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Banks

Banks
Panama
Credit Analysis

MMG Bank Corporation and Subsidiaries

National Scale Ratings

MMG Bank Corporation and Subsidiaries	Current Ratings
Long Term	A-(pan)
Short Term	F1(pan)

Outlook

Stable

Financial Information

MMG Bank Corporation and Subsidiaries

	03 31 09	09 30 08
Total Assets (million USD)	215.6	222.2
Total Equity (million USD)	22.8	22.4
Net Profits (million USD)	1.6	4.3
ROAA (%)	1.5	2.0
ROAE (%)	14.2	20.5
Equity / Assets (%)	10.6	10.1

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Rating Rationale

- The ratings assigned to MMG Bank Corporation and Subsidiaries (MMG) reflect the bank's good asset quality, ample liquidity, and the liquidity support on liabilities, while taking into consideration the entity's focus on one particular business segment as well as its significant exposure to market risk.
- MMG has been noticeable for its good financial performance, although net income declined over the recent past. Efficiency metrics worsened significantly over the past few months primarily due to increased investments in the bank's operating structure and management team.
- As a result of MMG's conservative liquidity goals, the entity's asset structure is highly concentrated in investments and deposits. As of March 2009, both asset classes combined represented 84% of total assets, being characterized by a high degree of diversification and credit quality. Volatile capital markets represented the bank's principal risk exposure. Over the past few months there has been a moderate reduction in the valuation of the company's investment portfolio (10% of equity).
- Due to the nature of its business, the bank's sources of funding tend to be highly concentrated. The general depositor profile combines with the bank's relatively small size, leading the 20 largest depositors to represent 44% of the total as of March 2009.
- The bank's capitalization (equity/assets) is reasonable at 10.6%, showing a constant improvement since 2006. At 25.7%, MMG's capital adequacy is well above the industry average of 15.2%. Furthermore, the bank's equity quality is high, with the low percentage of non-earning assets leading to a free capital ratio of 9.8%.

Support

- As there is no Central Bank in Panama, and explicit bank support mechanisms are practically non-existent, there is a chance that external support may be provided by the government, if needed.

Key Rating Triggers

- Positive changes that may trigger an upgrade in MMG's ratings include a significant reduction in depositor concentration, a greater diversification in the entity's operations and a strengthening in the bank's capitalization levels.
- On the other hand, an increase in market risk may trigger a negative rating action.

Profile

MMG Bank Corporation and Subsidiaries was created in Panama in 2003, consolidating the financial operations of Grupo Morgan y Morgan. Holding a general license for its operations, MMG performs asset management and private banking services primarily for the group's clientele. As of March 2009, MMG's assets amounted to USD215.6 million. In addition, the bank managed a total of USD269.9 million in financial assets off the balance sheet.

Performance

MMG has been noticeable for its good financial performance, although net income declined moderately over the recent past. Efficiency metrics worsened significantly over the past few months primarily due to increased investments in the bank's operating structure and management team. ROAE and ROAA, which reached 1.5% and 14.2%, respectively, in March 2009 (compared with 1.9% and 19.3% a year ago), are expected to remain below the previous year's level in the short term, as the economic crisis may have a negative impact on the entity's business volume.

Operating Income

Interest income declined as a result of lower interest rates earned on deposits as well as a larger proportion of more liquid assets. However, this was compensated by a reduction in the cost of funding and an increase in complementary income. Net interest margin remains adequate at 2.2% as of March 2009. Off-balance sheet asset management has been an important source of income (in the form of asset management fees), with its contribution to net income increasing over the past few years.

Loan Loss Provisions

MMG has been characterized by a relatively low level of loan loss provisions, with MMG limiting this expense to the minimum level of reserves required by law. As the bank's loan portfolio so far has not shown any asset quality deterioration, loan loss provisions are expected to remain unchanged over the near term. On the other hand, losses in MMG's investment portfolio are accounted for in the equity section, due to the fact that the assets in the investment portfolio are registered as being readily available for sale.

