

The table below shows the detail of hedging instruments, as at 31 December 2019, by maturity:

(Thousands of euros)

Type of hedging	2019				Fair value	
	Remaining period			Total	Assets	Liabilities
	Up to 3 months	3 months to 1 year	Over 1 year			
<b>Fair value hedging derivatives related to interest rate risk changes:</b>						
OTC Market:						
Interest rate swaps						
Notional	52,919	1,420,269	3,063,197	4,536,385	17,131	46,122
Fixed interest rate (average)	1.98%	-0.05%	1.19%	0.81%		
<b>Cash flow hedging derivatives related to interest rate risk changes:</b>						
OTC Market:						
Interest rate swaps	65,854	111,717	11,706,362	11,883,933	18,972	77,272
<b>Cash flow hedging derivatives related to currency risk changes:</b>						
OTC Market:						
Currency swap	83,090	–	–	83,090	185	172
Currency and interest rate swap	469,804	930,004	1,605,817	3,005,625	8,853	98,300
<b>Hedging derivatives related to net investment in foreign operations:</b>						
OTC Market:						
Currency and interest rate swap	–	462,072	136,723	598,795	–	8,057
<b>Total derivatives traded by OTC Market:</b>						
	671,667	2,924,062	16,512,099	20,107,828	45,141	229,923

## 55. 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, existing 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 the terms of reference for an external audit were agreed.

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.

In the statements dated of 16 January 2017 and 17 July 2017, the Ministry of Economy and Finance of Mozambique informed the holders of bonds issued by the Republic of Mozambique specifically "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 November 2018, the Ministry of Economy and Finance of the Republic of Mozambique announced that it has reached an agreement in principle on the key commercial terms of a proposed restructuring transaction related to this debt securities with four members of the Global Group of Mozambique Bondholders. The Bondholders currently own or control approximately 60% of the outstanding Bonds. The agreement in principle reached by the parties, and the support of the Bondholders for the proposed restructuring, is conditional on the parties reaching an agreement on mutually satisfactory documentation setting out the detailed terms of the restructuring including implementation, and the mentioned Ministry obtaining all necessary approvals, including Parliamentary and government approvals of Mozambique.

On 6 September 2019, the Ministry of Economy and Finance of the Republic of Mozambique announced the approval by 99.95% of the Bondholders of a written decision containing the terms and conditions of the restructuring proposal. The Group has no exposure to this debt.

In May 2020, the Constitutional Council of the Republic of Mozambique issued a Judgment, declaring the nullity of the acts related with the loans contracted by Proindicus, SA ("Proindicus") and Mozambique Asset Management, MAM, SA ("MAM"), and the respective sovereign guarantees granted by the Government in 2013 and 2014, respectively, and on 14 October 2020, the dissolution of the two companies was registered based on an order issued by the Judicial Court of the City of Maputo.

An action brought on 27 February 2019 and amended on 30 April 2020, by the Republic of Mozambique (represented by the Attorney General of the Republic) against the arranger and originating lender of the loan to Proindicus and other entities, by which the Republic of Mozambique requests, inter alia, the declaration of nullity of the sovereign guarantee of the Mozambican State to the Proindicus loan. Following this lawsuit, on 27 April 2020, the International Bank of Mozambique (BIM) filed a lawsuit, in the London Commercial Court, against the arranger and lender of the loan to Proindicus, claiming, inter alia, payment of BIM's exposure to the Proindicus, in the event that the said sovereign guarantee of the State of Mozambique to Proindicus is, in a court of law declared null and void.

Regarding MAM, as far as we are aware, no lawsuit with the same purpose was brought by the Republic of Mozambique at the London Court of Commerce. However, it is expected that, in the context of ongoing legal proceedings, that several creditors of MAM (including BCP) have filed, at the London Court of Commerce, against MAM and the Republic of Mozambique in order to recover their credits, the question of the validity of the sovereign guarantee of the Mozambican State to the MAM loan will be raised by the Republic of Mozambique.

According to public information made available by the IMF, there are defaults on credits granted to non-state Mozambican companies' and guaranteed by the Mozambican State. Considering the above-mentioned developments related to these credits, although the Ministry of Economy and Finance of the Republic of Mozambique has submitted in November 2018 new proposals regarding this matter and interactions are ongoing between the Government of Mozambique, the IMF and the creditors with the objective of finding a solution to the aforementioned debt guaranteed by the State of Mozambique, which had not been previously disclosed to the IMF, a solution that changes the ex-approved a solution that would change the Group's current expectations, reflected in the financial statements as of 31 December 2020, on: (i) the ability of the Government of Mozambique and public companies to repay their debts and commitments assumed; and (ii) the development of the activity of its subsidiary Banco Internacional de Mozambique (BIM).

As at 31 December 2020, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to Euros 274,701,000, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, in a negative amount of Euros 229,851,000. BIM's contribution to consolidated net income for 2020, attributable to the shareholders of the Bank, amounts to Euros 44,561,000.

On this date, the subsidiary BIM's exposure to the State of Mozambique includes public debt securities denominated in Metical classified as Financial assets measured at amortised cost - Debt instruments in the gross amount of Euros 568,314,000 and Financial assets at fair value through other comprehensive income in the gross amount of Euros 57,927,000.

As at 31 December 2020, the Group has also registered in the balance Loans and advances to customers, a direct gross exposure to the Mozambican State in the amount of Euros 238,871,000 (of which Euros 238,868,000 are denominated in Metical and Euros 2,000 denominated in USD) and an indirect exposure resulting from sovereign guarantees received in the amount of Euros 97,994,000 denominated in USD and in the balance Guarantees granted revocable and irrevocable commitments, an amount of Euros 64,789,000 (of which Euros 1,599,000 are denominated in Metical, Euros 59,632,000 denominated in USD, Euros 161,000 are denominated in euros and Euros 3,397,000 denominated in Rands).