

ATLAS BANK LIMITED

RATINGS (JUNE 2007)

ATLAS BANK LIMITED (ABK)

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

FINANCIAL DATA

PKR (mln)

| | 31-Dec-06 | 29-Jul-06* |
|-------------------------|-----------|------------|
| Total Assets | 17,020.6 | 19,802.7 |
| Equity | 3,116.1 | 3,120.9 |
| Net Income | 8.6 | 13.5 |
| Equity / Total Assets % | 18.31 | 15.76 |
| Net NPLs / Equity % | 4.13 | 1.97 |

* *Merger date*

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ASSESSMENT

- The ratings reflect ABK's well conceived business plan to gradually establish its core-banking platform. The cornerstone of the strategy in the initial phase is to leverage the Atlas Group's franchise and established business relationships to create a captive clientele. However, it may take a while before the bank would be able to overcome its inherent constraints in terms of a low deposit base, low intermediation efficiency, and stressed revenues. Meanwhile, the bank has assembled an experienced senior management team for effective execution of the strategy. The bank's association with a well diversified and a financially strong group is also a key-rating factor.
- In its first year of acquisition by the new sponsors, ABK, while adding the targeted number of branches to its network, focused on rationalizing its loan book and deposit base. This included substituting high cost deposits with lower cost deposits and changing the composition of loan book in favor of floating rate loans as against currently higher proportion of fixed rate leases. However, the bank's overall asset base shrank due to reduced size of money market operations. During 1Q07, however, the bank managed to mobilize new deposits, which led to a decline in the bank's high credit-to-deposit ratio of around 100% to 81%, while improving its liquidity. At end-Mar07, the major proportion of loan book comprised loans to the corporate sector, with the remaining portion being deployed in SME sector, and to a nominal extent in consumer financing.
- ABK's primary focus is to establish itself as a retail bank with higher focus on consumer and SME segments. The bank plans to gradually buildup its advances portfolio and has devised a three-phase 6-year business plan for strengthening the core banking operations. The strategy envisages reaching a network of 120 branches in 50 cities by the end-2013. In the phase I (07-08), the bank plans to be aggressive in deposit mobilization. On the assets side, the initial focus would be on SMEs while consumer financing would be initiated by the end of this phase. The management realizing the capital-intensive nature of these segments, plans investing in people with entrepreneurial mindset, branch infrastructure and technology. Considering the bank's network expansion plans and strategy to offer a diverse product range – on both assets and liabilities side – the current core banking software is planned to be replaced by a state-of-the-art software, Temenos.
- During the second phase, the bank plans to expand the SME segment by starting program based lending and consumer financing by launching personal loans and credit cards. The bank plans to enter the final phase (2011-2013) with an aggressive approach targeting higher penetration in both liability and asset side. The business strategy highlights delivery of quality service that can be established more easily being a new and small sized bank. At the same time, ABK plans to attract customers by providing transparency in relationship, and other client focused based initiatives. Although the bank has conceived a comprehensive business strategy, the timing and extent of success in achieving the planned targets still remain to be seen.
- In the initial period, however, ABK's main focus is on creating synergy with the Atlas Group, which is expected to provide a fair degree of impetus to build a growth momentum. The bank is planning to: (a) tap significant potential in the shape of vendors of Atlas Honda (b) cross sell to customers of group companies, and (c) engage asset management and insurance companies for wealth management. However, the potential benefits of this strategy remain constrained by the currently limited branch network of the bank. Meanwhile, the profitability of the bank would continue to derive support from its investment banking and equities brokerage operations, carried out through its wholly owned subsidiary – Atlas Capital Markets (Pvt.) Limited.
- The bank has a very good asset quality reflective in a modest net impaired lending/equity ratio. During the year, the bank has taken certain initiatives to strengthen its risk management framework and prepare for the BASEL II requirements. While risk management department and risk management committee were in place, BASEL II project manager was inducted and related committee was setup recently. Furthermore, the bank, while developing various risk management manuals, conducted Gap analysis and prepared a roadmap for implementation of BASEL II.
- The bank, with currently limited asset base, has sound capital structure as reflected by equity to assets ratio of 17.5% at end-Mar07. Meanwhile, CAR, though declining from a very high level, has remained strong.

KEY RATING DRIVERS

- The ratings are dependent on the bank's ability to fully implement its business strategy, thereby improving its relative positioning in the banking sector. At the same time, stability and cohesiveness of the core management team would be critical. The inability of the bank to overcome its inherent constraints of limited size, outreach, franchise value, revenue streams, and human resource in a timely manner could have negative implications for ratings.

PROFILE

- Atlas Bank Limited, previously Dawood Bank Limited, commenced operations in March 2004. Atlas Group (AG), through its holding company – Shirazi Investments (Pvt.) Limited – and the Shirazi family, acquired majority shareholding (end-06: 82%) of the bank in December 2005. In July 2006, Atlas Investment Bank Limited, one of the largest investment banks in the country, was merged with ABK. AG, established in 1962, has diversified into various industrial and service-oriented businesses including auto, engineering, financial, and trading sectors. ABK is expected to continue to derive benefits from its association with the AG. The bank is at an advanced stage of eliciting equity participation of an international DFI. This is expected to enhance the capital base of the bank. This would provide an edge to ABK over smaller banks having obligation to inject additional equity every year to meet the prudential requirement.
- The bank's newly inducted president, Mr. Aziz Rajkotwala, an MBA, has extensive international and local banking experience of over three decades. Other key members of the management team are relatively young but with strong professional credentials. A few of the vacant key positions are expected to be filled in soon.