Operating Expenses and Efficiency

The strengthening of the management team as well as the operating improvements carried out in 2009 have led to a slight deterioration in administrative efficiency, although it should be noted that metrics remain at reasonable levels. Operating expenses as a percentage of average assets increased to 2.1% in March 2009, from 1.6% a year ago.

Performance Outlook

Profitability metrics are expected to remain below previous years' levels throughout the remainder of 2009, due to an increase in operating expenses as well as a lower yield on the bank's earning assets. Investments to improve operating efficiency should have a positive impact on profitability in the medium term, which, combined with a continued increase in the share of complementary income, should lead to an improvement in financial performance.

Risk Management

Credit Risk. Given its focus on private banking and asset management as well as its prudent liquidity policy, MMG's asset structure is highly intensive in investment instruments and deposits. As a result, both of these asset classes combined represented 84% of total assets as of March 2009. The investment portfolio is characterized by a high degree of diversification as well as high asset quality, with 86% of its total assets being comprised of securities rated BBB+ or above. Nonetheless, given the significant market volatility exhibited throughout the financial crisis, the bank's investment portfolio has incurred in moderate non-realized losses of USD2.6 million, representing nearly 10% of equity. It should be noted that losses have been declining since then, to USD1.7 million in May, with most of the losses stemming from preferred shares, long-term (+5-year) fixed income securities and mutual funds, which together represented only 5.7% of total deposits and investments. Assuming that the bank's investment structure remains unchanged, the losses resulting from market volatility should largely be contained, with a recovery being possible in the near term.

MMG's second important asset is its loan portfolio, that represented 12.6% of total assets, owing its relatively small share of total assets to the fact that loan origination is viewed as being a mere complementary service for the bank's clients. It should be noted that most loans have been extended to the commerce sector. The bank's loan portfolio enjoys high asset quality, as loans delinquent by more than 90 days and restructured loans are basically non-existent, and the total is classified in the lower relative risk (Normal) category. With only a small number of clients, loan portfolio concentration is relatively high. However, while the 20 largest borrowers represent 83% of the total, the 76% of these loans are backed with deposits these borrowers have at MMG.

Market Risk. Volatile capital markets represented the bank's principal risk exposure. While the bank recorded moderate losses relative to equity (10%) over the past few months, its position compares favorably with other Panamanian banks that have similar asset structures, some of which had to make use of the "*Acuerdo 08-2008*" introduced by the Superintendencia to help banks maintain their equity position.

Off-Balance-Sheet Asset Management. The investment portfolio managed for and at the risk of third parties has grown in line with the increase in the number of clients and business volume registered over the past few months, with the latter being considered positive given the adverse economic environment prevailing during that period. As of June 2009, total assets managed off the balance sheet amounted to USD342.1 million (versus USD262.5 million in December 2008). According to management, asset performance has been acceptable considering the high market volatility registered during the crisis worldwide.

Funding and Capital

Funding. MMG obtains financing primarily through its depository base, which represents almost the entirety of the bank's total liabilities. The bank has only a small number of depositors, which in general have a high economic profile and influence a natural high concentration, as a result of the bank's focus on asset management. Depositors are both from Panama as well as from the rest of Latin America. As of March 2009, the 20 largest depositors represented 44% of total deposits, representing the largest risk exposure of the bank's liabilities, as the withdrawal of only one of these depositors would have a significant impact on the bank's funds.

Concentration and volatility risks are significant but mitigated by the bank's highly liquid asset structure, with significant liquidity being one of MMG's principal strengths. The latter is based on an asset structure designed to underpin liquidity contingencies, given the liabilities high concentration and its volatility. As of March 2009, cash and deposits represented 45.6% of the bank's total depository base, covering the 20 largest depositors even without taking into consideration its investment portfolio.

