

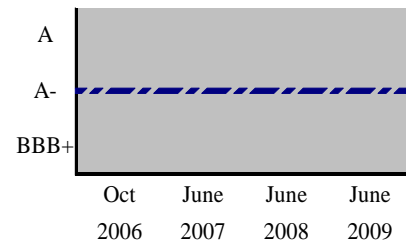
## The Pakistan Credit Rating Agency Limited

### RATINGS (JUNE 2009)

#### ATLAS BANK LIMITED (ATBL)

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	A-	A-
Short Term	A2	A2
Outlook	Negative	n.a.

### LT ENTITY RATING – HISTORY



### FINANCIAL DATA

PKR (mln)

	1Q09*	Dec-08	Dec-07
Total Assets	30,404	28,967	22,984
Equity	3,797	4,250	5,260
Net Income	(453)	(1,011)	(309)
Equity/Total Assets %	12.5	14.7	22.9

\* Based on unaudited accounts for 3 months ended March 31, 2009.

### ANALYSTS

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### PROFILE

- Atlas Bank Limited (ATBL), commencing operations in March 2004, is majority owned (58%) by Atlas Group (AG). In 2007, the bank elicited equity participation of an international DFI, DEG, which now holds 25 % stake in ATBL.
- ATBL's eight-member board of directors comprises five representatives of AG, in addition to one each from DEG and NIT and the bank's president, Mr. Aziz Rajkotwala. The board is well experienced, having the ability to provide strategic guidance to the management.
- Mr. Rajkotwala, an MBA, and associated with the bank since 2007, has extensive international and local banking experience of over three decades.

### RATING RATIONALE AND KEY RATING DRIVERS

- The ratings of ATBL reflect its weakening equity base, being depleted at a fast rate due to persistent business losses. Asset quality has also worsened after recent unfavorable economic developments. Moreover, tight liquidity situation has forced the bank to raise high-cost deposits, further dampening its performance prospects. The ratings draw significant comfort from the vigilance and pro-activeness of the apex regulator – SBP.
- The ratings have been assigned a negative outlook and are critically dependent upon augmentation of the bank's risk absorption capacity through fresh equity injection and/or merger with a sound financial institution, without any material delay. Cognizant of the situation, the sponsors have pursued two merger possibilities, both of which failed to materialize. At the same time, rationalization of cost structure while improving liquidity profile would remain important.

### ASSESSMENT

- ATBL's performance deteriorated sharply during 2008, owing largely to inherently lower spreads, a high operating cost structure (cost-to-total net revenue: 259% for 2008) and increasing provisioning against the infected portfolio. Rising NPLs may put additional pressure on bottom line, going forward. As a result, performance prospects of the bank appear subdued. However, the management being cognizant of the weakening profitability has planned to streamline its high operating costs. Their success in achieving the desired objectives without disrupting the bank's operations would not be easy.
- The bank's primary focus has remained to establish itself as a retail bank with a higher emphasis on SME and consumer segments. Although penetration in consumer was low, ATBL has significantly increased its SME loan portfolio. This has been achieved on the back of aggressive program lending. The loan portfolio is currently dominated by the SME segment (61%), followed by corporates (34%). The management is currently focusing on consolidating its portfolio before pursuing further growth.
- ATBL achieved significant growth in advances during 2008 (2008: PKR 20,493mln, 2007: PKR 9,826mln). However, fresh disbursements have been curtailed, following the economic downturn. As compared to most of its peers, credit concentration remained low (top 20 concentration to total advances: 19%), as a result of dominance of small value SME loans. Moreover, ATBL's loan book is well diversified with services sector (15% of total advances) being the single largest sector in the loan book.
- ATBL witnessed a substantial increase in NPLs (NPLs to gross advances: 2008: 6.9% and 2007: 7.9%). This was mainly attributable to rising interest rates, depressed economic fundamentals, and seasoning of ATBL's loan portfolio. Around 18% of these NPLs emanated from textiles sector, that constitutes just 11% of ATBL's advances portfolio. The management is taking steps to stem further deterioration in asset quality. ATBL has curtailed new disbursements and is focusing its resources towards recoveries. Moreover, it has conducted portfolio reviews and diverted its attention towards "early problem recognition" procedures. These steps have yielded positive results with a net positive recovery in recent months. However, given persistent economic downturn and ATBL's exposure to relatively less resilient SME segment, asset quality would remain susceptible to shocks.
- The liquidity crisis at end of last year led to high deposit withdrawals (2008: PKR 18,646mln, Sept-08: PKR 23,726mln). As a result, the bank's advances-to-deposit ratio (ADR) as per SBP calculation rose to nearly 90% at end-Dec 08. Under this severe pressure and its relative inability to mobilize deposits easily, ATBL accessed a PKR 4,500mln line (utilization at end-08: PKR 2,650mln) from the State Bank of Pakistan (SBP). In order to remain compliant with its ADR requirements and pay-off SBP's line, ATBL later sought high-cost deposits, pushing up its funding costs. The top 20 deposits contribution of around 44% raises concentration concerns for the bank. Going forward, the liquidity position of the bank would remain under pressure, with the bank's lack of brand equity impairing its ability to mobilize deposits at competitive rates.
- Significant accumulated losses over the years have eroded ATBL's equity base, and in turn, its risk absorption capacity. Meanwhile a potential drag on equity remains in shape of increasing non-provided NPLs (Net NPLs to Equity: 1Q09: 30%). Considering these factors, timely equity injection, and/or merger with a strong financial institution is critical for the bank.