

**Company Overview**

Mutual Trust Bank Limited (The Bank) was established and commenced its operation in 1999. The principal activities of the Bank are to provide a comprehensive range of financial services including commercial banking, consumer banking, trade services, internet banking, SME, retail, custody and clearing services to its customers. As of December 2017, the Bank has 111 branches including 14 SME/Agri branches, 250 ATMs, 3,000 POS machines, 50 Agent Banking centers, 01 Air lounge and 02 Booths located at Hazrat Shajala International Airport, Dhaka. The Bank is acting as a Primary Dealer since 2009 to operate the Treasury Bills/Bonds and other Government Securities in the secondary market.

The Bank has three fully owned subsidiaries: MTB Securities Ltd., MTB Capital Ltd. and MTB Exchange (UK) Ltd.

**Composition and growth of Consolidated Operating Income:**

(BDT mn)	2014	2015	2016	2017	2018 (HY)
Interest Income	9,717	10,790	11,381	12,161	7,579
Interest Expense	7,882	7,926	7,503	7,853	5,099
Operating Income	5,725	6,580	7,515	8,479	4,592
Growth*	24%	15%	14%	13%	20%
Net Interest Margin	2.7%	3.3%	3.7%	3.3%	3.4%
<b>As % of Operating Income</b>					
Net interest income	32%	44%	52%	51%	54%
Investment income	44%	35%	27%	25%	24%
Commission and brokerage income	17%	15%	16%	19%	16%
Other operating income	8%	6%	5%	6%	5%
<b>Growth*</b>					
Net interest income	79%	56%	35%	11%	28%
Investment income	1%	-8%	-12%	6%	14%
Commission and brokerage income	24%	6%	22%	28%	7%
Other operating income	25%	-7%	-5%	17%	19%

\*Growth for 2018 is calculated for 6 months over the same period of the last year.  
Net Interest Margin: Net interest income/average of loans & advances

**Historical Loans & Advances and Term Deposits:**

(BDT bn)	2014	2015	2016	2017	2018 (Jun)	5 Year CAGR
Loans & Adv.	77	98	114	146	160	--
% of Total Asset	66%	67%	69%	72%	74%	--
Growth (YoY)*	30%	27%	17%	27%	10%	21%
Term Deposits	97	118	131	152	161	--
% of Total Asset	83%	81%	79%	75%	75%	--
Growth (YoY)	15%	22%	11%	16%	6%	15%
Credit-Deposit	79%	82%	87%	96%	100%	--

\*Growth for 2018 is calculated over December 2017.

The Company was enlisted with the DSE and the CSE in 2003.

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Sep-18	37.34%	0.00%	23.91%	0.00%	38.75%
31-Dec-17	36.62%	0.00%	22.27%	0.00%	41.11%
31-Dec-16	44.69%	0.00%	25.49%	0.00%	29.82%
31-Dec-15	44.69%	0.00%	25.49%	0.00%	29.82%

**Company Fundamentals**

Market Cap (BDT mn)	21,902.5
Market weight (Based on Mkt Cap)	0.7%
No. of Share Outstanding (in mn)	573.4
Free-float (Public + Institution + Foreign)	62.7%
Paid-up Capital (BDT mn)	5,733.6
3 Months Daily Average Turnover (BDT mn)	10.5
3 Months Return	19.8%
Current Price (BDT)	38.2
52-week price range (BDT)	26.1 - 40.5
Sector Forward P/E	9.9

	2015	2016	2017	2018 (6M Ann)
<b>Financial Information (BDT mn):</b>				
Operating Income	6,580	7,515	8,479	9,184
Operating Profit	2,811	3,408	3,916	4,578
Profit Before Tax	2,274	2,461	2,259	2,745
Profit After Tax	1,366	1,464	1,980	1,746
Shareholder's Equity	8,929	9,818	11,762	12,533
Deposit	118,405	131,272	151,776	160,570
Loans and Advances	97,589	114,356	145,607	159,914
Investment	26,210	21,942	25,106	27,015
Total Asset	146,073	165,371	201,754	214,900
<b>Margin:</b>				
Operating Profit	42.7%	45.4%	46.2%	49.9%
Pretax Profit	34.6%	32.8%	26.6%	29.9%
Net Profit	20.8%	19.5%	23.4%	19.0%
<b>Growth:</b>				
Loans & Advances	26.5%	17.2%	27.3%	9.8%
Deposits	21.9%	10.9%	15.6%	5.8%
Equity	31.9%	10.0%	19.8%	6.6%
Operating Income	14.9%	14.2%	12.8%	8.3%
Operating Profit	8.0%	21.3%	14.9%	16.9%
Net Profit	42.1%	7.1%	35.3%	-11.8%
<b>Financial Indicators:</b>				
Credit/Deposit	82.4%	87.1%	95.9%	99.6%
Asset/Equity	16.4	16.8	17.2	17.1
Capital Adequacy	12.0%	11.3%	13.8%	--
NPL	2.1%	4.4%	4.3%	--
Cost to Income	57.3%	54.6%	53.8%	50.1%
<b>Profitability:</b>				
ROE	29.0%	26.3%	20.9%	22.6%
ROA	1.9%	1.8%	2.0%	1.6%
<b>Dividend History:</b>				
Dividend % (C/B)	-/20	-/15	-/12.5	--
Dividend Yield	--	--	--	--
Dividend Payout	--	--	--	--
<b>Valuation:</b>				
Price/Earnings	16.2	15.1	11.1	12.6
Price/BV	2.5	2.2	1.9	1.8
Restated EPS (BDT)	2.4	2.6	3.5	3.0
Restated NAVPS (BDT)	15.6	17.1	20.5	21.9

