2008
Annual Report

Millennium bim

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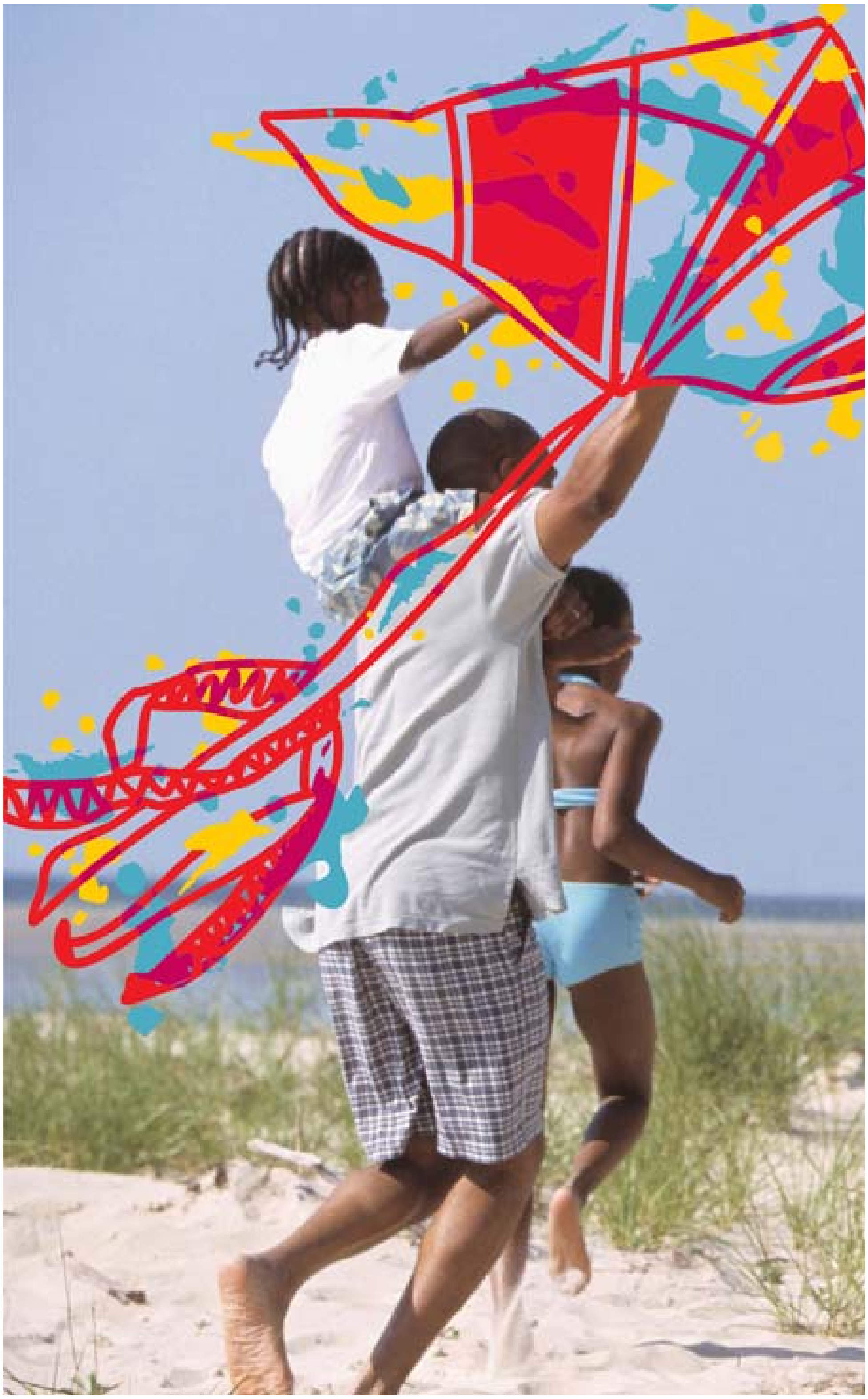
The BIM – Banco Internacional de Moçambique, S.A. Annual Report is prepared in Portuguese. This is a translated version and should there be any doubt the Portuguese version must be consulted.

Index



BIM – Banco Internacional de Moçambique, S.A.

Message from the Chairman

The Board of Directors is pleased to present to its Shareholders, Customers and all Stakeholders its report for the financial year that is drawing to a close. It shows a year of success and achievement. We take pride in concluding that where there is a correct vision and there is conviction in one's work, we not only achieve our objectives but even exceed them. We are satisfied that we have done our job and that the effort was certainly worthwhile.

Throughout the world, the year we are reporting has been marked by high prices for oil and food crops and by the world financial crisis that saw the weakness of financial systems in developed countries and loss of confidence in them.

Nevertheless, and despite this environment, in Mozambique the year has once again been characterized by even more political and macroeconomic stability due to the Government's correct policies and decisions.

Living as we do in a global economy, observing the best international directives is a decisive factor in competitiveness. For this reason, Millennium bim is always alert and has kept up with the most recent practices of Corporate Governance and International Financial Reporting Standards. Risk management is fundamental in business and for the sustainability of financial institutions and is one of the vital factors behind Millennium bim's growth policy, contributing to appropriate management of equity through a correct assessment of the risk profile and returns in the Bank's various business lines.

It is in this highly unfavourable world context that Millennium bim is presenting to its Customers, not only its biggest expansion programme to date – reaching its 101st branch and surpassing 500 thousand Customers – but, even more important, its main balance sheet, profitability and efficiency indicators reached higher levels.

Our efforts and work were rewarded by the highest distinction that any Bank with its head office in Mozambique has ever achieved. It was considered the "Best Mozambican Bank" by the financial publication Euromoney and, for the fourth time, it was honoured as the "Bank of the Year in Mozambique" by The Banker, a magazine of the Financial Times group. It was named one of the seven best Banks in Africa by the IC Publisher of the African Banker Magazine, in a ceremony that took place during the Annual Forum of the World Bank and IMF in Washington DC.

I think that this information will not just be a source of great pride and indeed of encouragement for us, but also for our Customers who today have the value criteria of modern, demanding and global institutions on which to base their choice of partnership relations.

We are encouraged by the fact that that we have certainly improved the lives of many of our Customers by providing products that have boosted their activities and their businesses, that have facilitated their transactions and that have made their savings and investments safer, increasing the value of their assets.

Our commitment to the country's development has led us to create our own social responsibility program. We were the first Mozambican company to publish a report on Social Responsibility, with leadership and innovation in the practice and dissemination of a socially responsible attitude.

Our vocation is to contribute to the growth of the country's economy, strengthening and developing its entrepreneurial fabric and improving the living conditions of its population, not just through our intervention in social responsibility activities but also by providing the services and products that are important and necessary for their lives.

I cannot conclude without expressing my special thanks to all our Customers, Shareholders, the Authorities and our Employees for their support, trust, commitment and acceptance of our proposals, such that the Bank exceeded its targets, encouraging us to continue working towards our objectives and tackle new challenges.

Mário Machungo
Chairman of the Board of Directors
of Millennium bim

BIM – Banco Internacional de Moçambique, S.A.

Summary of Indicators (individual basis)

Thousand Meticais

	2008	2007	Var. %
Balance sheet			
Total assets	35,477,276	28,896,723	22.8%
Loans and advances to Customers (net)	17,017,434	12,503,472	36.1%
Deposits from Customers	29,486,378	23,626,134	24.8%
Shareholders' equity and subordinated debt	5,135,300	3,719,062	38.1%
Income Statement			
Net interest income	2,615,121	2,213,331	18.2%
Other operating income (1)	1,498,726	1,210,047	23.9%
Operating expenses (2)	1,950,702	1,688,352	15.5%
Loan impairment (net of recovery)	52,866	215,254	-75.4%
Other provisions	38,251	-8,007	n/d
Net profit before income tax	2,072,029	1,527,779	35.6%
Income tax	298,662	125,000	138.9%
Deferred tax	18,066	4,016	349.9%
Net income for the year	1,755,301	1,398,762	25.5%
Net operating revenue (3)	4,113,848	3,423,378	20.2%
Cash Flow	2,391,798	1,925,342	24.2%
Profitability and Efficiency			
Return on average total assets (ROA)	5.5%	5.3%	+0.3 pp
Return on average Shareholders' equity (ROE)	45.0%	52.7%	-7.7 pp
Net operating revenue/Net average assets	12.8%	12.9%	-0.1 pp
Net interest margin (NIM)	9.7%	10.2%	-0.5 pp
Operating costs/Net operating revenue	47.4%	49.3%	-1.9 pp
Credit Risks			
Loans and advances to Customers (gross)	17,800,433	13,151,212	35.4%
Non-performing loans	160,973	168,599	-4.5%
Non-performing loans for over 90 days/Total loans	0.8%	1.2%	-0.4 pp
Non-performing loans/Total loans	0.9%	1.3%	-0.4 pp
Loan impairment/Non-performing loans for over 90 days	536.9%	456.1%	+80.8 pp
Number of branches	101	86	17.4%
Number of Customers (thousand)	554.9	472.8	17.4%
Number of Employees	1,635	1,470	11.2%
Productivity			
Net income/Employee	1,073.6	951.5	12.8%
Number of Customers/Employee	339.4	321.6	5.5%

(1) Net commissions, Net profit from financial operations and Other net income
(2) Staff costs, Other administrative costs and Depreciation
(3) Net interest income and Other net income

Summary of the Report by the Board of Directors

In 2008, financial institutions operated in a macroeconomic environment of unprecedented crisis for the financial sector and the economy in general. Spread across various continents, it is considered the worst economic phase in the post-globalisation era, with some major financial institutions in difficulty, including bankruptcies and the resulting fall in investor confidence.

In order to address the crisis, the governments of the main world economies intervened with exceptional and coordinated measures, injecting liquidity into the system, participating in the capital of large financial groups affected by the threat of bankruptcy, as an alternative to nationalization. The main central banks lowered their monetary policy interest rates in order to deal with the difficult international financial situation.

In this context of world economic recession and at this highly sensitive time for markets, it is important to clarify that Millennium bim was not involved in, nor has it been exposed to, risks of the kind that caused this crisis, in particular the credit crisis that erupted in the US subprime mortgage market in early 2007. Nor, as far as we know and in the public domain, have any institutions with which we have relations today faced any liquidity or solvency difficulties that put the Bank, or others with which it has relations, at risk from the so-called "domino effect".

Nevertheless, it is clear that the effects of this crisis could be far from over and require the utmost prudence and extra attention to the multiple effects that the country's economy could still face in the near future.

Despite this setting, in 2008 Millennium bim consolidated its leadership position in various areas of the country's financial system, with rigorous observance of its demanding quality standards and objectivity, its commitment with the strong sense of responsibility inherent to institutions that identify with the present and the future of their environment.

Once again, the expectations and demands of our Customers were a source of inspiration for the design of products and services that were placed in the market and the continued expansion of the branch network that began last year. We believe that in this way we can promote growing banking coverage of the national market and contribute to the development of the country and its financial sector in particular.

In keeping with its commitment to improving Customer services, and in particular its strong expansion program, in one and a half years 25 new branches were opened in 7 provinces and a further 22 were completely remodelled. By the end of 2008 the network had 101 branches, providing more comfortable work places, improved security and better conditions for serving our Customers.

With rigour, quality and above all a heightened sense of responsibility, each new branch was subject to a detailed study to test its economic feasibility, in order to ensure perfect harmony between the wishes of the population, the Authorities and the legitimate aspirations of the Bank's Shareholders.

The market has fully recognised our proposition, honouring us with international awards that in the financial sector constitute acclaim not just for the name of the Bank, but also for the country.

And the market responded, sought out and trusted our services, resulting in strong growth in our Customer base that, in 2008, surpassed 500.000.

It was a year for consolidating the strategic objectives for the 2007-2010 period, with some operational and technological changes and continued investment in training Employees to ensure sustained growth and prepare the Bank for the various stages of its expansion, but without neglecting improvements in competitive capacity.

Innovation in the conception of products, cross-cutting commercial dynamism involving the different business segments and only a moderate rise in operating costs despite the expansion of the branch network produced positive growth in the economic and financial indicators of the Bank and the Seguradora.

In the 2008 financial year, Millennium bim's net income reached 1,755,301 thousand Meticais, a rise of 25.5% over the previous year, contributing to a good performance of 45.0 % returns on equity and 5.5% returns on average total assets (ROA).

Total assets were 35,477,276 thousand Meticais, a rise of 22.8% over the previous year, reflecting a 36.1% rise in total loans and advances to Customers, a 21.9% rise in the securities portfolio, consolidated by a 24.8% rise in deposits from Customers that reached 29,486,378 thousand Meticais. This was due to dynamic performance in attracting the resources of commercial networks and judicious pricing management, associated with a varied supply of innovative products and services.

Pursuing its policy of creating value through a vision that constantly focuses on the Customer and through socially responsible behaviour, promoting the professional qualifications and the personal development of its Employees and also exercising its social responsibility to the community of which it is part, Millennium bim was the first Mozambican company to publish a report on Social Responsibility. It covers specifically and exclusively the Bank's interventions in the social field since it was established, its ethical principles and its sustainability practices. The Millennium bim Social Responsibility Program "Mais Moçambique pra Mim" ("More Mozambique for Me") continued with a variety of activities throughout the year.

Our subsidiary, Seguradora Internacional de Moçambique, S.A., retained its leadership position in the insurance market. In 2008 its processed revenue grew 31%. Its net profit was 179 million Meticais, a 9% rise that was influenced by the termination of tax exemption on government securities. Profit before tax was 257 million Meticais, a rise of 50% over the previous year.

The main strategic areas for Millennium bim and the Seguradora next year will be the constant search for better services and continued innovation, expanding the Customer base, maximizing profitability and intensifying cross-selling. Special attention will be paid to proactive commercial engagement, expanding electronic banking, and additional efforts to ensure implementation of the branch expansion program, while at the same time maintaining rigorous observance of compliance issues and risk management.

In concluding this summary of the report, the Board of Directors would like to express their thanks to all entities and people who made a particular contribution to the growth in activity and the results achieved in 2008, in particular:

- our Customers, whose preference is always considered the best reward for our efforts and provides the strongest incentive for constant improvements in the level and quality of the distinctive services we seek to provide them;

- the Bank's Shareholders, for accompanying our work, for their support when we take strategic options at opportune moments and for the attention and interest with which they have followed the promotion of new initiatives;

- the Regulatory and Supervisory Authorities, namely, the Ministry of Finance, Banco de Moçambique, the Ministry of Labour, Provincial Governors and other Local Authorities for the way in which they have supported and followed the Bank's activities, for their assistance in clarifying the issues presented to them and for their support for our work;

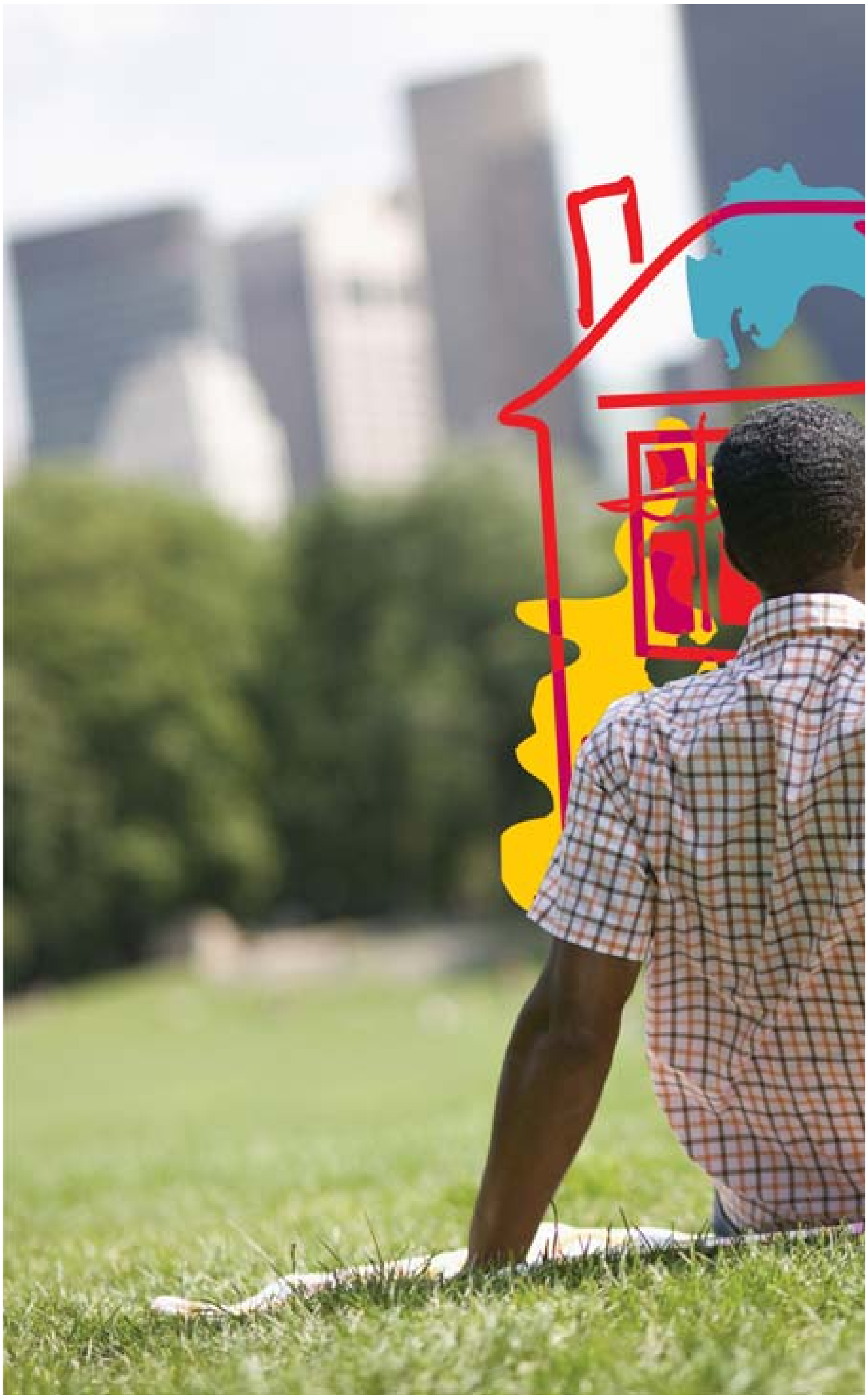
- the Mozambican Association of Banks and the Bank Training Institute, that have helped to develop agreed policies and efforts by banks in areas of common interest;

- the Suppliers, for the prompt provision of the services and goods that are essential to our daily activities;

- the officers of the General Shareholders' Meeting and the Audit Board, for their dedication and interest in constantly monitoring the Bank's affairs and their important role in developing and controlling our activities;

- our Employees, who have helped to achieve our objectives through their commitment, willing availability and professional competence.

Macroeconomic and Financial Overview



Macroeconomic and Financial Overview

World economy

After recording sustained average growth of 5% over the last four years, in part due to the significant growth of emerging and developing economies, especially the BRICs and Next-11[1], in 2008 the world economy showed signs of slowing down. It grew by an estimated 3.7% (5% in 2007), due mainly to a number of factors that occurred during the year, in particular:

(i) The world financial crisis, with its epicentre in the USA, affected the most advanced economies more severely due to the greater sophistication and interdependence of their financial systems. In particular, the bankruptcy of some large banks in the USA and Europe produced a climate of lack of confidence and falling stock exchange rates. There has since been a vicious cycle of credit restrictions leading to a slowdown in economic activity, especially in demand areas that affect investment and consumption, manifested in part by the closure of companies and unemployment, low consumption and indebtedness capacity at its limit. Taken together, these factors reinforce restrictions on credit to the real sector. This situation has required the reformulation of banking supervision policies and rules, focusing in particular on the investment banking model, the governance system for public enterprises, the role of central banks and the Bretton Woods organizations, as well as the need for coordinated action by various countries.

(ii) The oil, food and raw material crisis peaked in the first semester of 2008 and in July the price per barrel hit a new high of USD 145 due to demand arising from economic growth in the BRICs, in particular structural changes such as the raw material and metal requirements of Asian industry and the food consumption needs of 2.3 billion people[2] in China and India. This was aggravated by intense production of biofuels rather than food crops and the devaluation of the dollar (USD 1.66/Euro in April), natural disasters and political risk situations in Nigeria, Sudan, the Middle East and other focal points of tension in Latin America (Venezuela) and Africa (Zimbabwe, Somalia and DR Congo).

The severe crisis situation and the deterioration in economic conditions in 2008 also revealed that the coordinated administration of cuts in Central Bank interest rates to close to zero in the USA (0.25% in December, Fed Funds) and Europe did not have the desired effect, making monetary policy ineffective. As a last resort, the authorities decided to intervene directly in financial systems and in the conception of fiscal stimulus packages.

[1] – BRIC's: Brazil, Russia, India and China. Next-11: Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam.

[2] – Together accounting for 20% of the world population: China (1.3 billion) and India (1.03 billion).

Despite these measures, economic activity in developed countries contracted, reducing demand and resulting in: (a) a fall in the exports of emerging countries where a more solid lead in world growth had been expected; (b) a reduction in inflationary pressures, resulting in a fall in oil and raw material prices, with considerable corrections in the last months of the year (price per barrel USD 34.04 in the last week of December).

In this environment, widespread uncertainty about the depth and duration of the effects if the crisis persists, with forecasts of a global slowdown in 2009, world growth of 0.5% according to the IMF, way below the 2004-2007 average (5%). The slowdown is being led by recession in the more advanced countries with estimates of negative growth rates for various countries: USA (-2.0%), Germany (-2.5%), Spain (-1.7%), United Kingdom (-2.8%), Japan (-2.6%). However, some moderate growth is expected in Asian countries: China (6.7%) and India (5.1%); a growth rate of 1.8% for Brazil, helping to cushion the negative trends in the more advanced economies.

United States of America

Economic growth in 2008 is estimated to be close to 1.4%[3] (2% in 2007). Indeed, the current economic situation in the United States is being described as a recession, characterized by a fall in economic activity in various sectors of the economy lasting more than a few months, with visible signs in GDP, real personal income, employment, industrial production and the wholesale trade[4]. Production fell by about -0.8% between the third and second quarters of 2008, due to a fall in private consumption, with very low confidence reinforced by weak expenditure by companies on new equipment and other fixed asset investments.

This gloomy scenario is due to the contagious effects of the financial crisis that have affected much of the real sector, including the car industry, where a rescue package still has to be approved, slightly cushioned by real growth in exports of goods and services and also increased government expenditure.

The consumer price index was 4.2% (2.9% in 2007), despite the latest fall in the prices of oil and some commodities. According to the BEA[5], in 2009 it is expected to be 1.8%, reflecting the deflationary trend reinforced by cooling demand[6]. Unemployment rose from 6.1% to 6.5%, with the estimated number of unemployed rising by 2.8 million over the last twelve months[7], making a total of 10.1 million people out of work.

(3) – IMF December, but 0.9% according to the EIU in January.
(4) – Recession as defined by the National Bureau of Economic Research (USA).
(5) – BEA: Bureau of Economic Analysis.
(6) – The consumer confidence index fell from 61.4 to 38.0 in October, the lowest level since 1967, according to the Conference Board, a research group.
(7) – Bureau of Labour Statistics, United States Department of Labour, (7th November 2008).

Still on the negative side, the public deficit in the USA was about 2.7% of GDP in fiscal year 2008 (USD 438 billion)[8] and is expected to deteriorate in 2009 (3.3%) due to measures already announced (Paulson Plan USD 700 billion) and the economic stimulus plan (fiscal packages), as well as interest on public debt (debt of USD 10.6 trillion in November). The deficit on the transaction balance is 4.5% of GDP, about USD 698 billion.

It is expected that the economy will contract sharply in 2009, with a growth rate of some -2.0%, and that the positive effects of monetary and fiscal policies will only be visible at the end of 2009, with growth resuming in 2010. These policies are already underway, through both a reduction in the reference interest rate (of between 0.25% and 0%) and the injection of liquidity into the financial system, providing banks with liquidity at low and fixed interest rates, including TARP[9], the purchase of private debt (GSEs)[9] and the plan to buy commercial paper while awaiting more concrete fiscal measures by the newly elected government to relaunch the economy.

Europe

As in the USA, the depth and duration of the contagious effects of the financial crisis have caused a fall in investment and consumption following credit restrictions, with ECB intervention with successive interest rate cuts, as well as the nationalization of banks and intervention by the authorities of various countries in their respective financial systems, followed by rescue measures of a fiscal nature. In the Euro Zone the pace of activity fell in the second and third quarters of 2008, entering into technical recession, with estimates of overall growth in the order of 0.7% in 2008 (2.5% in 2007). Low growth countries include in particular Germany (1.0%), France (0.7%), Italy (-0.5%), Spain (1.0%). In this recession context there are particularly severe unemployment levels in Spain (12.8%), Belgium (10.5%), France (7.6%) and Germany (7.4%), as well as current account deficits (0.3% of GDP) and deficits in public accounts (1.6% of GDP). Inflation was 3.5% (2.1% in 2007).

The United Kingdom was the country most exposed to the subprime crisis, with the biggest contraction in the real estate sector and an estimated reduced growth of 0.8% in 2008, with forecasts of a fall to -2.8% in 2009. In December the Bank of England cut the interest rate from 3.0% to 2.0% and more cuts are expected early next year, in line with a planned inflation rate of 2%, compared to an estimated 4.1% in 2008. It is expected that the reduction in VAT, the fiscal stimulus package and the depreciation of the pound could promote a rise in exports and internal demand. However, there is little possibility of recovery in the short term, given the uncertainty about the prolonged effects of the crisis and the delayed impact of fiscal measures.

[8] – The economic recession is responsible for a USD 65 billion reduction in fiscal revenue contributions by companies.

[9] – TARP (Troubled Assets Relief Program); GSEs (Government Exposure Entities).

Japan

GDP stagnated in 2008. It is estimated that it remained at 2007 levels, with zero growth (2.1% in 2007) due essentially to the following: (i) contracting exports and investment; (ii) weak contribution of private consumption due to the economic recession and unemployment (3.9% in October).

According to the EIU, inflation in 2008 was 1.0%. Forecasts for 2009 indicate negative GDP growth of -2.6% due to the continuation of the above scenario.

China

GDP slowed slightly and estimates indicate a growth rate of around 9.1% in 2008 (11.9% in 2007) due to the anticipated fall in exports and weakness in the real estate sector. Forecasts for 2009 indicate GDP growth of 6.7%, but this will depend on the response to fiscal and monetary incentive packages[(10)]. Lower inflation of 3.4% is expected due to a fall in the price of food.

India

GDP growth in 2008 was 6.2% (9.3% in 2007). The fall in relation to 2007 is due to unfavourable financial conditions that affected domestic activity, investment in particular. Inflation was around 8.3% in 2008 (5.5% in 2007). GDP growth of 5.1% is forecast for 2009.

Africa

GDP growth in 2008 in Sub-Sahara Africa is an estimated 6.0% (7.0% in 2007). Given the wide diversity of countries on the continent, of particular note are oil exporting countries with an estimated growth of 7.5%, in part protected by the benign effects of favourable terms of trade due to high oil prices during the first semester of 2008. However, oil importers – albeit only in the first semester – benefited from high commodity prices (coffee, cocoa, aluminium, tea, cotton, among others) and grew 5.0%.

Direct foreign investment (DFI) continues to be the main driver of economic growth, especially in the mineral sector in Zambia, DR Congo, Madagascar, Tanzania and Mozambique, among others, and investment in infrastructure, as in the case of South Africa and Senegal.

[(10)] – The Chinese Central Bank made five cuts in reference rates in 3 months, to 5.31% in December.

In the first semester of 2008, inflation rose from 9% to 15%, driven by the rise in food prices (from 10% to 20%) and fuel (from 12% to 19%). Second order effects increased price levels (excluding food and fuel), namely, salary adjustments higher than the inflation limits established by central banks in various countries.

As regards external balance, it is estimated that in oil importing countries the current account balance deteriorated from 5% to 5.75% of GDP in 2008, with prospects of a bigger deficit in 2009 (6.3%). In the oil exporting country group the estimated surplus is around 13.5% of GDP (8% in 2007) with the prospect of a fall to 8% in 2009. In addition, on the negative side there are fears that the level of economic activity based on exports of oil, raw materials and minerals will cool down due to the recession in developed countries, strongly related to the industrial gleam of the BRICs.

In a second round of effects, the gloomy picture in 2009 could produce, albeit weakly, a reduction in foreign aid, DFI and emigrants' remittances. Efforts to counteract these effects will face some challenges that can be summarized as follows: (i) the energy crisis and adverse climatic conditions, and (ii) political tensions in certain regions and countries (Sudan, DR of Congo, Zimbabwe, Somalia, Guinea-Bissau and the Niger Delta).

