



Background

- ◆ 7th edition
- ◆ 3rd edition with AMB (Banking Association)
- ◆ 2003 and 2002 results
- ◆ Produced by banking specialists based in Mozambique
- ◆ Covers commercial banks, leasings and investment bank

Background

Other studies utilized in this presentation:

- ◆ Low Income Financial Markets – KPMG Mozambique
- ◆ Interest Rates Model – KPMG Mozambique
- ◆ Banking Survey Africa 2004 – KPMG South Africa
- ◆ Banking Survey South Africa 2004 – KPMG South Africa
- ◆ Top 1000 Banks 2004 – The Banker, Financial Times

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- ◆ **Banking sector consolidated analysis**
- ◆ **Interest rates model – KPMG Mozambique Research**

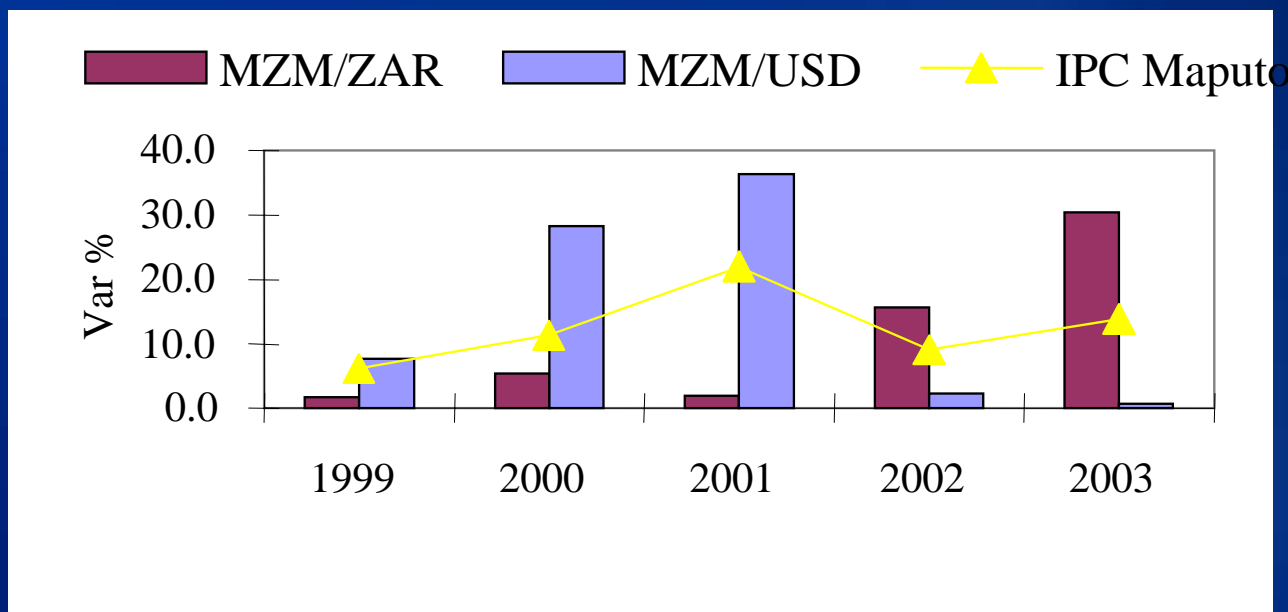
Metodology

- ◆ Data provided by banks
- ◆ Data consistency exhaustively tested
- ◆ Coverage
 - = 9 comercial banks: 100%
 - = 2 leasings: 66%
 - = 1 investment bank: 100%

Banking Sector Highlights

- ◆ **Merger between BCI - Banco Comercial e de Investimentos, SARL and BF - Banco de Fomento, SARL from 1 /12/ 2003**
- ◆ **ABC Holding, abandoned leasing activities**

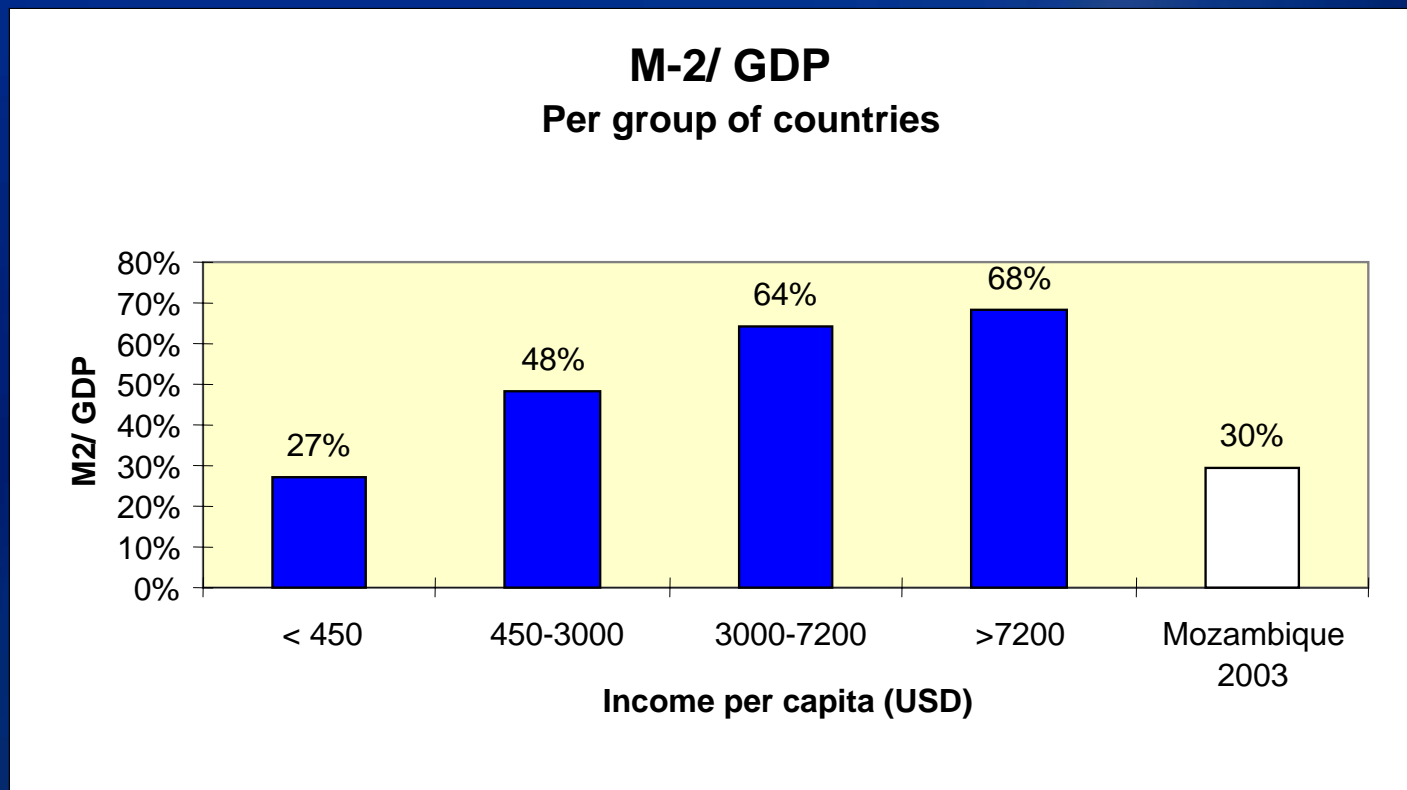
Macro-economic and monetary analysis



- ◆ **Real GDP growth: 7.1% (7.0% em 2002)**
- ◆ **Year inflation- IPC: 13.8% (9.1% in 2002) (BC objective: 10.8%)**
- ◆ **Metical depreciation against Rand: 29.0% (22.2% in previous year) with strong impact on inflation**
- ◆ **Metical/ USD: stable**

