Within the context of the predefined schedule of meetings and the conduct that we have always observed, we held regular meetings with various areas of the Bank, namely the Audit and Compliance Office, Credit and Risk Office, Credit Recovery and Corporate Centre, as well as with the External Auditor, in addition to our participation in the meetings of the Board of Directors.

We devoted particular attention and interest to the appraisal of the recommendations of Banco de Moçambique, concerning prudential supervision, as well as the materialisation of the risk management guidelines, established in Notice 4/GBM/2013.

We ensured that, in terms of Internal Audit, the necessary attention was given to the validation of the Internal Risk Models, based on the requirements of the new risk guidelines of the Regulator and Basel II, as well as the rules of the BCP Group.

We learnt that particular focus was given to internal restructuring with a view to strengthening and improving the control and supervision of the Supervisory entities and External Auditors, with procedural standards having been proposed that define the internal rules of action, aimed at assuring an appropriate supervision and monitoring of all the actions derived from the relations with these entities.

We found that there had been a significant increase in the number of audits conducted, as well as strong growth in supervision and greater reinforcement in the analysis and control of the implementation of the improvement actions agreed with the audited units.

We noted that, as a result of the activity that was developed, no occurrences were detected that could change the positive assessment of the Bank's systems for risk identification and management, and internal control.

We found that the activity of the Compliance Office was focused: (i) on the review of all the standards and policies of the Compliance Office, (ii) on fine-tuning the monitoring of compliance with the legislation, (iii) on the analysis of the ICSF Code of Conduct and Regulation on Advertising of Financial Products and Services, (iv) on the identification of the depositor agent in transactions of suspicious legal threshold value, in cash, and (v) on the introduction of a new KYC for casinos.

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BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

OPINION OF THE SUPERVISORY BOARD

Concerning the Risk Office, we observed that, relative to the process of implementation of IFRS 9, based on previously defined assumptions, the Bank carried out an impairment test on credit to calculate the impact of IFRS 9 on the Financial Statements. This transition impact was recorded in the Bank's accounts, in conformity with the criteria and rules defined in the context of this financial instrument.

We were pleased to note the supervision and results of the stress test conducted for the different types of risk, as well as for internal capital assessment, based on the financial statements as at 30 June 2017. From this it was concluded that the Bank has an internal capital level that is adequate to its risk profile, satisfactorily complying with the solvency ratios and also possessing a sufficient buffer for any future capital needs.

Our interest and particular attention was directed at the dialogue with the External Auditors, achieved through work meetings with them, with it having been found that the review of the controls and recognition of revenue included verification of the operational efficacy of the process of creation, authorisation and reporting of the accounting entries and appraisal of the respective accounting policy and its application. Substantive analytical procedures and detailed tests were also carried out, aimed at obtaining satisfactory evidence of the assertions underlying the accounts and transactions relative to revenue, with no exceptions at all having been observed.

Also in the context of the work accomplished with the External Auditor, we concentrated on the detailed analysis of the largest exposures of the State, public and private sector and of credit in arrears and under litigation. In this respect, we focused on the material relevant situations with impact on the operating account and/or consumption of capital, namely loans with signs of impairment, as well as the individual analysis made by the Auditors to the Bank's loan portfolio of entities selected based on audit risk criteria.

The External Auditor was of the opinion that the logic inherent to the Bank's impairment model complies with the substantiations and guidelines stipulated by IAS 39.

During 2018, under the terms of Law 15/99 of 1 November and amendments introduced by Law 9/2004 and Notice 09/GGBM/2007 of 30 March, we were called upon to express an opinion on cases related to credit granted to correlated entities, and on companies or other collective entities, directly or indirectly controlled by the correlated entity, or that are in group relations with it, pursuant to the legislation in force.

Under the terms of the provisions in number 2 of article 42 of the Bank's Memorandum of Association, we appraised the Report of the Independent Auditors, issued by KPMG Auditores e Consultores, SA., with which we declare being in agreement.

Pursuant to our duties, we examined the Financial Statements, as well as the respective notes, including the accounting policies and valuation criteria that were adopted.