South Africa

In 2008, real GDP in South Africa grew 3.3% (5.1% in 2007), after the country suffered its worst energy crisis early in the year, affecting in particular the mining and industrial sector in the first quarter. Growth only picked up in the second quarter, from 2.1% to 4.9%. This growth was also due to the construction investment program (4% of GDP) that rose by 13.5% on a year-on-year basis (13.9% in the first quarter of 2008). Agriculture grew by some 18.3% on a year-on-year[(11)] (3% of GDP) and industry by 4.9% year-on-year basis (16% of GDP).

The non-residential segment of the construction sector continues to be an important driver, with projects linked to the Football World Cup in 2010 and projects of a medium and long-term strategic nature, in particular energy, water and transport infrastructure. However, contraction in consumption and other investments continued in 2008 due to the high cost of credit and the indebtedness of families (the "debt-income" ratio rose from 50% in 2000 to 77% in 2008), the corrosive effects of high inflation on purchasing power and high unemployment of around 25.5%.

Between August and December, the consumer price index[(12)] fell from 13.7% to 11.5% due to easing fuel and food prices. In line with this, the South Africa Reserve Bank (SARB), that started the year with a reference prime rate of 14.5%, introduced two successive increments of 50bp to 15.5% in June, relaxing in December to 15.0%.

[(11)] – After a period of contraction between 2003 and 2007. Sector homologous growth rates for the 2nd quarter.

[(12)] – CPI: Consumer Price Index, by Stas S.A.

As regards its external balance, South Africa recorded a current account deficit of some 8% of GDP (7.3% in 2007), but with a depreciation of the ZAR against the USD of about 30% (USD/ZAR 11.85 at the peak of the crisis), which could be a correction factor in stimulating exports (USD/ZAR 9.4 in December).

Contrary to previous years, in 2008 there was a reversal of capital flows in the form of investments in portfolio, with a net outflow of around USD 8.9 billion. Financing was supported by unsustainable DFI flows(13) during the first three quarters and the remainder through short term (USD 15 billion)(14) and long term debt. It is estimated that the country's reserves cover 3.4 months of imports, with foreign debt of about 25% of GDP. The public deficit was 0.8% of GDP (0.6% in 2007).

Forecasts indicate that real GDP growth will fall from 3.2% in 2008 to 1.8% in 2009. The drivers of GDP growth are based on gross fixed capital formation, i.e. public infrastructure (electricity, water and transport), plus the support of new projects related to the Football World Cup in 2010. In addition, it is expected that the fall in the price of commodities will support the trend towards lower inflation, allowing the SARB to relax the interest rate(15).

Nevertheless, the contraction in the world economy and insufficient savings levels in the country have a substantial effect on its ability to finance the current deficit(16). Indeed, the world recession and risk aversion with regard to emerging markets should affect financing the current account, due to probable difficulty in renewing short-term finance and the possibility of recourse to the IMF in 2009 cannot be excluded.

Mozambique's economy

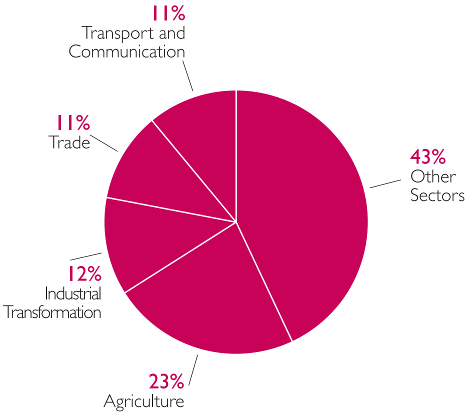
Economic growth, production and prices

GDP rose by an estimated 6.5% in 2008 (7.4% in 2007)(17) after starting with weaker performance of around 3.2% in the first quarter. The economy showed signs of recovery in the second and third quarters, with growth of 6.1% and 6.8% respectively. This was based on dynamic growth in the agriculture and extractive industry sectors due to investments in the recent past and high commodity prices until July 2008. These sectors grew considerably during these two quarters, 8.9% and 11.1% (agriculture), 8.4% and 12.6% (extractive industry). There was also growth of some 8.5% in the tertiary sector, supported by a stronger pace in transport and communications (12.8%), trade (11%), financial services (11.5%) and hotels and restaurants.(18)

(13) – In particular the purchase of Standard Bank.
(14) – Estimates of JSE, BESA, RMB.
(15) – The SARB forecasts inflation of 7.2% (2009, IMF 8%) and 5.9% (2010).
(16) – 65% of South Africa's exports go to the United Kingdom, continental Europe and the USA.
(17) – INE, Third Quarter 2008. Preliminary data. The growth rates recorded per sector correspond to the homologous variation (September 2008), except when stated otherwise.
(18) – No data but growth of 15.2% in 2007 and it is regarded as a sector with high potential.

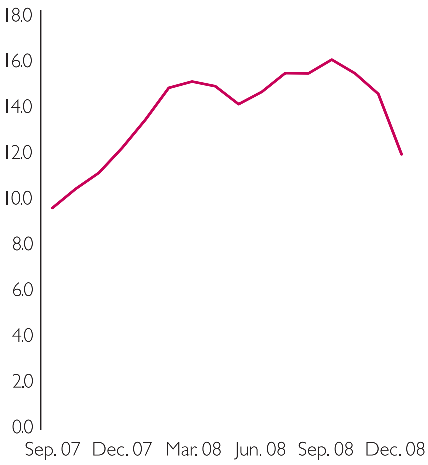
In the opposite direction, higher exposure of the industrial transformation sector – driven by the aluminium industry – to the energy crisis in South Africa resulted in a 5.1% fall in production, after a sharper drop of 8.3% in the second quarter. The food, beverages and tobacco processing industry recorded more moderate growth. Nevertheless, the contraction of the secondary sector was cushioned by an estimated 20.1% growth in the construction sector due to public investment in infrastructure and rehabilitation, essential elements in consolidating the foundations of the country's economic development.

Contribution of Sectors to GDP
(Cumulative III Quarter 2008)



Source: INE, 2008

Inflation – Homologous Variation Rate
%



Source: INE

Homologous Variation

Agriculture continues to be one of the main drivers of this growth accounting for 21.3% of total GDP (32% in the second quarter and 23% in 2007)[19], complemented by the industrial transformation sector with 12% (12.8% in 2007), trade 11% (11% in 2007), transport and communication with 11% (10% in 2007) and other sectors with 43% (43% in 2007). The growing weight of the primary sector is to a large extent due to dynamic agricultural activities (78% of employment) while the extractive industry sector was driven by the conclusion of construction work on heavy sands in Moma, which started production in the first quarter of 2007.

According to the National Institute of Statistics (INE), the rate of price rises fell in the final months of 2008, sticking at 6.19%, with inflation way below the 10.6% recorded in January, which accelerated to 13.0% in February, caused by the sudden sharp rise in energy and food prices. Average annual inflation was 10.33% in December 2008 (8.16% in 2007). Cooling demand allied with the current international situation was behind the general fall in price levels in the last months of the year, with two opposite effects expected: (i) benign impact on purchasing power bringing with it more consumption and promoting domestic demand dynamics, (ii) choking off production in commodity export sectors with effects on employment and private consumption. The following table summarizes some economic indicators in the period 2003-2008:

[19] – Figures for the third quarter 2008.

Macroeconomic Indicators	2003	2004	2005	2006	2007	2008
Real GDP (a.v.r.)	7.9%	7.5%	6.2%	7.9%	7.0%	7.0%[(a)]
Inflation (average v.r.)	13.4%	12.6%	6.4%	13%	8.2%[(b)]	10.3%[(b)]
Inflation (end of period)	13.8%	9.1%	11.1%	9.4%	10.3%	6.19%[(b)]
Money supply (a.v.r.)	23.4%	6.1%	22.0%	21%	25%	22.4%[(c)]
Current account balance (as % of GDP)	-19.5%	-9.5%	-12.0%	-8.9%	-9.2%[(d)]	-10.2%[(e)]
Budget balance (as % of GDP)	-4.5%	-4.9%	-5.8%	-2%	-5.3%[(d)]	-7.8%[(d)]
Exchange rate MZN/USD, end of period	23.86	18.89	23.06	25.97	23.82	25.50
% change MZN/USD exchange rate [(f)]	0.0%	-20.8%	22.0%	12.6%	-8.3%	7.1%
Exchange rate MZN/ZAR, end of period	3.52	3.38	3.62	3.82	3.50	2.72
% change MZN/ZAR exchange rate	28.7%	-4.0%	7.1%	5.5%	-8.4%	-22.3%

Notes:
(a) – Estimate (INE/BdM; – Banco de Moçambique);
(b) – INE, "end of period" is homologous change;
(c) – BdM, annual change in M3 in October;
(d) – EIU, 7.8%;
(e) – Global Economic Prospect, World Bank, June 2008;
(f) – Negative sign indicates appreciation of MZN.

External sector

During the first quarter of 2008, the current account balance had a deficit of some USD 205 million (USD 87 million in the first quarter of 2007). South Africa's energy problems had a negative impact on aluminium exports, aggravating the deficit on the trade balance following the rising cost of imported fuel and food, in addition to recourse to services abroad. Of particular relevance in these changes were imports of fuel, cars, machinery and raw materials for Mozal[(20)], while two factors mitigated the deficit: (i) higher exports of gas, titanium (Moma), cashew kernels, sugar and tobacco; and (ii) in the first quarter a rise in current transfers from USD 140 million to about USD 330 million in homologous terms. As regards the service balance and factor income, service imports deteriorated despite rising rail-port activity and tourism revenue. In addition, the fall in the balance was also due to higher payments to remunerate foreign investment production factors, including repatriation of dividends, royalties and debt service, that in the second quarter amounted to USD 220 million (USD 76 million in the previous quarter).

Unilateral donor transfers to the Central Administration, estimated at USD 524 million, will have financed part of the current account deficit in 2008, plus additional DFI of USD 201 million by the end of the semester.

Million USD

Current Account Balance	2007	2008 Q1	2008 Q2	2008 S1
Export of goods	2,412.1	543.1	659.4	1,202.5
Import of goods	-2,811.1	-688.6	-781.1	-1,469.7
Export of services	458.7	108.6	125.0	233.6
Import of services	-855.6	-204.9	-211.3	-416.2
Factor remuneration received	193.6	59.5	46.3	105.7
Factor remuneration paid	-785.2	-75.8	-219.6	-295.4
Transfers from abroad	657.8	349.0	172.6	521.5
Transfers to abroad	-65.4	-14.4	-11.1	-25.4
Current account balance	-795.0	76.5	-219.9	-143.4

Source: BdM – Q1 and Q2 (Q = Quarter), S1 – 1st Semester

(20) – INE (2008).

Public finance

In 2008, the Government faced various challenges in the finance field related to efforts to accommodate the temporary fuel subsidy (0.15% of GDP) plus suspension of the respective taxes and import fees, expenditure on HCB – Hidroeléctrica de Cahora Bassa, loss of revenue due to trade liberalization under the SADC integration plan, reserves for the contingency plan to mitigate the effects of natural disasters[21], expenditure on priority sectors under PARPA – Plano de Acção para a Redução da Pobreza Absoluta (Absolute Poverty Reduction Action Plan), local elections and support for vulnerable groups.

It is estimated that expenditure will amount to USD 3.5 billion, about 34.8% of GDP, 44.0% of which covered by own revenue and the remainder (over 50%) by grants and loans. Fiscal revenue covered 35% of total expenditure (82% of current expenditure).

In addition, the dynamism of reforms – strengthening the e-Sistafe program, effective tax collection by Mozambique's Tax Authority, the fall in the price of crude oil in international market and the set of public sector reforms – point to improvements in the collection of own revenue and in the financial management of budget applications.

Mozambican financial system

In 2008, the monetary authority continued its efforts to contain inflation in an adverse situation arising from the energy and food crisis, that had a direct impact on inflation. Despite the planned 17% annual variation in aggregate M3, up to October Banco de Moçambique recorded an annual rise of around 22.4%, considerably above target, in line with relatively high inflation (10.32% in October), above the limits determined by the 7% – 8% band. Money supply[22] remained virtually unchanged between June and October (17,026 – 17,497 million MZN), a sign of prudence given the environment during that period. However, the reversal of the international situation with falling prices in the last two quarters of 2008 eased concerns about restrictive policies that would have resulted in a credit shortage and thus anomalies in the growth of the real sector.

In this context, credit to the economy rose to some 40,731 million MZN in October 2008, 33% higher than in December 2007. The monthly 1.4% variation between September and October (38,127 million MZN in September) was a vital sign of confidence in the financial system that was translated into normal credit concession conditions, despite the international financial market situation. Credit continued to be concentrated in trade (27%), other sectors[23] (32%), industry (16%), transport and communications (9%), agriculture (8%) and tourism (4%).

[21] – A package of 1.5 billion Meticais approved on 26 th November, 2007.
[22] – Aggregate Bank Reserves and Notes and Coins in Circulation (NMC).
[23] – This group is led by loans to private individuals (consumption and housing).

As regards the Metical-American Dollar exchange rate, during the first quarter the national currency recorded a cumulative depreciation of 2.23% in February and in June it was 24.05 Meticais[24], considerably lower than in June 2007. In the last fortnight of December, the rate closed at 25.09 Meticais, corresponding to a nominal annual depreciation of 6.09%, compared to an annual appreciation of 8.3% in 2007. Foreign exchange management by the authorities continues to generate considerable confidence in holding the Metical, supported by inflows of foreign exchange through DFI and development and external assistance programs, which favour greater and deeper Central Bank intervention in the Foreign Exchange Interbank Market. This scenario also reflects the slight recovery of the American Dollar, facing crisis in the financial system and economic recession. For all these reasons, the Metical has been in an exchange rate tunnel of 24.00 – 25.00 Meticais. On the last day of 2008, the South African Rand showed a nominal gain of about 22.3% due in particular to South Africa's external balance situation, more exposed to the volatility of capital seeking higher short-term yields.

Throughout 2008, the financial system saw more Banco de Moçambique intervention in the Foreign Exchange Interbank Market (MCI), with weekly auctions of USD during the first semester, and also through bilateral interventions with Commercial Banks. To some extent, this stabilised the exchange rate and at the same time controlled inflation.

In 2008, a new financial instrument was launched in the Interbank Monetary Market (MMI), the Repos and Reverse Repos transactions, sales with repurchase agreements between financial institutions and Banco de Moçambique, conducted through bilateral transactions between Banco de Moçambique and the Commercial Banks.

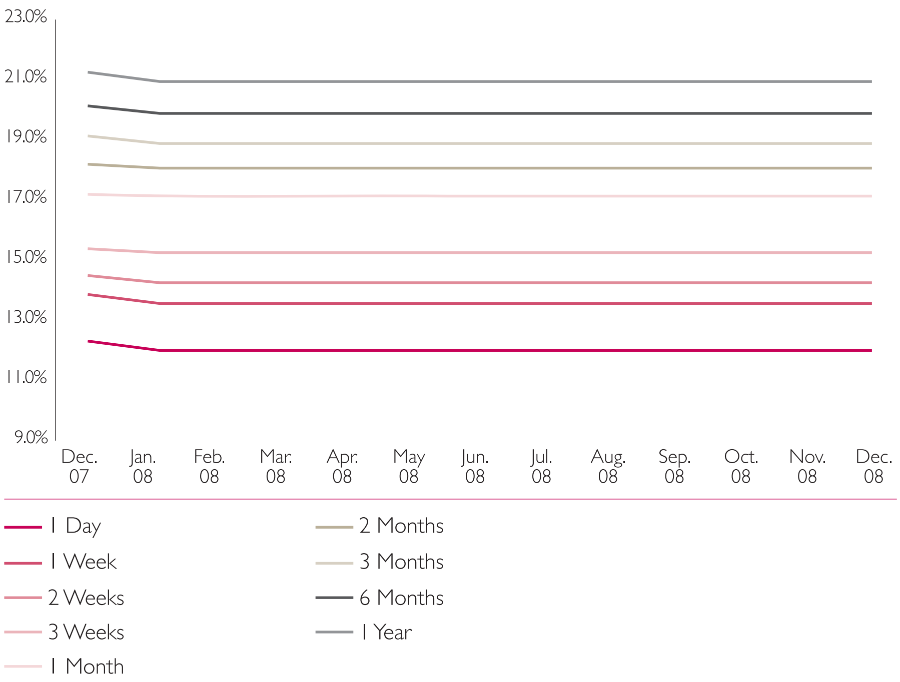
Banco de Moçambique Notice l/GBM/2008 reduced the coefficient of mandatory reserves from 10.15% to 9.0%.

[24] – In the Interbank Foreign Exchange Market, being 25.5 Meticais in the secondary market.

As part of its strategy to extend financial services to rural areas, Banco de Moçambique also allowed the establishment and operation of new banking institutions and the opening of new agencies that are now present in 44 districts compared to 28 at the beginning of 2007.

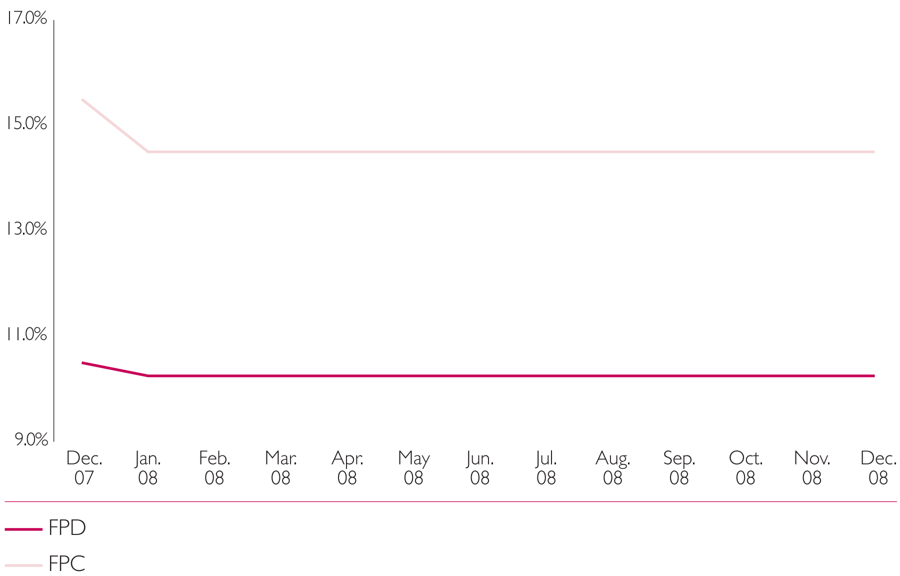
In 2008, the following MAIBOR rates were applied in the Interbank Money Market, falling in the first quarter of the year and remaining constant throughout the remaining quarters.

Nominal Rates – MAIBOR



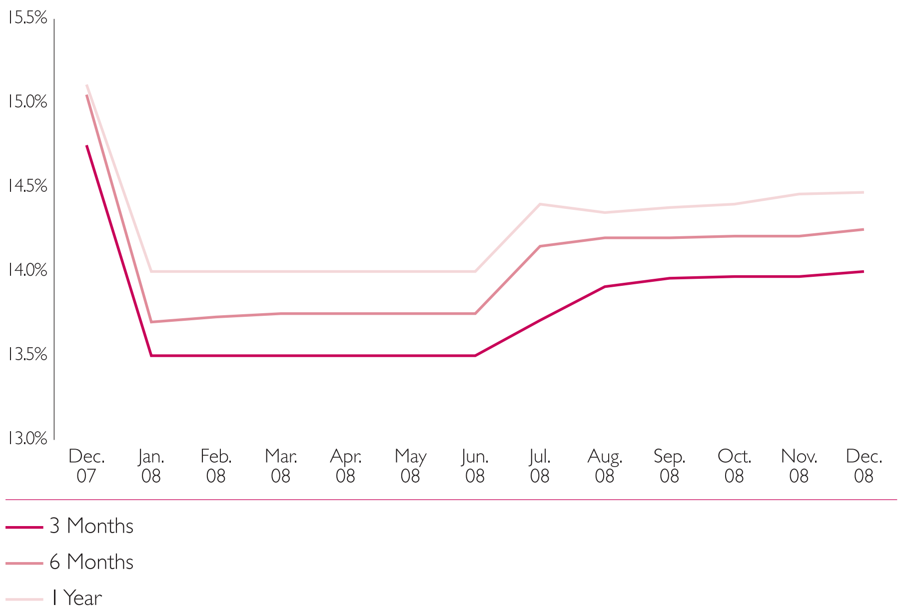
At the beginning of the year, Banco de Moçambique intervention rates were cut, the Permanent Lending Facility (FPC) to 14.50% and the Permanent Deposit Facility (FPD) to 10.25%, giving the financial system a sign of greater confidence in trends in inflation and market interest rates.

Reference Rates – MZN



Treasury Bill rates fell in the first quarter, remained constant throughout the second and rose in the remaining quarters of 2008.

Treasury Bills – MZN



Millennium bim Activities

Employees

As its Employees are the Bank's most important asset, it continues to promote their sense of responsibility and enhance their contribution. Human resource management is one of the fundamental pillars for building a Millennium bim that is able to create and maintain quality jobs, attracting and retaining the professionals who are essential for the collective development of the Institution.

Ethics and responsibility, important values in the constant search for excellence through quality, and continued investment in Staff training, guided Millennium bim's activities in 2008.

Conscious of the fact that creating opportunities for professional fulfilment is one of the fundamental vectors of the Bank's policy on quality and that this is a determining factor for Staff to constantly strengthen and consolidate their relationship with Customers, Millennium bim emphasizes a policy of equality of opportunity, counselling, valuing and managing its teams responsibly.

As it does every year, Millennium bim once again honoured the Employees who, by their capacity for work, dedication and professionalism set an example to be followed, awarding prizes for excellence to its most outstanding Staff. In addition to Staff counselling and evaluation processes that began in previous years, Millennium bim continued with its incentive system of paying variable remuneration to individuals and to the team to which the Employee belongs, in recognition of their performance and contribution to annual profits.

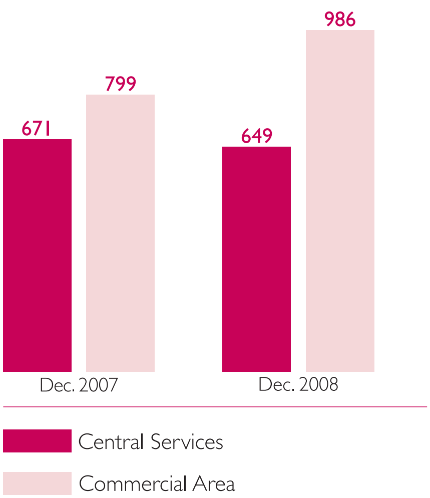
The Bank's training programs in 2008 – of a strategic or operational nature or common to the whole Bank – included in particular:

- Training in "service and selling by function" called "On the Road to Excellence", for all Employees in affluent branches, intended to improve Customer satisfaction;
- Training Employees assigned to the Call Centre to "improve the quality of telephone communication";
- Training in International Financial Reporting Standards (IFRS) to build the capacity of Staff who deal with financial reporting, in response to the Central Bank and international requirements;
- "Communication for Leadership", training for senior levels; and
- Training for branch management Staff and managers on personal loans.

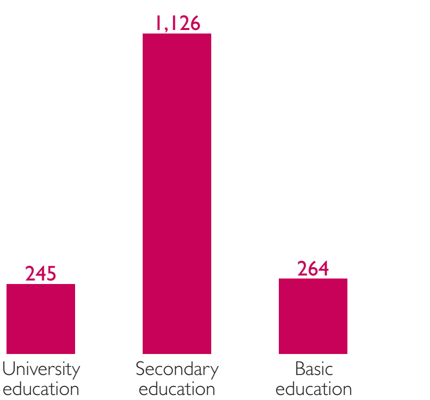
At the end of 2008, the Bank had 1,635 Employees, an additional 165 and an average rise of 7% when compared to 2007, reflecting the growth of the branch network under the ongoing expansion Program and the respective adaptations in central services.

The dedication and unfailing commitment of the Group's Staff played a major role in achieving the objectives defined for 2008. Often making an exceptional effort, they have worked hard to satisfy our Customers, the *raison d'être* for the success of the Millennium bim's activity.

Number of Employees
Area of activity



Employees' Education



Business Areas

In 2008, Millennium bim continued its commercial strategy of expanding its branch and ATM network, enlarging its Customer base and business segmentation in line with the expectations and needs of Customers in each segment and consolidating its position as the market leader.

Work continued on encouraging the use of remote channels, constantly promoting dynamic activity by the Call Centre, comprising the various distance banking channels that complement the branch network, i.e. Linha bim (telephone banking), Mbim sms (mobile banking), Mbim.net and Corporate.net (internet banking). This produced a 47% rise in Customers using these channels and a 23% rise in its effective use, relative to the previous year.

This is an essential service for relations with Customers, enabling them to perform transactions, check their financial status and maintain relations with the Bank autonomously, efficiently and comfortably. A quality control program for telephone communication was implemented and had a positive effect on improving the quality of service provided to Customers.

The Customer Service Centre (CAC) is a dedicated service for the efficient management of Customer complaints and proposals. Each contact is regarded as an opportunity to correct inefficiency, gain Customers' trust and give them a timely response, allowing to identify the causes of potential problems and implement the respective solutions effectively and quickly.

Contacts recorded by the Customer Service Centre have remained more or less stable, falling 2.4% even though the Bank as a whole grew, with 15 more branches and over 82 thousand more Clients during the year, a sign of the Bank's efforts to improve the quality of its services.

In November the "Millennium bim *Empresas* Newsletter" was launched as a vehicle for regular communication with Customers. It provides information on products, services, events, campaigns and news about Millennium bim and Millennium seguros and also informs Customers about activities under our social responsibility program.

The IV Millennium bim Economic Conference held was entitled "The effects of the 3 crises – financial, food and oil – on economies in Africa and Mozambique in particular".

Our commitment to maintain close and professional relations with our Customers continued with "Millennium bim Meetings" in the provinces of Inhambane and Nampula and a small business breakfast with Corporate Customers in Maputo. These meetings provided an opportunity for discussions with our Customers, who present their opinions and concerns directly to the Senior Management of the Bank.

Given its growth, profits, financial indicators and good management practices, and as a reward for all the efforts and commitment of its Staff, Millennium bim was elected the Best Bank in Mozambique by the financial publications "Euromoney" and "The Banker" and was named one of the seven best banks in Africa during the Annual Forum of the World Bank and IMF in Washington DC.

In 2009, Millennium bim will pursue an appropriate, proactive, diversified and opportune commercial strategy, developing competitive and appealing products and services with a multi-channel approach, offering convenience and availability in Customer services, intensifying its bancassurance business and building an exclusive supply of high quality financial services.

Retail banking

The retail branch network expansion Program continued in 2008. Fifteen new branches were opened in 7 provinces and 16 branches were totally remodelled, such that by the end of the year there were 101 branches providing Customers with the finest conditions of space and comfort.

New branches were opened in the following areas:

- Rural: Catandica (Manica), Moatize (Tete), Dondo and Mafambisse (Sofala) and Limpopo (Gaza);

- Peri-urban: Jardim and T3 (Maputo), Matacuane and Munhava (Beira) and Tambara 2 (Chimoio);

- Urban: Cities of Maputo, Tete and Lichinga.

New ATM and POS were also installed, resulting in 240 ATM and about 2,300 POS in operation by the end of the year. Efforts to improve service quality also included a new 24-hour-service-zone to make alternative electronic banking channels more readily available and accessible.

In a universal Bank such as Millennium bim, where retail banking is a strong component of its business, it is absolutely vital that distribution channels be available and accessible. New branches targeting different Customer segments must be opened throughout the country, in different geographical areas and with different timetables in order to highlight the difference and improve the increasingly comprehensive supply of products and services, while at the same time being more attentive and available. Convenience and proximity are clearly distinctive and essential factors that will be maintained in the retail segments.

In the commercial field it should also be noted that there are now over 500,000 Customers, over 550,000 cards in circulation and 240 ATM available throughout the country.

A constant emphasis on innovation entails not only the creation of new products and services but also, and in particular, constantly improving them, always and at every moment giving them unique, distinctive characteristics that make them more competitive in keeping with our dynamics, objectives, the evolution of the market and, in particular, responding to our Customers by anticipating their needs.

In 2008, this position led us to reformulate the Crédito Nova Vida – CNV (New Life Loan), making it available to Customers who receive their salaries in other banks. This initiative is also part of the strategic direction defined for the year of finding ways to constantly expand the reach of this product. These initiatives have been widely acknowledged by the market, with consumer credit continuing to rise substantially.

Vehicle leasing was also reformulated in order to strengthen our position as the reference Bank for this product, maintaining leadership in the market. Changes in the purchase period for new vehicles and the associated marketing campaign had a considerable impact on achieving and surpassing the objectives established for the year.

The supply of the product and the dynamic relations established with taxi drivers in Maputo city led to an agreement with the Federação Moçambicana das Associações dos Transportadores Rodoviários – FEMATRO (Mozambican Federation of Road Transport Carriers) and the creation of a specific leasing product for the purchase of buses.

Continuing our determination to be a reference in the market on what concerns home loans, the mortgage period for individuals and Individually-Owned Companies (IOC) was extended to 30 years. Of special note was a protocol signed with the Maputo Municipal Council on finance for a project involving 570 residences for the middle income segment and the young population.