Macro-economic and monetary analysis

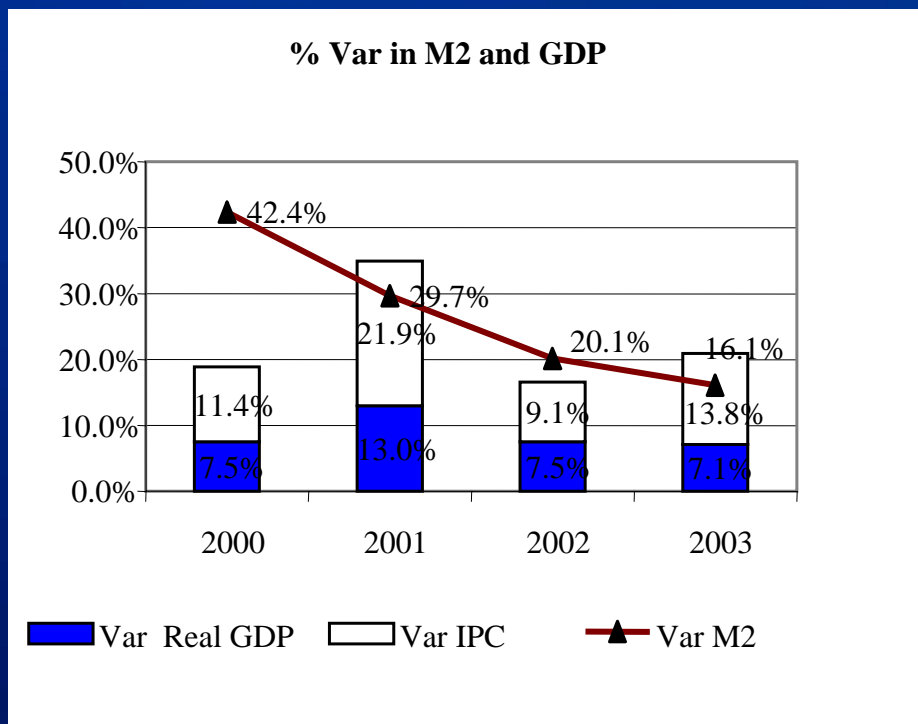
- ◆ Countries with deeper financial systems (M2/GDP) tend to have higher productivity of investment and growth:



Macro-economic and monetary analysis

	2003 MT (billions)	2002 MT (billions)	2003 Var %
GDP	102,581	85,206	20.4%
Deposits on demand	19,030	16,366	15.6%
Currency held by the public	4,259	3,486	22.2%
M-1	23,289	19,852	17.1%
Term deposits	7,066	6,292	11.1%
M-2	30,355	26,144	16.1%
M-2/ GDP Mozambique	30%	31%	

Macro-economic and monetary analysis



Source: KPMG

- ◆ M2 / Real GDP real stable since 2001
- ◆ Since 2001 Central Bank adopted restrictive measures to contain Metical devaluation and inflation :
 - Increase in minimum reserve requirements
 - Increase in interest rates
 - Intervention in foreign currency markets

Macro-economic and monetary analysis



- ◆ With the inflation under control BoM reduced indicative interest rates in 2003 (FPC)
- ◆ Overall reduction in loan interest rates (-7.7pp)
- ◆ Average spreads reduced 2.86%

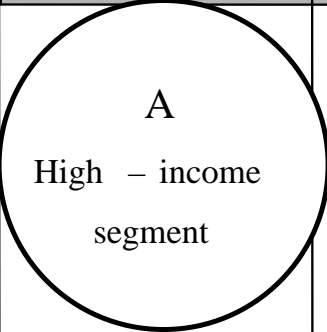



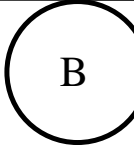
Low Income Financial Markets

KPMG Mozambique Research

- ◆ Financial sector segmentation matrix
- ◆ Rural segment analysis
- ◆ Market concentration
- ◆ Financial Industry Structure

Financial Sector Segmentation Matrix

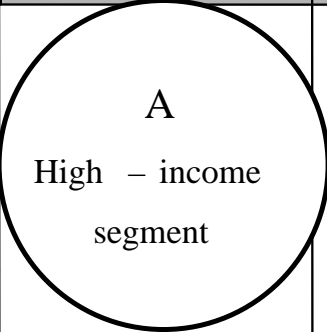



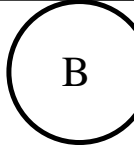
Size of served market in Mt's

	Urban and semi -urban			Rural
	High -income	Average -income	Low -income	
Credit	 <p>A High - income segment</p>	 C Medium income loans	 D Micro - finance	 E Rural segments
Deposits and savings		 B Average/low income deposits		
Other banking services				

Financial sector segmentation matrix (Source: KPMG)

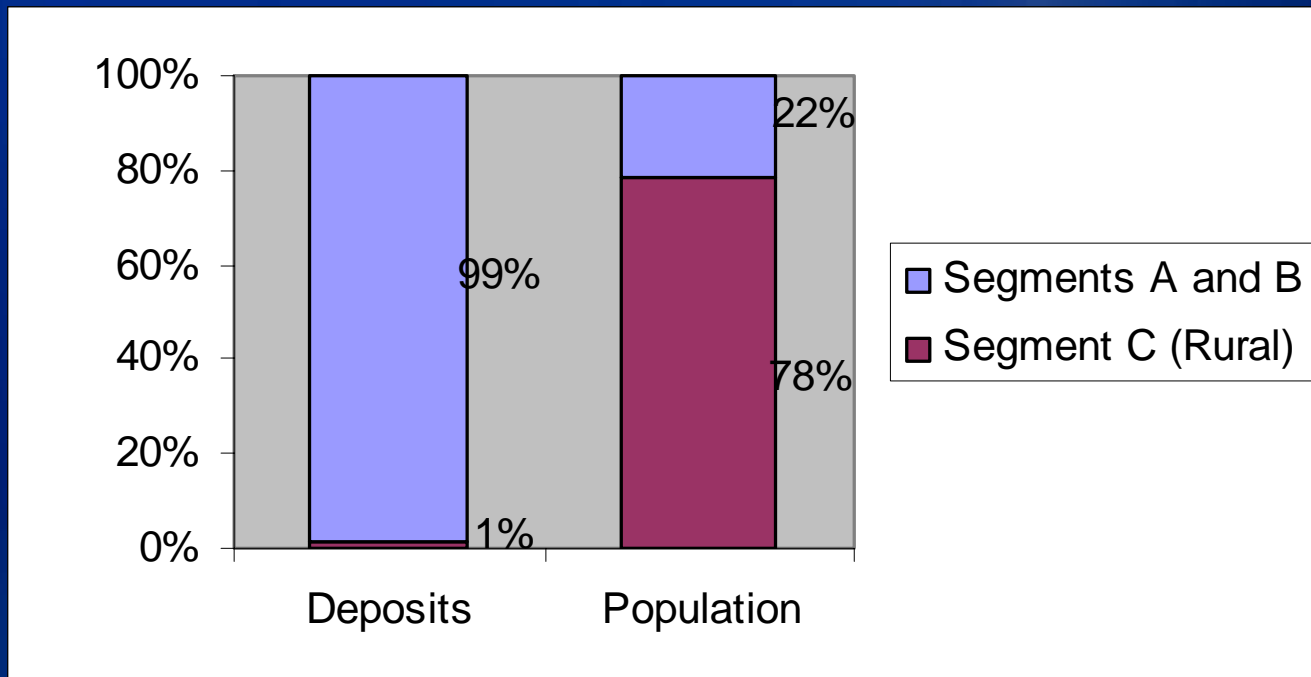
Rural segment analysis

Size of served market in Mt's

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Credit	 <p>A High - income segment</p>	 C Medium income loans	 D Micro - finance	 E Rural segments
Deposits and savings		 B Average/low income deposits		
Other banking services				

