

12. The Bank was subject to tax inspections for the years up to 2015. As a result of the inspections in question, corrections were made by the tax authorities, arising from the different interpretation of some tax rules. The main impact of these corrections occurred in the case of IRC in terms of the tax loss carry forwards and, in the case of VAT, in the calculation of the tax deduction pro rata used for the purpose of determining the amount of deductible VAT. The additional liquidations / corrections made by the tax administration were mostly object of contestation by administrative and / or judicial.

The Bank recorded provisions or deferred tax liabilities at the amount considered adequate to offset the tax or tax loss carry forwards, as well as the contingencies related to the fiscal years not yet reviewed by the tax administration.

56. MOZAMBIQUE'S SOVEREIGN DEBT

Following a period of deceleration in economic activity and increase of inflation, reduction of Republic of Mozambique rating, depreciation of metical and decrease in foreign direct investment, the Bank of Mozambique has adopted a restrictive policy, with increases in the reference rate since December 2015, as well as increasing the reserve ratio. This set of factors constrained commercial banking in Mozambique, pushing it to pursue a strict liquidity management, emphasis on raising funds, despite contributing to the improvement of net interest income.

According to an International Monetary Fund (IMF) statement dated 23 April 2016, it existed debt guaranteed by the State of Mozambique in an amount over USD 1 billion that had not been disclosed to the IMF. Following this disclosure, the economic program supported by the IMF was suspended. According to an IMF statement dated 13 December 2016, discussions were initiated on a possible new agreement with the Government of Mozambique, and were agreed the terms of reference for an external audit.

In the statements dated of 16 January 2017 and 17 July 2017, the Ministry of Economy and Finance of Mozambique informed the bonds holders issued by the Republic of Mozambique "US\$726.524 million, 10.5%, repayable securities in 2023" that the interest payment due on 18 January 2017 and 18 July 2017, would not be paid by the Republic of Mozambique.

In June 2017, the Attorney General's Office of the Republic of Mozambique published an Executive Summary regarding the above-mentioned external audit. On 24 June 2017, the IMF released in a statement that due to the existence of information gaps in this audit, an IMF mission would visit the country to discuss audit results and possible follow-up measures. Following this visit, the IMF requested the Government of Mozambique to obtain additional information on the use of the funds.

On 14 December 2017, in a statement from the IMF staff, after the end of the mission held between 30 November and 13 December 2017, it was reiterated the need for the Mozambican State to provide missing information.

In the statement of the Mozambican Attorney General's Office dated 29 January 2018, it is mentioned, among other things, that the Public Prosecutor submitted to the Administrative Court, on 26 January 2018, a complaint regarding the financial responsibility of public managers and companies participated by the State, participants in the execution and management of contracts for financing, supplying and providing services related to debts not disclosed to the IMF.

As at 31 December 2017, considering the 66.7% indirect investment in BIM Group, the Bank's interest in BIM's equity amounted to Euros 271,337,000, being the exchange translation reserve associated with this participation a negative amount of Euros 151,710,000. BIM's contribution to consolidated net income for 2017, attributable to the shareholders of the Bank, amounts to Euros 56,747,000.

On that date, the subsidiary BIM's exposure to the State of Mozambique includes public debt securities denominated in metical classified as Financial assets available for sale financial assets and Financial assets held to maturity in the amounts of Euros 422,257,000 and Euros 69,014,000 respectively. These public debt securities mostly have a maturity of less than 1 year.

As at 31 December 2017, the Group has also registered in the balance Loans and advances to costumers, a direct gross exposure to the Mozambican State in the amount of Euros 282,386,000 (of which Euros 275,588,000 are denominated in metical, Euros 6,410,000 denominated in USD and Euros 388,000 denominated in Euros) and an indirect exposure resulting from sovereign guarantees received in the amount of Euros 296,004,000 (of which Euros 150,404,000 are denominated in metical and Euros 145,600,000 denominated in USD) and in the balance Guarantees granted and irrevocable commitments, an amount of Euros 95,544,000 (of which Euros 1,484,000 are denominated in metical, Euros 94,033,000 denominated in USD and Euros 27,000 denominated in Euros).

According to public information provided by IMF, there are credits granted in default to Mozambican companies, non-state, guaranteed by the Mozambican State. The ongoing dialogue between the Government of Mozambique, IMF and creditors with the objective of finding a solution to the debt guaranteed by the State of Mozambique that had not previously been disclosed to the IMF referred to above. Nevertheless, in March 2018 the Mozambican Government presented proposals regarding this matter, a solution has not yet been approved to change the Group's current expectations reflected in the financial statements as at 31 December 2017, regarding the capacity of the Government of Mozambique and public companies to repay their debts and the development of the activity of its subsidiary Banco Internacional de Moçambique (BIM).