## Industry Overview

The banking sector in Bangladesh comprises four categories of scheduled banks- state-owned commercial banks (SCBs), state-owned development financial institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs). At present, there are 58 scheduled banks operates in Bangladesh. There are 6 State Owned Commercial Banks (SOCB), 3 Specialized Banks, 32 Conventional Private Commercial Banks, 8 Islami Shariah based Private Commercial Banks and 9 Foreign Commercial Banks. As per the annual report of the Bangladesh Bank, at the end of December 2017, total number of bank branches increased to 10,034 from 9,654 in December 2016.

The asset structure of the banking industry continued to be dominated by loans and advances, which secured 65.0 percent share in CY17 while it was 61.4 percent in CY16 and 60.0 percent in CY15. This increase was due to growth in loans and advances by 18.93 percent in CY17 compared to 15.26 percent in CY16. Total loans and advances of the banking system stood at BDT 8,784.2 billion in CY17.

Deposits served as the main sources of funds for the banking industry. According to the financial stability report 2017, total deposits of the bank sector was BDT 10,119.3 billion which was BDT 9,061.9 billion as of December 2016, registering 11.67% year over year (YoY) growth.

According to the monetary policy statement (January - June 2018), private sector credit experienced a robust growth of 18.1 percent in December 2017, exceeding the programmed growth of 16.2 percent.

Currently, the scheduled commercial banks have to maintain a CRR (cash reserve ratio) averaging 5.5% daily on a biweekly basis against average total demand and time liabilities (ATDTL) of the second preceding month. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0% and for islami shariah based banks is 5.5% of ATDTL.

As of December 2017, the market share of liquid assets declined for the PCBs and increased for the SCBs. In particular, SCBs' share increased by 5.8 percentage points, while the share of PCBs reduced by 4 percentage points. It seems that SCBs are focusing more on liquid assets due to restrictions on their new lending. On the other hand, PCBs are reducing their liquid asset holdings to focus more on earning assets.

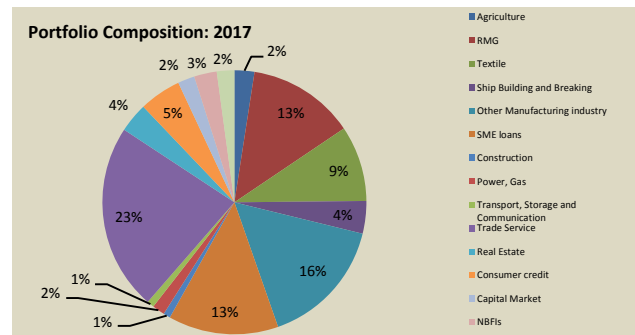
The ADR of all banks has been re-fixed at 83.50 percent for conventional banks and at 89 percent for Shariah-based Islamic banks. The earlier ratios were 85 per cent and 90 per cent respectively. The revised limit of ADR will come into effect from June this year. Naturally, urban areas get more attention over rural areas in case of both deposits and advances distribution.

Despite close monitoring by the central bank, the amount of non-performing loans (NPLs) jumped by over 20 per cent or BDT 150.37 billion at the end of June this year from December last year. The volume of NPLs rose to BDT 893.40 billion as of June 30, 2018 from BDT 743.03 billion as of December 31 last. The share of classified loans reached 10.41 per cent of the total outstanding loans during the period under review than that of 9.31 per cent six months back, according to the central bank's latest statistics. (The Financial Express, 11 September 2018).

In the National Budget 2018-19, the Government has cut the corporate tax for the banks by 2.5% to 37.5% for publicly traded banks and 40% for non-publicly traded banks.