Our reputation for innovation was also demonstrated by the launch of a term deposit product, "DP Ouro" (Gold) associated with the participation of Maria de Lurdes Mutola in the Olympic Games.

In order to diversify supply and reflecting our constant concern to respond effectively to the demand of specific niche markets with products targeting all business segments, the second private label was launched for a chain of clothing and luxury accessory stores.

In addition, the relationship with Customers in affluent and prestige segments was strengthened by the supply of a term deposit product with highly attractive rates, the "DP Aniversariante" (Birthday). Three locations targeting this segment were also opened.

In 2008 there was also innovation in channels promoting products and initiatives among our Customers, using sms for direct marketing campaigns on credit cards, CNV – Crédito Nova Vida, Cartão Mulher (Women's Card), travel insurance, DP Aniversariante, DP Ouro and changes to products.

Corporate and investment banking

The strategic priorities of Corporate network activity in 2008 focused on promoting proactive commercial involvement with Customers, being attentive to their financial needs and seeking out all business opportunities, as well as building the quality and profitability of the credit portfolio in collaboration with the Directorate of Investment Banking and the Seguradora.

In the field of convenience products and Customer services, and in order to simplify the management of their financial flows and make them more efficient, a special service was launched this year to receive and pay out cash and to attract current and term resources, complemented by the renewed availability of services for collecting and handling cash.

As training is essential for the provision of quality services to Customers, work continued this year on specific, targeted programs for products and approaches to Corporate Customers and on the adoption/strengthening of good Corporate Banking practices.

The factoring that began last year is becoming increasingly important for companies as a complementary financing instrument with an associated document management and collection service and eventual credit risk coverage. There was a 176% rise over the previous year. In order to address the increasingly specific needs of Clients, the supply of this product will be expanded to the retail network.

Visits to Customers continued throughout the year. Operations with Customers who have direct access to the Dealing Room have grown and have had a strong impact on foreign exchange profits.

Millennium bim continues to retain its leadership position in Banking Syndicates with impact on the country's economy, such as the syndicate for the import of oil products.

As in previous years, the credit and syndication area recorded the most activity in the Directorate of Investment Banking. Most proposals/projects came from the commerce and service sector (35%), followed by industry (30%), hotels and restaurants (21%), agriculture (8%) and the remainder (6%) comprising other sectors, including construction.

Throughout the year, the Directorate of Investment Banking continued to support the Rural Banking Implementation Unit with studies and analysis of the viability of new rural branches in order to promote the eventual opening of branches in areas that are difficult to reach and have limited infrastructure.

With our typical aggressive commercial activity we are taking advantage of business opportunities that arise and are associated with commercial transactions between the Bank and its Customers. Millennium bim will continue to encourage the search for mechanisms that result in more transactions and meet the expectations of our Customers.

Business Support Units

Electronic banking

The year 2008 was definitely the year when the competitiveness of the country's banking system awoke to the importance of electronic banking and there was a great effort to move transactions to alternative channels.

Supported by its existing solid curriculum in these channels, Millennium bim once again paid special attention to developments in order to maintain its leadership in numerous systematic improvements, many of which associated with the security and comfort of Customers. It reaffirmed itself as the Mozambican bank with the best supply of electronic means of payment.

Increasing the number of ATM to 242 units was a determining factor in continuing to ensure the desired national coverage. It gave our Customers more accessibility and, equally important, the update of the ATM's network with high performance modern equipment led to a significant 46% rise in the number of transactions.

Raising the daily limits on ATM withdrawals in Customer segments with more activity, consulting account balances without having to use paper, using sound messages in transactions that are more difficult to use, creating an intelligent process for automatic ATM's balance that has greatly reduced work by supervisors to detect eventual irregularities and has reduced interruptions to a minimum while ATM are re-supplied were just some of the improvements that made using this channel more agreeable and comfortable.

The development of new computerised transactions through the ATM channel, such as the sale of air time for cell phones, the payment of various services, transfers between accounts, deposits and withdrawals, were concluded. These were added to existing operations for purchases and consulting balances, producing a 37% rise in transactions.

Customers' growing demands meant that merchants gradually understood how their businesses could benefit from the installation of POS in their shops and the convenience and ease of this channel for Customers. Alert to opportunities and the need for innovation, new, more robust and economical models were introduced with different technical features appropriate to reality, for example, starting to use other forms of communication such as the GPRS available in the country's different mobile networks.

The number of cards in use reached some 550,000. Millennium bim continues to be the only Bank in Mozambique offering its Customers Cobranded and Private Label cards. This year another private label was issued in partnership with Fatelli & Fatelli representing such prestigious international labels as Façonnable, Lacoste, Alfred Dunhill, Gant, Mont Blanc and others.

There was also a wider range of options for cards, including facilitating the operation of Cash-Advance with direct credit in the demand deposit account, among others.

Finally, not only through the profits obtained, the scale of the network and the expanded supply of services, but in particular due to the dedication and care with which these activities were provided to our Customers, Millennium bim is convinced that 2008 was yet another year when the Bank consolidated its leadership position in the electronic banking market.

Operations and information systems

In 2008 the Bank's operational activity placed more emphasis on increasing the computerization and rationalization of procedures. The most evident result of this focus was a substantial rise in the quality and quantity of processed operations without any rise in the number of Employees in Central Services.

The Bank is aware that maximizing productivity and reducing operational errors to a minimum are based on an operating flow of various business lines through computer systems that have been developed in accordance with the workflow concept. It allowed for major improvements in some of its existing business support systems, developing new solutions to address requirements that had still not been resolved. Given its relative importance for the operational security of cheques, one of the most significant solutions is the new workflow to support the validation and treatment of all processed checks. This has enabled the Bank to improve substantially speed and security in handling this means of payment.

In 2008, improved security in means of payment also involved a project to upgrade the Bank's payment terminals (ATM and POS) to EMV (the new VISA and MasterCard security standard), to validate the additional information contained in the chip on cards produced by the worldwide banking community that has already adopted this security standard for debit and credit cards.

Important support systems for the Bank's marketing strategy, based on the definition of commercial cycles, were also developed. They include the computerization of the obligatory contact plans, the production of complementary information on current and potential Clients gathered during commercial visits, and the development of an aid for sales and handling queues for outbound contacts. This makes it possible to create a basis for presenting TRIAD results (the credit-scoring application that has also been installed) and other Customer Relationship Management (CRM) analyses.

In 2008, the security of information systems continued to be a major priority for the Bank. It started a project to improve the security of information systems leading to eventual certification of their quality, in compliance with ISO 27001 standards and in coordination with Millennium bcp in Portugal.

Finally, other projects that began in 2008 but will only be concluded and produce results in future economic years, must also be mentioned. These include in particular projects on the digitalisation of documents associated with credit processes, new software for the cash terminal and also a new module for managing the collateral received by the Bank.

Credit recovery

The reorganization of the credit recovery area was consolidated in 2008 in order to adapt its organizational structure to the activity's requirements. This meant, in particular, specialisation of the recovery departments in line with the type and level of the Customer's credit involvement with the Bank, in order to ensure a differentiated approach and strategy, speed up diagnosis and implement solutions that in a safe way ensure repayment of the loan.

The results-based management culture was intensified to ensure that the objectives of recovering non-performing loans, and also objectives with an impact on the Bank's profits, are achieved and exceeded. The necessary steps were taken to sustain the constant motivation of credit portfolio managers and a computer application to support information management was implemented.

In 2009, and in keeping with the Bank's needs, a new computer application will be developed to monitor Customers with non-performing loans of less than one million Meticais.

Risk Management

Risk Management

The supervisory authorities continue to pay special attention to management of the risks inherent to banking activity, due to its importance in maintaining an adequate relationship between the volume of each institution's equity and the degree of risk it incurs through its activities.

The best banking governance practices advise a complete segregation of functions between origination, management and control of assumed risk.

The Millennium bim risk management policy is to maintain a constant appropriate relationship between its equity and developed activities, and developed corresponding evaluation of the risk/return profile by business line. Consequently, monitoring and controlling the main kinds of risk encountered in the Bank's activities – loan, market, liquidity and operational – are particularly relevant.

In 2008, the Bank continued its review and identification of new opportunities for improvement in the light of recommendations made during the 2007 Internal Control Project. The Internal Control Project was one of the fundamental Operational Risk Management projects undertaken by Millennium bim. Its purpose was the adoption of a process-oriented management model to complement and articulate with the pre-existing management model based on functional structures. The fundamental objective of the Internal Control Project was to revise the Bank's internal control system for processes that have an impact on its financial statements.

Internal organisation

Risk management in Millennium bim is one of the most important pillars supporting its growth policy, contributing to the appropriate management of its equity level, through the correct evaluation of the risk and return profile of the Bank's various business lines.

Taking advantage of the synergies arising from being part of a multidomestic financial group, its Organizational Model includes a Risk Control Committee. In addition to some other senior managers, members include the Group Risk Officer (Millennium bcp) and the Local Risk Officer (Millennium bim) and it is responsible for controlling risks arising from the Bank's activities. It monitors the overall levels of risk incurred, ensuring that they are compatible with the objectives and strategies approved for activity development.

In collaboration with the Millennium bim Risk Control Committee, the Audit Committee ensures that risk management systems are in place and that they are properly controlled.

The Risk Office is responsible for controlling the Bank's risk, ensuring global monitoring of risk and the alignment of concepts, practices and objectives with those followed by the Group Risk Office in Millennium bcp.

The Risk Office also has the function of informing the Risk Control Committee about the various levels of risk assumed by Millennium bim and proposing measures to improve exposure levels and maximize the expected risk/return relationship.

The Executive Committee of Millennium bim is responsible for defining its risk policy. This includes approving the most stringent principles and rules to be observed in managing the policy, as well as guidelines that must govern the allocation of economic capital to the business lines.

For this purpose, the most important documents produced in 2008 are:

- Millennium bim Credit Regulations, aligning them with the main Governance document on this risk, which is common to the Millennium bcp Group and establishes Credit Principles and Guidelines;

- Rules on the Valuation of Loan Impairment Losses to comply with control requirements, associated with the calculation of losses due to loan impairment based on an integrated methodology common to the Millennium bcp Group and eligible for IAS 39 (International Accounting Standards 39);

- Rules on Bank Guarantees, Collection and Recovery of Non-performing Loans, as well as other rules for improving the management of credit risk;

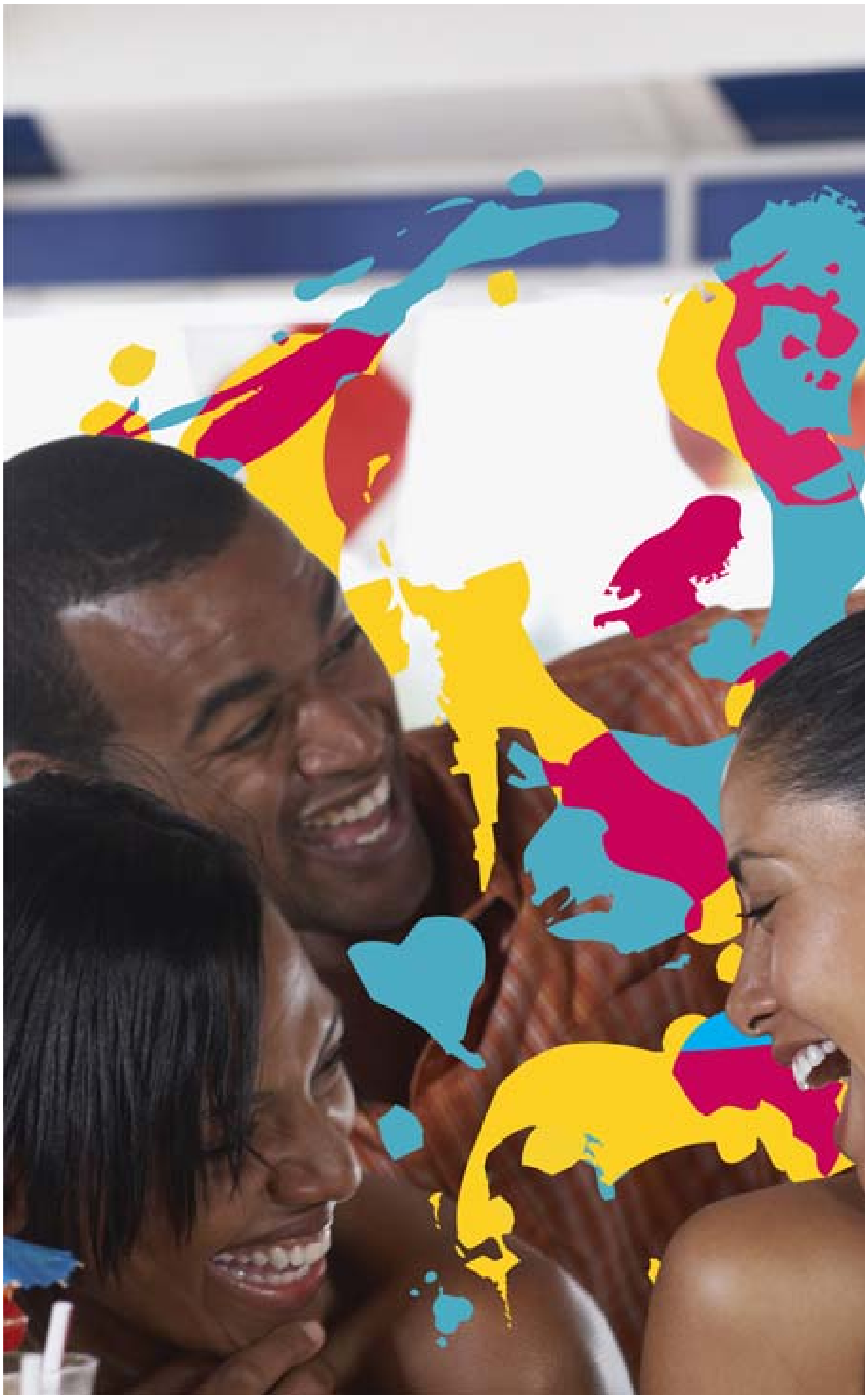
- User Manuals on Credit Rating and Credit Scoring Applications for Individual Customers, Individually Owned Companies (IOC), SME, and Enterprise Customers. These documents summarize the main functionalities of the Credit Rating and Credit Scoring Applications for Individuals, IOC, SME and Corporate enterprises.

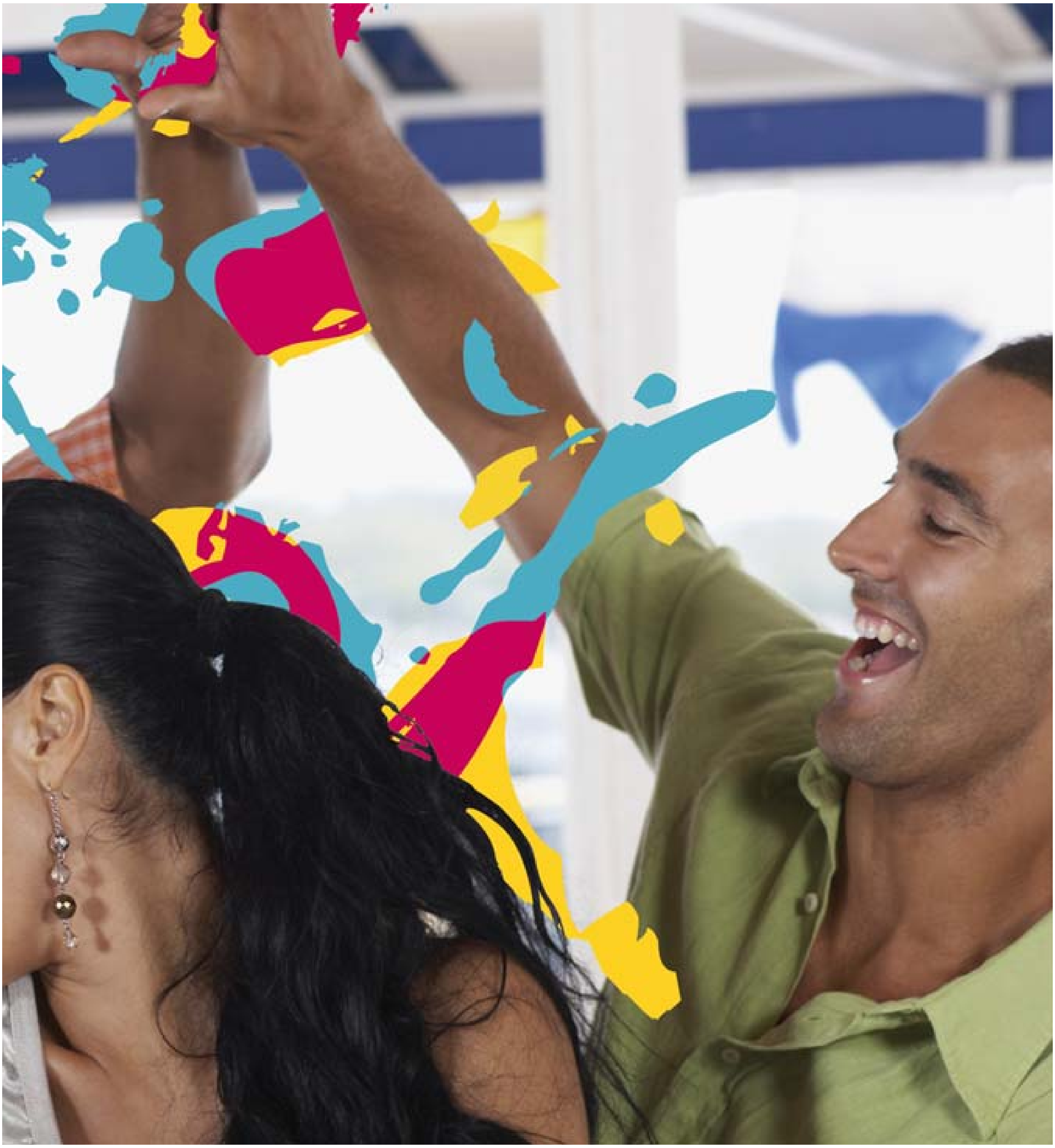
The following were revised and updated:

- Regulations on Credit Monitoring and Credit Recovery;

- The Information Circuit for Proposals on Vehicle Loans, Documentary Credit, Leasing and Credit Limits for the different computer applications (workflows) used in Millennium bim to handle the Bank's active operations.

Subsidiary Company
Seguradora Internacional de Moçambique, S.A.





Subsidiary Company

Seguradora Internacional de Moçambique, S.A.

In 2008, the Seguradora continued to pursue its strategy of focusing on greater penetration in the Millennium bim Customer base, offering Life and Non-Life products conceived as an appropriate response to the specific requirements of each market segment.

The articulation between its commercial activity programs and its distribution networks and its capacity for marketing innovation and the use of new sales channels helped maintain its leadership in the insurance sector, with a 31% rise in processed revenue compared to the previous year.

New Customers in Real business, in particular Maritime, Transport and Workman's Compensation, produced 21% growth compared to the same period the previous year.

In 2008, the growing turnover of bancassurance business in Millennium bim contributed to a 51% rise in processed revenue in the Life Risk business and a 75% rise in the Illness product, due to strong growth in the production of Protection Plan Payment Insurance, associated with the CNV – Crédito Nova Vida.

In order to promote more effective commercial action, the network of consultants was expanded to Tete province and the rehabilitation of Ímpar shops in the border towns of Namaacha, Ressano Garcia and Machipanda was concluded, providing a more agreeable environment and greater comfort for Customers.

As in previous years, in the 2008 financial year considerable attention was paid to the Collection area. The inventory level of non-performing premiums was reduced from 55 million Meticais in December 2007 to 50 million Meticais at the end of 2008.

In the technical fields the expansion of the new Customer base was pursued, concentrating on managing and reviewing claims in the Seguradora's portfolio.

In 2008, the claim rate performed better than in the previous year, in particular due to a fall in the Non-Life business from 40% in December 2007 to 30% in December 2008 (improved claim rate in the Illness, Workman's Compensation and Fire and Other Damage products).

According to available information, the Seguradora continues to be the market leader in the sector, increasing its market share from 36% in December 2006 to 37% in December 2007, leading in the Real business with 31% and in Life with a market share of 78%. It is estimated that at the end of 2008 this market leadership position will have grown.

Innovation and competitiveness will continue to be the objectives of the Seguradora Internacional de Moçambique. There are plans to develop new products, working in a team with the Millennium bim network in order to provide greater satisfaction to Customers.

Insurance premiums

Million MZN

Business	2008	2007	% 08/07
Life	266	167	59.2%
Non-Life	578	478	21.1%
Total	844	645	31.0%

The total volume of direct insurance premiums reached 844 million Meticais, a rise of 31% compared to the previous year. The Non-Life business contributed 578 million Meticais and the Life business 266 million Meticais.

Life business

Direct insurance premiums in the Life business rose by 59%. The traditional products in the Life Risk product grew 51% compared to 2007, due to growth in the bancassurance business in the Millennium bim branches. Products associated with the Crédito Nova Vida made a decisive contribution to the dynamism of the Life business, with a premium volume of 32 million Meticais and growth of 108% over the previous year.

Non-Life business

In 2008, the Non-Life business achieved a volume of 578 million Meticais in direct insurance premiums, a rise of 21% over 2007.

In particular, there were continued efforts to revise the portfolio and substantial growth in the Marine and Personal Accident and Illness products, that rose 108% and 46%, respectively.

Net profit

The combination of a favourable evolution of the technical margin, the slight increase in administrative costs and the existence of some extraordinary profits resulted in pre-tax profits of 257 million Meticais, 50% more than the previous year. Taxes on profits were 972% higher than the previous year, reaching 78 million Meticais.

Net profit after tax was 179 million Meticais, a rise of 9%. The reason for the large variation in profits before and after tax is the elimination, from the Income Tax Code for Corporate Entities (CIRPC), of the exemption from taxes on income from Public Debt Securities (TDP) and shares quoted on the stock exchange assigned to technical reserves.

Social Responsibility

Millennium bim believes that its social function is a fundamental component of its mission. Throughout the 14 years of its existence, Millennium bim has interpreted social responsibility as the Institution's collection of duties and obligations towards the community of which it is part and socially responsible behaviour that is consistent towards all the parties concerned – Customers, Shareholders, Employees and Investors.

In 2006, Millennium bim took yet another important step and launched its social responsibility program "Mais Moçambique pra Mim" ("More Mozambique for Me"), that gives a more structured character to its intervention in this field and improves its impact and sustainability. This continued in 2008 with a wide variety of actions, being published the first Bank's Sustainability Report.

Millennium bim is conscious of the fact that its intervention is a determining factor in improving social awareness. In 2008, it continued its policy of regular support for social intervention institutions with constant work to promote the wellbeing of the communities where it operates through its policy of sponsorship and, in particular, through its social responsibility program "Mais Moçambique pra Mim".

The Bank's work in the social responsibility field is widely recognized as having a relevant role in the society of which it is part.

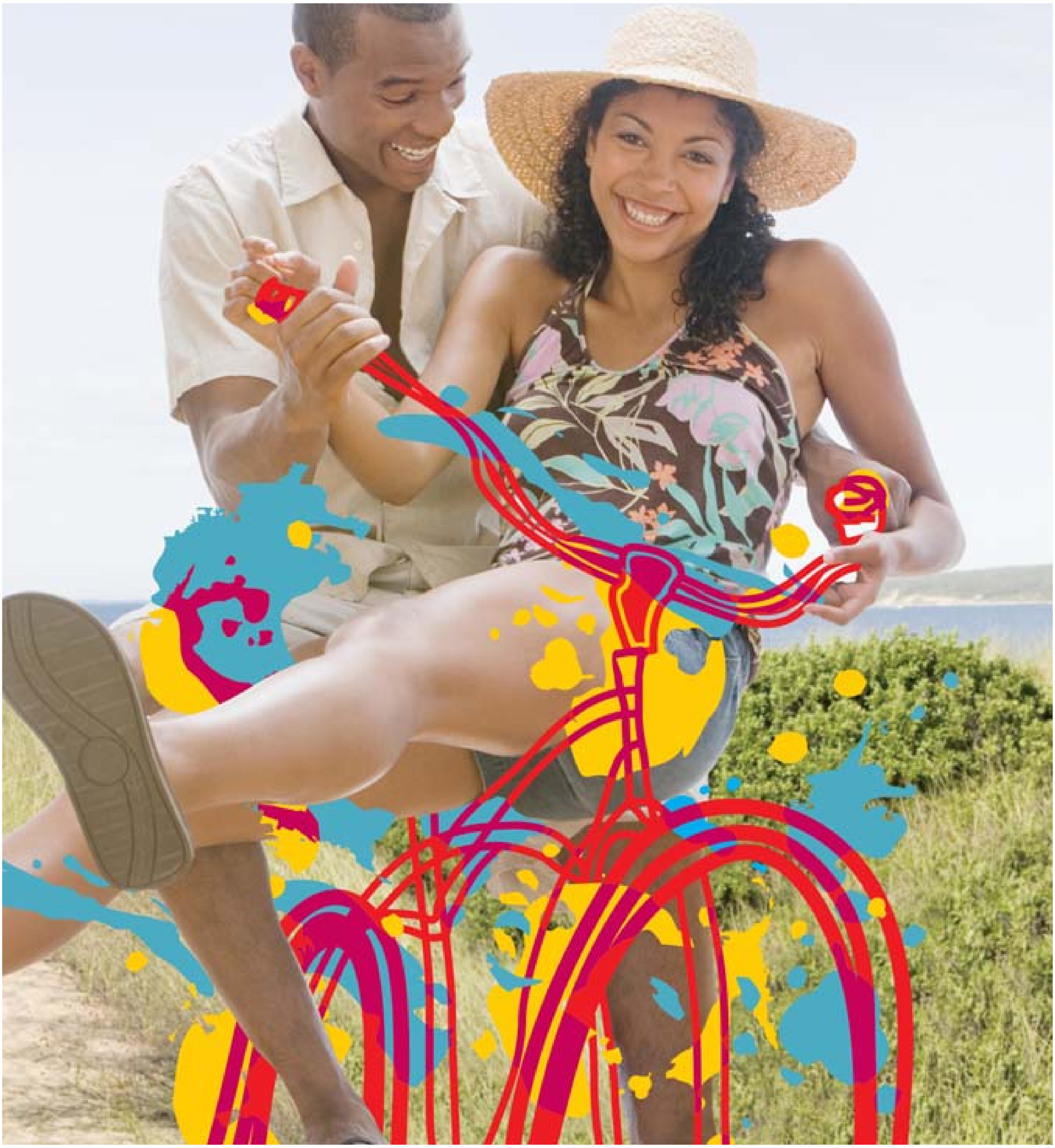
Proof of this was Ernst & Young's awarding Millennium bim its "Entrepreneur of the Year 2008" prize in the Multinational Social Responsibility category. The prize honours companies that transcend their basic vocation of creating wealth, that respect and include in their strategies principles and practices, rules of conduct that promote and enhance relations between Customers, Shareholders, Employees, Suppliers and Public Entities, benefiting the entire community through its actions.

Millennium bim applies social responsibility in its may different dimensions, first of all through observance of the law and its own applicable rules – observance of its code of conduct, of government policies and their implementation – in its relations with Investors and Customers, by promoting quality service through its policy of valuing human resources and by supporting initiatives of the society in fields such as Health, Sport, Education, Culture and Solidarity.

We reaffirm our commitment to implement the principles of the United Nations Global Compact Initiative on human rights, work and the environment, and to support implementation of the objectives of FEMA – Fórum Empresarial para o Meio Ambiente (Enterprise Forum for the Environment).

Millennium bim is seeking to do more in the best possible way, conscious that success and prosperity symbolize a lot more than just growth, and take shape and are achievable if conceived in a dimension that goes beyond the merely economic sphere and is guided by the sustainability of the entire socioeconomic environment.

Financial Analysis



Financial Analysis

In accordance with Notice 04/GBM/2007 and complementary dispositions issued by Banco de Moçambique, BIM – Banco Internacional de Moçambique, S.A. presents its individual and consolidated accounts for the financial years 2007 and 2008 in accordance with International Financial Reporting Standards (IFRS).

Consolidation of the new model of business segmentation and expansion of the retail network have led to improved services and a broader and more comprehensive supply, contributing to more aggressive commercial activity that has been reflected in the growth of loans and advances and Customers' funds.

On 31st December 2008, total assets reached 35,477.3 million Meticais, a rise of 22.8% over the previous year. This reflects a 36.1% rise in loans and advances to Customers and 21.9% in the Securities portfolio, reinforced by growth in deposits from Customers and the establishment of the corresponding mandatory reserves with the Banco de Moçambique.

The aggregate comprising Shareholders' Equity and Subordinated Debt was 5,135.3 million Meticais, reflecting Net Income for the year of 1,755.3 million Meticais. Combined with a rise in risk-adjusted assets, this gives a Solvency Ratio of 13.5%.

