



Myanmar Citizens Bank limited

Summary

The Myanmar Citizens Bank (MCB) was established as a special company in 1991 by the Ministry of Commerce in order to encourage the spread of private banking sector, and in 1992 was granted its banking license by the Central Bank of Myanmar. The bank's basic purpose is the development and promotion of import/export companies, and it is well-known as a bank with knowledge and experience in underwriting trade related loans.

In the 2010 the bank embarked on an effort to expand its network of branches, and in six years managed to increase its profits by 10 times. Plans are to continue with the network expansion strategy in the future, and further expansion of earnings is expected. As for the expansion of business volume, some challenges remain, including the need to improve employee skills, increasing efficiency through systems investment, and establishing a compliance system.

MCB's strength is in the area of trade, and therefore, as Myanmar's economy becomes increasingly global in the future, business opportunities will likely grow for the bank. We recommended keeping an eye on MCB as a bank with huge growth potential.

The Myanmar Citizens Bank (MCB) was established as a special company in 1991 by the Ministry of Commerce in order to encourage the spread of private banking sector, and in 1992 was granted its commercial banking license by the Central Bank of Myanmar around the same time as First Private Bank. Most of MCB's clients are corporations involved in trade related businesses, which the Ministry of Commerce tends to promote. Much of the banks business is export and import related lending, including export letters of credit and guarantees, and it has accumulated much knowledge and experience in this area. The bank is known for being easy to use by importers and exporters.

The bank is making constant efforts to improve the efficiency of its import and export related business in order to fulfill its purpose of promoting imports and exports. A major example of this effort is the introduction of an e-payment system for import and export licenses. Before the e-payment system was adopted, importers and exporters had to go to the offices of the Ministry of Commerce in Naypyidaw and pay the import and export licensing fee in cash. This became unnecessary once the new system was established. This made it possible for businesses to avoid wasting such a long time simply to pay the import and export license fee. Only MCB uses this system, and handling licensing fees has become a very valuable source of earnings for them.

Table 1: Change in Number of New Accounts and Number of New Import & Export Licenses

	New Accounts	Import & Export Licenses
2008	798	37,022
2009	731	45,079
2010	711	58,391
2011	5,590	66,640
2012	7,204	77,479
2013	9,026	255,631
2014	10,732	170,960
2015	12,952	182,832

Source: MCB; compiled by writer of this report.



The size of MCB's assets accounts for approximately 1% of all commercial banks in Myanmar, a total of 21 banks. If we consider asset size alone, MCB is not all that large of a bank. However, one of the characteristics of Myanmar's commercial banking industry is that the top ranking bank, the Kanbawza Bank, accounts for 42% of all banks in asset size, and is an overwhelming presence in Myanmar banking. Moreover, once you get to the ninth ranking bank and below, there is not much difference in asset size in the rest of Myanmar's banks. For this reason, MCB may soon increase its ranking to number 10 as a result of its future business activities. If this is the case, the bank will come into direct competition with the First Private Bank, which is around the same size as MCB.

Table 2: Asset Ratios of Top Ten Banks (End March, 2016, %)

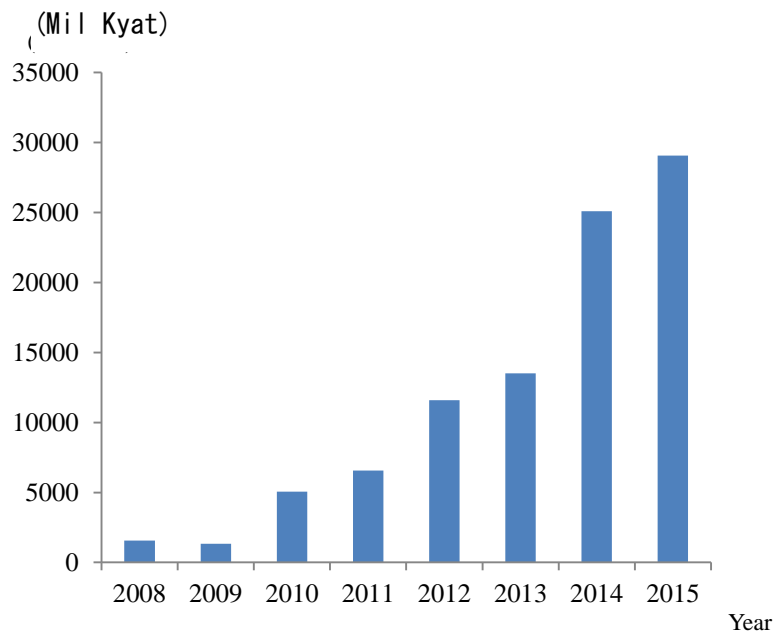
1	Kanbawza Bank	42
2	Ayeyarwaddy Bank	14
3	Co-operative Bank	10
4	Myawaddy Bank	6
5	Myanmar Apex Bank	6
6	Yoma Bank	6
7	United Amara Bank	3
8	Global Treasure Bank	3
9	Asia Green Development Bank	2
10	Myanmar Oriental Bank	2

Source: GIZ; compiled by writer of this report.