Capital. MMG's capitalization (equity/assets) is reasonable at 10.6%, after increasing consistently since 2006. The bank's capital adequacy ratio is high at 25.7%, comparing favorably with the sistem's average rate due to its low risk asset structure. Equity quality is high, as evidenced by the low percentage that non-earning assets represent of equity, leading to a free capital ratio of 9.8%. It should be noted that to date the bank has not distributed dividends in order to strengthen its capitalization. The equity exposure is largely mitigated by the generally high credit quality of the bank's assets.

Balance Sheet

MMG BANK CORPORATION AND SUBSIDIARIES

(USD thousands)

	2nd Quarter *6 months* **Mar-09**	Audited *Year End* **Sep-08**	2nd Quarter *6 months* **Mar-08**	Audited *Year End* **Sep-07**	Audited *Year End* **Sep-06**
A. LOANS					
1. Outstanding	27,284	29,266	23,491	25,987	47,100
2. Restructured	-	-	-	-	-
3. Impared (Past due by 90 Days or More)	-	-	-	-	-
4. (Loan Loss Reserves)	(69)	(70)	(17)	(10)	(8)
TOTAL A	**27,215**	**29,196**	**23,474**	**25,977**	**47,092**
B. OTHER EARNING ASSETS					
1. Deposits	82,659	86,963	50,193	100,749	82,608
2. Public Sector Securities	7,036	4,443	1,466	1,462	1,997
3. Other Securities	91,344	95,475	114,774	76,522	62,317
4. (Securities Reserves)	-	-	-	-	-
TOTAL B	**181,039**	**186,881**	**166,433**	**178,734**	**146,922**
C. TOTAL EARNING ASSETS (A+B)	**208,254**	**216,077**	**189,907**	**204,710**	**194,014**
D. NET FIXED ASSETS	**1,684**	**1,806**	**1,803**	**1,829**	**1,568**
E. NON-EARNING ASSETS					
1. Cash	2,598	2,167	523	302	836
2. Net Foreclosed Assets	-	-	-	-	-
3. Other	3,039	2,158	2,288	1,701	1,753
TOTAL E	**5,637**	**4,325**	**2,810**	**2,003**	**2,589**
F. TOTAL ASSETS (C+D+E)	**215,575**	**222,208**	**194,521**	**208,543**	**198,172**
G. DEPOSITS AND OTHER SHORT TERM FUNDING					
1. Current	99,311	75,803	62,335	33,449	45,931
2. Savings	-	-	-	-	-
3. Time	88,222	118,234	107,210	153,147	131,271
4. Other	-	-	-	-	-
TOTAL G	**187,534**	**194,037**	**169,546**	**186,596**	**177,202**
H. LONG TERM FUNDING					
1. Interbank Loans	-	-	1,169	1,169	-
2. Issuance	-	-	-	-	-
3. Other Long Term Funding	-	-	-	-	-
TOTAL H	**-**	**-**	**1,169**	**1,169**	**-**
I. OTHERS (NON-INTEREST BEARING)	**5,210**	**5,822**	**2,609**	**1,288**	**5,905**
J. HYBRID INSTRUMENTS					
1. Subordinated Debt	-	-	-	-	-
2. Preferred Shares	-	-	-	-	-
3. Other HYbrid Instruments	-	-	-	-	-
TOTAL J	**-**	**-**	**-**	**-**	**-**
K. EQUITY					
1. Common Equity	10,000	10,000	10,000	10,000	10,000
2. Reserves, Retained Earnings and Others	11,230	8,062	9,235	5,001	2,860
3. Period Net Income	1,601	4,288	1,962	4,489	2,204
4. Minority Interest	-	-	-	-	-
TOTAL K	**22,831**	**22,350**	**21,197**	**19,490**	**15,064**
L. TOTAL LIABILITIES AND EQUITY (G+H+I+J+K)	**215,575**	**222,208**	**194,521**	**208,543**	**198,172**

Income Statement
MMG BANK CORPORATION AND SUBSIDIARIES
(USD thousands)