Profitability indicators reflect good results performance, with Returns on Average Shareholders' Equity (ROE) of 45.0% and Returns on Average Total Assets (ROA) of 5.5%.

Analysis of profitability

Millennium bim's net income in 2008 was 1,755.3 million Meticais compared to 1,398.8 million Meticais the previous year, a rise of 25.5%. This was influenced by a rise in interest income, higher profits from financial operations and commissions linked to good performance in loan recovery and a controlled rise in operating costs.

Net profit before income tax was 2,072.0 million Meticais, a rise of 35.6% over the previous year. Current and deferred taxes rose by 145.5%, influenced by the termination of fiscal benefits for Treasury Bills (BT) as of January 2008, reaching 316.7 million Meticais.

Net interest income

Net interest income rose 18.2% to 2,615.1 million Meticais in 2008 (2,213.3 million Meticais in 2007), driven by higher turnover of interest-generating assets, in particular credit and investments in securities, and by appropriate management of pricing for Customers' funds. This compensated for the fall in interest rates and reduction in spreads due, in part, to the market situation.

The change in the net interest income rate from 10.2% to 9.7% was due to the continued adoption of a policy of carefully selecting the operations to be financed and was reflected positively in the improved quality of the credit portfolio. The unfavourable effect of the rate was partially compensated for by higher turnover.

Other net income

Other net income includes dividends from equity instruments, net commissions, profits from financial transactions and other net income and rose by 23.9% to 1,498.7 million Meticais.

Million MZN

	2008	2007	Var. %
Dividends from equity instruments	73.8	27.7	166.4%
Net fees and commissions income	836.0	684.9	22.1%
Net income from trading activity	507.7	411.9	23.3%
Other operating income	81.3	85.5	-5.0%
	1,498.7	1,210.0	23.9%

Dividends from equity instruments correspond to dividends associated with financial participation in Seguradora Internacional de Moçambique, S.A.

Net fees and commissions income amounted to 836.0 million Meticais, a rise of 22.1%. Of particular note was the rise in commissions on direct and indirect credit (mainly the guarantees provided), good performance on commissions related to general banking operations due to increased turnover that mitigated the effects of not changing pricing during the year.

Net income from trading activity was 507.7 million Meticais, a rise of 23.3% reflecting a rise in operations and influenced by the partial sale of VISA shares.

Operating expenses

Operating expenses, which include staff costs, other administrative costs and depreciation totalled 1,950.7 million Meticais, a 15.5% rise over the previous year.

The evolution of operating costs was due mainly to the branch network expansion Program, that rose from 86 branches in December 2007 to 101 at the end of 2008, and reflects the constant effort to rationalize administrative costs.

Million MZN

	2008	2007	Var. %
Staff costs	883.0	751.7	17.5%
Other administrative costs	839.1	746.3	12.4%
Depreciation	228.7	190.3	20.1%
	1,950.7	1,688.4	15.5%

Investments in expanding the network and the total remodelling of various branches were complemented by institutional campaigns, products directed at increasing the Customers' base and more commercial dynamism.

The 17.5% rise in staff costs relative to the same period the previous year was due to the rise in the number of Employees from 1,470 to 1,635 following the expansion of the network and adjustments to central services and the commercial network and the evolution of professional careers and salary adjustments throughout the year.

Other administrative costs rose 12.4% despite the expansion of the branch network, reflecting initiatives in recent years to control and reduce costs and improve operational efficiency.

Depreciation totalled 228.7 million Meticais in 2008, a rise of 20.1%, influenced by higher investment levels and adjustments to the depreciation period of certain assets due to changes in accounting estimates.

Business growth, combined with greater operating efficiency, resulted in good performance in the cost to income ratio that fell from 49.3% in December 2007 to 47.4% at the end of 2008, reflecting stronger growth of 20.2% in the banking product due to a sustained and controlled increase in operating costs. One of the strategic objectives is to continue improving this indicator.

Impairment

Losses due to loan impairment net of recovery were 52.9 million Meticais compared to 215.3 million Meticais the previous year. This was due essentially to efforts to strengthen provisions in 2007, associated with the identification of operations with signs of impairment, in accordance with the policy of prudence in adequate coverage of credit risks.

Credit recovery totalled 127.8 million Meticais in 2008, i.e. 173.4 million Meticais less than in 2007. It should be noted that in recent years there has been an intense effort to recover overdue loans and, as a result, less credit has to be recovered.

Analysis of asset structure

Total Assets amounted to 35,477.3 million Meticais, a rise of 22.8%, supported by higher turnover in Customer business, both loans and deposits.

The rise in total assets was also influenced by a 21.9% rise in financial assets available for sale and growth of 12.4% in tangible and intangible assets, reflecting investment under the network expansion Program and the corresponding adjustments.

Total assets

Million MZN

	2008	2007	% 08/07
Available assets and applications in credit institutions	9,677.6	8,989.6	7.7%
Loans and advances to Customers (net)	17,017.4	12,503.5	36.1%
Financial assets available for sale	7,148.0	5,865.2	21.9%
Investment in associated companies	356.1	356.1	0.0%
Tangible and intangible assets	1,151.8	1,024.3	12.4%
Other	126.3	158.0	-20.1%
	35,477.3	**28,896.7**	**22.8%**

Loans and advances to Customers rose 36.1% to 17,017.4 million Meticais driven by a rise in corporate and consumer credit.

The introduction of flexible products appropriate to the needs and profile of Customers in the retail network was successful in promoting consumer credit, which rose 70% relative to the previous year.

The strong rise in corporate credit reflects the continued policy of prudence in selecting operations according to risk and returns and lower exposure to large concentrations.

The fall in overdue loans from 168.6 million Meticais on 31st December 2007 to 161.0 million Meticais in 2008 reflects constant improvements in processes for evaluating and managing credit risk. The overdue loan ratio as a percentage of total loans was 0.9% (1.3% in 2007). The respective coverage ratio reached 486.4% (384.2% in 2007), due to prudent evaluation of risk.

Deposits from Customers

The improved performance of commercial networks in obtaining resources, associated with a broad and diversified supply of products and services and rigorous and disciplined management of pricing, helped deposits from Customers grow by 24.8%, reaching 29,486.4 million Meticais.

Shareholder Structure and Corporate Boards

Shareholder Structure

MZN

Shareholders	Number of Shares	% Capital	Paid Up Capital
BCP Internacional II, S.G.P.S., Lda.	4,941,393	66.69%	494,139,300
Mozambican State	1,271,440	17.16%	127,144,000
INSS – Instituto Nacional de Segurança Social	366,846	4.95%	36,684,600
EMOSE – Empresa Moçambicana de Seguros, S.A.R.L.	307,319	4.15%	30,731,900
FDC – Fundação para o Desenvolvimento da Comunidade	80,334	1.08%	8,033,400
Others *	442,668	5.97%	44,266,800
Total	7,410,000	100.00%	741,000,000

* Others – 1,565 investors with individual holdings of less than 1% acquired as part of the sale of State shares to the Managers, Technicians and Workers group (GTT).

Corporate Boards

General Shareholders' Meeting

Chairman:	Fernando Everard do Rosário Vaz
Deputy Chairman:	Venâncio Mondlane
Secretary:	Maria da Luz Pereira Nobre Polónia

Audit Board

Chairman:	António de Almeida
Member:	Subhaschandra Manishanker Bhatt
Member:	Armando Pedro Muiuane Júnior
Substitute Member:	Maria Iolanda Wane

Board of Directors

Chairman:	Mário Fernandes da Graça Machungo
Deputy Chairman (CEO):	João Filipe de Figueiredo Júnior
Deputy Chairman:	Armando António Martins Vara
Director (Head of Retail):	António Manuel Duarte Gomes Ferreira
Director (CFO):	Teotónio Jaime dos Anjos Comiche
Director (COO):	Paulo Fernando Cartaxo Tomás
Director:	Ricardo David
Director:	Júlio Zamith Carrilho
Director:	Rui Manuel Alexandre Lopes
Director:	Salomão Munguambe

Proposal on the Application of Profits

Taking into consideration the legal dispositions and Mozambican Law, namely, Law 15/99 on Credit Institutions, as concerns the establishment of Reserves, it is proposed that profits in the 2008 financial year, **1,755,301,124.17 Meticais**, be applied as follows:

Legal Reserve	11.70%	205,297,923.48	Meticais
Free Reserve	60.80%	1,067,295,391.69	Meticais
Dividend Stabilisation	2.50%	43,882,528.00	Meticais
Distribution to Shareholders	25.00%	438,825,281.00	Meticais

Financial Statements

Banco Internacional de Moçambique

Consolidated Income Statement

for the years ended 31st December, 2008 and 2007

	Notes	2008 USD' 000	2007 USD' 000	2008 MZN' 000	2007 MZN' 000
Interest and similar income	2	147,565	117,524	3,587,188	3,026,918
Interest expense and similar charges	2	32,621	25,370	792,979	653,427
Net interest income		**114,944**	**92,154**	**2,794,209**	**2,373,491**
Dividends from equity instruments	3	42	43	1,022	1,103
Net fees and commissions income	4	33,091	25,621	804,403	659,903
Net gains arising from trading activity	5	21,091	15,393	512,697	396,463
Other operating income	6	16,518	10,070	401,538	259,357
		70,742	**51,127**	**1,719,660**	**1,316,826**
Total operating income		**185,686**	**143,281**	**4,513,869**	**3,690,317**
Staff costs	7	37,920	30,848	921,811	794,513
Other administrative costs	8	32,056	26,403	779,252	680,019
Depreciation	9	9,919	7,894	241,120	203,317
Total operating expenses		**79,895**	**65,145**	**1,942,183**	**1,677,849**
Loan impairment	10	2,175	8,357	52,866	215,254
Other provisions	11	10,468	5,135	254,475	132,250
Profit before income tax		**93,148**	**64,644**	**2,264,345**	**1,664,964**
Income tax					
Current	12	15,501	5,138	376,818	132,330
Deferred	12	928	156	22,549	4,016
		16,429	**5,294**	**399,367**	**136,346**
Profit after income tax		**76,719**	**59,350**	**1,864,978**	**1,528,618**
Net income for the year attributable to:					
Shareholders of the Bank		75,958	58,726	1,846,477	1,512,533
Minority interests		761	624	18,501	16,085
Net income for the year		**76,719**	**59,350**	**1,864,978**	**1,528,618**

To be read with the attached notes to the Financial Statements.

Banco Internacional de Moçambique

Consolidated Balance Sheet

as at 31st December, 2008 and 2007

	Notes	2008 USD' 000	2007 USD' 000	2008 MZN' 000	2007 MZN' 000
Assets					
Cash and deposits at Banco de Moçambique	14	155,411	143,850	3,962,979	3,426,506
Deposits in other credit institutions	15	23,329	9,253	594,888	220,404
Loans and advances to credit institutions	16	200,774	224,823	5,119,732	5,355,274
Loans and advances to Customers	17	667,350	524,915	17,017,434	12,503,472
Financial assets held for trading	18	-	66	-	1,562
Financial assets available for sale	18	293,669	257,525	7,488,557	6,134,242
Investments in associated companies	19	-	-	-	-
Property and equipment	20	74,436	74,426	1,898,105	1,772,821
Goodwill and intangible assets	21	5,525	6,250	140,898	148,867
Deferred income tax assets	22	1,410	2,268	35,952	54,018
Other assets	23	7,135	7,226	181,952	172,112
Total assets		**1,429,039**	**1,250,602**	**36,440,497**	**29,789,278**
Liabilities					
Deposits from other credit institutions	24	7,483	42,052	190,805	1,001,681
Deposits from Customers	25	1,112,141	957,258	28,359,590	22,801,878
Debt securities issued	26	-	-	-	-
Provisions for liabilities and charges	27	77,049	74,953	1,964,746	1,785,382
Subordinated debt	28	10,108	10,416	257,755	248,110
Deferred income tax liabilities	29	397	-	10,136	-
Other liabilities	30	24,660	18,509	628,839	440,880
Total liabilities		**1,231,838**	**1,103,188**	**31,411,871**	**26,277,931**
Equity					
Share capital	31	29,059	31,108	741,000	741,000
Legal reserve	32	21,008	13,681	535,702	325,888
Other reserves and retained earnings	32	68,578	41,590	1,839,186	876,928
Net income for the year attributable to Shareholders	32	75,958	58,726	1,846,477	1,512,533
Total Equity attributable to the Group		**194,603**	**145,105**	**4,962,365**	**3,456,349**
Minority interests		2,598	2,309	66,261	54,998
Total Equity		**197,201**	**147,414**	**5,028,626**	**3,511,347**
Total Equity and Liabilities		**1,429,039**	**1,250,602**	**36,440,497**	**29,789,278**

To be read with the attached notes to the Financial Statements.

Banco Internacional de Moçambique

Consolidated Cash Flows Statement

for the years ended 31st December, 2008 and 2007

	2008 MZN' 000	2007 MZN' 000
Cash flows arising from operating activities		
Interest and commissions received	4,536,423	3,783,335
Interest and commissions paid	(819,337)	(679,544)
Payments to Employees and suppliers	(1,666,280)	(1,631,806)
Recoveries on loans previously written off	127,804	173,433
Net earned premiums	678,416	508,668
Claims incurred	(385,392)	(328,941)
Operating profit before changes in operating funds	**2,471,634**	**1,825,145**
(Increase)/decrease in operating assets		
Financial assets held for trading and available for sale	(1,366,324)	(1,314,104)
Loans and advances to credit institutions	333,372	(1,062,483)
Deposits at Central Banks	(152,937)	(264,813)
Loans and advances to Customers	(4,614,308)	(2,284,975)
Other operating assets	(9,840)	240,588
Increase/(decrease) in operating liabilities		
Financial liabilities held for trading	-	-
Resources of other credit institutions	(810,332)	801,108
Customers' resources and other loans	5,763,027	2,685,746
Liabilities represented by securities	-	-
Other operating liabilities	198,401	183,525
Net cash flows arising from operating activities before tax on profits	**1,812,693**	**809,737**
Income taxes paid	(399,367)	(132,330)
Net cash flows of operating activities	**1,413,326**	**677,407**
Cash flows arising from investing activities		
Purchase/increase in shares	-	-
Dividends received	1,022	1,103
Revenue from the sale of shares	-	-
Acquisition of fixed assets	(300,276)	(282,179)
Revenue from sale of fixed assets	-	-
Net cash flows arising from investing activities	**(299,254)**	**(281,076)**
Cash flows arising from financing activities		
Dividends paid	(349,690)	(289,123)
Issue of subordinated debt	-	-
Reimbursement of subordinated debt	-	-
Interest paid on financing activities	(11,259)	(13,515)
Net cash flows arising from financing activities	**(360,949)**	**(302,638)**
Effect of changes in exchange rates on cash and equivalents	4,898	(25,291)
Increase/(decrease) in cash and equivalents	**758,021**	**68,402**
Cash and equivalents balance at the beginning of the year	1,355,644	1,287,242
Cash and equivalents balance at the end of the year	2,113,665	1,355,644
	758,021	**68,402**

To be read with the attached notes to the Financial Statements.

Banco Internacional de Moçambique

Consolidated Statement of Changes in Equity

for the years ended 31st December, 2008 and 2007

	Total Equity MZN' 000	Share Capital MZN' 000	Legal Reserve MZN' 000	Other Reserves and Retained Earnings MZN' 000	Minority Interests MZN' 000
Balance on 31st December 2006	**2,268,130**	**741,000**	**152,414**	**1,329,750**	**44,967**
Transfers to legal reserve	-	-	173,474	(173,474)	-
Other reserves	9,777	-	-	9,777	-
Net income for the year attributable to minority interests	16,085	-	-	-	16,085
Net income for the year attributable to Shareholders of the Bank	1,512,532	-	-	1,512,532	-
Dividends paid in 2007	(289,123)	-	-	(289,123)	-
Minority interests	(6,054)	-	-	-	(6,054)
Balance on 31st December 2007	**3,511,346**	**741,000**	**325,888**	**2,389,461**	**54,998**
Transfers to legal reserve	-	-	209,814	(209,814)	-
Other reserves	9,230	-	-	9,230	-
Net income for the year attributable to minority interests	18,501	-	-	-	18,501
Net income for the year attributable to Shareholders of the Bank	1,846,477	-	-	1,846,477	-
Dividends paid in 2008	(349,691)	-	-	(349,691)	-
Minority interests	(7,238)	-	-	-	(7,238)
Balance on 31st December 2008	**5,028,626**	**741,000**	**535,702**	**3,685,663**	**66,261**

To be read with the attached notes to the Financial Statements.

BIM – Banco Internacional de Moçambique, S.A.

Income Statement of the Bank

for the years ended 31st December, 2008 and 2007

	Notes	2008 USD' 000	2007 USD' 000	2008 MZN' 000	2007 MZN' 000
Interest and similar income	2	146,855	116,029	3,569,924	2,988,420
Interest expense and similar charges	2	39,277	30,094	954,803	775,089
Net interest income		107,578	85,935	2,615,121	2,213,331
Dividends from equity instruments	3	3,035	1,077	73,768	27,740
Net fees and commissions income	4	34,390	26,591	835,987	684,884
Net gains arising from trading activity	5	20,884	15,992	507,676	411,889
Other operating income	6	3,344	3,321	81,296	85,534
		61,653	46,981	1,498,727	1,210,047
Total operating income		169,231	132,916	4,113,848	3,423,378
Staff costs	7	36,323	29,185	882,980	751,686
Other administrative costs	8	34,517	28,978	839,070	746,349
Depreciation	9	9,406	7,389	228,652	190,317
Total operating expenses		80,246	65,552	1,950,702	1,688,352
Loans impairment	10	2,175	8,357	52,866	215,254
Other provisions	11	1,574	(311)	38,251	(8,007)
Profit before income tax		85,236	59,318	2,072,029	1,527,779
Income Tax					
Current	12	12,286	4,853	298,662	125,000
Deferred	12	743	156	18,066	4,016
		13,029	5,009	316,728	129,016
Net income for the year		72,207	54,309	1,755,301	1,398,762
Earnings per share	13	9.74 USD	7.33 USD	236.88 MZN	188.77 MZN

To be read with the attached notes to the Financial Statements.

BIM – Banco Internacional de Moçambique, S.A.

Balance Sheet of the Bank

as at 31st December, 2008 and 2007

	Notes	2008 USD' 000	2007 USD' 000	2008 MZN' 000	2007 MZN' 000
Assets					
Cash and deposits at Banco de Moçambique	14	155,411	143,848	3,962,979	3,426,450
Deposits in other credit institutions	15	23,329	9,253	594,888	220,404
Loans and advances to credit institutions	16	200,774	224,295	5,119,730	5,342,702
Loans and advances to Customers	17	667,350	524,915	17,017,434	12,503,472
Financial assets held for trading	18	-	-	-	-
Financial assets available for sale	18	280,312	246,230	7,147,965	5,865,189
Investments in associated companies	19	13,967	14,952	356,148	356,148
Property and equipment	20	44,539	42,225	1,135,734	1,005,791
Intangible assets	21	631	779	16,078	18,545
Deferred income tax assets	22	1,410	2,268	35,952	54,018
Other assets	23	3,544	4,366	90,368	104,004
Total assets		**1,391,267**	**1,213,131**	**35,477,276**	**28,896,723**
Liabilities					
Deposits from other credit institutions	24	7,483	42,052	190,805	1,001,681
Deposits from Customers	25	1,156,329	991,861	29,486,378	23,626,134
Debt securities issued	26	2,649	2,835	67,550	67,535
Provisions for liabilities and charges	27	5,237	4,571	133,552	108,886
Subordinated debt	28	20,410	21,403	520,455	509,827
Other liabilities	30	18,184	15,677	463,691	373,424
Total liabilities		**1,210,292**	**1,078,399**	**30,862,431**	**25,687,487**
Equity					
Share capital	31	29,059	31,108	741,000	741,000
Legal reserve	32	21,008	13,682	535,702	325,888
Other reserves and retained earnings	32	58,701	35,633	1,582,842	743,585
Net income for the year	32	72,207	54,309	1,755,301	1,398,762
Total Equity		**180,975**	**134,732**	**4,614,845**	**3,209,236**
Total Equity and Liabilities		**1,391,267**	**1,213,131**	**35,477,276**	**28,896,723**

To be read with the attached notes to the Financial Statements.

BIM – Banco Internacional de Moçambique, S.A.

Cash Flows Statement of the Bank

for the years ended 31st December, 2008 and 2007

	2008 MZN' 000	2007 MZN' 000
Cash flows arising from operating activities		
Interest and commissions received	4,508,876	3,753,759
Interest and commissions paid	(915,118)	(737,430)
Payments to Employees and suppliers	(1,666,433)	(1,535,642)
Recoveries of loans previously written off	127,804	173,433
Net operating income before changes in operating funds	**2,055,129**	**1,654,120**
(Increase)/decrease in operating assets		
Financial assets retained for trading and available for sale	(1,284,433)	(1,330,363)
Loans and advances to credit institutions	320,802	(1,049,913)
Deposits at Central Banks	(152,937)	(264,813)
Loans and advances to Customers	(4,617,440)	(2,300,965)
Other operating assets	59,066	155,164
Increase/(decrease) in operating liabilities		
Financial liabilities held for trading	-	-
Resources of other credit institutions	(810,332)	801,108
Customers' resources and other loans	6,018,018	2,956,859
Liabilities represented by securities	-	-
Other operating liabilities	115,945	188,359
Net cash flows arising from operating activities before tax on profits	**1,703,818**	**809,556**
Income taxes paid	(316,728)	(125,000)
Net cash flow of operating activities	**1,387,090**	**684,556**
Cash flow arising from investing activities		
Purchase/increase in shares	-	(1,235)
Dividends received	73,768	27,740
Revenue from the sale of shares	-	-
Purchase of land and buildings	(308,785)	(272,502)
Revenue from sale of fixed assets	-	-
Net cash flows arising from investing activities	**(235,017)**	**(245,997)**
Cash flows arising from financing activities		
Dividends paid	(349,690)	(289,123)
Issue of subordinated debt	-	-
Amortization of subordinated debt	-	-
Interest paid on financing activities	(49,260)	(55,743)
Net cash flows arising from financing activities	**(398,950)**	**(344,866)**
Effects of changes in exchange rates on cash and equivalents	4,898	(25,291)
Increase/(decrease) in cash and equivalents	**758,021**	**68,402**
Cash and equivalents balance at the beginning of the year	1,355,644	1,287,242
Cash and equivalents balance at the end of the year	2,113,665	1,355,644
	758,021	**68,402**

To be read with the attached notes to the Financial Statements.

BIM – Banco Internacional de Moçambique, S.A.

Statement of Changes in Equity of the Bank

for the years ended 31st December, 2008 and 2007

	Total Equity MZN' 000	Share Capital MZN' 000	Legal Reserve MZN' 000	Other Reserves and Retained Earnings MZN' 000
Balance on 31st December, 2006	2,094,836	741,000	152,414	1,201,422
Transfers to legal reserve	-	-	173,474	(173,474)
Other reserves	4,760	-	-	4,760
Dividends paid in 2007	(289,123)	-	-	(289,123)
Net income for the year	1,398,762	-	-	1,398,762
Balance on 31st December, 2007	3,209,235	741,000	325,888	2,142,347
Transfers to legal reserve	-	-	209,814	(209,814)
Dividends paid in 2008	(349,691)	-	-	(349,691)
Net income for the year	1,755,301	-	-	1,755,301
Balance on 31st December, 2008	4,614,845	741,000	535,702	3,338,143

To be read with the attached notes to the Financial Statements.

Banco Internacional de Moçambique

Notes to the Financial Statements

for the year ended 31st December 2008

Banco Internacional de Moçambique

Notes to the Financial Statements

for the year ended 31st December 2008

1. Accounting policies

a) Basis of presentation

BIM – Banco Internacional de Moçambique, S.A. ("the Bank" or "BIM"), previously named BCM – Banco Comercial de Moçambique, S.A.R.L., is a private Bank established in 1992 with its head office in Maputo. These financial statements reflect the results of its operations for the year ended the 31st December 2008.

The Bank's main objective is to conduct financial operations and provide all legally permitted commercial banking services, namely, granting loans in domestic and foreign currency, providing letters of credit and bank guarantees, transactions in foreign currency and accepting deposits in national and foreign currency.

On 31st December 2008, BIM – Banco Internacional de Moçambique, S.A. had a controlling interest in Seguradora Internacional de Moçambique, S.A, holding 89.91% of its capital, and the accounts of the Group (Bank and Seguradora) are presented on a consolidated basis in this report.

In accordance with Notice 04/GBM/2007 of 2nd May and its complementary dispositions of Banco de Moçambique, as of 1st January 2007, BIM has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS).

When preparing its financial statements for the year ended 31st December 2008, the Group adopted IFRS 7 – Financial Instruments: Disclosure and also IAS 1 (altered) – Presentation of financial statements – Requirements on the publication of regulatory capital. In accordance with the transitional dispositions of these norms, various figures for 2007 are presented differently in accordance with the new disclosure requirements.

The financial statements were prepared using the historical cost principle modified by the application of fair value to financial assets and liabilities available for sale, except when the fair value is not available.

Other financial assets and liabilities and non-financial assets and liabilities are recorded at amortized cost or historical cost.

The accounting policies presented in this note have been applied consistently to all the Group's entities, in all the financial years presented in the consolidated financial statements.

The preparation of the financial statements in accordance with IFRS requires the Board of Directors to formulate judgements, estimates and assumptions affecting the application of accounting policies and the value of assets, liabilities, income and expenses.

The estimates and related assumptions are based on historical experience and various other factors considered reasonable under the circumstances. They provide the basis for judgements on the value of assets and liabilities that are not readily apparent from other sources. Actual results can differ from the estimates.

The issues that require a higher degree of judgement or complexity, or where the assumptions and estimates are considered significant, are presented in note t).

The financial statements of the Bank and the Group have been prepared using the Metical as the currency of reference and are presented in thousand Meticais. For purely comparative purposes the balance sheet and income statement of the Bank and the Group convert the balances to thousand USD, using the Banco de Moçambique's revalued exchange rate on the reference dates for the corresponding period.

b) Basis of consolidation

The Group's accounts are consolidated at the Banco Comercial Português, S.A. (BCP), using the full method.

(i) Investments in subsidiaries

Investments in subsidiary companies where the Group has control are consolidated using the full consolidation method from the date the Group took control of their financial and operational activities until this control ceases.

Control is presumed to exist when the Group holds more than half of the voting rights. There is also control when the Group has direct or indirect power to manage the financial and operating policies of a given company in order to benefit from its activities, even if its percentage of shareholding is less than 50%.

The consolidated financial statements as at 31st December 2008 reflect the assets, liabilities and net income of BIM – Banco Internacional de Moçambique S.A. and its subsidiary company Seguradora Internacional de Moçambique, S.A., that are consolidated using the full method, in accordance with IFRS requirements.

(ii) Differences in consolidation and revaluation – Goodwill

Goodwill arising from business concentrations that occurred prior to 1st January 2006 was charged against reserves.

Business combinations that took place after 1st January 2006 are recorded using the purchase method. The acquisition cost corresponds to the fair value determined on the date the assets acquired were purchased and liabilities were incurred or assumed, including costs directly associated with the transaction.

Goodwill arising from the acquisition of holdings in subsidiary and associate companies is defined as the difference between the cost of the investment and the corresponding share of the fair value of the net assets acquired.

Since the transition to IFRS on 1st January 2006, the positive goodwill arising from acquisitions is recognised as an asset and recorded at the acquisition cost, and is not subject to amortization.

The value of recoverable goodwill recorded as an asset is assessed annually, regardless of signs of impairment. Eventual impairment losses are recognized in the income of the year.

If the goodwill is negative it is recorded directly in the income statement in the period when the business combination occurs.

(iii) Transactions eliminated on consolidation

Balances and transactions with the subsidiary company as well as unrealized gains and losses arising from these transactions are eliminated in the preparation of the consolidated financial statements.

c) Loans and advances to Customers

The item loans and advances to Customers includes loans and advances originated by the Bank that are not intended to be sold in the short-term. They are recorded on the date the funds are provided to Customers.

The item loans and advances to Customers is initially recorded at fair value plus transaction costs and is subsequently valued at the amortized cost, using the effective interest rate method. It is presented in the balance sheet deducted from impairment losses.

Derecognition of these assets in the balance sheet occurs in the following situations: (i) use of impairment losses when these correspond to 100% of loan values, (ii) the Bank's contractual rights have expired, or (iii) the Bank transferred substantially all risks and benefits associated with these loans.

Subsequent recoveries of these loans are recorded in the accounts as income of the year in which they occur.

Impairment

The Bank's policy is to assess regularly whether there is objective evidence of impairment in its credit portfolio.

Impairment losses are charged against income. These losses subsequently revert to income if the estimated loss is reduced in a later period.

After initial recognition, a loan or loan portfolio, defined as a group of loans with similar credit risk characteristics, may be classified with impairment when there is objective evidence of impairment arising from one or more events and when the loss events has an impact on the estimated future cash flow of the loan or loan portfolio that cannot be reasonably estimated.

