



MYBANK LIMITED (ML)

RATINGS (JUNE 2006)

MYBANK LIMITED

| ENTITY | NEW |
|------------|-----|
| Long Term | A- |
| Short Term | A2 |

FINANCIAL DATA

PKR (mln)

| | 31-Dec-05 | 31-Dec-04 |
|------------------------|-----------|-----------|
| Total Assets | 17,218.8 | 13,435.9 |
| Equity | 2,491.5 | 1,683.9 |
| Net Income | 274.3 | 72.6 |
| ROA % | 1.79 | 0.58 |
| ROE % | 13.14 | 5.23 |
| Equity/ Total Assets % | 14.47 | 12.53 |
| SBP CAR | 18.86 | 16.97 |

ANALYSTS

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BACKGROUND

- 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 with registered office in Quetta and central office located in Karachi.
- 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. The president, Mr. Muhammad Azimuddin, who joined the bank in Dec-04 has 23 years of experience in premier local and multinational institutions. Under his leadership, the new management has identified areas of concern and the focus has, therefore, been on institutional building and infrastructure development.

RATING RATIONALE

ASSESSMENT

- The ratings reflect the management's well-conceived business strategy to improve its financial profile and performance prospects. The strategy envisages leveraging the branch network both for deposit mobilization and credit expansion. To ensure success of the proposed strategy, the management is putting in place the requisite infrastructure including advanced IT platform, recruitment of high calibre individuals, establishment of proper set of systems and controls, and building franchise value. Meanwhile, the bank's capitalization is expected to remain robust given the sponsor's commitment to inject equity in order to meet prudential requirements. However, being a relatively smaller sized bank with limited franchise value, ML is placed at a disadvantage in competing against the better-known and larger sized banks in the fast changing dynamics of the banking sector.
- The growth in advances and deposits during 2005 was in line with the sector and the bank maintained its system share. Nonetheless, the growth in core advances was considerably higher since the bank managed to replace major portion of COT/CFS with core advances. The major proportion of loan book comprises loans to the SME sector (60% at end-March06), with remaining portion being deployed in corporate, and modestly in agriculture and consumer financing. A relatively higher proportion of trade finance in the total working capital lending, which together forms 81% of advances at end-March06, also translates into relatively low credit risk.
- The bank's performance has been dismal over the years but with the change in profile the trend is turning out to be positive reflective in substantial increase in ROA and ROE. The bank, despite increasing term deposits, has distinctively higher spreads among peers – mainly an outcome of continuing focus on SMEs, re-pricing of assets and traditionally higher proportion of demand deposits – which with volume growth has resulted in significant increase in NIMR during 2005. The fee-based income is also showing improvement particularly in the 1Q06 mainly on account of enhanced trade related operations. The increasing dividend income is mainly an outcome of increased investment size and higher dividend on its mutual fund portfolio. The bank also booked gains from trading in equity securities. The non-fund based income as a proportion of total-net-revenue, though previously at modest level, is now in line with most peers. Another major factor contributing towards the improving profitability of the bank is the declining incidence of operating cost as reflected in the first quarter 06. Although there was higher provision charge during the year, the bottom line was flattered by positive tax adjustments resulting in negative effective tax rate.
- Going forward, the management is planning to consolidate upon the existing branch network while continuing the renovation and relocation of branches. For deposit mobilization, the bank would soon be launching some innovative products. While targeting a considerable growth in advances, the bank is planning to largely maintain the credit-to-deposit ratio. For the expansion of its loan book, the bank's primary reliance would remain on self-liquidating trade financing mainly for larger second tier clients. To accomplish the targeted growth, the bank, in addition to automation of the related process, is also inducting a team of experienced professionals. By way of this, the management, while increasing operational efficiency, is pursuing to harmonize the non-fund based revenue with the total cost, so that the impact of volume expansion and higher spreads are fully reflected in the bottom line. At the same time, the bank is planning significant expansion in its consumer portfolio and moderate enhancement in agriculture financing but after the supporting risk management systems are in place. These initiatives are likely to help in maintaining higher spreads and improved profitability.
- ML inherited a sizeable portfolio of impaired lending. The NPLs were 10.7% at end-March06 (end-2004: 12.2%) as a proportion of gross finances. Moreover, the proportion of uncovered exposure to total equity, though declining YoY, is also fairly high – one of the highest among peers. As the benefit of the forced sale value has been restricted to >PKR 10mln from 2006, there could be some additional provisioning requirement during the year since most of the NPL exposures are less than PKR 10mln. Meanwhile, more than half of the loan book is fully secured by mortgage of residential or commercial property at end-2005 (end-2004: 30%), which provides additional cushion against potential losses. Moreover, a substantial surplus on the bank's own properties augments the potential risk absorption capacity.
- The bank established Special Assets Management Division to follow and expedite NPL recovery. Additionally, for the proactive management of potential problem accounts – not yet classified as per SBP regulations – an advance warning system (ROYG) has been implemented which is actually a post disbursement monitoring system focusing on delinquency patterns before the crystallization of risk. Meanwhile, the bank has developed new policy manuals with the help of a consultant, which cover the detailed risk management framework in accordance with the BASEL II requirements. The implementation of the framework is in progress and is expected to be completed in line with the SBP plans. The bank is taking IT initiatives in terms of fast track implementation of state-of-the-art system software – Misys – that is also compliant with the BASEL II accord.
- ML has one of the highest levels of capitalization in the sector both in terms of proportion of equity in total assets and CAR. Apart from unutilized resources, one of the main reasons for the substantially higher CAR is that the major portion (52%) of the advances portfolio is fully secured by mortgage of residential or commercial property with relatively lower risk weightage. Going forward, despite targeting growth in risky assets, CAR is expected to remain high owing to planned increase in the paid-up capital to meet the increasing prudential requirement (PKR 3bln by end-06) from equity injection and profit retention.

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