	2nd Quarter 6 months Mar-09	Audited Year End Sep-08	2nd Quarter 6 months Mar-08	Audited Year End Sep-07	Audited Year End Sep-06
1. Interest Income	3,787	9,330	4,774	9,838	6,532
2. Intereses Expenses	1,333	4,426	2,330	5,864	3,474
3. NET INTEREST REVENUE	**2,454**	**4,904**	**2,444**	**3,975**	**3,059**
4. Net Fees and Commissions	1,325	3,192	761	1,511	1,009
5. Other Operating Income	152	316	336	1,793	448
6. Personnel Expenses	1,157	1,423	606	1,149	978
7. Other Operating Expenses	1,137	1,912	966	1,635	906
8. Provisions and Loan Impairment Charge	9	60	7	2	425
9. OPERATING PROFIT	**1,628**	**5,018**	**1,962**	**4,492**	**2,205**
10. Non-Operating Income and Expenses	-	(728)	-	-	-
11. Extraordinary Income (Expenses)	-	-	-	-	-
12. PRE-TAX PROFIT	**1,628**	**4,291**	**1,962**	**4,492**	**2,205**
13. Tax	27	2	-	3	1
14. Minority Interest	-	-	-	-	-
15. NET INCOME	**1,601**	**4,288**	**1,962**	**4,489**	**2,204**

Financial Ratios

	Mar-09	Sep-08	Mar-08	Sep-07	Sep-06
Performance					
1. ROAE (Net Income/Average Equity) *	14.18	20.50	19.29	25.98	15.56
2. ROAA (Net Income/Average Assets) *	1.46	1.99	1.95	2.21	1.43
3. Operating Profit/Average Assets *	1.49	2.33	1.95	2.21	1.43
4. Tax Profit/Average Assets *	1.49	1.99	1.95	2.21	1.43
5. Operating Expeditures/Net Operating Revenues	58.35	39.64	44.39	38.25	41.75
6. Operating Ependitures/Average Assets *	2.10	1.55	1.56	1.37	1.22
7. Net Interest Revenue/Average Assets *	2.24	2.28	2.43	1.95	1.99
Equity					
1. Internal Capital Generation	14.18	20.50	19.29	25.98	15.56
2. Equity/Total Assets	10.59	10.06	10.90	9.35	7.60
3. Eligible Capital/Total Assets	10.59	10.06	10.90	9.35	7.60
4. Fixed Assets/Equity	7.38	8.08	8.51	9.39	10.41
5. Equity/Total Loans	83.89	76.55	90.30	75.03	31.99
6. Equity/Risk-Weighted Assets	25.70	26.20	21.00	25.00	27.00
7. Free Capital/Equity	9.81	9.25	9.97	8.47	6.81
Liquidity					
1. Cash Equivalents/Deposits and Money Market Funding	45.46	45.94	29.91	54.16	47.09
2. Liquid Assets/Deposits and Money Market Funding	97.92	97.43	98.47	95.95	83.38
3. Loans/Deposits and Money Market Funding	14.55	15.08	13.86	13.93	26.58
4. Liquid Assets/Total Assets	85.18	85.08	85.83	85.85	74.56
Asset Quality					
1. Loan Loss Reserve/Average Gross Loans	0.06	0.22	0.05	0.01	0.89
2. Loan Impairment Charge/Pre-Tax and Provisions Profit	0.54	1.37	0.34	0.05	16.16
3. Loan Loss Reserve/Gross Loans	0.25	0.24	0.07	0.04	0.02
4. Loan Loss Reserve/Loan Impairment	n.a.	n.a.	n.a.	n.a.	n.a.
5. Loan Impairment/Gross Loans	-	-	0	-	-
6. Loans Classified 'C', 'D', 'E'/Gross Loans	-	-	-	-	-
7. Net Impairment Loans/Equity	n.a.	n.a.	n.a.	n.a.	n.a.
8. Foreclosed Assets/Gross Loans	-	-	-	-	-
9. Write-Offs/Average Gross Loans	-	-	-	-	-

** Year-on-year*
n.d. : not available
n.a. : does not aply