According to IAS 39 there are two basic methods for calculating impairment losses: (i) individual assessment and (ii) collective assessment.

(i) Individual assessment

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. For each loan considered to be individually significant, on each balance sheet date, the Bank assesses the existence of objective evidence of impairment.

When determining individual impairment losses the following factors are considered:

- aggregate exposure of each Customer in the Bank and the existence of overdue loans;
- the viability of the Customer's business and capability of generating sufficient cash flow to service his debt obligations in the future;
- the existence, nature and estimated value of the collaterals associated with each loan;
- significant downgrading of the Customer's rating;
- the Customer's available assets in liquidation or insolvency situations;
- the existence of privileged creditors;
- the amount and timing of expected receipts and recoveries.

Impairment losses are calculated by comparing the present value of the expected future cash flows discounted at the original effective interest rate of each contract and the book value of each loan, with losses charged against the income statement.

The book value of loan impairment 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 applicable during the period when impairment was determined.

The present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure, less costs for obtaining and selling the collateral.

Individual loans that are not identified as having objective evidence of impairment are grouped on the basis of similar credit risk characteristics and assessed collectively.

(ii) Collective assessment

Impairment losses based on collective assessment can be calculated with two different perspectives:

- for homogeneous groups of loans that are not considered to be individually significant (parametric analysis); and
- for losses incurred but not yet recognised on loans subject to individual impairment analysis.

The collective impairment loss is determined considering the following aspects:

- historical loss experience in portfolios with similar risk characteristics;
- knowledge of the economic environment and its influence on the level of historical losses; and
- the estimated period between a loss occurring and a loss being identified.

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

Loans that have been individually assessed and for which no evidence of impairment has been identified are grouped together based on similar credit risk characteristics for calculating collective impairment loss.

This analysis enables the Bank to recognize losses that will only be identified individually in future periods.

d) Financial instruments

(i) Classification

The financial assets and liabilities at fair value through profit and loss are those held by the Group with the specific purpose of obtaining short-term profits and the assets and liabilities the Group has designated after initial recognition as being of fair value through profits and losses. They include investments and liabilities resulting from the sale of short-term financial instruments.

Originated loans and debtors are those created by the Bank when it makes funds available to an entity, in addition to those created with the intention of obtaining short-term profits. The loans and debtors have fixed or determinable payments and are not quoted in an active market. Originated loans and debtors include loans and advances to other banks and Customers.

Financial assets held to maturity are financial assets with fixed or determinable payments and a fixed maturity date, which the Group intends and is able to maintain until maturity. Some debt instruments are included in these assets.

Financial assets held for trading are acquired with the purpose of generating short-term profits based on price fluctuations.

Financial assets available for sale are financial assets not classified as investments and held until maturity or financial trading instruments. Financial assets available for sale include capital and debt instruments.

Financial assets available for sale are initially accounted at fair value, including all expenses and income associated with the transactions and are held for an indeterminate period. They can be sold to meet liquidity requirements or due to changes in interest rates, exchange rates or the price of shares.

Interest income from debt instruments is recognized based on the effective interest rate, considering the useful life of the asset. In situations where there is a premium or discount associated with the assets, the premium or discount is included in the calculation of the effective interest rate.

Other financial liabilities include money market transactions, deposits from Customers and other financial institutions, issued debt, among other transactions.

(ii) Impairment of financial assets available for sale

The existence of objective evidence of impairment, i.e. any negative impact on the expected future cash flows of a financial asset that can be measured reliably, is evaluated on the date of each balance sheet.

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement) is removed from fair value reserves and recognized in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

The impairment losses recognized in equity instruments classified as available for sale, when reverted, are recognized against reserves.

(iii) Recognition date

The Group recognizes financial assets held for trading and assets available for sale on the date it commits to acquiring the assets. From that date onwards, all profits and losses arising from changes in the fair value of these assets are recognized.

Loans held until maturity and originated loans and debtors are recognized on the day the money is disbursed to the Customer.

(iv) Principles for measuring fair value

The fair value of financial instruments is based on their market price on the date of the balance sheet, without deducting transaction costs.

When market prices are unknown, the fair value of the instruments is estimated using discounted cash flow techniques.

In cases where discounted cash flow techniques are used, future cash flow is based on the best estimate of the Board of Directors. The discount rate is the market rate on the date of the balance sheet for an instrument with similar terms and conditions.

Fair value is not determined when it is impracticable to do so and when the main characteristics of the underlying financial instruments, relevant to its value, are disclosed.

(v) Profit and loss in subsequent evaluation

Profits and losses arising from changes in the fair value of assets available for sale are directly recognized in reserves.

When financial assets are sold, charged or disposed of in any other way, the cumulative profits or losses recognized in reserves are transferred to the account net gains and losses from financial assets available for sale, in the income statement. The recoverable value of a capital instrument is represented by its fair value.

The recoverable value of debt instruments and loans revalued to assess their fair value is calculated using the present value of the expected future cash flows, discounted at the current market interest rate.

When an asset that is revalued directly through reserves to determine its fair value has a lower recoverable value and a reduction in the asset's value has already been recognized directly in reserves, the reduced value is transferred to the income statement and recognized as part of the losses in the reduction in recoverable value.

When an asset that is valued to determine its fair value directly through reserves has a lower recoverable value and a rise in the asset's fair value has already been previously recognized in the reserves, the rise in the asset's fair value recognized in the reserves is reversed in proportion to the asset's lower recoverable value.

All other losses arising from a fall in recoverable value are recognized in the income statement.

(vi) Reversal of a reduction in recoverable value

A loss arising from a fall in the recoverable value of a security held to maturity or that of other debts is estimated if the subsequent increase in recoverable value is objectively related to an event that occurs after recognition of the loss arising from the fall in recoverable value.

As regards other assets, a loss resulting from a fall in recoverable value is reversed in the event of any change in the estimates used to determine the recoverable value.

A loss arising from a fall in recoverable value is only reversed if the asset's book value does not exceed the book value that would have been determined, net of depreciation or amortization, if no loss due to a fall in recoverable value had been recognized.

Gains and losses arising from a change in the fair value of trading instruments are recorded in the income statement.

Cash flows transfers of financial assets and liabilities, recorded at fair value through results, from and to the portfolio, are not allowed.

(vii) Derecognition

A financial asset ceases to be recognized when all rights to future cash flows expire.

e) Transactions with a repurchase agreement

Repurchase agreements

The Bank purchases (sells) investments through an essentially identical investment resale (repurchase) agreement on a future date at a previously established price. Investments acquired subject to resale agreements at a future date are not recognized. The amounts paid are recognized in loans to Customers or financial institutions. The amounts receivable are presented with the associated securities as collateral.

Investments sold through repurchase agreements continue to be recognized in the balance sheet and are revalued in accordance with the accounting policy for other assets available for sale. Revenue from the sale of investments is considered a debt to Customers or financial institutions.

f) Recognition of interest

Income from interest on asset and liability financial instruments measured at amortised cost is recognized in similar interest and income items or similar interest and costs, using the effective interest rate method.

The effective interest rate corresponds to the rate that discounts future cash payments or revenue estimated for the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net present value of the asset or financial liability in the balance sheet.

g) Recognition of income from services and commissions

Income from services and commissions is recognized according to the following criteria:

- when they are received as the services are provided they are recognized as income for the period to which they refer; and

- when they are the result of services provided they are recognized when that service has been concluded.

h) Income from financial transactions

The profits and costs of financial transactions include the profit and loss resulting from foreign currency trading transactions and the conversion of monetary items from foreign currency to the national currency.

Gains and losses from financial assets and liabilities classified as for trading, as well as income from operations involving the portfolio of financial assets available for sale, are also recorded.

i) Property and equipment

Property and equipment assets are recorded at the acquisition cost less the respective accumulated depreciation and impairment losses.

Subsequent costs are only recognized if they would probably produce future economic benefits for the Group.

Expenditure on maintenance and repair is recognized as a cost, in that it is incurred in accordance with the accrual principle.

The Group performs impairment tests whenever events or circumstances indicate that the book value exceeds the recoverable amount and the difference, if it exists, is recognized in the income statement.

Depreciation is calculated using the constant quota method, with the following expected periods of useful life:

	Number of years
Buildings	50
Works on buildings of others (*)	10
Equipment	4 to 10
Other fixed assets	3

j) Intangible assets

The intangible assets acquired by the Group are recorded at their historic cost less accumulated depreciation and losses due to a reduction in the recoverable value.

Depreciation is recorded in the income account using the constant quota criterion for the estimated useful life of intangible assets.

Software

The Group accounts as intangible assets the costs associated with the software acquired from external entities and performs a linear depreciation by an estimated useful life of five years. The Group does not capitalize internal costs arising from software development.

k) Assets arising from recovered loans

Assets arising from recovered loans include buildings that are the result of the resolution of loan contracts with clients.

These assets are recognized in the item Other assets and their initial measurement is the lower that occurs in the fair value or the book value of the loan on the day the surrender of the collateral took place.

Fair value is based on the market value. It is determined using the expected sale price obtained through periodic valuations by specialist external entities at the request of the Bank.

The subsequent measurements of these assets is the lower of the book value or the corresponding current fair value, net of expenditure, and is not subject to amortization.

If there are unrealized losses they are recorded as impairment losses and charged against the income statement.

(*) – For buildings of the subsidiary Seguradora Internacional de Moçambique, S.A. the number of years is 25.

l) Cash and cash equivalents

In the cash flow statement, cash and its equivalents comprise the amounts in the balance sheet that have a maturity of less than three months from the date of the balance sheet and include cash and deposits in other credit institutions.

Cash and cash equivalents are excluded from mandatory deposits at Banco de Moçambique.

m) Foreign currency transactions

Foreign currency transactions are converted at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are converted at the exchange rate on the date of the balance sheet.

Foreign exchange differences arising from conversion are recognized in the income statement.

Non-monetary assets and liabilities denominated in foreign currency that are valued at their historic cost are converted at the exchange rate on the date of the respective movement.

n) Employee benefits

The Group has a specific benefit plan for its Employees for which it holds insurance that is managed by its subsidiary Seguradora Internacional de Moçambique, S.A.

Under the benefit plan, the Group funds a complement to retirement pensions for its Employees that is guaranteed through a retirement pension supplement that functions autonomously.

The actuarial calculation is based on the projected unit credit method using the actuarial and financial assumptions described in note 39 and in accordance with the parameters required by IAS 19.

Costs arising from early retirement and the corresponding actuarial gains and losses are charged against income in the year the early retirement is approved and communicated, in accordance with IAS 37.

Monthly premiums of 5.55% of the individual's salary are additional contributions by the Bank and recorded as costs during that year.

The complement retirement pension will be paid to all Employees in work when men reach 60 years of age and women 55. It is an obligatory condition that the Employee must already benefit from the old age pension provided by the Instituto Nacional de Segurança Social – INSS (National Institute for Social Security) or should the Executive Committee decide otherwise.

o) Income tax

The Bank and its subsidiary with head office in Mozambique are subject to the fiscal regime established by the Código dos Impostos sobre o Rendimento – CIR (Income Tax Code). Profits attributed to each financial year are subject to the Imposto sobre o Rendimento de Pessoas Colectivas – IRPC (Corporate Income Tax).

Under the customs and fiscal incentives laid down in the Código dos Benefícios Fiscais em Moçambique – CBFM (Code on Fiscal Benefits in Mozambique) approved by Decree 12/93 of 21st July, the Bank benefits from a 50% reduction in tax rates on final profits for distribution among Shareholders, during the period it is recovering investments effectively made. According to the Investment Project Authorization, this period cannot exceed 10 years from 1st January 2004.

The taxes on profits recorded in the income statement include the effect of current and deferred taxes.

The tax is recognized in the income statement except for equity movements. This means that it is recognized in equity (i.e. assets available for sale).

Current taxes correspond to the expected amount payable on taxable income during the year, using the rates established by law or those in force on the date of the balance sheet and any adjustments to tax payable in respect to previous years.

Using the liability method based on the balance sheet, deferred taxes are calculated on cumulative fiscal losses and temporary differences between the book value of assets and liabilities and their fiscal base, using the approved or substantially approved tax rates on the date of the balance sheet and that are expected to be applied when the temporary differences are reversed.

Deferred tax assets are recognized when there is a probability of future taxable profits absorbing temporary deductible differences for fiscal purposes (including reportable fiscal losses).

p) Segmental reporting

A business segment is a distinctive component of the Group that provides an individual product or service or a set of related products or services and that is subject to risks and returns that are different to those of other business segments.

As presented in note 40, the Group controls its activity through the following major segments:

- Retail Banking;
- Corporate Banking;
- Insurance.

q) Provisions

Provisions are recognized when (i) the Group has a present, legal or constructive obligation; (ii) it is probable that this payment will be the demanded; and (iii) it is possible to calculate a reliable estimate of this obligation.

r) Earnings per share

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

s) Insurance contracts

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract where the Group accepts a substantial insurance risk from another party and agrees to compensate the insured party on the occurrence of a specific uncertain future event that adversely affects that insured party it is classified as an insurance contract.

A contract issued by the Group without a significant transferred insurance risk, but where the transferred financial risk has a significant discretionary participation in income, is considered an investment contract. It is recognized and measured in accordance with the accounting policies applicable to insurance policies.

A contract issued by the Group that only transfers financial risk, without any participation in discretionary results, is recorded as a financial instrument.

Insurance contracts and investment contracts with participation in results, are recognized and measured as follows:

Premiums

Gross premiums are recognized as income in the period to which they refer, irrespective of the moment they are paid or received, using the accrual accounting principle.

Reinsurance premiums are recorded as expenses in the period to which they refer in the same way as the gross premiums issued.

Provision for unreceived premiums from direct insurance and reinsurance assigned

The provision for unreceived premiums is based on the valuation of the premiums issued before the end of the financial year, but for which the risk period continues after that date. It is calculated using the "pro-rata temporis" method applied to for each valid contract.

t) Accounting estimates in the application of accounting policies

The IFRS have established a set of accounting applications that require the Executive Committee (executive members of the Board of Directors) to use their judgment and make the necessary estimates in order to decide on the most appropriate accounting application.

The main accounting estimates and judgements used in the application of the accounting principles of the Bank and its subsidiary are analyzed as indicated below, in order to improve understanding of how their application affects the income reported by the Bank and on a consolidated basis and its disclosure.

As in some situations accounting norms allow for an alternative accounting treatment to the one adopted, the results reported by the Bank and Group could be different if another type of treatment were to be chosen. The Executive Committee considers that the criteria it has adopted are appropriate and that the financial statements provide an appropriate presentation of the financial position of the Bank and the Group and their operations in all materially relevant aspects.

The results of the alternatives analyzed below are presented merely to help the reader understand the financial statements and are not intended to suggest that other alternatives or estimates are more appropriate.

(i) Losses due to a reduction in the value of recoverable debt

Assets recorded in the accounts at the amortized cost are valued using the reduction of the recoverable amount as described in note 1d) of accounting policies.

The components of specific losses due to reduction in the recoverable amount are valued individually and are based on the Management's best estimate of the current value of the expected cash flow. Estimating these cash flows, the Management judges the financial situation of the counterparty and the achievable net present value of any underlying guarantee.

Each asset with a reduced recoverable value is valued on its merits and the recovery strategy and estimated recoverable cash flow are independent of the credit risk function.

Losses due to a fall in recoverable value, analyzed on a collective basis, are determined using similar economic characteristics when there is objective evidence suggesting that they contain reduced recoverable value but that their reduced recoverable value items cannot yet be clearly identified.

When evaluating the need to record in the accounts losses due to a fall in the recoverable value of loans, the Management considers aspects such as the quality of the loan, the size of the portfolio, concentration and economic factors.

In order to estimate the value of these losses, assumptions are made as to how the inherent losses are to be modelled and to determine the required input parameters based on historical experience and current economic conditions.

The precision of the estimated value of losses depends on the quality of the future cash flow estimates for losses of specific counterparties and the assumptions of the model and the parameters used in determining losses based on collective analysis.

(ii) Determining fair value

Determining the fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques of the kind described in accounting policy 1d).

In the case of financial instruments that are not traded frequently, with a price that is not very transparent, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty about market factors, assumptions about price setting and other risks that affect the specific instruments.

2. Net interest income

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Interest and similar income				
Interest on loans and advances	2,401,319	1,839,354	2,401,319	1,839,354
Interest on deposits and other applications	265,122	309,559	264,928	310,662
Interest on securities available for sale	920,747	878,005	903,677	838,404
	3,587,188	3,026,918	3,569,924	2,988,420
Interest expense and similar charges				
Interest on deposits and other resources	781,597	639,480	895,059	709,138
Interest on securities issued	10,522	13,549	58,884	65,552
Other interest and similar costs	860	399	860	399
	792,979	653,427	954,803	775,089
Net interest income	2,794,209	2,373,491	2,615,121	2,213,331

3. Dividends from equity instruments

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Dividends from investments in subsidiaries	-	-	73,768	27,740
Dividends from securities available for sale	1,022	1,103	-	-
	1,022	1,103	73,768	27,740

For the Bank, the item Dividends from equity instruments corresponds to dividends associated with its holding in Seguradora Internacional de Moçambique, S.A. and, for the Group, to dividends received from other shares held by Seguradora Internacional de Moçambique, S.A.

4. Net fees and commissions income

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Fees and commissions' income				
From guarantees	192,669	131,813	192,669	131,813
From banking services	389,633	340,261	413,486	357,604
From insurance activity	17,201	14,485	-	-
Other commissions	276,105	230,829	276,105	230,829
	875,608	717,388	882,260	720,246
Fees and commissions' expenses				
From guarantees	3,575	2,543	3,575	2,543
From banking services	737	435	111	139
From insurance activity	24,305	21,747	-	-
Other commissions	42,588	32,760	42,587	32,680
	71,205	57,485	46,273	35,362
Net fees and commissions' income	804,403	659,903	835,987	684,884

5. Net gains arising from trading activity

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Gains from financial transactions				
Foreign exchange operations	515,593	430,673	515,593	430,673
Other operations	140,684	14,760	37,692	2,416
	656,277	445,433	553,285	433,089
Losses from financial transactions				
Foreign exchange operations	45,609	21,200	45,609	21,200
Other operations	97,971	27,770	-	-
	143,580	48,970	45,609	21,200
	512,697	396,463	507,676	411,889

6. Other operating income

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Other operating income				
Income from real estate	8,980	16,031	372	6,258
Income from services	7,460	17,201	7,460	17,201
Reimbursement of expenditure	106,354	97,445	106,354	97,445
Insurance premiums	678,416	508,668	-	-
Other operating income	59,547	52,210	17,196	14,896
	860,757	691,555	131,382	135,800
Other operating costs				
Taxes	13,141	6,043	12,327	4,978
Donations and membership fees	8,827	12,706	8,826	12,706
Insurance claims	385,392	328,941	-	-
Other operating expenses	51,858	84,508	28,933	32,582
	459,218	432,198	50,086	50,266
	401,538	259,357	81,296	85,534

7. Staff costs

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Remunerations	874,199	752,110	810,698	693,778
Mandatory social security charges	30,822	27,618	25,144	22,407
Facultative social security charges	13,610	12,156	44,764	34,553
Other staff costs	3,180	2,629	2,374	948
	921,811	794,513	882,980	751,686

The average number of Employees working in the Group and the Bank, by broad professional category, is as follows:

	Group		Bank	
	2008	2007	2008	2007
Board and Management	131	116	115	104
Specific/technical	707	661	605	572
Other functions	846	776	841	752
	1,684	1,553	1,561	1,428

The total remuneration paid by the Group and the Bank to the Board and other corporate bodies in the year ended 31st December 2008 and recorded under the Remuneration item was 46,376 thousand Meticais and 41,790 thousand Meticais, respectively (2007: 40,328 thousand Meticais and 35,711 thousand Meticais).

8. Other administrative costs

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Water, electricity and fuel	52,397	42,318	49,162	39,819
Consumables	78,575	62,478	75,521	59,989
Renting and hiring	39,265	37,200	117,164	113,142
Communications	74,018	74,186	68,982	67,669
Travel, per diem and representation	41,627	32,393	38,091	29,553
Advertising	38,296	37,132	36,038	35,630
Outsourcing services	36,422	32,672	21,366	23,291
Maintenance and repairs	61,900	52,748	58,002	48,801
Insurance	5,240	5,000	27,096	30,510
Legal, litigation and notary services	1,910	2,784	1,760	2,608
IT and consultancy	202,075	168,118	199,856	166,706
Security and surveillance	34,226	28,843	32,758	27,308
Cleaning premises	19,013	19,429	19,013	19,429
Transporting cash	41,603	43,932	41,603	43,932
Training costs	23,871	16,845	23,843	15,475
Other suppliers and services	28,814	23,941	28,815	22,487
	779,252	680,019	839,070	746,349

9. Depreciation

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Intangible assets				
Software	9,702	50,465	9,146	50,465
Other intangible assets	-	1,522	-	-
	9,702	51,986	9,146	50,465
Property and equipment				
Land and buildings	92,318	25,598	86,463	20,246
Equipment	138,992	125,623	132,935	119,496
Furniture	9,015	8,450	8,318	7,696
Machinery	6,211	5,889	6,085	5,448
Computer equipment	63,907	57,948	62,918	56,640
Interior fittings	16,215	16,144	16,215	16,144
Motor vehicles	31,607	25,656	27,772	22,561
Security equipment	9,854	9,114	9,854	9,114
Other equipment	2,183	2,422	1,773	1,893
Other tangible assets	108	110	108	110
	231,418	151,331	219,506	139,852
	241,120	203,317	228,652	190,317

10. Loans impairment

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Loans and advances to Customers				
For overdue loans and credit risks				
Impairment for the year	180,670	388,687	180,670	388,687
Recovery of loans and interest charged-off	(127,804)	(173,433)	(127,804)	(173,433)
	52,866	215,254	52,866	215,254

The item Loans impairment records estimated losses incurred up to the end of the financial year based on an assessment of objective evidence of impairment, as described in note 1 c).

11. Other provisions

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Provisions for guarantees and other commitments				
Charge for the year	63,753	25,245	63,753	25,245
Reversal for the year	(1,056)	-	(1,056)	-
Provisions for depreciation of securities				
Charge for the year	-	1,251	-	-
Reversal for the year	-	(25)	-	(25)
Other provisions for liabilities and charges				
Charge for the year	16,299	18,839	15,930	21,950
Reversal for the year	(43,448)	(55,176)	(40,375)	(55,177)
Technical insurance provisions				
Charge for the year	218,927	142,115	-	-
Reversal for the year	-	-	-	-
	254,475	132,250	38,251	(8,007)

12. Income tax

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Current tax	376,818	132,330	298,662	125,000
Deferred tax	22,549	4,016	18,066	4,016
Total cost of taxes	399,367	136,346	316,728	129,016
Reconciliation of effective cost of taxes				
Net income before tax	2,329,078	1,699,156	2,072,029	1,527,779
Current taxes	413,776	299,286	331,525	244,444
Tax adjustments:				
Impact of non-deductible expenditure	3,774	3,383	3,109	2,454
Impact of non-deductible expenses	4,420	3,137	4,350	2,785
Cost deferred amortization	(18,066)	(4,016)	(18,066)	(4,016)
Interest on public debt	(11,589)	(161,905)	(6,758)	(113,112)
Fiscal incentives	(15,497)	(7,555)	(15,497)	(7,555)
Tax cost	376,818	132,330	298,662	125,000

Under the customs and fiscal benefits contemplated in the Código dos Benefícios Fiscais em Moçambique – CBFM (Code on Fiscal benefits in Mozambique) approved by Decree 12/93 of 21st July, the Bank benefits from a 50% reduction in the tax on final profits for distribution to Shareholders, during the recovery period of investments effectively carried out. According to the Investment Project Authorisation, this period cannot exceed 10 years from 1st January 2004.

13. Earnings per share

	Bank	
	2008 MZN	2007 MZN
Net income	1,755,300,981	1,398,761,938
Number of shares	7,410,000	7,410,000
Earnings per share	**236.88**	**188.77**

14. Cash and deposits at Banco de Moçambique

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Cash	1,518,777	1,135,241	1,518,777	1,135,185
Banco de Moçambique	2,444,202	2,291,265	2,444,202	2,291,265
	3,962,979	**3,426,506**	**3,962,979**	**3,426,450**

The balance of deposits at Banco de Moçambique complies with legal cash reserve requirements calculated on the amount of deposits and other effective obligations.

According to Banco de Moçambique's Notice 01/GBM/2008, the cash reserve system requires deposits at Banco de Moçambique equivalent to 9.0% of the average daily value of deposits and other obligations.

According to Notice 02/GBM/2007, in 2007, the cash reserve system required deposits at the Central Bank equivalent to 10.15% of average deposits and other obligations at the end of each period for the establishment of reserves.

15. Deposits in credit institutions

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Credit institutions in Mozambique	342,987	61,904	342,987	61,904
Credit institutions abroad	251,901	158,500	251,901	158,500
	594,888	**220,404**	**594,888**	**220,404**

The item Deposits in other credit institutions within the country includes 333,861 million Meticais in amounts payable to the Group and the Bank that represent essentially cheques due for collection on other credit institutions in 2008.

16. Loans and advances to credit institutions

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Credit institutions in Mozambique	953,623	49,122	953,621	36,550
Credit institutions abroad	4,166,109	5,306,152	4,166,109	5,306,152
	5,119,732	**5,355,274**	**5,119,730**	**5,342,702**

The analysis of this item by period to maturity is as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Up to 3 months	5,112,592	5,320,112	5,112,590	5,320,181
From 3 to 6 months	-	19,829	-	7,188
From 6 months to 1 year	7,140	15,333	7,140	15,334
	5,119,732	**5,355,274**	**5,119,730**	**5,342,702**

17. Loans and advances to Customers

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Loans and advances with tangible guarantees	4,249,234	2,984,229	4,249,234	2,984,229
Loans and advances with other guarantees	9,015,041	4,841,017	9,015,041	4,841,017
Unsecured loans	1,577,818	2,582,163	1,577,818	2,582,163
Loans and advances to the public sector	206,222	186,732	206,222	186,732
Financial leases	2,312,523	2,287,328	2,312,523	2,287,328
Factoring transactions	278,622	101,144	278,622	101,144
	17,639,460	**12,982,613**	**17,639,460**	**12,982,613**
Overdue loans – less than 90 days	15,127	11,979	15,127	11,979
Overdue loans – over 90 days	145,846	156,620	145,846	156,620
	17,800,433	**13,151,212**	**17,800,433**	**13,151,212**
Impairment for credit risk	(782,999)	(647,740)	(782,999)	(647,740)
	17,017,434	**12,503,472**	**17,017,434**	**12,503,472**

The analysis of loans and advances to Customers by maturity and type of credit is as follows:

	Loans to Customers				
	Up to 1 year MZN' 000	1 to 5 years MZN' 000	Over 5 years MZN' 000	Indeterminate MZN' 000	Total MZN' 000
Loans and advances with tangible guarantees	843,590	1,405,730	1,999,914	7,970	4,257,204
Loans and advances with other guarantees	1,662,362	5,404,948	1,947,731	63,436	9,078,477
Unsecured loans	1,495,177	70,776	11,865	45,779	1,623,597
Loans and advances to the public sector	14,892	47,829	143,501	151	206,373
Financial leases	13,325	1,543,914	755,284	43,637	2,356,160
Factoring transactions	35,983	242,639	-	-	278,622
	4,065,329	**8,715,836**	**4,858,295**	**160,973**	**17,800,433**

The analysis of loans and advances to Customers by type of transaction is as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Short-term				
Discounted bills	310,306	232,402	310,306	232,402
Current account credits	2,182,137	1,441,165	2,182,137	1,441,165
Overdrafts	1,352,063	1,570,555	1,352,063	1,570,555
Loans	1,845,026	1,042,008	1,845,026	1,042,008
Factoring transactions	278,622	100,837	278,622	100,837
	5,968,154	**4,386,967**	**5,968,154**	**4,386,967**
Medium and long-term				
Discounted bills				
Loans	8,500,380	5,548,784	8,500,380	5,548,784
Mortgage credit	858,403	766,904	858,403	766,904
Financial leases	2,312,523	2,279,958	2,312,523	2,279,958
	11,671,306	**8,595,646**	**11,671,306**	**8,595,646**
Overdue loans – less than 90 days	15,127	11,979	15,127	11,979
Overdue loans – over 90 days	145,846	156,620	145,846	156,620
	160,973	**168,599**	**160,973**	**168,599**
Impairment for credit risk	(782,999)	(647,740)	(782,999)	(647,740)
	17,017,434	**12,503,472**	**17,017,434**	**12,503,472**

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

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Agriculture and forests	995,227	701,164	995,227	701,164
Extractive industries	23,720	27,026	23,720	27,026
Food, beverages and tobacco	1,360,185	705,182	1,360,185	705,182
Textiles	6,590	5,302	6,590	5,302
Paper, printing and publishing	30,331	58,519	30,331	58,519
Chemicals	34,246	32,226	34,246	32,226
Machinery and equipment	444,985	458,805	444,985	458,805
Electricity, water and gas	224,158	317,115	224,158	317,115
Construction	811,427	974,320	811,427	974,320
Commerce	3,592,235	1,324,190	3,592,235	1,324,190
Restaurants and hotels	753,004	336,340	753,004	336,340
Transports and communications	1,734,682	2,971,844	1,734,682	2,971,844
Services	2,013,225	643,371	2,013,225	643,371
Consumer credit	4,325,810	2,616,448	4,325,810	2,616,448
Mortgage credit	860,301	827,653	860,301	827,653
Other activities	590,307	1,151,707	590,307	1,151,707
	17,800,433	**13,151,212**	**17,800,433**	**13,151,212**
Impairment for credit risk	(782,999)	(647,740)	(782,999)	(647,740)
	17,017,434	**12,503,472**	**17,017,434**	**12,503,472**

The analysis of loans and advances to Customers by maturity period and sector of activity is as follows:

	Loans and advances to Customers				
	Up to 1 year MZN' 000	1 to 5 years MZN' 000	Over 5 years MZN' 000	Indeterminate MZN' 000	Total MZN' 000
Agriculture and forests	335,631	522,585	128,797	8,214	995,227
Extractive industries	-	23,720	-	-	23,720
Food, beverages and tobacco	87,606	953,515	313,311	5,753	1,360,185
Textiles	2,680	3,750	-	160	6,590
Paper, printing and publishing	2,615	16,333	10,095	1,288	30,331
Chemicals	3,878	30,357	-	11	34,246
Machinery and equipment	308,275	132,528	977	3,204	444,985
Electricity, water and gas	7,319	110,553	105,208	1,078	224,158
Construction	266,566	341,058	201,850	1,953	811,427
Commerce	1,526,860	1,022,680	1,028,557	14,138	3,592,235
Restaurants and hotels	93,525	95,093	564,288	98	753,004
Transports and communications	255,553	1,046,105	421,059	11,965	1,734,682
Services	600,694	799,917	596,306	16,308	2,013,225
Consumer credit	478,180	3,500,169	252,882	94,579	4,325,809
Mortgage credit	194	88,285	769,941	1,881	860,301
Other activities	95,753	29,188	465,024	343	590,307
	4,065,329	8,715,836	4,858,295	160,973	17,800,433

The loans portfolio includes restructured loans that have been formally negotiated with Clients, in order to reinforce collateral, defer the maturity date or change the interest rate.

