

MYBANK LIMITED (ML)

RATINGS (MAY 2007)

MYBANK LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A	A-
Short Term	A1	A2

FINANCIAL DATA

PKR (mln)

	31-Dec-06	31-Dec-05
Total Assets	26,549.5	17,218.8
Equity	3,928.6	2,491.5
Net Income	492.9	274.3
ROA %	2.25	1.79
ROE %	15.35	13.14
Equity/ Total Assets %	14.80	14.47
SBP CAR	19.25	18.86

ANALYSTS

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PROFILE

- Mybank Limited (formerly Bolan Bank Limited, name changed in May 2005) commenced its operations in October 1992 as a scheduled commercial bank and is listed on the Karachi and Lahore Stock Exchanges.
- In March 2004, the controlling interest (51%) of the bank was acquired from the sponsoring directors by Mr. Iqbal Alimohamed and family, an eminent name in business and industry. Mr. Alimohamed, formally the CEO and Chairman of Gul Ahmed Textile Mills Limited (1985-2002), is the chairman of the bank and is a Chartered Accountant by profession. Currently, he is also the chairman & CEO of an IPP – Gul Ahmed Energy Limited.
- Apart from sub-committees of the board, directors have delegated day-to-day management of the affairs of the bank to the management and are not part of any management committee. Recently, there were certain changes in the senior management of the bank. The new president; Mr. M. Bilal Sheikh, a distinguished banker, has assumed this position after having served in this position in PICIC Commercial Bank. During that tenor of over 5 years, Mr. Sheikh played a pivotal role in turning around that bank.

Assessment

- The ratings reflect ML's improving financial profile in terms of performance and asset quality, which has strengthened its relative position among smaller commercial banks. The risk profile of the bank is expected to improve further given the new management's low risk appetite for credit expansion and intensifying efforts to strengthen the existing risk management framework. The ratings also take into account the management's plan to mobilize relatively low cost deposits to mitigate pressure on spreads. Meanwhile, the bank's capitalization is expected to remain robust given the sponsor's commitment to inject additional equity in order to meet prudential requirements.
- The bank, while maintaining a network of 50 branches, improved its system share of assets, advances and deposits. The growth in core advances was even more pronounced due to the bank's ability to replace bulk of CFS with core advances. Although the bank's overall finances-to-deposit ratio declined from 78% to 72%, this ratio net of CFS and TFCs remained at around 70%. The already higher proportion of disbursements to SME sector in the loan book was further enhanced during the year to 79% (05: 53%). The remaining portion was deployed in corporate, and to a lesser degree in agriculture and consumer financing. The proportion of self-liquidating trade finance in the total working capital lending is 29% that translates into relatively low credit risk.
- The bank's performance, in terms of both ROA and ROE, improved during 2006 primarily due to volume expansion and higher contribution of non-fund based income. Although the bank's cost of funds almost doubled due to declining proportion of demand deposits mainly being replaced with fixed deposits, it was still lower than most of peers. However, net interest revenue improved, benefiting from sizeable expansion in the financing portfolio. Meanwhile, the bank's substantially enhanced unfunded exposure helped in augmenting fee-based income. The bank earned higher income from capital market operations through efficient management of its investment portfolio. Another major factor contributing towards the improving profitability is a tight control over operating costs, which continue to decline as a proportion of revenues. Additionally, the bottom line was flattered by lower provision charge. The increasing trend in profitability continued into 1Q07.
- Going forward, the management is planning to add 10 more branches to the network in 2007, while relocation and renovation of existing branches continues. The bank plans to remain focused on large scale SME lending with increasing concentration on trade finance. By virtue of this, the bank also plans to enhance its fee-based income. The consumer financing, a reasonable contributor towards credit expansion for most of the banks in the sector, has a nominal proportion in ML's total advances portfolio. This reflects the conscious strategy of management to maintain a low risk loan portfolio. A relatively stable targeted credit-to-deposit ratio also signifies the management's cautious stance towards risk. The new management has embarked upon entailing stricter conditions for collateralization of loans, which in most cases would be pledge of assets and securities. Although the risk averse strategy could pressurize spreads, the bank's primary reliance on high margin second tier clients would help in sustaining spreads.
- The bank's asset quality is improving YoY and NPLs declined to 5.3% at end-March07 (end-2005: 12.6%) as a proportion of gross finances. More importantly, the proportion of uncovered exposure to equity has improved significantly (end06: 15%, end-05: 36%). The proactive approach of the new management in settling chronic cases and significant properties held as collateral – worth PKR 1.7bln for NPLs > PKR 10mln – could support the recovery function. This alongwith the stricter conditions of collateralization on new exposures – both funded and non-funded – is likely to help in further improving the asset quality.
- During the year, the bank has taken major initiatives to strengthen its risk management framework including (a) formulation of a board risk management committee (b) approval of credit and market risk strategy (c) establishment of different committees as per the requirement of risk management guidelines and regulations, and (d) initiation of business continuity plan (BCP). In 2007, the bank plans to focus on continuing implementation of IT related system (Misys) and execution of risk management framework aligned with the SBP risk management guidelines and BASEL II.
- The bank's capitalization has remained among the highest in the sector both in terms of proportion of equity in total assets and 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. This alongwith right issue of 50% supported the capital structure. Going forward, CAR is expected to remain high on account of the sponsor's willingness to inject further equity through right issue. This coupled with capitalization of profits would enable the bank to meet the prudential capital requirement of PKR 4bln by end-07.

Key Rating Drivers

- The ratings are dependent on the bank's ability to maintain its leading position amongst its peers. Although the bank is endeavoring to overcome its inherent constraints like small size, limited franchise value, risk management systems, and human resource, any significant delay in the related timeline could hamper its performance and, consequently impact on ratings.