## Investment Positives

- In September 2018, the Bank has decided to issue fresh equity/ordinary securities/shares in favor of Norfund - a private equity company established by the Norwegian Storting in 1997 and owned by the Norwegian Ministry of Foreign Affairs. This is subject to approval by the shareholders and the regulatory authorities for issuance of **63,707,004 no. of equity shares or 10% of the total outstanding shares, whichever is higher (on the date of issuance) at BDT 27.19 each including a premium of BDT 17.19 each (Face value at BDT 10.00 each) at a total value of BDT 173,23,74,818.00.** Norfund will nominate one member to the Board of Directors of MTB.
- In December 2017, the balance-sheet size of the Bank stood at BDT 201.75 billion increased by 22.0% over last year and 5-year CAGR (Compound Annual Growth Rate) was 16.71%. As of June 2018, it stood at BDT 214.90 billion grew by 6.52% over December 2017.
- The Bank has designed its products basket to create a well-balanced and diversified portfolio. As on December 31, 2017, Loan Diversification was ensured as Trade Service sector got 23% of loan portfolio followed by other Manufacturing Industry (16%) and SME (14%).

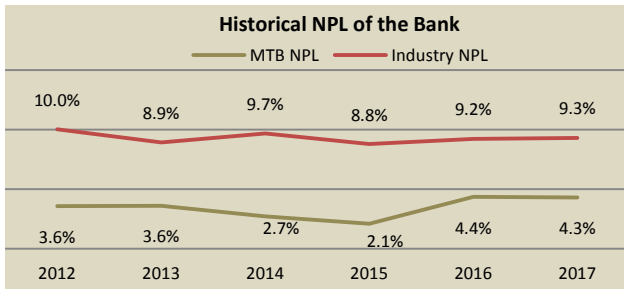


Source: MTB Annual Report 2017

- The Bank is pursuing its business in SME sector over the years to reduce concentration on large borrower. **SME portfolio is now consists of around 14% of total portfolio. In 2017, SME loan portfolio has posted a significant growth of 72.44% over last year to BDT 18.02 billion.** The Bank has SME business desk in all the branches and dedicated 14 SME/Agri branches across the country. The Bank will give more concentration in retail and SME business.
- The Bank's consolidated investment has increased by 7.60% to BDT 27.02 billion in the first half of 2018 over December 2017. Historical consolidated investment and income from investment are shown below:

Particulars	2013	2014	2015	2016	2017
<b>Consolidated Investments (BDT bn)</b>					
Government Securities	24	18	24	20	23
Others	2	2	3	2	2
<b>% of Total Assets</b>					
Government Securities	24%	16%	16%	12%	11%
Others	2%	2%	2%	1%	1%
<b>% of investment Income</b>					
Government Securities	10%	11%	10%	12%	10%
Others	13%	11%	5%	2%	9%

- As of December 2017, NPL (classified loan to total loan) of the Bank has decreased slightly to 4.30% from 4.36% in the last year where the industry NPL was 9.31%. The Bank has given special emphasis to improve the asset quality and declared 'war against NPL' as the top priority task.



Source: Bangladesh Bank and MTB Annual Report 2017

- The Bank has a plan to introduce a new Core Banking System (CBS) to have an edge over competitors and to provide better service to its customers with proper time management, accuracy and simpler financial solution.
- To grab the unbanked areas to bring the unbanked population under banking services the Bank has established 50 Agent Banking outlets and has a plan to open 50 more outlets by 2018.

#### Investment Negatives

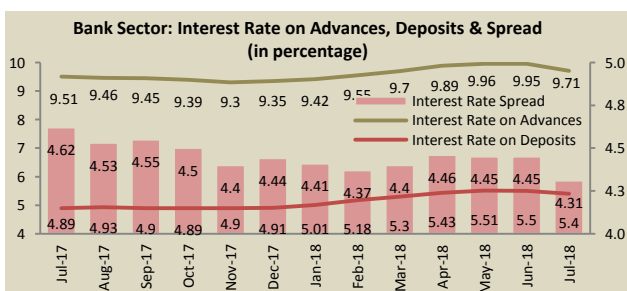
- Declining trend of interest rates (both lending and deposit rates) of the Bank started to reverse in 2018. This upward trend of interest rates might have negative impact on net interest margin depending on the gap of rate sensitive assets and liabilities.

Interest Rate (MTB)	2014	2015	2016	2017	2018 (HY)
Lending Rate*	14.2%	12.4%	10.7%	9.4%	10.4%
Deposit Rate*	8.7%	7.4%	6.0%	5.5%	6.7%
Spread	5.5%	5.0%	4.7%	3.8%	3.7%

\*Lending rate: Interest income/average of loans & advances

\*Deposit rate: Interest expense/average of total deposit

Interest rates on bank sector deposit have started to go up gradually from the beginning of 2018 after breaking the downward trend of last three years amid significant drop in excess liquidity in the banking sector.