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

	2008 MZN' 000	2007 MZN' 000
Agriculture and forests	87,186	-
Extractive industries	2,627	13,668
Food, beverages and tobacco	32,314	35,300
Paper, printing and publishing	-	24,642
Machinery and equipment	6,712	6,712
Electricity, water and gas	450	934
Construction	2,022	-
Commerce	18,138	12,336
Transports and communications	2,011	-
Services	2,344	2,709
Consumer credit	31,708	26,185
	185,512	122,486

The analysis of overdue loans by type of credit is as follows:

	2008 MZN' 000	2007 MZN' 000
Loans and advances with tangible guarantees	7,970	25,619
Loans with other guarantees	63,436	46,658
Unsecured loans	45,779	46,957
Loans to the public sector	151	80
Financial leases	43,637	49,285
	160,973	**168,599**

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

	2008 MZN' 000	2007 MZN' 000
Agriculture and forests	8,214	5,073
Extractive industries	1	4,596
Food, beverages and tobacco	5,753	5,659
Textiles	160	11,917
Paper, printing and publishing	1,288	1,237
Chemicals	11	8,035
Machinery and equipment	3,204	133
Electricity, water and gas	1,078	656
Construction	1,952	7,315
Commerce	14,138	18,176
Restaurants and hotels	98	658
Transports and communications	11,965	6,079
Services	16,308	10,283
Consumer credit	94,579	86,003
Mortgage credit	1,881	2,175
Other activities	343	604
	160,973	**168,599**

Movements of impairment for credit risk are as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	647,740	467,930	647,740	467,930
Impairment for the year	180,670	388,687	180,670	388,687
Reverse for the year	-	-	-	-
Transfers	32,145	23,530	32,145	23,530
Use of impairment	(90,097)	(212,061)	(90,097)	(212,061)
Exchange rate differences	12,541	(20,346)	12,541	(20,346)
Balance on 31st December	**782,999**	**647,740**	**782,999**	**647,740**

The following table shows impairment for credit risk by classes of overdue loans on 31st December 2008:

	Classes of overdue			
	Up to 6 months MZN' 000	6 months to 1 year MZN' 000	Over 1 year MZN' 000	Total MZN' 000
Secured overdue loans	17,537	22,549	75,108	115,194
Impairment	10,689	10,889	51,682	73,260
Unsecured overdue loans	10,819	10,805	24,155	45,779
Impairment	4,877	6,762	17,175	28,814
Total overdue loans	**28,356**	**33,354**	**99,263**	**160,973**
Impairment for overdue loans	**15,566**	**17,651**	**68,857**	**102,074**
Impairment for outstanding capital related to overdue loans and other credits				**680,925**
Total impairment for credit risks				**782,999**

The following table shows impairment for credit risk by classes of overdue loans on 31st December 2007:

	Classes of overdue			
	Up to 6 months MZN' 000	6 months to 1 year MZN' 000	Over 1 year MZN' 000	Total MZN' 000
Secured overdue loans	27,778	20,018	63,445	111,241
Impairment	5,537	10,001	63,417	78,955
Unsecured overdue loans	11,332	19,935	26,091	57,358
Impairment	2,833	9,968	26,091	38,892
Total overdue loans	**39,110**	**39,953**	**89,536**	**168,599**
Impairment for overdue loans and other credits	**8,370**	**19,969**	**89,508**	**117,847**
Impairment for outstanding capital related to overdue loans and other credits				**529,893**
Total impairment for credit risks				**647,740**

The analysis of impairment by sectors of activity is as follows:

	2008 MZN' 000	2007 MZN' 000
Agriculture and forests	93,345	48,304
Extractive industries	8,449	17,032
Food, beverages and tobacco	57,089	61,351
Textiles	215	105
Paper, printing and publishing	3,811	3,593
Chemicals	688	682
Machinery and equipment	26,715	20,775
Electricity, water and gas	4,459	6,784
Construction	86,862	112,314
Commerce	101,256	44,330
Restaurants and hotels	15,211	8,239
Transports and communications	45,883	84,468
Services	62,248	57,690
Consumer credit	233,314	147,830
Mortgage credit	31,327	22,973
Other activities	12,127	11,270
	782,999	**647,740**

Impairment by type of credit is as follows:

	2008 MZN' 000	2007 MZN' 000
Loans and advances with tangible guarantees	168,422	139,293
Loans with other guarantees	357,141	183,158
Unsecured loans	64,840	82,075
Loans to the public sector	3,822	-
Financial leases	183,284	238,528
Factoring transactions	5,490	4,686
	782,999	**647,740**

The analysis of the loans charged-off, by sector of activity, is as follows:

	2008 MZN' 000	2007 MZN' 000
Agriculture and forests	1,256	22
Extractive industries	-	-
Food, beverages and tobacco	1,239	167,306
Textiles	11,992	-
Paper, printing and publishing	-	-
Chemicals	9,795	-
Electricity, water and gas	1,227	-
Construction	997	7,663
Commerce	5,660	621
Restaurants and hotels	686	-
Transports and communications	1,885	5,413
Services	847	4,834
Consumer credit	54,467	19,177
Mortgage credit	-	-
Other activities	47	7,025
	90,097	**212,061**

The analysis of the loans charged-off, by type of credit, is as follows:

	2008 MZN' 000	2007 MZN' 000
Loans and advances with tangible guarantees	832	11,267
Loans with other guarantees	45,044	180,556
Unsecured loans	36,320	20,238
Loans to the public sector	-	-
Financial leases	7,901	-
Factoring transactions	-	-
	90,097	212,061

The analysis of recovered loans and overdue interest, which were charged-off during the year or in previous years, in 2008 and 2007, by type of credit, are as follows:

	2008 MZN' 000	2007 MZN' 000
Loans and advances with tangible guarantees	11,150	-
Loans with other guarantees	70,491	103,414
Unsecured loans	10,440	64,054
Financial leases	35,723	5,965
	127,804	173,433

18. Financial assets held for trading and available for sale

The Financial assets held for trading and available for sale is analysed as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Bonds and other fixed income securities				
Issued by public entities	7,369,515	6,082,921	7,147,245	5,865,189
Issued by other entities	104,714	49,291	-	-
	7,474,229	6,132,212	7,147,245	5,865,189
Shares and other variable income securities	21,426	10,690	7,818	7,098
Impairment for shares and other variable income securities	(7,098)	(7,098)	(7,098)	(7,098)
	7,488,557	6,135,804	7,147,965	5,865,189

The item Financial assets available for sale corresponds essentially to securities issued by the Mozambican State, i.e. Treasury Bills and Treasury Bonds.

The analysis of financial assets held for trading and available for sale, by type of asset, is as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Bonds and other fixed income securities				
Issued by public entities				
Available for sale	7,369,533	6,097,548	7,147,245	5,865,189
	7,369,533	6,097,548	7,147,245	5,865,189
Issued by other entities				
Available for sale				
National	78,248	10,780	-	-
Foreign	26,448	23,884	-	-
	104,696	34,664	-	-
Shares and other variable income securities				
Available for sale	21,426	9,128	7,818	7,098
Held for trading	-	1,562	-	-
	21,426	10,690	7,818	7,098
Impairment for shares and other securities	(7,098)	(7,098)	(7,098)	(7,098)
	7,488,557	6,135,804	7,147,965	5,865,189

The movements of impairment for financial assets available for sale are analysed as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	7,098	397	7,098	-
Impairment for the year	-	7,098	-	7,098
Reversal for the year	-	(397)	-	-
Balance on 31st December	7,098	7,098	7,098	7,098

The analysis of the Group's portfolio of securities included in financial assets available for sale and held for trading, by maturity, on 31st December 2008, is as follows:

	3 months to 1 year MZN' 000	Over 1 year MZN' 000	Indeterminate MZN' 000	Total MZN' 000
Fixed income financial assets:				
Bonds issued by public entities				
National	-	490,656	-	490,656
Foreign	-	-	-	-
Bonds issued by other entities				
National	-	78,265	-	78,265
Foreign	-	26,448	-	26,448
Treasury Bills	6,878,860	-	-	6,878,860
	6,878,860	595,369	-	7,474,229
Variable income financial assets:				
Company shares				
National	-	-	20,706	20,706
Foreign	-	-	720	720
	-	-	21,426	21,426
Impairment for overdue securities	-	-	(7,098)	(7,098)
	6,878,860	595,369	14,328	7,488,557

The analysis of the Bank's portfolio of securities included in financial assets for sale, by maturity, on 31st December 2008, is as follows.

	3 months to 1 year MZN' 000	Over 1 year MZN' 000	Indeterminate MZN' 000	Total MZN' 000
Fixed income financial assets:				
Bonds issued by public entities				
National	-	268,385	-	268,385
Foreign	-	-	-	-
Bonds issued by other entities				
National	-	-	-	-
Foreign	-	-	-	-
Treasury Bills	6,878,860	-	-	6,878,860
	6,878,860	268,385	-	7,147,245
Variable income financial assets:				
Company shares				
National	-	-	7,098	7,098
Foreign	-	-	720	720
	-	-	7,818	7,818
Impairment for overdue securities	-	-	(7,098)	(7,098)
	6,878,860	268,385	720	7,147,965

The analysis of the Group's portfolio of securities included in financial assets available for sale and held for trading, by maturity, on 31st December 2007, is as follows:

	3 months to 1 year MZN' 000	Over 1 year MZN' 000	Indeterminate MZN' 000	Total MZN' 000
Fixed income financial assets:				
Bonds issued by public entities				
National	-	479,409	-	479,409
Foreign	-	-	-	-
Issued by other entities				
National	-	12,173	-	12,173
Foreign	-	23,884	-	23,884
Treasury Bills	5,616,746	-	-	5,616,746
	5,616,746	515,466	-	6,132,212
Variable income financial assets:				
Company shares				
National	-	-	10,690	10,690
Foreign	-	-	-	-
	-	-	10,690	10,690
Impairment for overdue securities	-	-	(7,098)	(7,098)
	5,616,746	515,466	3,592	6,135,804

The analysis of the Bank's portfolio of securities included in financial assets available for sale, by maturity, on 31st December 2007, is as follows:

	3 months to 1 year MZN' 000	Over 1 year MZN' 000	Indeterminate MZN' 000	Total MZN' 000
Fixed income financial assets:				
Bonds issued by public entities				
National	-	278,594	-	278,594
Foreign	-	-	-	-
Issued by other entities				
National	-	-	-	-
Foreign	-	-	-	-
Treasury Bills	5,586,595	-	-	5,586,595
	5,586,595	278,594	-	5,865,189
Variable income financial assets:				
Company shares				
National	-	-	7,098	7,098
Foreign	-	-	-	-
	-	-	7,098	7,098
Impairment for overdue securities	-	-	(7,098)	(7,098)
	5,586,595	278,594	-	5,865,189

The analysis of the Group's portfolio of securities included in financial assets available for sale, by sector of activity, on 31st December 2008, is as follows:

	Bonds MZN' 000	Shares MZN' 000	Other Financial Assets MZN' 000	Total MZN' 000
Food and beverages	-	2,425	-	2,425
Transports and communications	78,265	13,213	-	91,478
Services	26,448	5,788	-	32,236
Securities of public entities	490,656	-	6,878,860	7,369,516
	595,369	**21,426**	**6,878,860**	**7,495,655**
Impairment for overdue securities	-	(7,098)	-	(7,098)
	595,369	**14,328**	**6,878,860**	**7,488,557**

The analysis of the Bank's portfolio of securities included in financial assets available for sale, by sector of activity, on 31st December 2008, is as follows:

	Bonds MZN' 000	Shares MZN' 000	Other Financial Assets MZN' 000	Total MZN' 000
Food and beverages	-	-	-	-
Transports and communications	-	5,862	-	5,862
Services	-	1,956	-	1,956
Securities of public entities	268,385	-	6,878,860	7,147,245
	268,385	**7,818**	**6,878,860**	**7,155,063**
Impairment	-	(7,098)	-	(7,098)
	268,385	**720**	**6,878,860**	**7,147,965**

The analysis of the Group's portfolio of securities included in financial assets available for sale and held for trading, by sector of activity, for the Group, on 31st December 2007, is as follows:

	Bonds MZN' 000	Shares MZN' 000	Other Financial Assets MZN' 000	Total MZN' 000
Food and beverages	-	2,601	-	2,601
Transports and communications	12,173	570	-	12,743
Services	-	7,519	23,884	31,403
Securities of public entities	479,409	-	5,616,746	6,096,155
	491,582	**10,690**	**5,640,630**	**6,142,902**
Impairment	-	(7,098)	-	(7,098)
	491,582	**3,592**	**5,640,630**	**6,135,804**

The analysis of the Bank's portfolio of securities included in financial assets available for sale, by sector of activity, on 31st December 2007, is as follows:

	Bonds MZN' 000	Shares MZN' 000	Other Financial Assets MZN' 000	Total MZN' 000
Services	-	7,098	-	7,098
Securities of public entities	278,594	-	5,586,595	5,865,189
	278,594	7,098	5,586,595	5,872,287
Impairment for overdue securities	-	(7,098)	-	(7,098)
	278,594	-	5,586,595	5,865,189

19. Investments in associated companies

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Subsidiary				
Seguradora Internacional de Moçambique, S.A.	-	-	356,148	356,148
	-	-	356,148	356,148

The investment of 356,148 thousand Meticais in the subsidiary Seguradora Internacional de Moçambique, S.A. corresponds to the cost of acquiring shares. On 31st December 2008, the equity of the subsidiary was 684,227 thousand Meticais.

On 31st December 2008, the Bank's percentage share in the subsidiary is as follows:

Subsidiary	Head Office	Share Capital	Currency	Economic Activity	% Shareholding	Consolidation Method
Seguradora Internacional de Moçambique, S.A.	Maputo	147,500,000	MZN	Insurance	89.91%	Full*

* In its reporting to Banco de Moçambique and in compliance with Notice 08/GBM/2007, the Bank consolidates its accounts using the equity method.

20. Property and equipment

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Land and buildings	1,040,444	1,016,942	280,303	244,523
Works in rented buildings	339,914	375,666	336,178	371,128
Equipment				
Furniture	130,663	119,330	123,915	111,197
Office equipment	94,970	77,913	90,575	73,442
Computer equipment	645,189	582,947	605,143	555,196
Interior fittings	218,312	180,033	218,295	179,912
Motor vehicles	223,917	206,107	205,436	185,863
Security equipment	116,427	104,992	116,427	104,992
Other equipment	38,373	31,857	32,957	31,857
Other tangible assets	835	15,449	835	8,880
Works in progress	248,930	90,481	248,930	90,176
	3,097,974	2,801,717	2,258,994	1,957,166
Accumulated depreciation and impairment	(1,199,869)	(1,028,896)	(1,123,260)	(951,375)
	1,898,105	1,772,821	1,135,734	1,005,791

The Group's movements in the item Property and equipment, in 2008, are analysed as follows:

	Balance on 1st Jan. 08 MZN' 000	Acquisitions/ Charges MZN' 000	Disposals/ Charged-off MZN' 000	Transfers MZN' 000	Balance on 31st Dec. 08 MZN' 000
Cost					
Land and buildings	1,016,942	4,678	(55,297)	74,121	1,040,444
Works in rented buildings	375,666	61,372	(50,834)	(46,290)	339,914
Equipment					
Furniture	119,330	3,631	(4,088)	11,790	130,663
Office equipment	77,913	18,825	(1,786)	18	94,970
Computer equipment	582,948	42,111	(4,494)	24,625	645,189
Interior fittings	180,033	8,183	(1,065)	31,161	218,312
Motor vehicles	206,107	31,947	(14,137)	-	223,917
Security equipment	104,992	9,885	-	1,551	116,427
Other tangible assets	47,306	1,636	(9,450)	(284)	39,208
Works in progress	90,481	255,446	(305)	(96,693)	248,929
	2,801,717	437,714	(141,456)	-	3,097,974
Accumulated depreciation					
Land and buildings	(72,375)	(11,018)	11,524	(19,249)	(91,118)
Works in rented buildings	(71,961)	(81,299)	20,930	23,852	(108,478)
Equipment					
Furniture	(81,709)	(9,015)	3,529	25	(87,170)
Office equipment	(55,039)	(6,211)	1,743	59	(59,447)
Computer equipment	(423,327)	(64,464)	3,882	-	(483,910)
Interior fittings	(112,498)	(16,215)	1,064	(4,664)	(132,313)
Motor vehicles	(130,826)	(31,608)	13,585	-	(148,849)
Security equipment	(50,043)	(9,854)	-	-	(59,897)
Other tangible assets	(31,120)	(2,289)	4,744	(23)	(28,688)
	(1,028,898)	(231,974)	61,002	-	(1,199,869)

The Bank's movements in the item Property and equipment, in 2008, are analysed as follows:

	Balance on 1st Jan. 08 MZN' 000	Acquisitions/ Charges MZN' 000	Disposals/ Charged-off MZN' 000	Transfers MZN' 000	Balance on 31st Dec. 08 MZN' 000
Cost					
Land and buildings	244,522	4,678	(43,020)	74,122	280,303
Works in rented buildings	371,129	61,372	(50,032)	(46,290)	336,178
Equipment					
Furniture	111,197	2,836	(1,908)	11,790	123,915
Office equipment	73,442	18,775	(1,661)	18	90,575
Computer equipment	555,196	27,379	(2,058)	24,625	605,143
Interior fittings	179,912	8,183	(960)	31,161	218,295
Motor vehicles	185,863	27,524	(7,951)	-	205,436
Security equipment	104,992	9,885	-	1,551	116,427
Other tangible assets	40,737	1,188	(7,848)	(284)	33,793
Works in progress	90,176	255,446	-	(96,693)	248,930
	1,957,166	417,266	(115,437)	-	2,258,995
Accumulated depreciation					
Land and buildings	(49,687)	(6,473)	11,559	(19,249)	(63,850)
Works in rented buildings	(70,467)	(79,989)	19,839	23,852	(106,765)
Equipment					
Furniture	(76,478)	(8,318)	1,349	25	(83,422)
Office equipment	(51,335)	(6,084)	1,617	59	(55,743)
Computer equipment	(398,378)	(62,918)	1,444	-	(459,852)
Interior fittings	(112,377)	(16,215)	960	(4,664)	(132,296)
Motor vehicles	(117,271)	(27,772)	7,951	-	(137,092)
Security equipment	(50,043)	(9,854)	-	-	(59,897)
Other tangible assets	(25,339)	(1,881)	2,902	(23)	(24,341)
	(951,375)	(219,506)	47,621	-	(1,123,260)

21. Goodwill and intangible assets

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Intangible assets				
Software	266,226	260,070	266,226	260,071
Works in progress	6,318	11,022	3,812	3,012
	272,544	271,092	270,038	263,083
Accumulated depreciation	(253,960)	(244,538)	(253,960)	(244,538)
	18,584	26,554	16,078	18,545
Difference between consolidation and revaluation (Goodwill)				
Seguradora Internacional de Moçambique, S. A.	122,313	122,313	-	-
	140,898	148,867	16,078	18,545

The Group's movements in the item Intangible assets in 2008, are analysed as follows:

	Balance on 1st Jan. 08 MZN' 000	Acquisitions/ Charges MZN' 000	Disposals/ Charged-off MZN' 000	Transfers MZN' 000	Balance on 31st Dec. 08 MZN' 000
Cost					
Software	260,070	6,155	(8)	8	266,226
Works in progress	11,022	3,314	(8,010)	(8)	6,318
	271,092	9,470	(8,018)	-	272,544
Goodwill	122,313				122,313
	393,405	9,470	(8,018)	-	394,857
Accumulated depreciation					
Software	(244,538)	(9,145)	(277)	-	(253,960)

The Bank's movements in the item Intangible assets, in 2008, are analysed as follows:

	Balance on 1st Jan. 08 MZN' 000	Acquisitions/ Charges MZN' 000	Disposals/ Charged-off MZN' 000	Transfers MZN' 000	Balance on 31st Dec. 08 MZN' 000
Cost					
Software	260,071	6,155	(8)	8	266,226
Works in progress	3,012	808	-	(8)	3,812
	263,083	6,963	(8)	0	270,038
Accumulated depreciation					
Software	(244,538)	(9,145)	(277)	0	(253,960)

22. Deferred tax assets

The deferred income tax assets, on 31st December 2008 and 2007, were due to temporary differences of the following kind:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Intangible assets	2,485	9,195	2,485	9,195
Impairment losses	8,032	12,048	8,032	12,048
Retirement pensions	25,435	32,775	25,435	32,775
	35,952	54,018	35,952	54,018

Deferred tax related to losses carried forward are recognized only if the existence of future tax profits is probable. Uncertainty about the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation.

Movements during the year in the item Deferred tax assets are as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	54,018	48,875	54,018	48,839
Charges for the year	18,066	9,195	18,066	9,195
Movements in reserves	-	(4,052)	-	(4,016)
	35,952	54,018	35,952	54,018

23. Other assets

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Debtors	7,675	19,578	5,497	17,573
Investments arising from recovered loans	134,410	153,414	134,410	147,244
Other income receivable	2,859	7,049	7,525	8,732
Prepayments	4,744	6,271	3,189	4,436
Income received from subsidiary activities	94,161	67,221	-	-
Other	70,612	53,166	52,932	54,437
	314,461	306,699	203,553	232,422
Impairment for other assets	(132,509)	(134,587)	(113,185)	(128,418)
	181,952	172,112	90,368	104,004

On 31st December 2008, the item Impairment for other assets for the Group and the Bank includes 102,868 thousand Meticais (2007: 119,819 thousand Meticais) for impairment relating to Investments arising from recovered loans.

Impairment movements for other assets, for the Group and the Bank, are as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	134,587	227,494	128,418	227,494
Impairment for the year	467	357	467	357
Reversal for the year	(28,509)	(90,756)	(30,076)	(90,756)
Amounts charged-off	(215)	-	(215)	-
Transfers	27,451	1,838	14,297	(4,332)
Exchange rate differences	(1,273)	(4,346)	294	(4,346)
Balance on 31st December	132,509	134,587	113,185	128,418

24. Deposits from other credit institutions

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Deposits from other credit institutions				
repayable on demand	39,880	404,748	39,880	404,748
Term deposits from credit institutions	150,925	596,933	150,925	596,933
	190,805	1,001,681	190,805	1,001,681
Term deposits from credit institutions				
Deposits from credit institutions in Mozambique	42,334	520,496	42,334	520,496
Deposits from credit institutions abroad	108,591	76,437	108,591	76,437
	150,925	596,933	150,925	596,933

Term deposits of credit institutions, by term to maturity date, are as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Up to 3 months	111,354	541,437	111,354	541,437
1 to 5 years	39,571	55,496	39,571	55,496
	150,925	596,933	150,925	596,933

25. Deposits from Customers

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Current deposits	17,916,379	14,294,142	17,961,832	14,334,841
Term deposits and other resources				
Up to 3 months	6,526,357	4,454,559	6,780,662	4,743,407
3 to 6 months	1,815,294	1,940,809	1,991,063	1,941,636
6 months to 1 year	1,989,703	1,992,363	2,640,965	2,486,246
1 to 5 years	-	1,999	-	1,999
Over 5 years	111,857	118,006	111,856	118,006
	10,443,211	8,507,736	11,524,546	9,291,293
	28,359,590	22,801,878	29,486,378	23,626,134

Customers' term deposits are as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
National currency	6,902,310	5,355,273	7,633,956	5,532,861
Foreign currency	3,540,901	3,152,463	3,890,590	3,758,433
	10,443,211	8,507,736	11,524,546	9,291,294

26. Debt securities issued

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Debenture loans				
BIM Bonds 2003-2013	-	-	67,550	67,535
	-	-	67,550	67,535

Description of issue	Date of Issue	Date of Reimbursement	Interest Rate %	Unit Nominal Value MZN
BIM Bonds 2003-2013	02-09-2003	22-09-2013	(a)	100

(a) Rate corresponding to the weighted average rate by maturity and amount for the last six issues of Treasury Bills (BT) with maturity dates equal to or over 28 days, calculated on the second business day prior to the date when each interest period begins, rounded to the nearest 1/16 of the superior percentage point.

27. Provisions for liabilities and charges

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Provisions for guarantees and other commitments	98,681	66,550	98,681	66,550
Provisions for general banking risks	12,472	9,330	11,122	8,389
Provisions for other risks and charges	23,749	33,947	23,749	33,947
Technical provisions for the insurance activity	1,829,844	1,675,555	-	-
	1,964,746	1,785,382	133,552	108,886

Movements in provisions for guarantees and other commitments are as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	66,550	59,472	66,550	59,472
Charge for the year	63,753	25,245	63,753	25,245
Reversal for the year	(1,056)	-	(1,056)	-
Transfers	(31,939)	(16,530)	(31,939)	(16,530)
Exchange rate differences	1,373	(1,637)	1,373	(1,637)
Balance on 31st December	98,681	66,550	98,681	66,550

Movements in provisions for general banking risks are analysed as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	9,330	16,861	8,389	15,389
Charge for the year	2,724	-	2,724	-
Transfers	-	(7,000)	-	(7,000)
Exchange rate differences	418	(531)	9	-
Balance on 31st December	**12,472**	**9,330**	**11,122**	**8,389**

Provision for general banking risks are intended to cover potential contingencies arising from ongoing legal cases.

Movements in provisions for other risks and charges are analysed as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	33,947	22,460	33,947	22,460
Charge for the year	14,881	21,593	14,881	21,593
Reversal for the year	(6,188)	(11,383)	(6,188)	(11,383)
Transfers	34	35,612	34	35,612
Exchange rate differences	3	(2,328)	3	(2,328)
Amounts charged-off	(18,928)	(32,007)	(18,928)	(32,007)
Balance on 31st December	**23,749**	**33,947**	**23,749**	**33,947**

Movements in technical provisions for insurance activity are analysed as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Balance on 1st January	1,675,555	1,397,395	-	-
Charge for the year	218,928	140,598	-	-
Transfers	12,109	137,562	-	-
Amounts charge-off	(76,748)	-	-	-
Balance on 31st December	**1,829,844**	**1,675,555**	**-**	**-**

28. Subordinated debt

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Shareholders' supplementary entries				
BCP Internacional II, S.G.P.S., Lda.	157,594	147,212	157,594	147,212
Mozambican State	100,000	100,000	100,000	100,000
	257,594	247,212	257,594	247,212
Interest payable	161	898	161	898
	257,755	248,110	257,755	248,110
Subordinated debt				
BIM Bonds 2003-2013	-	-	85,000	85,000
BIM Bonds 2006-2016	-	-	175,000	175,000
	-	-	260,000	260,000
Interest payable	-	-	2,700	1,717
	-	-	262,700	261,717
	257,755	248,110	520,455	509,827

Supplementary payments by Shareholders are analysed as follows:

Shareholder	Start Date	Interest Rate	Amount	Currency
BCP Internacional II, S.G.P.S., Lda.	20-06-2001	2.480%	6,180,176	USD
Mozambican State	20-06-2001	4.9775%*	100,000,000	MZN

* Rate corresponds to 50% of Banco de Moçambique's Official Discount Rate.

