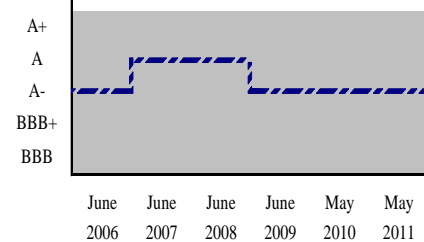


RATINGS (MAY 2011)

MYBANK LIMITED

RATINGS	NEW	PREVIOUS
Entity		
Long Term	A-	A-
Short Term	A2	A2
Outlook	-	Negative
Rating Watch	On	-

L.T. ENTITY RATING - HISTORY



FINANCIAL DATA

PKR (mln)

	Mar-11*	Dec-10	Dec-09
Total Assets	38,304.9	39,479.4	35,490.7
Equity	3,122.7	3,212.1	4,235.2
Net Income	(94.2)	(1,043.4)	(1,639.8)
ROA %	(0.97)	(2.78)	(4.36)
ROE %	(11.89)	(28.02)	(32.51)
Equity /Assets %	8.15	8.14	11.93
SBP CAR %	11.43	12.19	17.00

*based on un-audited accounts

ANALYSTS

Adnan Rasool
+92 42 35869504
adnan.rasool@pacra.com

Rai Umar Zafar
+92 42 35869504
rai.umar@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings of Mybank reflect persistent pressure on the asset quality of the bank magnified by prevailing tough socio-economic environment. This continues to weaken Mybank’s risk absorption capacity, of which a sizable portion has already been impacted. Nevertheless, the bank has witnessed considerable improvement in its net interest margin. This is attributed to Mybank’s enhanced focus towards recovery efforts and emphasis on low cost deposit mobilization, both of which are expected to augur well for the bank’s overall risk profile.
- The bank is currently in final stages of merger with and into Summit Bank and expected to begin operations as merged entity by end FY11. The ratings would remain on Rating Watch pending the completion of proposed merger.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, stubborn inflation burgeoning fiscal imbalance, and poor law and order situation continue to pose major challenges to the economic growth. This is also reflected in continuing weakening of the asset quality of the banks. The pace of accumulation of NPLs has stalled lately but it would be critical for the banks to maintain asset quality amidst uncertainties regarding the recovery prospects and subdued business sentiments.
- During 2010, Mybank experienced an upturn in its net interest revenue. This was attributable to the bank’s ability to enhance the proportion of low cost deposit base. (CASA: 10: 61%, 09: 51%). The contribution of other income increased YoY, as the bank curtailed its trading in equities that led to significant net loss last year. Although operating expenses witnessed a slight uptick, the bank’s operational efficiency increased due to a raise in net interest revenue. The provisioning on account of rising infection continued to dent the bank’s profitability. During 1Q2011, the bank experienced further improvement in its net interest revenue, as a result of higher spread. This coupled with restraint on operating expenditure enabled the bank to post per-provisioning profit.
- The overall investment portfolio of the bank constitutes a significant portion of its total assets (end-10: 24%). The portfolio is dominated by government securities (~85%), of which a major portion (~93%) is treasury bills – signifying low credit and market risk. A sizable deployment (11.9%) was made in equity based mutual funds, besides a small direct holding in equities (2.8%), having exposure to the volatile dynamics of the stock market.
- Mybank’s reported asset quality, as measured by NPLs to gross advances, further deteriorated during 2010 to 37% (end-09: 36%), owing to fresh infections. Consequently, Net NPLs to equity also plummeted (end-10: 135%; end-09: 93%), further dampening the bank’s equity profile. Although the bank made certain recoveries, the prospects for further reversals remain limited. Client concentration, in terms of top 20 individual exposure, has decreased to 64% (end-09: 73%), though it is still relatively high.
- Mybank has a relatively stable deposit base, as top 10 depositors contribute only 14% (end-09: 22%). The management was reasonably successful in mobilizing low-cost CASA deposits during 2010, which is expected to benefit its spreads as reflected in 1Q2011.
- The bank was non-compliant with the MCR of PKR 7bln as at end-Dec10, despite meeting CAR requirements. The bank has received an extension to meet the MCR from SBP till June 30, 2011, by which it is expecting to complete the merger process. The merged entity is likely to meet MCR as Summit Bank, which has announced a right issue of ~ PKR 1bln at PKR 10 per share (par value) during Apr11.

PROFILE

- Mybank Limited, listed on all bourses in the country, commenced its operations in October 1992. During April 2011, the controlling interest (51%) in the bank was acquired by Summit Bank from Mr. Iqbal Alimohamed and family. Summit Bank Limited is owned by Suroor Investments – a Mauritius-based firm, sponsored by a UAE-based group with key interests in real estate. Summit Bank, rated ‘A’ by JCR-VIS, operates a network of over 80 branches at end-Mar11.
- The State Bank of Pakistan has given approvals for the common Board of Directors, CEO and Joint Management of Summit Bank and Mybank Limited until end-Jun11 or merger whichever is earlier.
- The President & CEO, Mr. Hussain Lawai, is a career banker with above three decades of extensive experience. He is assisted by an adequate management team.