◆ Less than 1% of financial sector in Mozambique

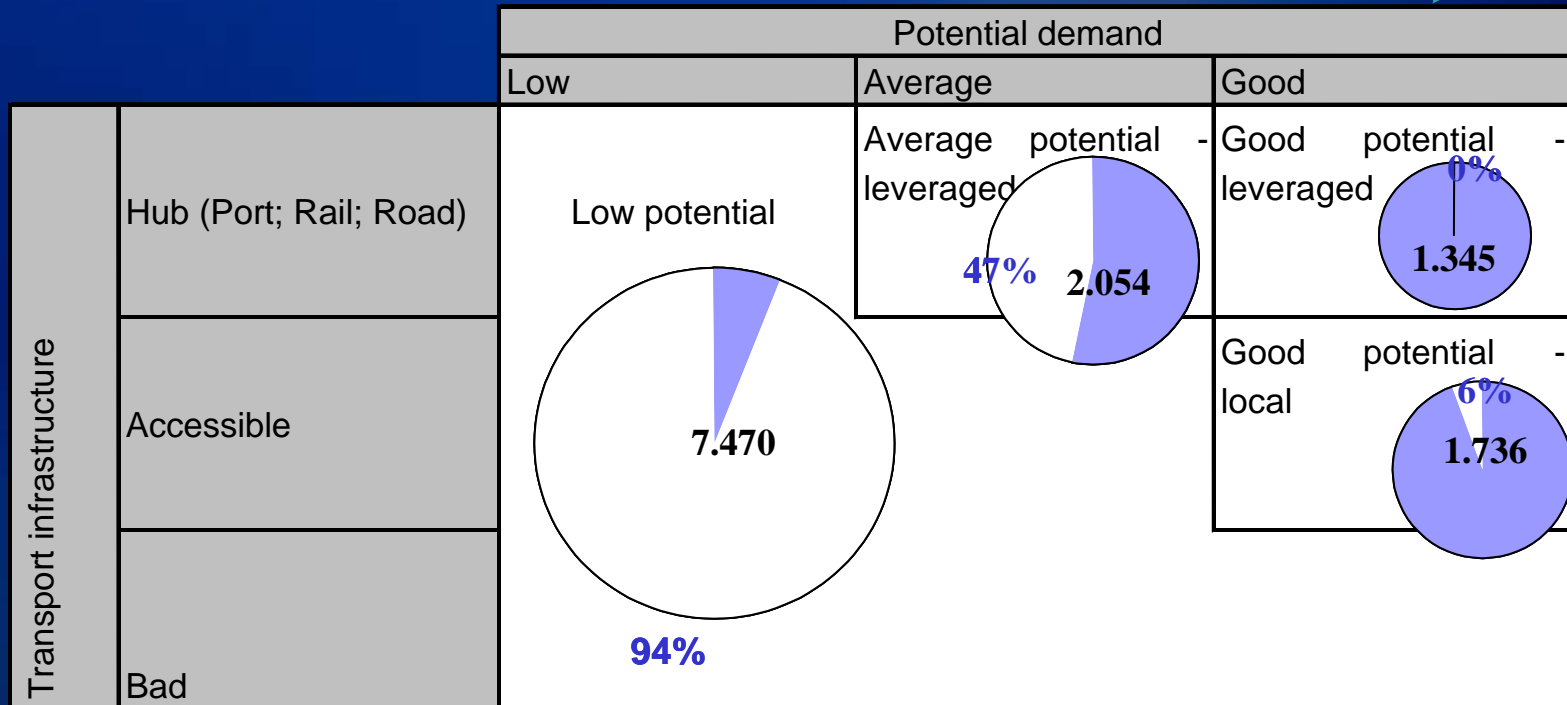
Rural Segment Analysis



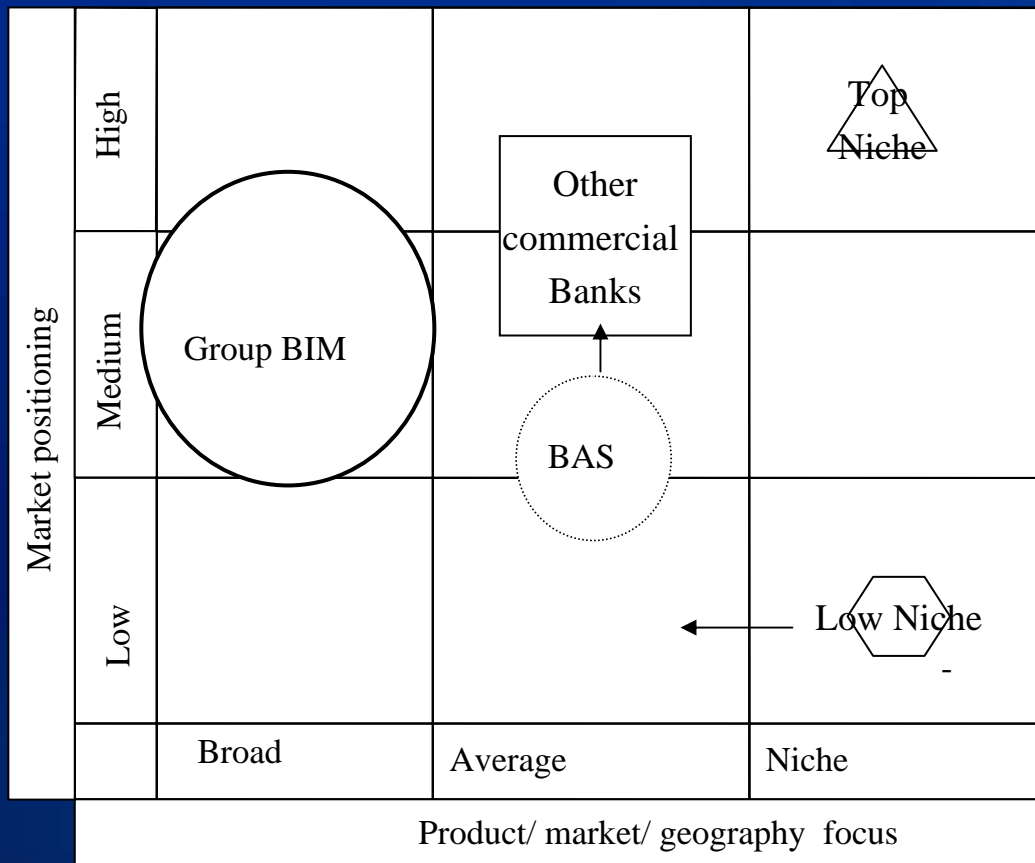
Source: KPMG

Rural segment analysis

	Urban and semi-urban			Rural
	High-income	Average-income	Low-income	
Credit	A High-income segment	C Average-income loans	D Micro-finance	E Rural segments
Deposits and savings	B Average/ low-income deposits			
Other banking services				



