

ATLAS BANK LIMITED

RATINGS (OCTOBER 2006)

ATLAS BANK LIMITED (ATBL)

	NEW
ENTITY	
Long Term	A-
Short Term	A2

FINANCIAL DATA

PKR (mln)

	29-Jul-06	31-Dec-05
Total Assets	19,802.7	7,951.7
Equity	3,120.9	1,518.5
Net Income	13.5	3.8
Equity / Total Assets %	15.76	19.10
Net NPLs / Equity %	1.97	-

ANALYSTS

Maimoon Rasheed
+92 42 5869504
maimoon@pacra.com

Shahzad Saleem
+92 42 5869504
shahzad@pacra.com

RATING RATIONALE

ASSESSMENT

- The ratings reflect ATBL's potential capacity to establish a niche in the increasingly competitive commercial banking sector. This capacity flows from: (a) the established investment banking platform of the bank and (b) leveraging the group's franchise and established business relationship to create a captive clientele. At the same time, it could take some time for the bank to completely overcome its inherent constraints: the low deposit base, limited outreach, and pressure on spreads. The new sponsors – Atlas group – have formulated a well-conceived business strategy to deal with these constraints. The strategy includes putting in place the requisite infrastructure including a competent management team, technology initiatives and expanded branch network.
- ATBL has devised a three-phase 5-year business plan for strengthening the core banking operations. In the initial phase of around one and a half years, the bank plans to tap the clientele of former Atlas Investment Bank Limited (AIBL) for commercial banking products, focus on SME financing, expand client base by creating synergy with the Atlas group – dealers and vendors – and target self liquidating trade finance to generate fee-based income. In the second phase, the bank plans to initiate consumer banking particularly auto financing by creating synergy with the group's products like cars and motorcycles, expand SME in industrial cities like Gujranwala, Sialkot, Faisalabad, and, at the same time, introduce Islamic banking. In the last phase of the 5-year plan, the bank would expand consumer-financing portfolio – mortgage finance, business loans, and personal loans – and penetrate into all the major cities of the country offering a complete range of commercial banking products and services. However, the timing and extent of success in achieving the business plan remain to be seen.
- ATBL currently operates with a network of eleven branches. The bank plans to open 9 more branches in 2006 and 15 branches every year after that. The high costs associated with rapid branch expansion and strengthening of human resource and infrastructure resources are likely to be a drag on profitability in the initial phase. The accomplishment of the targeted credit expansion to support the high level of operating costs depends on the speed and efficacy with which the management overcomes funding constraints through deposit mobilization. For achieving this, besides focusing on expanding outreach, services standards and technology-based initiatives, the bank might be compelled to offer slightly higher return than peers. At the same time, the management intends to gradually increase the proportion of current and savings deposits by replacing term deposits, to manage its high cost of funds. Meanwhile, the profitability of the bank would continue to derive major 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. As the bank, subsequent to the merger, is set to expedite loan disbursements, there would be higher need for managing the associated risks. The bank, therefore, is in the process of strengthening the risk management systems and process. Resultantly, the Risk Management Department (RMD) has been established. The bank is developing an internal rating system and credit-scoring model to check obligor's creditworthiness. The Board has also formulated a "Risk Management Committee" consisting of heads of key departments. Risk management policy for credit, market and operational risk has been formulated which has been approved by the Board. RMD also supervises the credit administration function and follow-up on core requirement for implementation of BASEL II.
- The bank, mainly due to unutilized resources, has one of the highest levels of capitalization in the sector both in terms of proportion of equity in total assets and CAR. The bank, by way of its merger with AIBL, has already met the 2006 paid-up capital requirement of PKR 3bln. Going forward, despite targeted growth in loan portfolio, CAR is expected to remain well above the minimum requirement. Beyond 2006, sponsors of the bank are committed to meet the paid-up capital requirement as prescribed by the SBP.

BACKGROUND

- Atlas Bank Limited, previously Dawood Bank Limited, commenced operations in March 2004. Atlas group, through its holding company – Shirazi Investments (Pvt.) Limited – and the Shirazi family, acquired majority shareholding (82% as at 9-Sep-2006) of the bank in December 2005. Afterwards, on July 28 2006, Atlas Investment Bank Limited, one of the biggest investment banks in the country, was merged with ATBL. Atlas Group, established in 1962, has diversified into various industrial and service-oriented businesses including auto, engineering, financial, and trading sectors. The bank would continue to derive benefits from its association with the Atlas group.
- As a result of merger, ATBL's human resource has been strengthened and the bank has embarked upon further improving the infrastructure by inducting professionals with strong educational background and extensive experience. The second tier management positions have mostly been filled, while the bank is in the process of filling in some key positions, with the process expected to be completed within 2006. Going forward, stability of the core management team would play a pivotal role in successful implementation of the business strategy.