We analysed the Management Report for the financial year of 2017, prepared by the Board of Directors and the proposed appropriation of net income, included therein.

We examined the main transactions that explain the most significant variations in the Bank's key activity indicators (on an individual basis), which we found had been rather affected by the appreciation of the Metical in relation to the USD, as the exchange rate decreased from USD 71 as at 31 December 2016 to USD 59 in December 2017.

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BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

OPINION OF THE SUPERVISORY BOARD

During our activity, we were neither informed of, nor did we observe, any irregularity on the part of the company, its shareholders, employees or others, namely of nature harmful to the interests of the institution or any of its shareholders.

The Bank's and Consolidated Financial Statements audited by the External Auditor indicate:

- That the Consolidated Balance Sheet of the Bank, BIM – Banco Internacional de Moçambique, S.A., as at 31 December 2017, appropriately reflect the financial situation of the Group and of the Bank;
- That the Consolidated Income Statement and the Bank's Income Statement show a consolidated profit of 6,100.55 million Meticais and a profit for the Bank of 5,574.02 million Meticais, which reflect the result of the activity of the Group and the Bank;
- That the Consolidated Comprehensive Income Statement and the Bank's Comprehensive Income Statement present a comprehensive income of the Group of 6,806.37 million Meticais and a comprehensive income of the Bank of 6,397.31 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 317.32 million Meticais for the Group and 327.18 million Meticais for the Bank; and
- That the Consolidated Statement of Changes in Equity and the Bank's Statement of Changes in Equity show an Equity, as at 31 December 2016, of 28,661.39 million Meticais for the Group and 26,314.86 million Meticais for the Bank.

As a result of the verifications made 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 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 the 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 2017, as well as the result of the operations carried out by the Group and by the Bank during the financial year.

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BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

OPINION OF THE SUPERVISORY BOARD

- We are of the opinion that the General Meeting should:
  - i). Approve the Accounts relative to the Financial Year of 2017;
  - ii). Approve the Management Report of the Board of Directors and the Consolidated Financial Statements of BIM – Banco Internacional de Moçambique, relative to the financial year ended on 31 December 2017;

Express its praise to the Board of Directors and to all the other employees for the notable manner in which, under their respective competences, they proceeded with the management of the Bank during the year.

Maputo, 15 March 2018

THE BOARD OF AUDITORS

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Teotónio Jaime dos Anjos Comiche - Chairman

[Illegible Signature]

Daniel Filipe Gabriel Tembe – Member

[Illegible Signature]

Eulália Mário Madime – Member

[Illegible Signature]

Maria Iolanda Wane – Alternate Member

BANCO INTERNACIONAL DE MOÇAMBIQUE, S.A.

OPINION OF THE SUPERVISORY BOARD

Pursuant to the legal and statutory provisions, the Board of Auditors submits to the Shareholders its opinion on the appropriation of the net income relative to the financial year ended on 31 December 2017.

The Supervisory Board examined the Board of Director's proposal relative to the distribution of the Net Income.

In view of BIM's financial robustness, namely due to the pertinence of the eligible own funds, of the value of 8,524,163 million Meticais, and the comfortable solvency ratio, 17,8%, 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 Board of Auditors is of the opinion that the General Meeting should approve the proposed Distribution of Net Income of the value of 5,574,017,036.16 Meticais as follows:

- *To the Free Reserve 62.50% 3,483,760,647.60 Meticais*
- *To the Dividend*

  Stabilisation Reserve 2.50% 139,350,425.90 Meticais
- *Distribution to the Shareholders 35.00% 1,950,905,962.66 Meticais*

Maputo, 15 March 2018

THE BOARD OF AUDITORS

[Illegible Signature]

Teotónio Jaime dos Anjos Comiche - Chairman

[Illegible Signature]

Daniel Filipe Gabriel Tembe – Member

[Illegible Signature]

Eulália Mário Madime – Member

[Illegible Signature]

Maria Iolanda Wane – Alternate Member