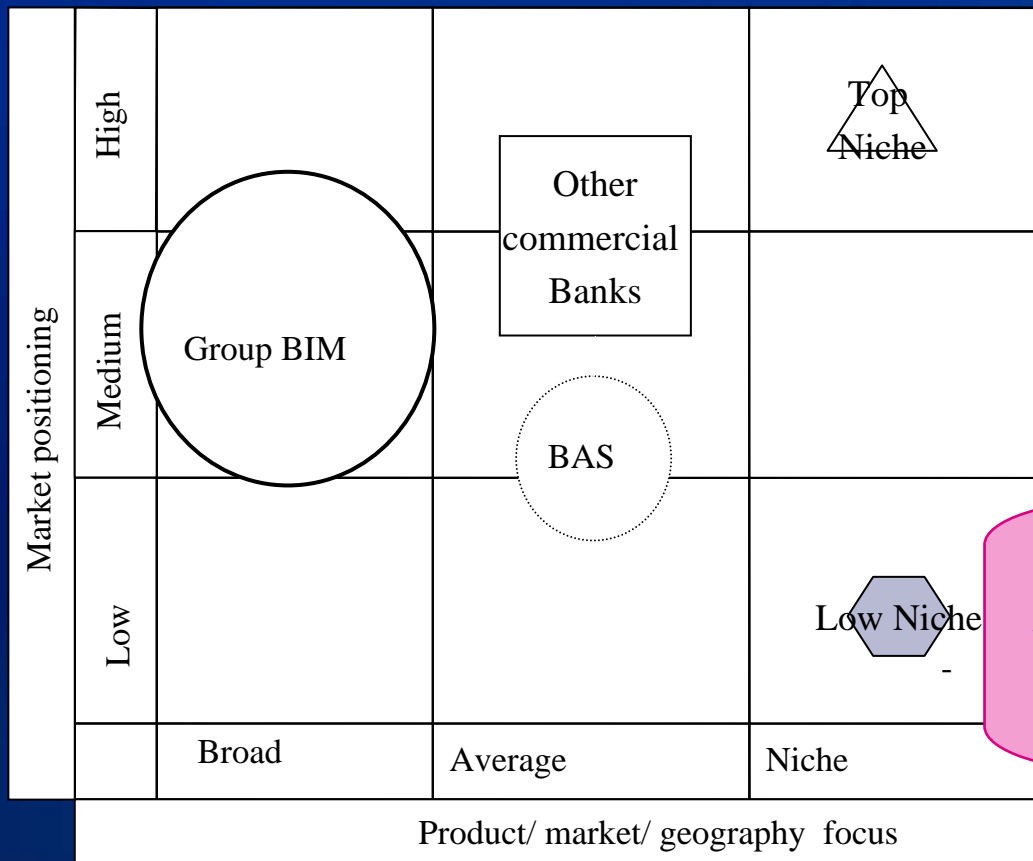
Financial Industry Structure



- ◆ Low positioning space is left empty by commercial banks
- ◆ There are strong structural advantages to be achieved by low niche players in broadening scope
- ◆ Broader scope is desirable if it doesn't compromise self-sustainability

Source: KPMG

Financial Industry Structure – Low Niche



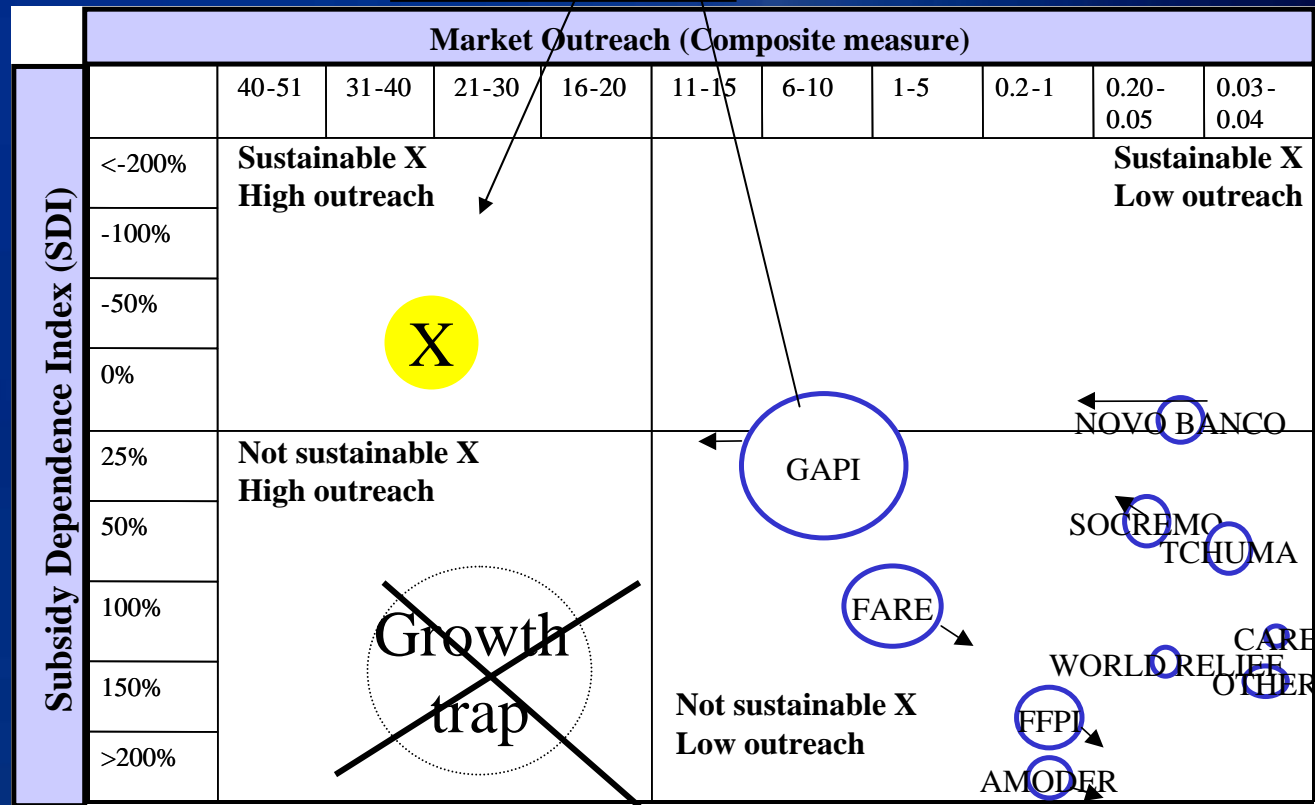
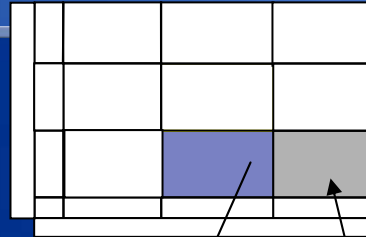
◆ Low nich not covered in banking survey;

◆ It was analysed in detail in other KPMG Mozambique researches

Compete in the low end of the market with a focused range of products and limited geographic spread