Source: Bangladesh Bank

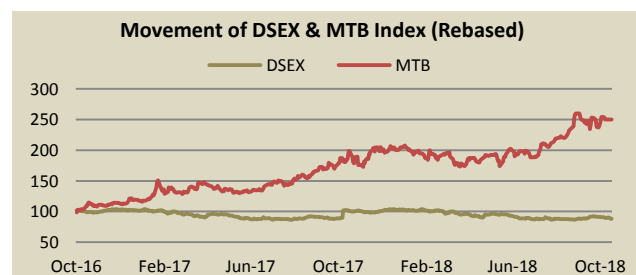
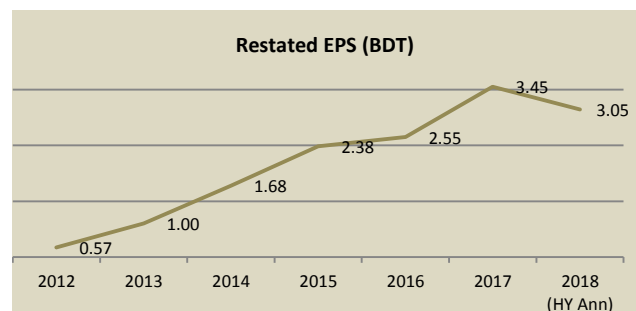
- Cost to income ratio of the Bank is in declining trend due to higher growth of operating income than that of operating expenses. But this is still somewhat high compared to its peer.

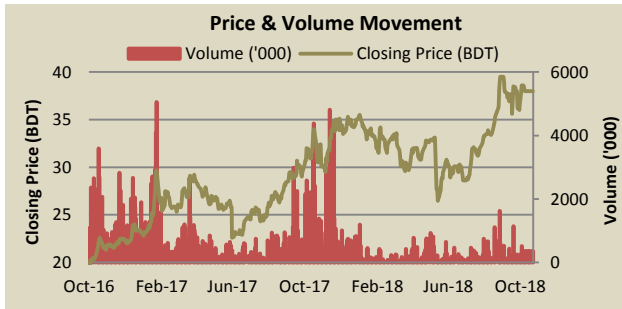
Particulars	2013	2014	2015	2016	2017	2018 (HY)
Cost to Income Ratio	56.1%	54.5%	57.3%	54.6%	53.8%	50.1%

#### Latest Quarter Update – June 2018

Particulars (BDT mn)	Jan-Jun 2018	Jan-Jun 2017	Apr-Jun 2018	Apr-Jun 2017
<b>Net Interest Income</b>	<b>2,480</b>	<b>1,945</b>	<b>1,306</b>	<b>1,002</b>
% of total operating income	54.0%	50.8%	52.6%	51.6%
Growth	27.5%	--	30.3%	--
<b>Investment Income</b>	<b>1,113</b>	<b>974</b>	<b>606</b>	<b>491</b>
% of total operating income	24.2%	25.5%	24.4%	25.3%
Growth	14.3%	--	23.4%	--
<b>Commission, Exchange and Brokerage Income</b>	<b>750</b>	<b>699</b>	<b>411</b>	<b>317</b>
% of total operating income	16.3%	18.3%	16.6%	16.3%
Growth	7.3%	--	29.7%	--
<b>Other Operating income</b>	<b>249</b>	<b>208</b>	<b>159</b>	<b>131</b>
% of total operating income	5.4%	5.4%	6.4%	6.7%
Growth	%	%	%	%
<b>Total Operating Income</b>	<b>4,592</b>	<b>3,827</b>	<b>2,481</b>	<b>1,941</b>
Growth	20.0%	--	27.8%	--
<b>Operating Profit</b>	<b>2,289</b>	<b>1,800</b>	<b>1,263</b>	<b>891</b>
Growth	27.2%	--	41.8%	--
<b>Net Profit</b>	<b>873</b>	<b>422</b>	<b>502</b>	<b>131</b>
Growth	106.9%	--	283.2%	--

- Net interest income of the Bank has increased due to the increase in loan portfolio by 10% in the first half of 2018 over December 2017 in an environment of rising interest rates.
- Investment income increased mainly due to the gain from trading of govt. securities, capital gain from investment in secondary market.
- Operating profit of the Bank increased in the first half of 2018 over the same period of last year due to higher growth of operating income (19.9%) than that of operating expenses (13.6%).
- Profit after tax posted a significant growth of 107% in the period over last year due to increased operating profit, decreased provisioning requirement and lower effective tax rate over the same period of last year.





### Concluding Remark

The Bank is incessantly working to establish it as a viable economic enterprise and striving to increase stakeholders' value in the country's banking industry. Despite various external challenges, Bank's overall business posted healthy growth in recent periods. To achieve the business vision, the Bank is giving more focus in retail and SME business, ensuring financial inclusion through agent banking and concentrate on improving the risk assets portfolio.

Source: Annual Reports, Bangladesh Bank website, DSE Website, the Financial Express, the Daily Star, ILSL Research, The bank's website.

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