The subordinated debt is as follows:

Description of Issue	Issue Date	Reimbursement Date	Interest Rate %	Nominal Value MZN
BIM 2003 – 2013	23-11-2003	23-11-2013	(a)	100
BIM 2006 – 2016	14-12-2006	14-12-2016	(a)	100

(a) Rate corresponding to the weighted average rates by maturity and amounts for the last six issues of Treasury Bills (TB) with maturity dates equal to or over 28 days, calculated on the second business day prior to the date when each interest period begins plus 0.5% and rounded to the nearest 1/16 of the superior percentage point.

29. Deferred income tax liabilities

Deferred income tax liabilities on 31st December 2008 and 2007 were due to the following temporary differences:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Tangible assets	6,368	-	-	-
Financial assets available for sale (AFS)	3,053	-	-	-
Other	715			
	10,136	-	-	-

30. Other liabilities

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Suppliers	37,497	47,535	425	2,721
Sundry creditors	51,590	15,230	17,266	15,230
VAT to be settled	6,264	11,065	6,264	6,157
Retained taxes	32,430	29,331	27,933	24,565
Social Security contributions	3,353	2,706	3,353	1,748
Accrued expenditure	94,718	64,288	91,576	111,403
Holiday pay and subsidies	246,718	168,491	233,060	157,900
Deferred income	30,682	43,128	30,681	53,659
Other liabilities	125,587	59,106	53,133	41
	628,839	440,880	463,691	373,424

31. Share capital

The Bank's share capital of 741,000 thousand Meticais, represented by 7,410,000 shares with a nominal value of 100 Meticais each, is fully subscribed and paid up.

During 2008, the Bank's shareholder structure was expanded through four processes involving the sale of State shares to the Managers, Technicians and Employees group (GTT), resulting in the number of Bank Shareholders rising to 1,570, of which five are institutional and 1,565 are GTT.

On 31st December 2008, the shareholder structure was as follows:

	Dec. 08 Nr. Shares	% shareholding	Dec. 07 Nr. Shares	% Shareholding
BCP Internacional II, S.G.P.S., Lda.	4,941,393	66.69%	4,941,393	66.69%
Mozambican State	1,271,440	17.16%	1,316,122	17.76%
INSS – Instituto Nacional de Segurança Social	366,846	4.95%	366,846	4.95%
EMOSE – Empresa Moçambicana de Seguros, S.A.R.L.	307,319	4.15%	307,319	4.15%
FDC – Fundação para Desenvolvimento da Comunidade	80,334	1.08%	80,334	1.08%
Managers, Technicians and Employees (GTT)	442,668	5.97%	397,986	5.37%
	7,410,000	100.00%	7,410,000	100.00%

32. Other reserves and retained earnings

	Group		Bank	
	Dec. 08 MZN' 000	Dec. 07 MZN' 000	Dec. 08 MZN' 000	Dec. 07 MZN' 000
Legal reserve	535,702	325,888	535,702	325,888
Interest-free loan	19,202	19,202	19,202	19,202
Other reserves and retained earnings	1,819,984	857,726	1,563,640	724,383
Net income for the year	1,846,477	1,512,533	1,755,301	1,398,763
	4,221,365	**2,715,349**	**3,873,845**	**2,468,236**

The item Interest-free loan corresponds to the value of the transaction of the ex-BPA branch in Mozambique, amounting to 6.2 million USD, that was retained on behalf of Banco Comercial Português, S.A.

Under Mozambican legislation – Law 15/99 on Credit Institutions – the Bank must increase its legal reserve annually by at least 15% of its net annual profits until it is equal to the share capital. Under normal conditions this reserve cannot be distributed. In the light of the net profit in 2008, the Bank must assign a minimum of 205,298 thousand Meticais to the legal reserve in 2009, thereby achieving the value of its share capital.

33. Dividends

In accordance with the proposal by the Board of Directors, the General Shareholders' Meeting held on 19th March 2008 decided to distribute 25% of the net profit calculated as at 31st December 2007, after transferring 349,690 thousand Meticais to the legal reserve.

In 2009, in accordance with the proposal on the application of net income, the Board of Directors must also distribute 25% of the net profit calculated as at 31st December 2008, after transferring 438,825 thousand Meticais to the legal reserve.

34. Guarantees and other commitments

Guarantees and other commitments are analysed as follows:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Guarantees issued	5,644,019	3,283,628	5,644,019	3,283,628
Guarantees received	42,030,593	26,216,936	42,030,593	26,216,936
Commitments to third parties	1,288,864	676,523	1,288,864	676,523
Assets received as guarantees	12,249,958	6,399,008	12,249,958	6,399,008
Foreign exchange spot operations:				
Purchases	558,869	105,722	558,869	105,722
Sales	554,833	106,153	554,833	106,153
Foreign exchange forward operations:				
Purchase	67,049	-	67,049	-
Sales	66,230	177,130	66,230	177,130
Currency swap contracts	63,101	2,779	63,101	2,779
Securities and items held for safekeeping on behalf of Customers	849,431	822,930	849,431	822,930

35. Net assets and liabilities denominated in foreign currency

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Assets				
Cash and deposits at Banco de Moçambique	414,485	230,928	414,485	230,928
Loans and advances to credit institutions	4,420,429	5,467,965	4,420,429	5,467,965
Loans and advances to Customers	4,599,926	3,487,699	4,599,926	3,487,699
Other assets	45,830	104,159	19,382	19,837
	9,480,670	9,290,751	9,454,222	9,206,429
Liabilities				
Deposits from other credit institutions	123,423	460,715	123,423	460,715
Deposits from Customers	9,204,469	8,115,837	9,204,469	8,326,373
Creditors	804	52,213	804	7,631
Other liabilities	480,132	424,528	265,386	244,517
	9,808,828	9,053,293	9,594,082	9,039,236
	(328,158)	237,458	(139,860)	167,193
Off-balance sheet items				
Foreign exchange forwards	3,819	(177,130)	3,819	(177,130)
Currency swaps	(546)	(21)	(546)	(21)
Total position	(324,885)	60,307	(136,587)	(9,958)

The exchange rates used to convert the balance sheet and income statement of the Group and the Bank and the rates used in converting the above table are presented below:

Currency	Closing Rate 31-12-2008 MZN	Closing Rate 31-12-2007 MZN	Annual Average Rate 2008 MZN	Annual Average Rate 2007 MZN
Dollar (USD)	25.50	23.82	24.31	25.76
Rand (ZAR)	2.72	3.50	2.98	3.68
Pound (GBP)	36.99	47.59	44.75	51.65
Euro (EUR)	35.88	35.00	35.82	35.50

36. Related parties

The Group's balances and transactions with related parties (Millennium bcp Group), in the years ended 31st December 2008 and 2007, are presented below:

	2008 MZN' 000	2007 MZN' 000
Investments	4,198,208	5,276,766
Income receivable	8,100	32,320
Resources	(7,986)	(4,987)
Expenditure to be paid	(44,103)	(24,064)
Subordinated debt	(157,594)	(147,212)
Income	(174,054)	(281,160)
Costs	148,580	127,550

37. Cash and cash equivalents

For the purpose of the cash flows statement, the item Cash and cash equivalents comprises the following:

	Group		Bank	
	2008 MZN' 000	2007 MZN' 000	2008 MZN' 000	2007 MZN' 000
Cash deposits	1,518,777	1,135,241	1,518,777	1,135,185
Loans and advances to credit institutions in Mozambique	342,987	61,904	342,987	61,904
Loans and advances to credit institutions abroad	251,901	158,500	251,901	158,555
	2,113,665	1,355,644	2,113,665	1,355,644

38. Fair value

Fair value is based on market prices when these are available. If not, the fair value of many of the products sold to Customers is estimated using internal models based on discounted cash flow techniques.

The calculation of cash flows for the different instruments marketed is based on their financial characteristics. The discount rates used include both the market interest rate curve and the Bank's current pricing policy conditions.

The fair value obtained is thus influenced by the parameters used in the valuation model, which necessarily contain some degree of subjectivity and reflect exclusively the value assigned to the different financial instruments. It does not, however, consider prospects such as future business tendency. Under these circumstances the amounts presented cannot be considered an estimate of the Bank's economic value.

The methods and assumptions used to estimate the fair value of the Group's financial assets and liabilities are as follows:

- Cash and Deposits at Banco de Moçambique, Loans and Advances in Other Credit Institutions and Deposits from other Credit Institutions

Given the extremely short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of their fair value.

- Loans and Advances in Credit Institutions, Resources in Interbank Money Market and Assets with Repurchase Agreements

The fair value of these financial instruments is calculated by discounting the expected cash flows of the future principal and interest taking into account the payment of instalments on the contractually determined dates.

The discount rate used reflects the current conditions applied by the Bank to identical instruments for each of the various remaining maturity periods.

- Financial assets held for trading, Financial liabilities held for trading and Financial assets available for sale

These financial instruments are recorded in the accounts at fair value. This is based on market prices whenever available. If not, fair value is estimated using an in-house model based on discounted cash flow technique.

Unquoted shares are recognized at historical cost when no market prices are available and when it is not possible to determine their fair value reliably.

• Loans and advances to Customers with defined maturity dates

The fair value of these financial instruments is calculated by discounting the expected cash flow of the future principal and interest taking into account the payment of instalments on the contractually determined dates. The discount rate used reflects the current rates applied by the Bank for similar instruments in each homogeneous class of this type of instrument and with a similar remaining maturity. This calculation considers the credit risk spread.

• Loans and advances to Customers without a defined maturity date and Customers' demand deposits

Given the short maturity of this kind of financial instrument, the portfolio conditions are similar to those in use. The amount in the balance sheet is thus a reasonable estimate of its fair value.

• Deposits from Customers

The fair value of these financial instruments is calculated by discounting the expected cash flow of future principal and interest taking into account the payment of instalments on the contractually determined dates. The discount rate used reflects the current rates applied by the Bank to this kind of instrument and with a similar remaining maturity.

• Debt securities issued and Subordinated debt

In the case of fixed rate instruments and for which the Bank applies a hedge-accounting policy, the fair value of the interest rate risk is already recorded. The calculation of fair value takes into account other risk components as well as the interest rates already recorded.

Fair value is based on market prices whenever these are available. If not, fair value is estimated using in-house models based on discounted cash flow techniques.

39. Retirement pensions

As of 31st December 2008, the number of participants covered by the Bank's retirement pension plan was as follows:

	Dec. 08	Dec. 07
Retirees and pensioners	487	493
Current Employees	1,607	1,442
	2,094	1,935

In accordance with the accounting policy described in 1 n) liability for Employee retirement pensions, based on the calculation of the actuarial value of projected benefits, is analysed as follows:

	2008 MZN' 000	2007 MZN' 000
Past service liability	463,290	443,597
Retiree liability	794,680	776,473
Pensioner liability	87,344	77,482
Total liability	1,345,314	1,297,552
Value of coverage	1,346,437	1,301,769
Coverage difference	1,123	4,217
Cost for the year	**31,185**	**22,402**

The coverage value of retirement pensions is analysed below:

	2008 MZN' 000	2007 MZN' 000
For current Employees		
Accumulated value of the capitalization policy + estimate of profit sharing	464,413	447,814
For retired former Employees		
Assets + income allocated to annuity policy	882,024	853,955
	1,346,437	1,301,769

Assumptions used to calculate the actuarial value of liabilities are analysed as follows:

	2008	2007
Usual retirement age:		
Men	60	60
Women	55	55
Rate of salary increase	12.75%	8.00%
Rate of pension increase	10.25%	7.00%
Fund rate of return	14.25%	11.00%
Mortality table	PF 60/64	PF 60/64

40. Consolidated net income statement by business segment

The Bank offers a wide range of banking activities and financial services with a special focus on Commercial Banking and Insurance.

Description of the segments

Commercial Banking is the Bank's core business, in terms of both volume and contribution to results. The Commercial Banking activity that targets the Retail Banking and Corporate segments focuses on satisfying the financial needs of Customers, both individual and companies.

The Retail Banking strategic approach targets mass market Customers who appreciate a proposition based on innovation and speed and the affluent Customers who have specific interests, with financial assets of a certain size or of a certain income who justify a proposition based on innovation and personal attention through a dedicated Customer manager. Under its cross-selling strategy, Retail Banking also operates as a distribution channel for the Seguradora's products and services.

To the Corporate segment, dedicated to institutional Customers and enterprises whose scale of activities meet the Bank's selection criteria for this segment, it provides a wide range of value-added products and services adapted to their financial needs.

Activities of the business segments in 2008

The figures reported for each business segment in the profit and loss account reflect the net income allocation process based on average figures.

The net contribution of the Seguradora reflects its individual net income, independent of the percentage held by the Bank.

The following information is based on financial statements prepared in accordance with IFRS.

(MZN' 000)

31st December 2008	Retail Banking	Corporate Banking	Insurance	Others	Consolidated Total
Net interest income	1,530,541	1,084,580	179,088	-	2,794,209
Net fees and commissions income	456,635	379,352	(31,584)	-	804,403
Net gains arising from trading activity	227,892	278,762	6,043	-	512,697
Other operating income	70,238	85,847	462,627	(216,152)	402,560
Total operating income	**2,285,306**	**1,828,541**	**616,174**	**(216,152)**	**4,513,868**
Staff costs	(529,811)	(353,169)	(70,016)	31,185	(921,811)
Other administrative expenses	(503,463)	(335,607)	(51,382)	111,200	(779,252)
Depreciation	(137,197)	(91,455)	(7,924)	(4,545)	(241,121)
Total operating expenses	**(1,170,471)**	**(780,231)**	**(129,322)**	**137,840**	**(1,942,184)**
Banking income	**1,114,835**	**1,048,310**	**486,852**	**(78,313)**	**2,571,685**
Loans impairment	(23,612)	(29,254)	-	-	(52,866)
Other provisions	(24,864)	(13,387)	(216,223)	-	(254,475)
Profit before income tax	**1,066,359**	**1,005,669**	**270,629**	**(78,313)**	**2,264,344**
Income tax	(142,528)	(174,201)	(82,638)	-	(399,367)
Minority interests	-	-	-	(18,501)	(18,501)
Profit for the year	**923,831**	**831,468**	**187,991**	**(96,814)**	**1,846,476**

(MZN' 000)

31st December 2007	Retail Banking	Corporate Banking	Insurance	Others	Consolidated Total
Net interest income	1,170,915	1,042,416	160,159	-	2,373,491
Net fees and commissions income	503,759	181,124	(24,980)	-	659,903
Net gains arising from trading activity	185,350	226,539	(15,426)	-	396,463
Other operating income	50,973	62,301	308,151	(160,965)	260,460
Total operating income	**1,910,998**	**1,512,379**	**427,905**	**(160,965)**	**3,690,317**
Staff costs	(435,830)	(315,857)	(65,228)	22,402	(794,513)
Other administrative expenses	(410,492)	(335,857)	(44,497)	110,827	(680,019)
Depreciation	(104,674)	(85,642)	(8,456)	(4,545)	(203,317)
Total operating expenses	**(950,996)**	**(737,356)**	**(118,181)**	**128,684**	**(1,677,849)**
Banking income	**960,002**	**775,024**	**309,724**	**(32,282)**	**2,012,468**
Loans impairment	(90,407)	(124,847)	-	-	(215,254)
Other provisions	4,404	3,603	(140,257)	-	(132,250)
Profit before income tax	**873,999**	**653,780**	**169,467**	**(32,282)**	**1,664,964**
Income tax	(70,959)	(58,057)	(7,330)	-	(136,346)
Minority interests	-	-	-	(16,085)	(16,085)
Profit for the year	**803,040**	**595,723**	**162,137**	**(48,367)**	**1,512,533**

41. Risk management

Managing the risks inherent to banking activity continues to receive very special attention by the supervision authorities due to its importance in maintaining a correct relationship between the volume of each institution's equity and the level of risk in its business activity.

The best banking governance practices recommend a complete separation of functions between origination, management and risk control.

Millennium bim's risk management policy is designed to ensure, at all times, an adequate relationship between its own funds and its business activities and the corresponding assessment of the risk/return profile for each business line. Of particular relevance in this respect, monitoring and controlling the Bank's main types of financial risk – credit, market, liquidity and operational – are of particular importance.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty about expected returns, due to the inability of the borrower (and its guarantor, if any) or the issuer of a security or the counterpart in a contract, to fulfil their obligations as Millennium bim borrowers.

Market – Market risk reflects the potential loss inherent to a given portfolio as the result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, given both the correlation that exists between them and the volatility of the respective price.

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

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

Internal organisation

Under the Organizational Model, and taking advantage of the synergies generated by being part of a multidomestic financial group, the Risk Control Committee – whose members include in addition to other senior managers, the Group Risk Officer (Millennium bcp) and the Local Risk Officer (Millennium bim) – is responsible for controlling risks arising from the Bank's activity. It monitors the overall levels of risk incurred, ensuring that they are compatible with the objectives and strategies approved for the development of its activity.

In collaboration with the Millennium bim Risk Control Committee, the Audit Committee ensures that there are risk management systems and they are properly controlled.

The Millennium bim Executive Committee is responsible for defining risk policy. This includes approving the most stringent standards and rules that must be followed when managing risk and also the guidelines that must govern the allocation of economic capital to the business lines.

The Risk Office is responsible for the Bank's risk control function, guaranteeing overall risk monitoring and the alignment of concepts, practices and objectives with those of the Group Risk Office at Millennium bcp. The Risk Office also informs the Risk Control Committee about the different levels of risk assumed by Millennium bim and proposes measures to improve its exposure levels and maximize the expected risk/return relationship.

Risk assessment

Credit risk

Credit risk is of crucial relevance to the Bank's material global exposure to risk and it is also the risk that has a practical and direct effect on the daily activity of the Millennium bim commercial network. Achievements and developments in 2008 can be grouped into three main areas:

- instruments for managing and controlling credit risk;

- conclusion of the development and improvement of rating systems (including the inherent scoring and rating models, the various aspects of the credit process itself and managing collateral);

- the practical use of instruments to assess and monitor credit risk.

Instruments for managing and controlling credit risk

The main activities, in 2008, were the preparation of the following:

- Millennium bim's Credit Regulations, that are aligned with the main Governance document on this risk, that is common to the Millennium bcp Group and establishes the credit principles and guidelines covering everything involved in credit risk management (Credit Principles and Guidelines);

- Rules on the Evaluation of Credit Impairment Losses, to meet control requirements, associated with the calculation of losses due to loan impairment, using an integrated methodology common to the Millennium bcp Group approved by IAS 39 (International Accounting Standards, 39);

- Rules on Bank Guarantees, Charges and Recovery of Non-performing Loans as well as other rules that improve the management of Credit Risk;

- User Manuals on Rating and Credit Scoring Applications for Individual Customers, IOE, SME and Corporate Customers. These documents summarize the main functionalities of the Rating and Credit Scoring Applications for Private Customers, IOE, SME and Corporate Customers.

The following were revised and updated:

- Regulations on Monitoring and Loan Recovery;
- the Circuit of Proposals on Mortgages, Documentary Credit, Leasing and Credit Limits in the various computer applications (workflows) used in Millennium bim for the Bank's flow of documents for active operations.

Rating systems

Millennium bim's credit risk assessment is based on rating Models that for Customers in the Retail segment are essentially of a behavioural nature. For Customers in the Corporate segment, the degree of risk is obtained from the weighted average of components of a qualitative and quantitative nature (economic-financial).

As regards developments and improvements in 2008 related to the rating systems of Millennium bim, work focused mainly on scoring models.

In 2008:

- with technical support from Millennium bcp, work was concluded on developing Credit Scoring and Rating models for individual and enterprise Customers, that make it possible to calculate and assign degrees of risk (internal rating) and credit limits for most Customers, based on the financial history for individual Customers and IOE and the weighted average of economic-financial scoring and the Qualitative Score for enterprise Clients;
- the Credit Scoring Model for Millennium bim's individual and IOE Customers permits better service, through the rapid approval of simple loans, better monitoring of the quality of the loan and more effective marketing activities;
- Millennium bim has started to calculate automatically the economic–financial scoring for enterprises with organized accountancy and that provide the Bank with information on their financial statements. These are loaded into the Bank's computerized Central of Balance Sheets, to determine the Degree of Risk;
- Millennium bim's Rating Model for corporate Customers enables it to improve not only assessment of Credit Risk, the basis for taking decisions on loans, but also the base for decision making on loans improves the definition of the pricing of operations and levels of service, thereby creating conditions for greater security when taking credit decisions;
- the Rating Model for enterprises started in 2008. Although the IT component of the Credit Scoring Model for individual Customers and IOC has been concluded and is providing reliable results, it is still being fine-tuned and should be fully productive during the first quarter of 2009;
- work continued on automatic mechanisms for credit decisions intended to channel and process correctly requests for loans and the subsequent analysis and decision on them. Although Millennium bim has currently workflows for different kinds of credit products, a single credit workflow is being developed, in order to improve the efficiency of processes of quality control and the segregation of functions;

- work is underway on the semi-automatic control of warning signs in accordance with the respective Norm on In-house Procedures in this field, implemented in December 2007. It establishes criteria for warning signals, regulates action plans and establishes procedures and circuits aiming at minimizing the risk involved in conduct and credit relationships with Customers. The complete computerization of the Warning Signs System is underway. It will permit the automatic identification of Clients with early signs of potential default and allows for subsequent preventive actions on them;

- work is underway to fine-tune the Bank's Central Computer System for automatically recording and managing collateral (both real and financial), developed for Millennium bim in the first semester of 2008. The aim is to make more correct and up-to-date all information on assets provided as collateral, fundamental factors in mitigating credit risk. Among others, this process includes effective data on the Financial Instrument Group, that define the haircuts of existing collateral to cover credit risks, in order to calculate loan impairment losses. This model is expected to start production during 2009.

Practical use of instruments for assessing and monitoring credit risk

The aim of Millennium bim's instruments for assessing credit risk is, on the one hand, to align the common policies and procedures of the Millennium bcp Group and, on the other hand, to deepen and complete an entire infrastructure of instruments and mechanisms for assessing and managing credit risk, establishing a specific bridge between such risks assessed and managed and determining the adequate capital that corresponds to these risks.

With this perspective, the main developments and achievements in 2008 were the following:

- in July 2008, the introduction of Millennium bim's new Credit Regulations, that include all the principles involved in changes in the management and control of this kind of risk in the parent company, in the light of the Basel II definitions and methodologies. It materialises the introduction of the Scale of Customer Risk Levels, that was established at the end of 2007. This important internal normative document covers all aspects of the credit process: analysis and notation of credit risk, decision, monitoring and recovery;

- in April 2008, the entry into force of Norms on the Evaluation of Loan Impairment Losses, establishing the evaluation methodology for calculating losses due to loan impairment;

- revision of the Regulations on Loan Monitoring and Recovery, defining the main guidelines for monitoring and recovering loans, as well as the composition, capacities and operation of all decision-making levels in the Directorate for Credit Recovery, in order to minimize the risk involved in credit relations with Customers;

- the establishment and practical use of parameters that, for credit risk, allow a complete description of credit risk exposure and, at the same time, are used for calculating capital requirements (regulatory and economic).

These parameters are:

- the Customer's risk level as measured by the Scale of Customer Risk Levels, where each level is associated with a given Probability of Default (PD);
- the level of protection associated with each credit operation, measured according to the kind of collateral received and the respective coverage level for the amount of credit involved, that influences the value of the expected Loss Given Default (LGD);
- the estimated losses due to Customer loan impairment with signs of insignificant impairment, analysed using homogeneous populations (Parametric Analysis);
- credit Conversion Factors that make it possible to translate, in terms of effective exposure, the potential exposure represented by credit provided but not used and other off-balance sheet exposure;
- the loss Incurred But Not Reported (IBNR) associated with the Bank's credit portfolio. The Bank has determined that the minimum value allowed for the IBNR is 2% (Prudential IBNR).

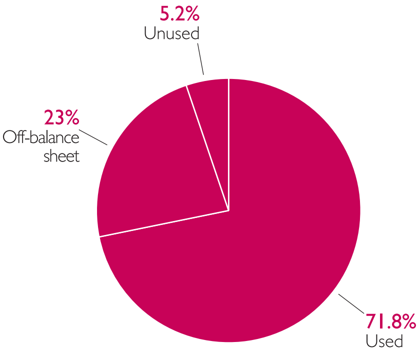
Throughout 2008, Millennium bim consolidated its process for calculating loan impairment and for evaluating the quality of the credit portfolio through an economic approach. This determines that expected losses for Customers evaluated individually must be calculated using objective criteria, including in particular: the quality of the relationship with the Customer, default in the past, economic/financial difficulties of the company or the sector, level of investment compared to cash flow generated, insolvency/recovery process, expected time to liquidation or bankruptcy litigation, expected time to sell recovered assets, among others. Thus, as regards credit risk, processes for recognizing and measuring losses due to credit portfolio impairment, implemented in 2007 in accordance with new international accounting standards (IAS 39), were consolidated.

These parameters were developed in 2007 and introduced into Millennium bim's standards through its Regulations on Loans and Norm on the Evaluation of Losses due to Loan Impairment. They are now determining inputs for analysing and deciding on loans, for deciding on the impairment of portfolios and for setting pricing levels in each loan operation. In reality, their adoption by Millennium bim is merely the corollary of its practical application of the Basel II principles for measuring and assigning loan risk notation with a dual perspective: the Customers' characteristics and the specific transactions.

Composition of the credit portfolio

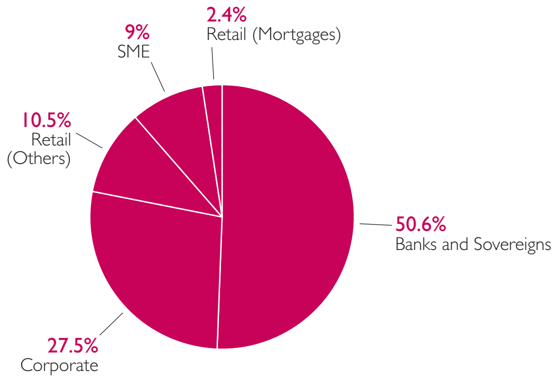
The composition of Millennium bim's credit portfolio at the end of 2008 is not very different to that in 2007. The following figure illustrates overall nominal exposure (i.e. comprising on and off-balance sheet exposure) in December 2008:

Composition of the credit portfolio



The following figure shows the breakdown of the overall credit portfolio by exposure segment, in line with Basel II:

Detailed credit portfolio



It can be concluded, from the above table, that 50.6% of Millennium bim's total loans are concentrated in the Banks and Sovereigns segment. These assets correspond respectively to the volume of Millennium bim's foreign currency liquidity applications and lending liquidity in its correspondent banks abroad, mainly in the parent company, and its Public Debt portfolio (Treasury Bills and Treasury Bonds) held by the Bank (42.7% of this item).

Given that Millennium bim's objective is to increase the Transformation Rate of its credit into resources, it is to be expected that some of the funds concentrated in the above-mentioned segments would be applied, together with new resources, in new loans, thereby reducing substantially this concentration of assets in the Bank and Sovereign segments.

The growth of Millennium bim's credit portfolio is based on the principle of more rigorous loan analysis and decisions. This assumes adequate evaluation of the risk/return profile of each loan operation with the correct determination of its risk level and the correct assessment of collateral and the structure of the operation.

Calculation of economic capital

The combination of PD, LGD, CCF and IBNR indicators and all individually significant information from the economic analysis of Customers permit the calculation of the economic capital associated with credit risk and the contribution of each sector or of exposure to total risk, as shown by the combined analysis presented in the following table:

(MZN'000)

	31 Dec. 2008		31 Dec. 2007	
Sample	**EXP**	**IMP**	**EXP**	**IMP**
Individual Impairment	1,188,626	342,228	1,765,422	452,164
Parametric Impairment	345,683	134,821	298,388	120,854
Total – Credit with signs of impairment	**1,534,309**	**477,048**	**2,063,810**	**573,018**
Collective Impairment	23,019,060	404,632	14,368,487	141,272
Total Credit	**24,553,369**	**881,680**	**16,432,296**	**714,290**

Indicators for calculation of Collective Impairment

	31 Dec. 2008		31 Dec. 2007
PD	3.93%		4.00%
LGD – month	31.09%		27.77%
IBNR Mathematical	1.22%		1.11%
IBNR Prudential	2.00%		

Market risk

In order to follow and monitor market risk, Millennium bim uses internal models for interest and exchange rate risks:

(i) **Gap & sensitivity analysis** – to measure Interest Rate Risk (the gaps are based on the remaining repricing maturity dates of active contracts), as shown by the following tables that compare the situation as at 31st December 2008 with the same period in 2007.

