



## MCB Monitoring Report (No. 1)

### 1. Summary of FY2018 Business Results (Oct. 2018 – Sept. 2019)

MCB FY2018 business results (Oct. 2018 – Sept. 2019) are summarized as follows. Earnings included interest income of 41,193 million kyat, and commissions totaling 5,436 million kyat, while expenditures included interest payments of 27,482 million kyat, personnel expenses of 7,176 million kyat, and administrative expenses of 4,559 million kyat. In addition, the company held additional general loan loss provision totaling 1,699 million kyat as per regulatory requirement of Central Bank of Myanmar. As a result, the company registered net profits totaling 3,419 million kyat, while earnings per share on its stock were at 329 kyat. Dividends per share were set at 400 kyat. Meanwhile, capital adequacy ratio, an important indicator of financial stability, was at 18.88% as of September 30, 2019. This is considerably above the 8% considered to be the standard for financial soundness.

#### Summary of Income statement

	FY 2018-19 (in million Kyat)
Interest income	41,193
Interest expense	(27,482)
<b>Net interest income</b>	<b>13,711</b>
Net fee and commission income	5,436
Increase of specific provision	(181)
General provision for loan losses	(1,699)
Other operating income	366
<b>Income before operating expenses</b>	<b>17,633</b>
Personnel expenses	(7,176)
Administration and general expenses	(4,559)
Depreciation and amortization	(1,594)
<b>Profit before income tax</b>	<b>4,304</b>
<b>Profit after Tax</b>	<b>3,419</b>
Earning per share(MMK)	329

Source: Annual Report 2018-2019



The impression given by overall results is that while interest income grew, there was also considerable growth in personnel expenses and administrative expenses. As a result, net profit did not achieve much growth. This was due to the fact that along with the rapid expansion of the company's branch network, the cost of leasing land and recruiting new employees has also grown continuously. These costs are considered to be reinforcement of business infrastructure as the company looks toward the future. Hence it should cause no worries as to the company's stability. The company should be able to absorb these costs as it continues to expand.

The amount of financing being handled by MCB is achieving favorable growth due to the increase in savings accounts associated with the expansion of the number of branch offices. The bank's loan balance was at 315,298 million kyat after deducting specific loan loss provision as per regulatory requirement of Central Bank of Myanmar as of end September 2019, representing growth of 36.8% in comparison to the previous year. Looking at loan balance by type of loan, we see that financing of installment purchases accounted for an especially large portion at 52.8% of the total. Behind this growth lies the fact that demand for loans for the purchase of automobiles, tractors, smartphones and other items is quite large now in Myanmar, and this trend is expected to continue for some time. The next largest share in types of loans is demand loans at 29.7%. Borrowers are for the most part in the agricultural industry, including rice-polishing mills, cooking oil refineries and fertilizer. These borrowings tend to be associated with the warehousing or retail industries. Taking a look at year-to-year growth in loan amount, employee loans (up by 1,604%) and SME loans (up 113.4%) are most notable. As for SME loans, growth is due to the increase in financing of small to medium sized enterprises for the purpose of raising capital for use in capital expenditure, using the JICA two-step loan scheme. The JICA project is an ongoing one, and therefore SME loans are expected to continue high growth in the future.

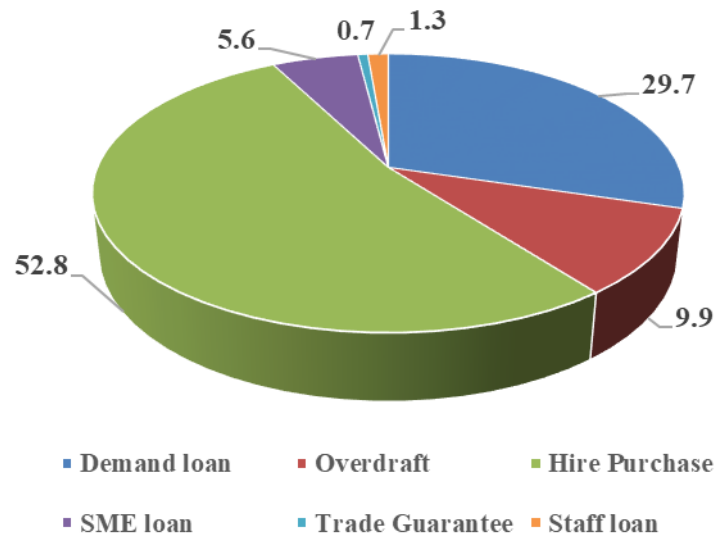
#### Loans by Type

	30-Sep-19 (in million Kyat)	30-Sep-18 (in million Kyat)	change %
Demand loan	93,692	93,742	(0.1)
Overdraft	31,322	23,148	35.3
Hire Purchase	166,740	102,616	62.5
SME loan	17,732	8,310	113.4
Trade Guarantee	2,059	2,723	(24.4)
Staff loan	4,226	248	1,604.0
Specific provision	(473)	(291)	62.5
<b>Total</b>	<b>315,298</b>	<b>230,496</b>	<b>36.8</b>