As of March 2016, MCB had 21 branches and a total of around 560 employees. In terms of land ownership on the part of said 21 branches, the land is owned by the bank in the case of 14 branches, while three branches have short-term lease agreements for use of the property, and four branches have signed long-term lease agreements. Meanwhile, of the total of 21 branches, 19 opened business between 2010 and 2016. Considering these facts about its branches, we can say that MCB embarked on full-fledged banking operations in 2010. Many of the bank's branches are not all that large, and even the largest employs only 40 people. Many of the smaller the branches hire fewer than ten employees. Hence we can say that they have a high level of mobility.

Taking a look now at change in amount of loans underwritten by MCB, we can clearly see that full-fledged banking operations began in 2010. Looking at loan amounts on an annual basis between the years 2008 and 2015, we can see that there was not much business during the years 2008 and 2009. The bank's loan business really gets going in the year 2010, and grows to remarkably to approximately 5.7 times the amount handled in that year by 2015. As of March 2016, the bank's NPL ratio stood at 2.69%.

Figure 1: Change in Loan Amounts (Unit: Mil Kyat)



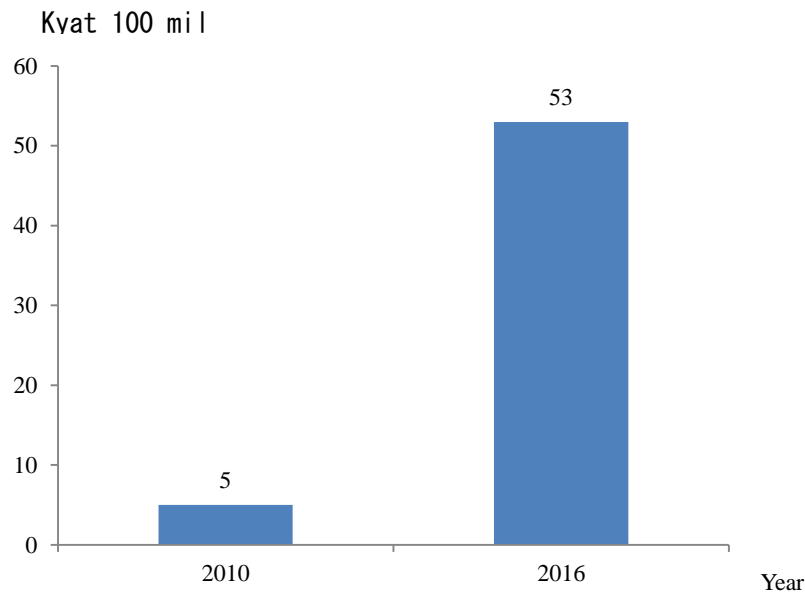
Source: MCB; compiled by writer of this report.

In a comparison of outstanding deposits and after tax profits in 2010 when the bank first began full-fledged operations and more recently in 2016, we see that outstanding deposits have grown from 12.2 billion kyat to 144.3 billion kyat during that time span, while after tax profits have grown from 500 million chat to 5.3 billion chat. Each of these two categories has grown more than 10 times between 2010 and 2016.

As of March 2016, MCB has provided loans to businesses in the following fields. Wholesale & retail trade hold the largest share at 35.9%, while the service industry stands at 26.5%, and industry is at 22.5%. As has been mentioned previously in this report, MCB’s largest shareholder is Myanmar’s Ministry of Commerce. Hence a large number of its clients are trade related businesses. Judging from this data, perhaps we can conclude that much of the bank’s business is in trade related to wholesaling & retailing. In comparison, loans to agriculture & livestock related businesses accounts for an especially small share of the bank’s business at 0.5%. The bank which is most active in supplying loans to the agriculture & livestock industry is the Global Treasure Bank. It appears that banks in Myanmar are being selective about their clientele, tending to concentrate on specific industries.