Interest rate Gap for the Balance Sheet – MZN

(MZN' 000)

	December 08					December 07				
Interest rate mismatch by remaining repricing maturity date	**<1M**	**1M – 3M**	**3M – 6M**	**6M – 1Y**	**>1Y**	**<1M**	**1M – 3M**	**3M – 6M**	**6M – 1Y**	**>1Y**
Commercial Banking activity	10,970,332	3,207,036	642,341	288,738	112,875	8,226,714	2,928,587	566,111	367,463	56,856
Risk coverage	(8,776,217)	(5,590,682)	(3,066,957)	(2,573,928)	(38,371)	(7,705,719)	(3,931,719)	(1,757,444)	(1,718,557)	(5,835)
Total Commercial Banking activity	**2,194,115**	**(2,383,646)**	**(2,424,616)**	**74,504**	**520,995**	**520,995**	**(1,003,111)**	**(1,191,333)**	**(1,351,094)**	**51,021**
Bonds and other securities issued by public entities available for sale	2,286,044	1,885,664	1,902,209	2,353,794		1,081,632	970,964	1,382,670	2,694,617	0
Bonds and other securities issued by other entities available for sale						0	0	0	0	0
Financing and coverage		65,000	360,000			465,000	65,000	360,000		
Total Banking Portfolio	**4,480,159**	**3,917,177**	**3,304,770**	**3,103,774**	**3,178,278**	**2,067,627**	**32,853**	**551,337**	**1,343,337**	**51,021**
Accumulated sensitivity	42,579	38,429	31,811	32,156		4,938	4,129	20,864	9,586≥	

Interest rate Gap for the Balance Sheet – USD

(MZN' 000)

	December 08					December 07				
Interest rate mismatch by remaining repricing maturity date	**<1M**	**1M – 3M**	**3M – 6M**	**6M – 1Y**	**>1Y**	**<1M**	**1M – 3M**	**3M – 6M**	**6M – 1Y**	**>1Y**
Commercial Banking activity	2,859,958	1,431,870	125,311	0	34	2,158,936	999,958	115,707	0	73
Risk coverage	(3,996,954)	(1,920,799)	(952,193)	(1,124,435)	(2,142)	(3,291,449)	(2,272,280)	(1,310,046)	(219,836)	(1,397)
Total Commercial Banking activity	**(1,136,996)**	**(488,930)**	**(826,882)**	**(1,124,435)**	**(2,108)**	**(1,132,514)**	**-1,272,322**	**(1,194,393)**	**(219,836)**	**(1,325)**
Dealing Room activity	2,968,999	955,159	0	7,140	0	3,015,088	974,209	7,146	15,245	0
Financing and coverage	0	0	157,594	0	0	0	0	147,212	0	0
Total Banking Portfolio	**1,832,003**	**2,298,232**	**1,313,756**	**196,461**	**194,353**	**1,882,574**	**(298,113)**	**(1,039,981)**	**(204,591)**	**(1,325)**
Accumulated sensitivity	19,164	22,208	14,825	12,861		18,176	15,692	5,684	4,661	

Sensitivity analysis of the Interest Rate Risk in the banking portfolio

The interest rate risk arising from banking portfolio transactions is assessed through monthly risk sensitivity analysis for the universe of operations included in the Millennium bim balance sheet.

This analysis considers the financial characteristics of the contracts available in the information systems. Using these data, the impact on the Bank's economic value of changes in the market interest rate curve is calculated, by remaining repricing maturity dates.

As the above tables show, as of 31st December 2008, sensitivity analysis of the balance sheet's interest rate risk, simulating a 1% parallel shift in the yield curves, indicate 32,156 thousand Meticais and 12,861 thousand Meticais for the main currencies held by Millennium bim, Meticais and Dollars respectively.

(ii) The Exchange Rate Risk is assessed by measuring indicators defined in the prudential standards of Banco de Moçambique and is analysed using indicators such as the following:

- Net Open Position per Foreign Currency – Obtained by the Risk Office from the Bank's IT system and validated by the Accounts Directorate and the Finance Directorate, and reported as of the last day of each month;

- Sensitivity Indicator – calculated by simulating the impact on the Bank's net income of a hypothetical 1% variation in the Central Bank revalued exchange rate.

The net income calculated as of 31st December 2008 shows that the Bank is within tolerance limits for foreign exchange risk, defined according to prudential norms established by Banco de Moçambique, whether per currency or for all currencies.

Liquidity risk

Management of liquidity risk

The management of liquidity risk is centralized for all currencies. Consequently, most financing needs or eventual excess liquidity are resolved through operations with the parent company and with Credit Institutions registered with the Market Operations System in Banco de Moçambique and with Banco de Moçambique itself.

Liquidity is managed by the Millennium bim Dealing Room, that is responsible for managing the effort of access to markets, ensuring that the Liquidity Plan is followed.

Although the business portfolio evolved positively during 2008 due to growth in the credit portfolio following the rise in deposits, there was no recourse to alternative sources of finance, as structurally Millennium bim has a liquidity surplus. The constant value of the item Financing and Coverage is due to Shareholders' supplementary entries and BIM Bonds issued in 2003 and Subordinated Debt issued in 2003 and 2006. This is reflected in the following table:

Global Liquidity Gap for the Balance Sheet

(MZN' 000)

December 08

Interest rate mismatch by remaining repricing maturity date	<1M	1M – 3M	3M – 12M	1Y – 5Y	>5Y
Commercial Banking activity	7,011,304	2,837,453	2,114,119	6,363,677	4,820,739
Risk coverage	(13,207,185)	(6,983,587)	(8,929,653)	(38,584)	(2,315)
Total Commercial Banking	**(6,195,881)**	**(4,146,134)**	**(6,815,534)**	**6,325,093**	**4,818,424**
Bonds and other securities issued by public entities available for sale	5,629,072	2,767,410	4,239,031		
Bonds and other securities issued by other entities available for sale					
Financing and coverage		65,000	360,000		
Total Banking Portfolio	**(566,809)**	**(2,010,036)**	**(4,947,036)**	**1,378,057**	**6,196,481**

As the subprime mortgage crisis in the USA and the respective effects from the second semester of 2007 onwards had no direct impact on the Bank's liquidity, Millennium bim maintained its liquidity risk management principles. These principles emphasize additional efforts to increase Customers' deposits in all segments of the Bank's business.

Measures for assessing liquidity risk

Liquidity risk assessment in Millennium bim uses in-house indicators and other forms of measurement used by the Millennium bcp Group for which there are also defined exposure limits.

The evolution of Millennium bim's liquidity situation over the short-term (up to three months) is reviewed monthly using two in-house indicators: immediate liquidity and quarterly liquidity. These measure the maximum fund-taking requirements that can occur on a single day, considering cash flow projections for periods of three days and three months, respectively.

These indicators are calculated by adding together the liquidity position of the day under analysis and the estimated future cash flow on each day of the respective time frame (three days or three months) for the set of transactions performed by the Dealing Room. These include transactions with Corporate Customers who, because of their size, must be quoted by the Dealing Room. These value of assets obtained in this way, considered highly liquid in the Bank's securities portfolio, is added to this figure. This results in the accumulated liquidity gap on each day in the period under analysis. These figures are reported monthly to the areas responsible for managing the liquidity position and are compared with exposure limits in force.

As can be seen from the summary table below, as at 31st December 2008, Millennium bim's liquidity indicators analysed from the viewpoint of liquidity limits (immediate and quarterly) show that the Bank has a strong liquidity surplus profile and that the ratios are within the common limits established by the Millennium bcp Group to control this risk.

Liquidity limits

(MZN' 000)

Millennium bim equity – December/08	3,236,416

Indicator	Limit	31st Oct. 08	30th Nov. 08	31st Dec. 08		
				Value	Excess	Ratification
Assets highly liquid	n.a.	5,049,733	5,391,205	5,924,666	n.a.	n.a.
Immediate liquidity (*) < 20% of equity	647,283	0	0	0	0%	n.a.
Quarterly liquidity (*) < 80% of equity	2,589,133	0	0	0	0%	n.a.

(*) The liquidity figures are only taken into account if negative

Limits exceeded	0
Limits ratified	0

At the same time, Millennium bim's monthly Liquidity Ratio is also calculated using the Liquidity Gap methodology. For this purpose, the Liquidity Gap is defined as the accumulated available liquidity position (net) at each maturity interval (<1M, 1-3M, 3-6M, 6M-1Y, >1Y) as a percentage of total assets with equivalent remaining maturity dates.

Under Millennium bim's in-house Liquidity Risk Management Standards, the calculation of the Liquidity Ratio is based on the following assumptions:

- Highly liquid assets (for example, cash, deposits at the Central Bank, shares quoted on the Stock Exchange and Government securities (Treasury Bills and Treasury Bonds), among others) are included in the first maturity interval (<1M), quantified through the application of specific haircuts.

- Assets and liabilities with no specific maturity (for example, deposits payable on demand, investments and fixed assets, as well as transactions with anticipated settlement options, for example, term deposits). These items are distributed over a time frame that reflects the remaining maturity dates.

The calculation of the Liquidity Ratio contemplates the following scenarios:

Basis Scenario to determine the Bank's liquidity risk profile, taking into account the Institution's real situation, in order to ensure that Millennium bim is in a position to meet its obligations. The Bank's ratio, as at 31st December 2008, was as follows:

Liquidity table (Basis Scenario)

(MZN' 000)

Description	Year: 2008 – Month: Dec. Remaining Maturity				Year: 2007 – Month: Dec. Remaining Maturity			
	Cash and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Cash and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months
Total assets	19,093,579	3,277,369	835,715	348,715	15,575,996	2,698,494	395,507	406,764
Accumulated assets (B)	19,093,579	22,370,947	23,206,280	23,554,996	15,575,996	18,274,491	18,699,998	19,076,762
Total liabilities	7,331,831	4,108,818	4,186,753	3,136,883	7,549,457	3,002,514	2,874,711	2,703,104
Accumulated liabilities	7,331,831	11,440,648	15,627,402	18,764,285	7,549,457	10,551,971	13,426,682	16,129,786
GAP (Total assets – Total liabilities)	11,761,748	-831,449	-3,351,420	-2,788,168	8,026,539	-304,020	-2,479,203	-2,296,341
Accumulated GAP (A)	11,761,748	10,930,299	7,578,879	4,790,710	8,026,539	7,722,520	5,243,316	2,946,976
LIQUIDITY RATIO (A/B)	61.60%	48.86%	32.66%	20.34%	51.53%	42.26%	28.08%	15.45%

Liquidity Stress Tests aim at understanding the Bank's liquidity risk profile, ensuring that Millennium bim is in a position to meet its obligations in the event of a liquidity crisis, and to contribute to preparation of the liquidity contingency plan and management decisions.

The Stress Tests currently performed by Millennium bim are based on specific Bank crisis scenarios and market crisis scenarios producing changes in the coefficient of immediately payable on demand deposits (arising from an eventual run on deposits). The figures, as of 31st December 2008, are as follows:

Liquidity table

Year: 2008 – Month: Dec. (MZN' 000)

Description	STRESS TEST – BANK CRISIS SCENARIO (HYPOTHETICAL) Remaining Maturity				STRESS TEST – MARKET CRISIS SCENARIO (HYPOTHETICAL) Remaining Maturity			
	Cash and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Cash and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months
Total assets	19,093,579	3,273,324	833,845	348,715	18,343,909	3,273,234	833,845	348,715
Accumulated assets (B)	19,093,579	22,366,813	23,200,658	23,549,373	18,343,909	21,617,143	22,450,988	22,799,703
Total liabilities	10,919,090	9,491,956	1,495,184	7,628,830	11,128,815	9,490,956	1,495,184	7,628,830
Accumulated liabilities	10,919,090	20,411,046	21,906,230	29,535,060	11,128,815	20,620,771	22,115,956	29,744,785
GAP (Total assets – Total liabilities)	8,174,489	-6,218,722	-661,339	-7,280,115	7,215,093	-6,218,722	-661,339	-7,280,115
Accumulated GAP (A)	8,174,489	1,955,767	1,294,428	-5,985,687	7,215,093	996,372	335,032	-6,495,082
LIQUIDITY RATIO (A/B)	42.81%	8.74%	5.58%	-25.42%	39.33%	4.61%	1.49%	-30.46%

This analysis is submitted for consideration by the Risk Control Committee, so that decisions can be taken on maintaining financing conditions appropriate to continued business.

As can be seen from the above tables, as of 31st December 2008, the Liquidity Ratio analysed from the gap viewpoint (Basis Scenario) also shows that the Bank has a strong excess liquidity profile. In other words, the Bank's liquidity is within the common Millennium bcp Group limits for controlling this risk, with a positive ratio of some 20.34% (if negative it must not exceed 25% of total short-term liabilities). The tables on the stress testing scenarios show negative ratios for the period up to one year for the Stress Test – Bank Specific Crisis Scenario and from 6 months for the Stress Test – Market Crisis Scenario, due to the high volume of various liabilities with a maturity period of up to one year, compared to the volume of available assets in the same period.

Liquidity plan

The liquidity plan defines the Bank's desired financing structure. This plan is formulated by Millennium bim as an integral part of its budget process. It establishes the actions considered necessary to strengthen the appropriate financing structure. The liquidity plan is of the utmost importance for the Bank and is monitored every month.

Priorities, responsibilities and measures to be implemented in the event of a liquidity crisis must be established in the liquidity contingency plan to be introduced in Millennium bim in 2009. This plan must be revised at least once a year and must envisage constant monitoring of market conditions and the establishment of protection, anticipation and implementation of immediate decisions, by activating the Risk Control Committee. Although there is no formal liquidity contingency plan, the Chairman of the Risk Control Committee has powers to activate the Committee or appoint a Working Group, should liquidity problems arise, so that immediate decisions can be taken to mitigate them.

Operational risk

Millennium bim has adopted standards and practices to guarantee efficient operational risk management, namely, the definition and documentation of these standards and the implementation of the respective control mechanisms. These include segregation of functions, levels of responsibility and the respective authorization powers, exposure limits, codes of ethics and conduct, key indicators, computer system controls, contingency plans, physical and logical access, reconciliation activities and internal training on processes, products and systems.

Management and control instruments

The year 2008 was a significant moment in the consolidation of the operational risk management strategy for all Millennium bim activities, with a variety of quantitative and qualitative aspects, in particular the following:

- strengthening the involvement of senior management in issues related to this kind of risk (improved Governance);
- the practical development of the operating risk management policy on the structure of business processes and end-to-end support. Its implementation and development was highly relevant, providing an overview of the risks present in each process and identifying the respective origins and causes;
- implementation of a process for gathering operating losses through specific common Millennium bcp Group operational risk management software that permits the systematic analysis of cause-effect relationships, recording the measures of a preventive or corrective nature taken to address each loss event (preventive or corrective) and the amount lost;
- the definition of decision platforms for tolerance or action (mitigation/correction) on operational risks, according to the assessment of them and their classification.

Operational risk self-assessment

The contribution of Process Owners in assessing and quantifying the severity (impact and expected frequency) of operational risks associated with each process (RSA – Risk Self-Assessment) must also be emphasized.

The Process Owners are appointed by the Millennium bim Executive Committee and have the following responsibilities:

- to keep all relevant documentation on processes up-to-date;
- to ensure that existing controls are effectively appropriate through direct or delegated supervision in the Organic Units responsible for these controls;
- to coordinate and participate in Risk Self-Assessment exercises;
- to detect and implement opportunities for improvement, including actions to mitigate the most significant risk exposures.

Operational losses

The process of identifying and recording operational losses was launched in Millennium bim in May 2008. Complementing Risk Self-Assessment, this activity is very important for establishing the Bank's Operational Risk Profile. In addition, this risk management instrument is crucial for strengthening the organization's awareness of this kind of risk and thus for consolidating a culture of containing and controlling operational risk.

Internal Control and Contingency Planning

Given their relevant contribution to controlling the management of operational risk, the Bank is also developing other important projects in the operational risk field, such as reviewing and identifying new opportunities for improvement in the light of the recommendations made during the 2007 Internal Control Project and the Business Continuity Management Project.

The Internal Control Project was one of Millennium bim's fundamental operational risk management projects and involved the adoption of a process-oriented management model to complement and articulate with the pre-existing management model based on functional structures.

The essential objective of the Internal Control Project was to revise the Bank's Internal Control System for processes that have impact on the financial statements. It resulted in the following:

- documenting the Bank's main stages of process/workflows, procedures, policies and the main concerns of internal controllers;

- identifying and documenting all existing internal controls in appropriate standard templates classified according to existing internal control categories; and

- recommendations on risk mitigation that are being implemented, with over 75% completion as of 31st December 2008.

The results of this work have led to the following conclusions:

- on the whole, the controls implemented, the information technology support systems and other technological infrastructure in the Bank guarantee, in general, the correct accounting of transactions and the production of financial information;

- the situations detected do not appear to be very harmful or to prevent the achievement of key objectives or to be detrimental to the Bank's reputation;

- segregation of functions between the Organizational Units responsible for analysing and taking decisions and the Organizational Units responsible for processing and for transaction accounting were found in most of the processes analysed.

The Bank intends to update and deepen the analysis undertaken (ongoing process).

In addition to adopting the recommendations of the parent company's supervision entity in this field, the objective of this initiative is to align with the practices and rules established in section 404 of the Sarbanes-Oxley Act, in order to create a basis for other strategic initiatives by the Bank, such as operational risk management, quality certification and operational efficiency.

At the same time, part of the Millennium bim Business Continuity Management project was concluded, in the form of a contingency plan to ensure continuation of the business in the event of a disaster.

The complementary component of the framework developed under this project is the Disaster Recovery Plan (DRP) for systems and infrastructure. The Bank now has a fully functional alternative data processing centre that will enable business to continue if necessary and that has been used frequently through programmed switches.

42. Solvency

The own funds of Banco Internacional de Moçambique and of consolidated adjusted basis are calculated using the applicable regulations, namely, those contained in Banco de Moçambique's Notice 05/GBM/2007. The own funds result from adding the core own funds (Tier 1) with the complementary own funds (Tier 2) and subtracting the component of Deductions.

Basic equity comprise paid up capital reserves and the deferred impacts associated with transition adjustments to IFRS – International Financial Reporting Standards.

At the same time, to determine basic equity the following are deducted: other intangible assets, goodwill relating to assets, positive/negative actuarial deviations and costs incurred in past services, associated with post-employment benefits assigned by the entity that, in accordance with NIC 19 – Employee Benefits (Corridor Method), were not recognized in the year's net income, net income carried over or reserves.

Basic equity can also be influenced by the existence of differences on other assets, on cash flow hedge transactions and on financial liabilities assessed at fair value through results, in the part corresponding to own credit risk. It can also be influenced by the existence of a fund for general banking risks and by insufficient provisions, if credit impairment determined in accordance with the International Accounting Standards is lower than the credit provisions defined by Banco de Moçambique's Notice 7/GBM/07, calculated on an individual basis.

Complementary equity comprises subordinated debt, reserves arising from the revaluation of tangible fixed assets and, with the prior authorization of Banco de Moçambique, the inclusion of asset elements that can be freely used to cover risks normally linked to the activity of institutions, even though losses or capital losses have yet to be identified.

In order to calculate the regulatory capital it is required to consider deductions in the total equity, namely the net value of non financial assets recorded in the balance, received as reimbursement of own credit.

Disclosure of capital

	2008 MZN' 000	2007 MZN' 000
Tier I basic equity		
Paid up capital	741,000	741,000
Reserves and retained earnings	2,116,001	1,066,366
Intangible assets	(16,078)	-
Tier I total equity	**2,840,923**	**1,807,366**
Tier 2 complementary equity		
Subordinated debt	414,557	457,769
Other	10,932	10,932
Tier 2 total equity	**425,489**	**468,702**
Deduction from total equity	29,996	29,996
Eligible equity	3,236,416	2,246,072
Weighted assets by risk		
On-balance sheet	18,691,907	13,813,024
Off-balance sheet	5,244,271	2,965,016
Ratio of basic equity (Tier I)	11.9%	10.8%
Ratio of complementary equity (Tier 2)	1.8%	2.8%
Solvency ratio	13.5%	13.4%

43. Risk concentration

The concentration of financial assets with loan risk, by sector of activity in the Bank, is as follows:

(MZN' 000)

31st December 2008	Financial Institutions	Public Institutions	Real Estate	Transforming Industry	Other Services	Other Industries	Private Individuals	Total
Deposits in other credit institutions	594,888	-	-	-	-	-	-	594,888
Financial assets available for sale	-	7,147,245	-	-	720	-	-	7,147,965
Applications in Credit Institutions	5,119,730	-	-	-	-	-	-	5,119,730
Loans and advances to Customers	-	201,941	771,541	2,007,518	8,197,809	917,153	4,921,472	17,017,434
Other assets	-	-	-	-	86,873	-	3,495	90,368

(MZN' 000)

31st December 2007	Financial Institutions	Public Institutions	Real Estate	Transforming Industry	Other Services	Other Industries	Private Individuals	Total
Deposits in other credit institutions	220,404	-	-	-	-	-	-	220,404
Financial assets available for sale	-	5,865,189	-	-	-	-	-	5,865,189
Applications in Credit Institutions	5,342,702	-	-	-	-	-	-	5,342,702
Loans and advances to Customers	-	186,732	654,590	1,483,859	6,034,723	870,270	3,273,298	12,503,472
Other assets	-	8,684	-	-	94,674	-	646	104,004

Report and Opinion of the Audit Board

Report and Opinion of the Audit Board

In accordance with the legal and statutory dispositions, the Audit Board presents to Shareholders the report on its inspection of the activities of BIM – Banco Internacional de Moçambique, S.A. and its opinion on the Consolidated Financial Statements of the Millennium bim Group, the Bank's individual Financial Statements and the Report of the Board of Directors on the financial year ending 31st December 2008.

In addition to meeting throughout the year with the regularity required by law, the work of the Audit Board included monitoring the Bank's activity, essentially by studying the monthly Financial Statements and the respective Management Information, participating in meetings of the Board of Directors and through contacts with the Management and information gathered from the Bank's management information systems, in order to assess the evolution of its activities.

Special attention was paid to the main transactions that together explain the main variations in the main indicators of the Bank's activity (on individual basis), namely:

- the rise of some 18.2% in net interest income (from 2,213.3 million Meticais in 2007 to 2,615.1 million Meticais in 2008) due to increased turnover, interest generating assets in particular:

    i) the rise in the volume of net loans and advances to Customers (from 12,503.5 million Meticais in 2007 to 17, 017.4 million Meticais in 2008); and

    ii) growth in the portfolio of bonds and other fixed income securities available for sale (from 5,865.2 million Meticais in 2007 to 7,148.0 million Meticais in 2008);

- the rise of some 22.1% in net commissions (from 684.9 million Meticais in 2007 to 836.0 million Meticais in 2008), due to a rise in the volume of transactions generating commissions for the Bank;

- continued improvement in the quality of the credit portfolio (due to the recovery of some non-performing loans, the write-off of others and continued rigour in assessing risk when granting new loans) that, in addition to increasing the above-mentioned net credit, led to the following:

    i) a fall in overdue loans from 168.6 million Meticais in 2007, to 161.0 million Meticais in 2008;

    ii) a fall in the "overdue loans as a proportion of total loans" ratio from 1.3% in 2007 to 0.9% in 2008; and

    iii) the volume of total provisions for loan risk impairment losses totalled 783.0 million Meticais in 2008, providing an overdue loan coverage ratio of 486% (compared to 384% in 2007);

- the growth of funds raised, with the financial statements showing that deposits from Customers rose from 23,626.1 million Meticais in 2007 to 29,486.4 million Meticais in 2008, in other words, a rise of 24.8%. These funds are being applied carefully, mainly in new loans and securities;

- the rise of 1,950.7 million Meticais in operating expenses (that include staff costs, other administrative costs and depreciation) in 2008 (compared to 1,688.4 million Meticais in 2007) represents a 15.5% rise over the previous year;

- the Bank's net profits reached 1,755.3 million Meticais in 2008, a rise of 25.5% over the 1,398.8 million Meticais achieved the previous year.

The Audit Board also studied the Management and Accounts Report for 2008 and the Financial Statements audited by the External Auditor, including its Opinion, which states as follows:

- that the Consolidated Balance Sheet and the Balance Sheet of BIM – Banco Internacional de Moçambique, S.A., as at 31st December 2008, are a correct reflection of the financial situation of the Group and the Bank;

- that the Consolidated Net Income Statement and the Bank's Net Income Statement show a consolidated profit of 1,846.5 million Meticais and profits for the Bank of 1,755.3 million Meticais and that these represent the results of the activity of the Group and the Bank.

Following its verification and the information obtained, the Audit Board:

- is of the opinion that the Consolidated Financial Statement and the Financial Statements of the Bank (comprising the following documents of the Group and the Bank: Balance Sheet, Net Income Statement, Statement on Changes in Equity, Cash Flow Statement and the respective Notes):

  i) are in compliance with the law and meet statutory requirements, as well as rules issued by the Central Bank;

  ii) were prepared in accordance with International Financial Reporting Standards (IFRS); and

  iii) are a true reflection of the financial situation of the Group and the Bank as at 31st December 2008, as well as the results of operations by the Group and the Bank during the financial year;

- It is of the opinion that the Annual General Meeting:

  - should approve the Management Report of the Board of Directors and the Consolidated Financial Statement and that of the Banco Millennium bim for the financial year ending on 31st December 2008;

  - should approve the proposal on the application of the Profits shown in the Bank's Financial Statement (on individual basis), amounting to 1,755, 301,124.17 Meticais, as follows:

– to the Legal Reserve	11.7%	205,297,923.48 Meticais
– to the Free Reserve	60.8%	1,067,295,391.69 Meticais
– to the Dividend Stabilization Reserve	2.5%	43,882,528.00 Meticais
– Distribution to Shareholders	25.0%	438,825,281.00 Meticais

  - should express a vote of praise for the performance of the Board of Directors and all the Millennium bim Employees in the financial year 2008.

Maputo, 20th February 2009

The Audit Board

António de Almeida – Chairman
Subhaschandra M. Bhatt – Member
Armando Pedro M. Junior – Member
Maria Iolanda Wane – Substitute Member

Report of Independent Auditors

Report of Independent Auditors

PriceWaterhouseCoopers

To: Shareholders of BIM – Banco Internacional de Moçambique, S.A.

AUDIT REPORT

We have conducted an audit of the attached individual and consolidated financial statements of BIM – Banco Internacional de Moçambique, S.A., comprising the individual and consolidated Balance Sheet as at 31st December 2008 and the individual and consolidated Statements on income, changes in equity and cash flow for the year ended on that date and the respective explanatory notes. The financial statements of BIM – Banco Internacional de Moçambique for 2007 were audited by other Independent Auditors who issued their report, dated 15th February 2008, without reservations.

The Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and correct presentation of these individual and consolidated financial statements in accordance with current International Financial Reporting Standards (IFRS). This responsibility includes: the conception, implementation and maintenance of the relevant internal control over the preparation and appropriate presentation of individual and consolidated financial statements that are free of material distortions, whether due to fraud or error; the selection and application of appropriate accounting policies; and ascertaining accounting estimates that are reasonable in the circumstances.

The Auditor's Responsibility

Our responsibility is to give an opinion on these individual and consolidated financial statements, based on our audit. We conduct our audit in accordance with International Auditing Standards. These standards oblige us to comply with ethical requirements and to plan and carry out the audit with the objective of obtaining an acceptable degree of certainty that the individual and consolidated financial statements do not contain any materially relevant distortions.

An audit involves carrying out procedures to obtain audit proof of the amounts and disclosures in the individual and consolidated financial statements. It is up to the auditor to select the procedures, including the assessment of the risk of material distortion in the individual and consolidated financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers the relevant internal control over the preparation and appropriate presentation of the Bank's individual and consolidated financial statements in order to conceive the appropriate audit procedures under the circumstances, but not with the intent of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes an assessment of whether the implemented accounting policies are appropriate, whether the Board of Directors' accounting estimates are reasonable and also whether the overall presentation of the individual and consolidated financial statements is adequate.

We believe that the audit proof we have obtained provides a sufficient and appropriate basis for our opinion.

Opinion

In our opinion, the above-mentioned individual and consolidated financial statements present in an appropriate manner, in all materially relevant aspects, the individual and consolidated financial position of BIM – Banco Internacional de Moçambique, S.A. on the 31st December 2008, the changes in the individual and consolidated equity, the individual and consolidated income of its operations and the individual and consolidated cash flow in the year ending on that date, in accordance with current International Financial Reporting Standards (IFRS).

PriceWaterhouseCoopers

Maputo, 20th February 2009

Annual Report 2008
BIM – Banco Internacional de Moçambique, S.A.

www.millenniumbim.co.mz

Head Office:
Avenida 25 de Setembro, 1800
Maputo/Mozambique

Equity:
MZN 1,500,000,000

Record at Conservatória
do Registo de Entidades Legais
in Maputo, under nr. 6614

June 2009

Millennium bim

Life inspires us