Financial Industry Structure – Low niche

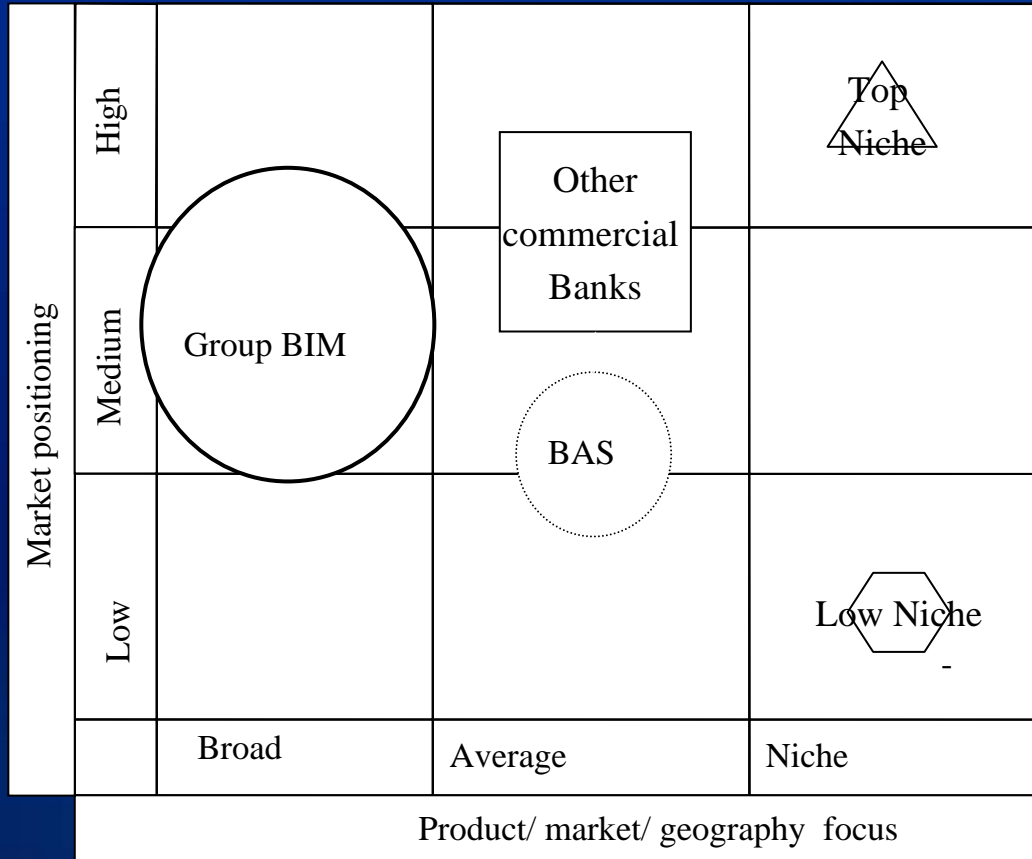


There is a competitive imperative for outreach, but must be careful with the "growth trap"



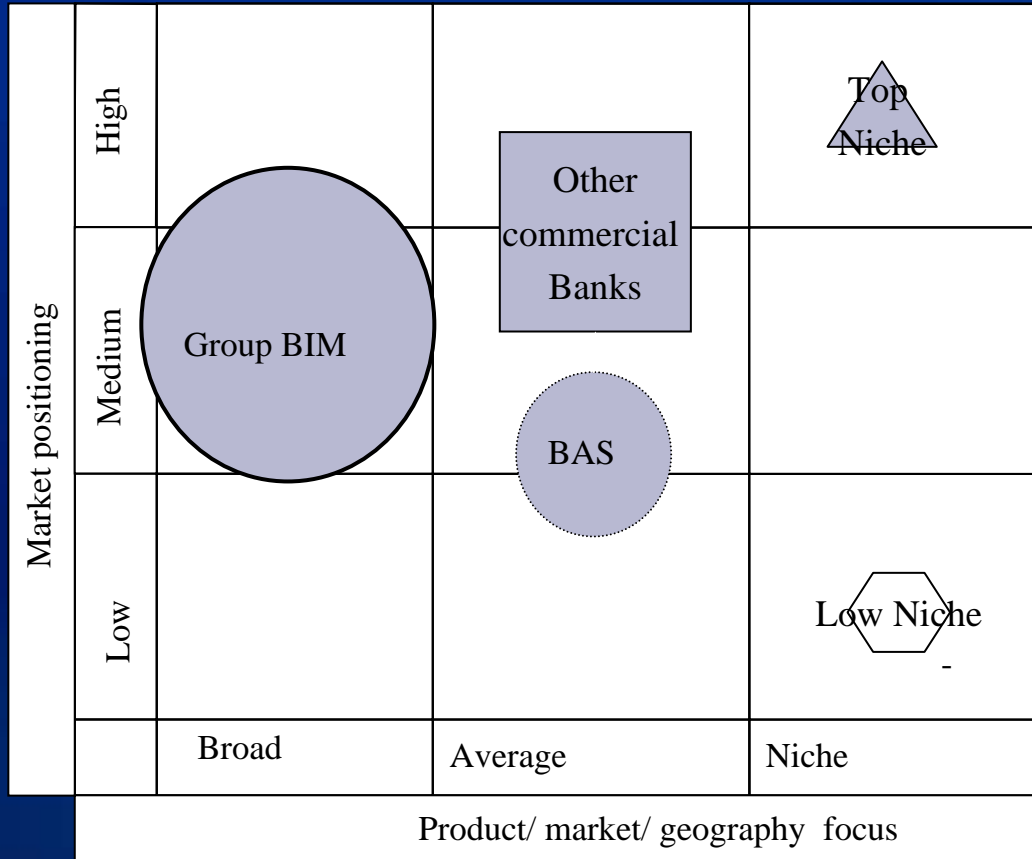
Source: KPMG

Industry structure



Source: KPMG

Industry structure – Banking Survey



Banking sector consolidated analysis

- ◆ Consolidated assets
- ◆ Balance sheet structure
- ◆ Deposits
- ◆ Loans
- ◆ Profitability
- ◆ Efficiency

Consolidated assets

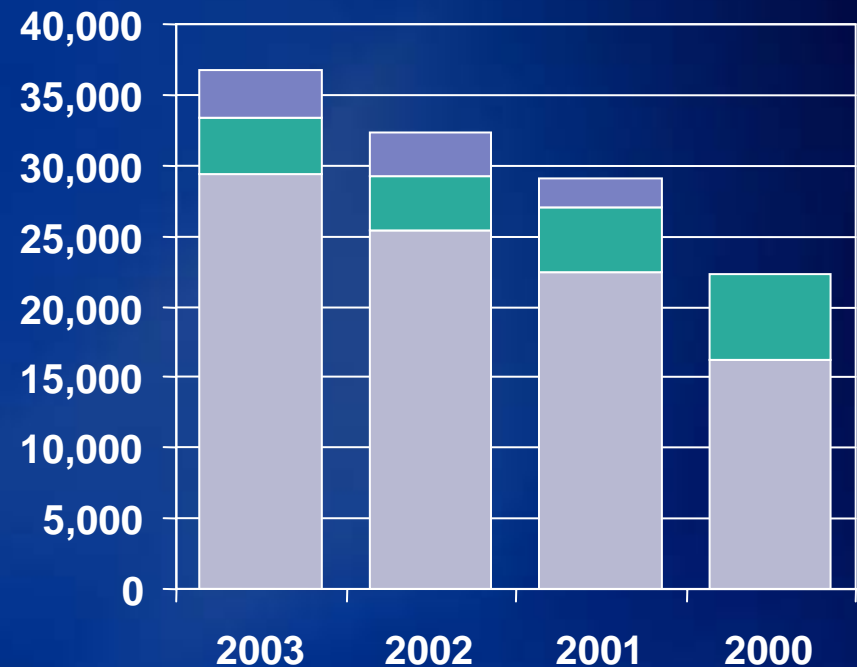
◆ Main drivers of asset growth in last 3 years are

- Deposits growth
- Recapitalization of some banks
- New players

◆ Growth in 2003 is real (no USD valuation)

