

The Pakistan Credit Rating Agency Limited

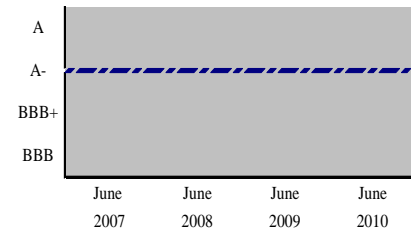
RATINGS (JUNE 2010)

ATLAS BANK LIMITED (ATBL)

| | NEW* | PREVIOUS |
|---------------|----------|----------|
| ENTITY | | |
| Long Term | A- | A- |
| Short Term | A2 | A2 |
| Outlook | Negative | Negative |

*Rating Watch pending completion of the acquisition

LT ENTITY RATING – HISTORY



FINANCIAL DATA

PKR (mln)

| | Mar-10 [^] | Dec-09 | Dec-08 |
|-------------------------|---------------------|---------|---------|
| Total Assets | 28,732 | 30,870 | 28,877 |
| Equity | 2,167 | 2,482 | 3,567 |
| Net Income | (369) | (1,703) | (1,522) |
| Equity/ Total Assets | 7.7 | 8.3 | 13.0 |

[^] Based on unaudited accounts for 3 months ended March 31, 2010.

ANALYSTS

Kamran Ahmed Khan
+92 42 35869504
kamran@pacra.com

Ali Eeman
+92 42 35869504
ali@pacra.com

PROFILE

- Atlas Bank Limited (ATBL), commenced its operations in February 2004, is majority owned (58%) by Atlas Group (AG). In 2007, the bank elicited equity participation of an international DFI, DEG, which now holds 24.9 % stake in ATBL. In Nov-09, AG entered into an agreement to divest its stake to Suroor Investments Limited (SI) – a Mauritius-based company, sponsored by a UAE-based group with key interests in real estate. The transaction, which includes merging together of three small banks, is currently in progress, albeit with delays.
- ATBL's seven-member board of directors comprises three representatives of AG, including two sponsors from Shirazi family, while there are three independent directors and the bank's president, Mr. Aziz Rajkotwala.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings of ATBL reflect the depleting financial profile of the bank due to persistent business losses. Asset quality has weakened resulting in significant potential drag on performance and equity in shape of un-provided non-performing loans (NPLs). At the same time, business prospects appear bleak in the absence of a focused business strategy till conclusion of the acquisition deal. Although the ratings draw comfort from vigilance and pro-activeness of the apex regulator – SBP, prompt conclusion of the acquisition process remains critical for of the bank.
- The ratings have been assigned a negative outlook citing bank's inability to meet regulatory capital requirements. At the same time, further pressure on the already feeble equity base exists owing to potential operational losses. The ratings shall remain on Rating Watch pending the completion of sale transaction.

ASSESSMENT

- ATBL is currently in the process of being acquired (58%) by Suroor Investments Limited (SI) – a Mauritius based firm. SI plans to acquire and merge Arif Habib Bank, MyBank and ATBL to form a new medium sized bank. As part of this transaction, SI has already purchased Arif Habib Bank and has made around 33% payment to ATBL's main sponsors. It is expected that the transaction would be completed by end-Jun10. In view of the proposed acquisition, the management of ATBL is not pursuing its lending business. Furthermore, few senior management personnel have left the bank, without being adequately replaced. As a result, the bank's performance is under consistent stress and any material delay in conclusion of the transaction can severely hamper the bank's sustainability prospects.
- ATBL's financing portfolio continued to shrink (1Q10: PKR 17.1bln, 09: 17.8bln, 08: 20.5bln) over the recent periods. It was a result of management's decision to limit fresh lending in the wake of merger related uncertainties. The bank's financing portfolio, constituting 57% of the total assets at end-09, remained highly concentrated in the SME segment (SME: 61%, corporate: 35%, consumer: 1%). As result, credit concentration remained low (top 20 group-wise loans concentration in total advances: 19%), as SME loans are small in value. During the year, the bank mobilized high cost time deposits mainly to finance repayment of credit facility of SBP availed during 2008 and other costly money market borrowings.
- The bank's performance in terms of profitability remained constrained during 2009 and 1Q10 owing largely to inherently low spreads, comparatively high cost structure, and subdued economic fundamentals. Furthermore, a decline in loan book and rise in non-earning assets, mainly attributable to rising NPLs, also impacted the bank adversely. Although the bank experienced a marginal growth in fee based revenues, it was mitigated by lower dividend income and losses in dealing in foreign currency. Substantial provisioning against rising NPLs (PKR 525mln) and investments (PKR 388mln) resulted in a sizeable loss of PKR 1,703mln during the year. In 1Q10, the bank registered further loss of PKR 369mln.
- Persistent economic downturn and ATBL's high exposure to relatively less resilient SME segment rendered its asset quality vulnerable to significant deterioration. The bank's NPLs witnessed a sharp rise (NPLs to gross advances: 1Q10: 16.3%, 09: 13.7%, and 08: 6.9%). Around 21% of these NPLs emanated from textile sector, which constitutes nearly 15% of ATBL's advances portfolio.
- ATBL, following curtailment of its aggressive growth plans, increased its focus on recoveries while consolidating its risk management framework. It conducted portfolio reviews and diverted its attention towards "early problem recognition" procedures. This exercise has included updation of policies and procedural manuals, across the bank during the year.
- The liquidity crisis prevalent at end-08 eased out slightly with the increase in deposit base. As a result bank's advances-to-deposit ratio (ADR) has subsided to nearly 73% at end-Dec 09 (1Q10: 76%). Nonetheless, the top 20 deposits contribution of around 52% raises concentration risk for the bank. Moreover these deposits, dominated by government related institutions and departments remain susceptible to withdrawals in case of any downgrade in the bank's ratings.
- Significant accumulated losses over the years have eroded ATBL's equity base, and in turn, its risk absorption capacity. Meanwhile a substantial potential drag on equity remains in shape of increasing non-provided NPLs (Net NPLs to Equity: 1Q10: 84%, 09: 62%, 08: 16%). The bank is non-compliant to the regulatory capital requirements both in terms of minimum capital and CAR. Therefore, timely equity injection, and/or completion of the acquisition would remain critical for sustenance of the bank.