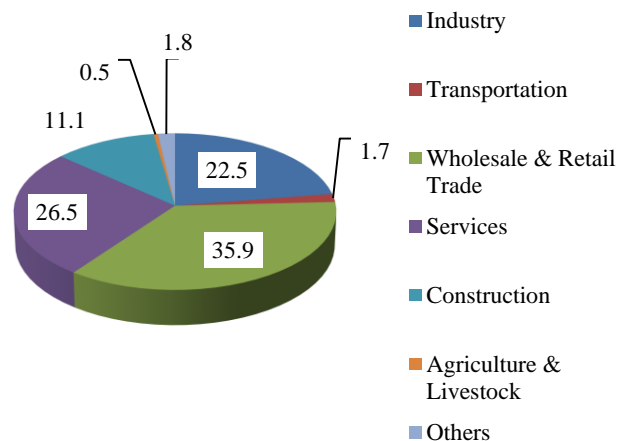
That said, MCB provides many loans for the purpose of purchasing agricultural machinery and equipment. Other fields which have often made use of MCB’s services, such as loans in the form of installment sales, are motor vehicle purchase, housing purchase, and mobile phone purchase.

Figure 2: After Tax Profit (2010 and 2016 Performance Comparison)



Source: MCB; compiled by writer of this report.

Figure 3 : Share of Loans by Industry (%)



Source: MCB; compiled by writer of this report.

Other types of loans include programs oriented toward small and medium-sized enterprises such as the two-step loan supported by The Japan International Cooperation Agency (JICA). The set-up brings in six banks including MCB. This is how two-step loans work: ① JICA provides the Myanmar government with low interest loans, and the Myanmar Economic Bank provides MCB with loans at 4%, ② then MCB uses the capital to provide loans to small and medium-sized corporations at 8.5%. By making use of this policy, MCB has secured interest income of 4.5%.

Since MCB is still a fairly new bank, having begun full-fledged expansion of operations in 2010, it is now in the process of aggressively expanding its branch network. The bank targets the opening of fifty new branches by the year 2021. The bank plans on purchasing the land in the case of 26 out of the total 50 new branches, and to lease the property in the case of the remaining 24 branches. This plan is a welcome development from the viewpoint of MCB increasing its profitability in the future. Banks used to be considered untrustworthy in Myanmar. Hence people tended not to use banks, and the rate of bank account ownership was low. However, the number of people opening bank accounts has been



increasing of late, due to interest income one can acquire from savings accounts and the convenience of using mobile banking. Opening new branches is therefore expected to bring MCB an increase in its total amount of deposits. As Myanmar’s economy continues its high growth, increasing amounts of bank deposits will help to increase the ability of banks to lend money, and this in turn will encourage growth in earnings.

Table 3: Branch Network Expansion Strategy

	Land Purchased	Land Leased	Total
2016-2017	4	2	6
2017-2018	4	3	7
2019-2028	5	5	10
2019-2020	6	6	12
2020-2021	7	8	15
Total	26	24	50

Source: MCB; compiled by writer of this report.

The bank’s volume of business is expected to grow rapidly as a result of expanding its network of branches. And as it grows, the bank’s employees will be required to improve their skills and handle daily business more efficiently. Building a compliance framework will also be required. As for improvement of employee skills, the bank is attempting to handle this by hiring foreign workers who have many years of experience in international operations. As for improving the efficiency of handling daily business such as paperwork, the bank is investing in computer systems so that some of the paperwork previously handled by human workers can be automated in the future. Considering the fact that salaries will likely increase in the future, taking the approach of improving efficiency and cutting costs at this stage is considered to be a wise move. Of course, investing in computer systems costs a lot of money, so finding the right timing for the implementation of systems investment, one that strikes a balance with the issue of the cost of wages, is an important point to keep in mind in the future. As for building a compliance framework, this is something which is unavoidable since transparency and accountability are more and more being demanded of corporations in Myanmar. Moreover, it is an effective means of increasing the value of the corporation. For this reason, the bank should build a framework quickly as possible, making use of know-how from overseas.

As Myanmar’s economy continues to grow in the future, the country plans on transforming itself from an agricultural economy to an industrial one. In other words, the time will come when the country enters the stage of industrialization. However, it is thought that the most appropriate move would be to start with the processing of agricultural products and seafood rather than jumping straight into the manufacturing of electronic devices and transportation equipment since Myanmar has an environment with plenty of fertile land and abundant marine resources. The country can obtain foreign currency by exporting processed agricultural products, and then this will become the basis for the next stage of growth in the future – in other words this will open the road to industrialization. Currently MCB is putting efforts into supporting corporations carrying out trade in agricultural and fisheries related products. If these corporations can attain timely growth by producing competitive export products, MCB will likely see growth in opportunities for lending. We recommended keeping an eye on MCB as a bank with huge growth potential in the future.