◆ Other assets reduced: balance sheet restructuring

MT bilhões



- Shareholder funds
- Other liabilities
- Deposits

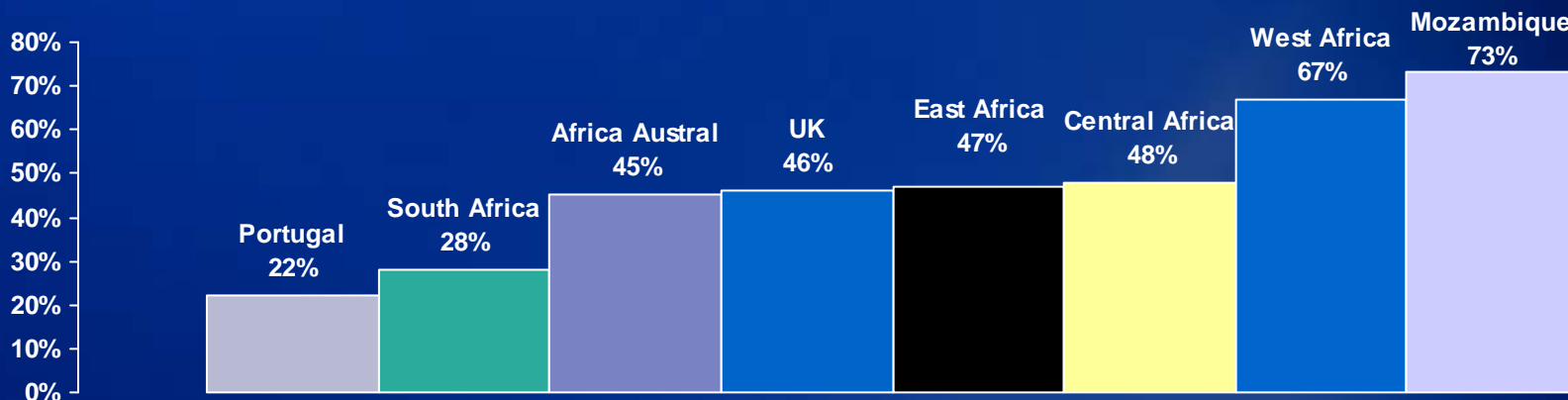
Balance sheet structure

	2003	2002	2001
REMUNERATED ASSETS (%)			
Loans	40.7	43.6	47.1
Other	33.6	21.9	11.6
Total	74.3	65.5	58.7

- ◆ (%) remunerated assets is growing but still lower than international average (90%)
- ◆ Justified by investments in TAMs and BTs rather than loans

Deposits – demand deposits

Demand deposits/ Total deposits



- ◆ % demand deposits significantly higher than African and international averages.
- ◆ This ration has been stable
- ◆ Low saving rates in Mozambique. Deposits main function is medium of exchanges.

Deposits – per currency

Demand deposits per currency (%)

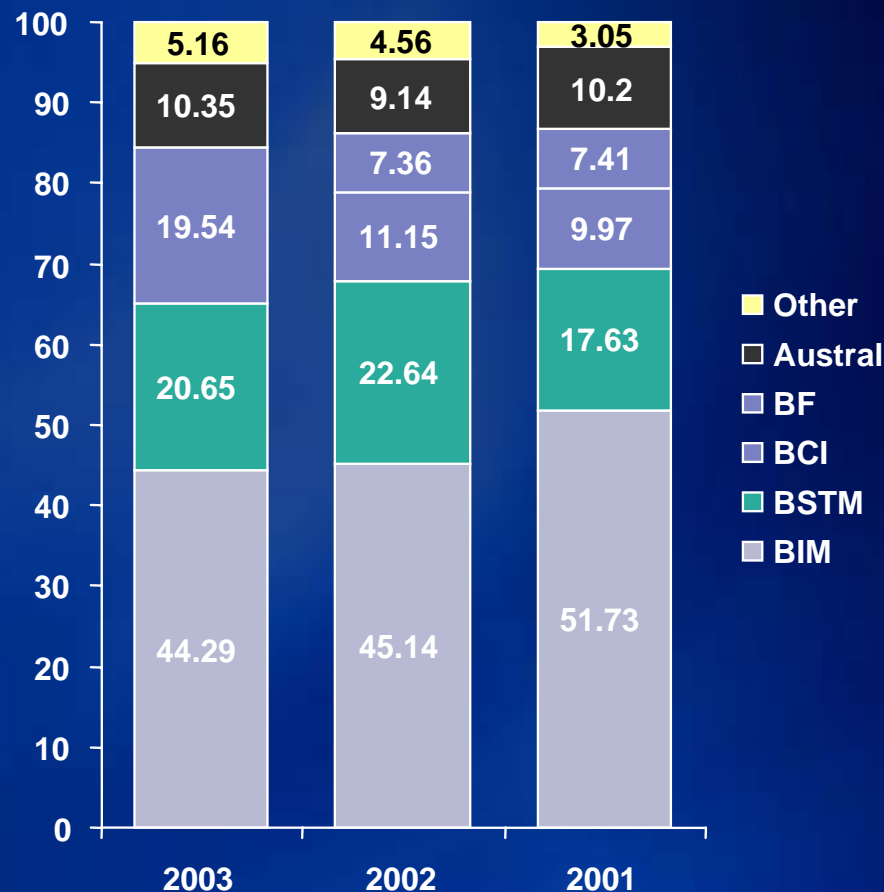
	2003	2002	2001
Metical	50.0%	46.3%	47.0%
Foreign currencies	50.0%	53.7%	53.0%
	100.0%	100.0%	100.0%

◆ Reflects dependency on foreign flows.

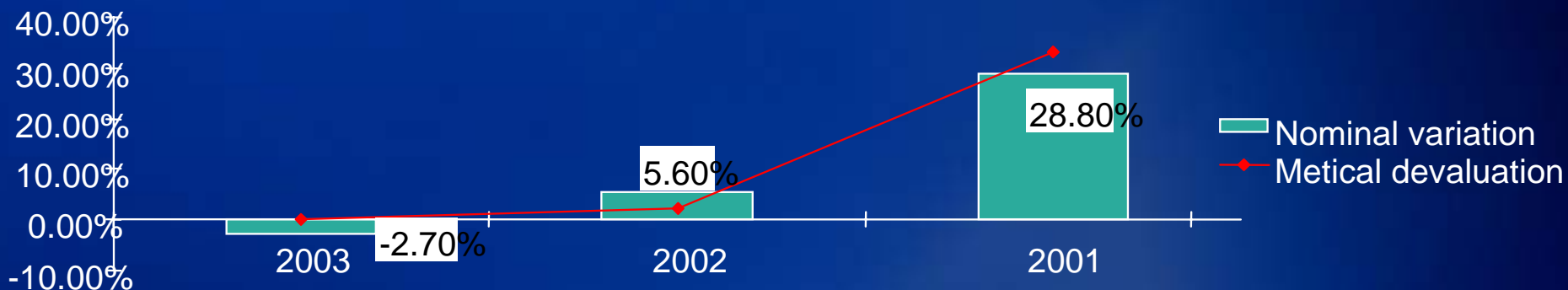
Deposits – market shares

- ◆ Stabilization of market shares in 2003
- ◆ Smaller banks increased slightly their shares
- ◆ BCI/BF merger reflected in 2003 shares

Market shares (%)



Loans - growth



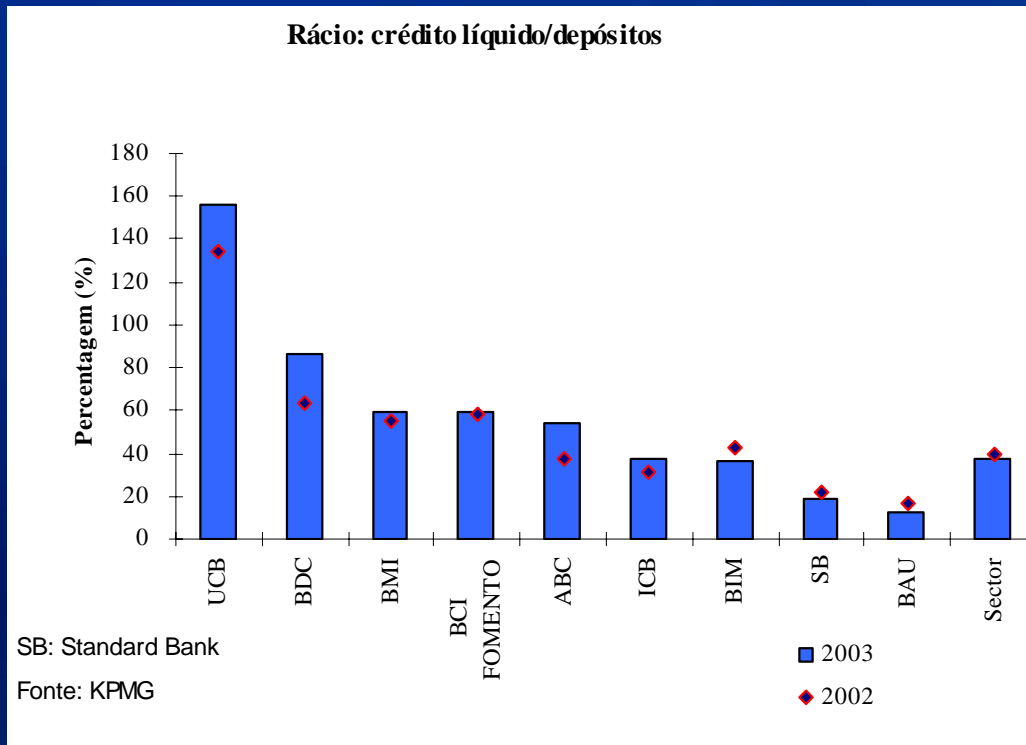
- ◆ **Decrease in 2003: 2.7%.**
- ◆ **Government projections for 2003: 14% growth**
- ◆ **Real decrease since 2000 : -4%**
 - Scarcity of projects with acceptable risks
 - Non performing portfolio
 - More prudent management of loans
 - Availability of alternatives

