

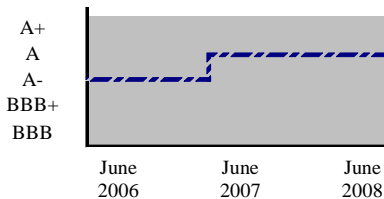
## MYBANK LIMITED (ML)

### RATINGS (JUNE 2008)

#### MYBANK LIMITED (ML)

RATINGS	NEW	PREVIOUS
<b>Entity</b>		
Long Term	A	A
Short Term	A1	A1

### L. T. ENTITY RATING - HISTORY



### FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	40,601.6	26,289.8
Equity	5,063.7	3,928.6
Net Income	340.3	499.3
ROA %	1.02	2.30
ROE %	7.57	15.56
Equity/Total Assets %	12.47	14.94
SBP CAR	18.78	16.94

### ANALYSTS

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### RATING RATIONALE AND KEY DRIVERS

- The ratings reflect Mybank's better standing among small-size banks, emanating mainly from its size and outreach and a sound risk absorption capacity. Although the bank has achieved noticeable growth, it has a high degree of concentration both in its advances and deposits. The bank is focusing on technology-based initiatives to improve service quality and enhance efficiency, while continuing to improve its risk management framework to manage risk in a difficult credit environment. By further extending its outreach, the bank aims to effectively utilize the existing network in achieving targeted growth in the desired segments.
- The ratings are dependent on effective execution of the bank's business strategy to improve its relative position. Retention of senior management is critical to ensure consistency in policies and strategy. Although the bank is striving to overcome its constraints like limited franchise value, low diversification and building up a more cohesive management team, its timely execution would be critical. Meanwhile, any material deterioration in the asset quality of the bank leading to weakening of its risk absorption capacity, could also adversely affect the ratings.

### ASSESSMENT

- The bank, while expanding its network to 60 branches during 2007, improved its system share of assets and deposits. The bank's overall finances-to-deposits ratio remained stable at around 70%. The loan book witnessed a significant change in its mix whereby with growth during the year being mainly sourced from the corporate segment, its proportion increased significantly to 40% from a nominal 12%, with a simultaneous decline in SME lending (07:50%, 06:79%). The remaining portion was deployed in commodity, agriculture and consumer financing.
- The bank's net interest revenue, despite significant growth in earning assets, was constrained. This was on account of an exponential increase in proportion of high cost term deposits, which led to a more than proportionate increase in cost of funds, and a consequential decline in spreads. Increase in fee-based income from trade-related activities and commissions on remittances supported net revenue. However, a major contributor towards revenues was higher income from capital gains on sale of equity investments. The bank's cost-to-net revenue showed a slight improvement during the year. The bank's bottom line was further dampened by higher provisioning expense on account of change in regulatory provisioning requirement.
- The bank plans to add 25 new branches to its network in 2008. The focus is on extending the network to small towns and untapped areas to generate low cost deposits. The bank plans to remain focused on large scale SME and Corporate lending with a desire to increase the proportion of trade finance. By virtue of this the bank plans to enhance its fee-based income. Mybank does not plan to take exposure in the consumer segment till the time a sound risk management system for consumer loans is in place. Given the bank's significantly high cost of deposits, it would be critical for the management to tap businesses offering high yield to arrest declining trend in its spreads. However, in an increasingly competitive environment in which small banks are hard pressed to grow to ensure their survival, achieving the desired expansion within the acceptable risk level would be an uphill task. This would become even more difficult due to current weakening of macroeconomic indicators.
- The bank's reported asset quality, as measured by NPLs to gross advances, improved mainly due to increase in gross advances, though NPLs in absolute terms experienced a slight increase. Importantly, the proportion of NPLs to equity improved significantly during the year (end07: 4%, end-06: 15%), due to higher provisioning on account of withdrawal of Forced Sale Value benefit. The proactive approach of the new management in settling chronic cases and significant properties held as collateral could support the recovery function. Meanwhile, the client concentration in terms of top 20 group exposure registered a notable increase during the year. Although most of these top exposures are to strong names with good track record, the mere fact of high concentration has, however, raised the potential risk.
- The bank's risk management framework went through a restructuring process during 2007. This included implementation of Alchemy Financial Risk Manager, a Basel II compliant software encompassing both standardized and foundation IRB approaches. The bank is also in the process of implementing Obligor Risk Rating and Facility Rating, which have been developed in-house. Other initiatives include implementation of software to facilitate interest rate and liquidity management. Moreover, the core banking software, Mysis, was successfully rolled out in all branches during the year. This would enable the bank to improve upon its service quality through introduction of enterprising e-products at highly competitive costs.
- The bank's capitalization was augmented through a right issue of 25% during the year to meet the SBP requirements, which consolidated its strength in terms of CAR. The strength of CAR is primarily a function of Tier-I capital. However, recognition of revaluation surplus on the bank's own properties during the year provided support to Tier-II capital. Going forward, CAR is expected to remain high despite growth, on account of further injection of equity, coupled with retention of profits to enable the bank to meet the prudential capital requirement of PKR 5bln by end-08.

### PROFILE

- Mybank Limited, commencing its operations in October 1992, is listed on the Karachi and Lahore Stock Exchanges.
- In March 2004, the controlling interest (52%) in the bank was acquired by Mr. Iqbal Alimohamed and family, an eminent name in business and industry. Mr. Alimohamed, former CEO and Chairman of Gul Ahmed Textile Mills Limited, is the bank's chairman and a Chartered Accountant by profession.
- Apart from sub-committees of the board, the directors have delegated operational control of the bank to the management and are not part of any management committee. The President, Mr. Bilal Sheikh, who joined the bank in mid-2006, is a career banker with above three decades of extensive experience. The management continues to direct its efforts towards institutional rebuilding of the bank.