Source: Annual Report 2018-2019



### Share by Type of Loan as of end September 2019 (%)



Source: Annual Report 2018-2019

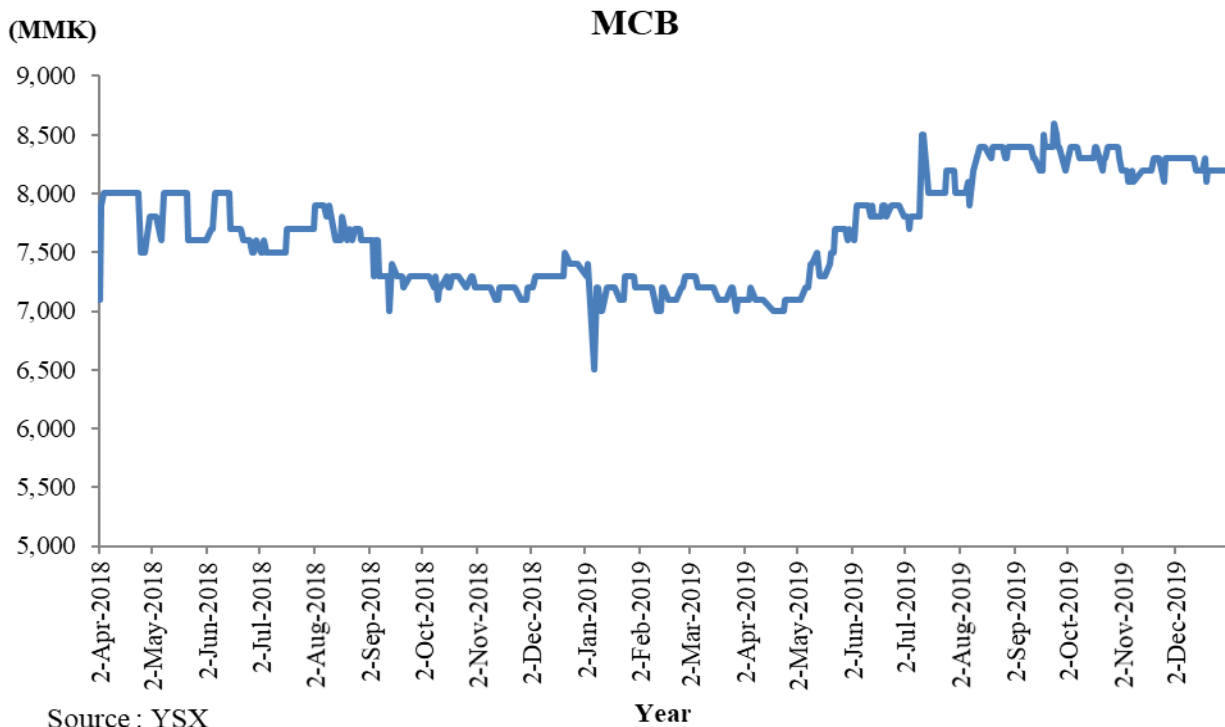
In considering future growth in earnings, the company's strategy of expanding its network of branch offices is essential, along with investment in IT systems. As for the company's strategy of expanding its network of branch offices, as of 2017, only two new branch offices had been opened, but then after that point 13 new branch offices were opened in 2018 and then another 8 new branches in 2019, representing the company's push to rapidly expand its network of branch offices. As a result, over the past two years, lending capacity has increased considerably, and this is considered to have brought MCB to an important turning point in its business. As of August 2016 the company's business plan called for the number of branch offices to reach 50 by March 2021. However, things have been progressing even faster than the original business plan. Currently there are 45 branch offices. Points which must be taken into consideration when establishing a new branch office include safety of the area chosen for development, strength of customer needs, and the question of how many new accounts can be obtained through the opening of a new branch. As for geographical distribution of branch offices, many are located in areas near the country's borders where much business in trade is carried out. Many of the bank's customers are businesses involved in trade. Cost benefit must also be taken into consideration when opening a new branch office. This is essential from the viewpoint of the question of earnings. In other words, the important question is how much deposits have increased and the degree to which the bank is able to carry out lending as a result, and ultimately the extent to which they can increase earnings above the break-even point covering the cost of establishing new branch offices. As for investment in IT systems, the bank introduced a new core system last



year – the Temenos T24, which is the market leader in core software for the Swiss financial industry. As of this point the software has been running with no major issues occurring, and it promises to ultimately increase profitability by improving efficiency. For its mobile banking system, the company considered the products of three different companies including Temenos, finally settling on the Temenos product in consideration of compatibility with its core system, as well as for the purpose of promoting a clear-cut systems expansion strategy. The company plans on starting a mobile banking system once these new systems have been installed. This promises to lead to new earnings expansion opportunities.

In promoting this strategy, which aims for the expansion of financial access to small and middle-sized enterprises and individuals, MCB signed a two-year consulting contract with International Finance Corporation (IFC) in August 2019. Under this contract, improvements in the company’s sales network, optimization of credit risk management, and streamlining of organizational management are expected to be implemented. There is promise, therefore, of more efficient bank operations in the future, which should lead to an increase in profitability.

## 2. Change Over Time in MCB Stock Price



Source : YSX

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