Loans – per currency

- ◆ Significant increase in ME loans in the last years
 - Metical stability
 - High Metical interest rates
- ◆ Negative impact on loan interest



Loans – Conversion ratio



- ◆ Negatively affected by loan stability
- ◆ Ratio of 37,5% lower than internacional benchmarks: 50%-90%
- ◆ Specialised banks have higher conversion rates

Loan quality

(%) Non performing loans/ total loans

	2003	2002	2001
Mozambique	15.1%	23.4%	25.7%
Ghana	17.9%		
Malawi	8.4%		
Namibia	3.9%		
4> Africa do Sul	2%-5%		
10> Mundo	1%-6%		

- ◆ Gradual quality improvement
- ◆ Loan restructuring MMMZM 900
- ◆ Adjusted ratio by loan restructuring in 2003: 19.8%
- ◆ Worse than international averages
- ◆ Specific provision/ non-performing loans: 121% in 2003 (124% in 2002).

Profitability

	2,003	2,002
ROA	1.4%	1.8%
Gearing	10.5%	12.1%
ROAE	14.7%	21.7%
Var IPC	13.8%	9.1%
Var USD	0.0%	2.0%

◆ ROAE% coming down

- Lower interest rates;
- Higher weight of foreign currency loans
- Metical stability reduced exchange gains.
- Lower gearing

◆ 3 bigger South African banks ROAA: 1.6% - 2.0%

◆ World bigger banks: < 1%

Profitability

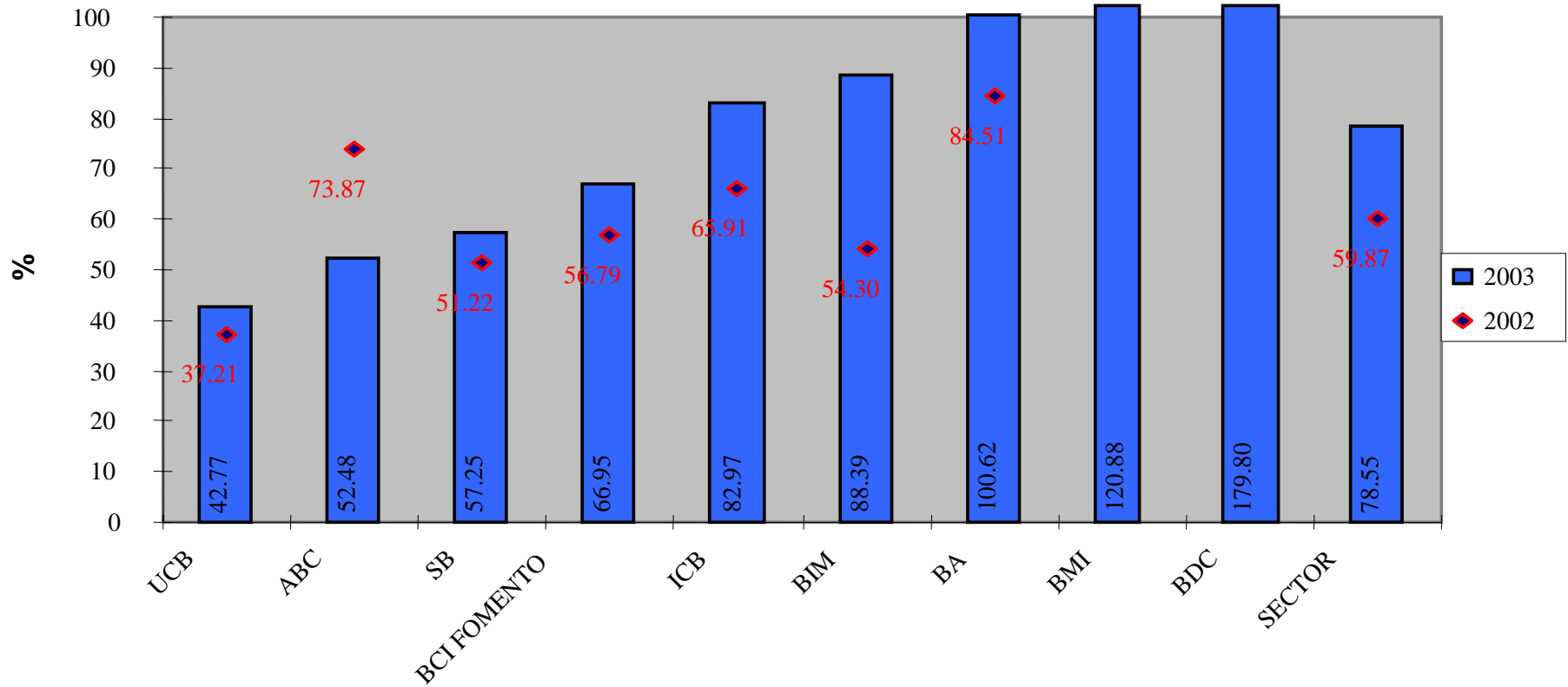
	2003			2002
	ROAA (%)	(X) Gearing	(=) ROAE (%)	ROAE (%)
Standard Bank	2.4	11.0	25.9	34.2
UCB	6.5	3.4	22.0	21.0
ABC	3.3	5.8	19.3	19.6
BCI	2.0	9.6	18.8	19.4
BIM	0.9	14.9	13.4	13.3
BAU	0.9	10.9	10.2	17.1
ICB	1.8	3.6	6.7	11.5
BDC	-4.0	6.6	-26.3	-79.7
BMI	-12.4	8.8	-109.3	-192.2

Efficiency

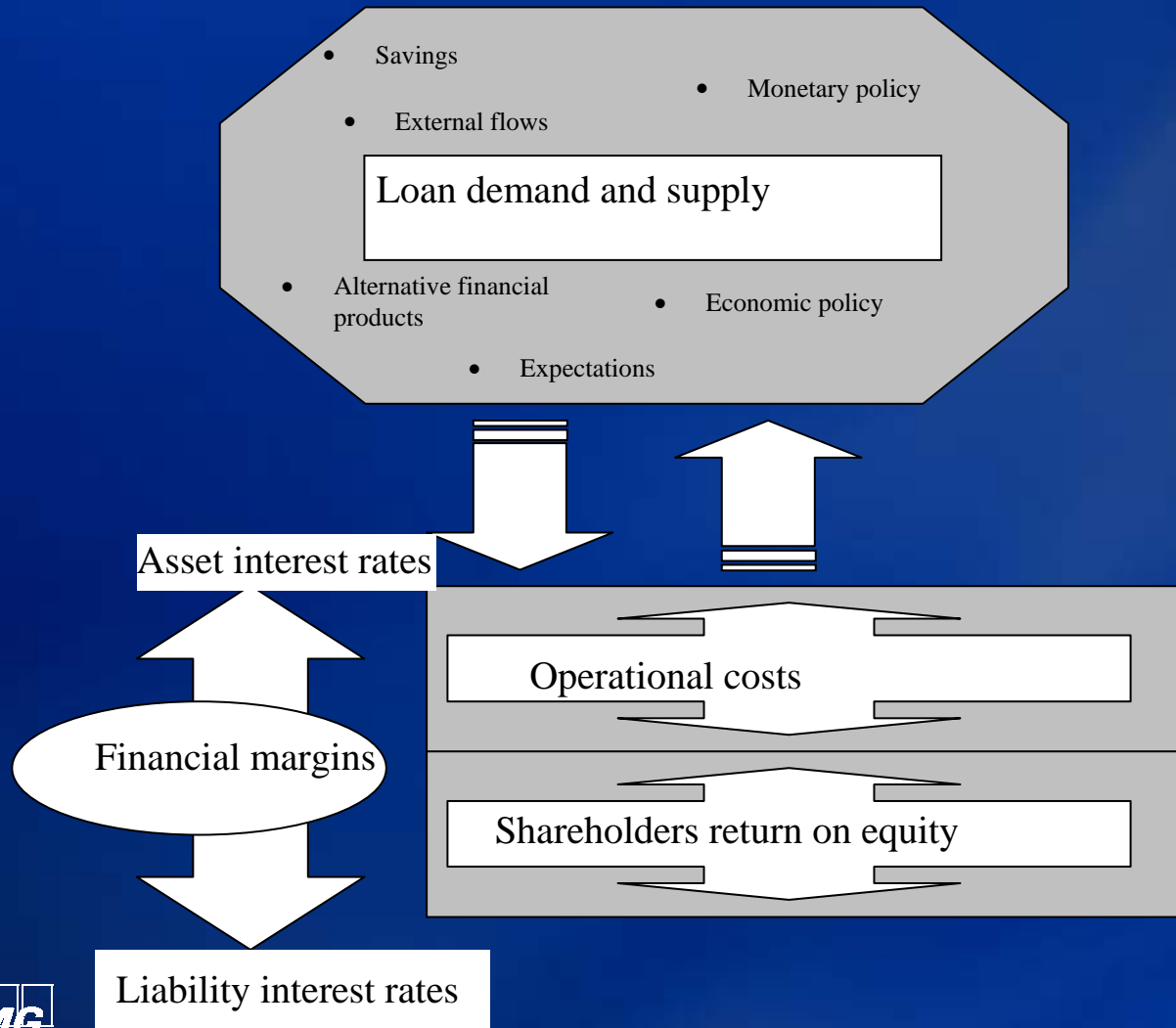
- ◆ Higher than international averages
- ◆ Increase to 78% from 60% in previous year:

Eficiência

Cost to income



KPMG Interest rates model



KPMG Interest rates model - Static

	Mozambique	Africa (*)	SA	Portugal
(=) Average net spreads	7.5	2.9	3.3	2.2
(*) % asset remuneration	61%	108%	110%	89%
(=) Financial margin	4.5	3.2	3.7	1.98
(+) Other income	4.0	2.0	2.0	1.1
(=) Total income	8.6	5.1	5.7	3.1
(-) Operational costs	-7.1	-4.0	-4.7	-2.5
(=) ROA	1.4	1.13	1.0	0.5
(*) Gearing	10	13.7	14.9	18.6
(=) ROE	14.7	15.4	15.2	9.8

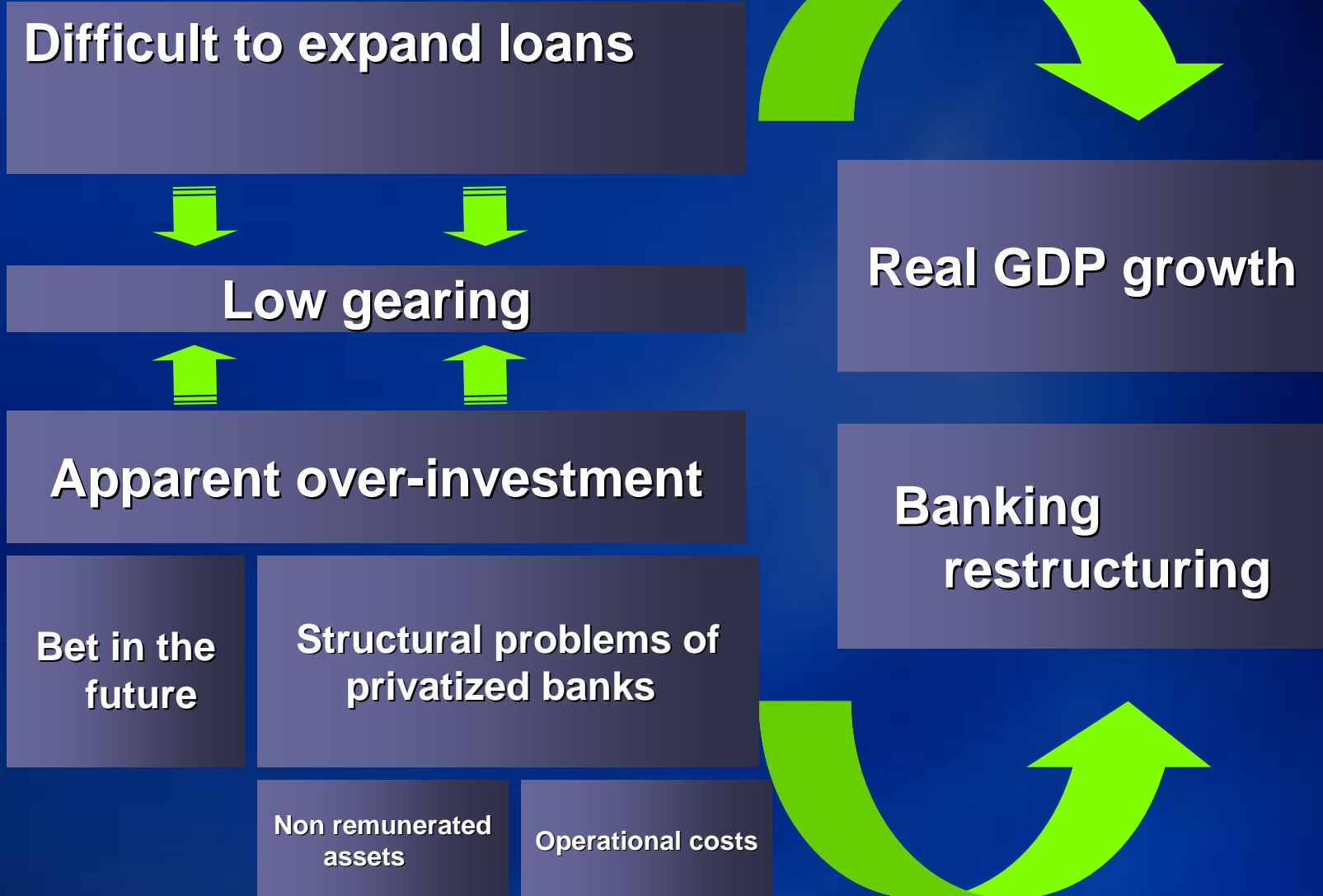
◆ Higher spreads cover:

- Less efficient asset structure
- Higher operational costs
- Lower gearing

◆ But...

- Partially compensated by higher non interest income

KPMG Interest rates model





Thank you





Contactos do apresentador

Pedro Barreto

KPMG Moçambique

+258 (1) 302 295

Pedro.barreto@kpmg.co.mz

www.kpmg.com

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