



The Pakistan Credit Rating Agency Limited

RATING REPORT

ATLAS BANK LIMITED

June 2010

ATLAS BANK LIMITED

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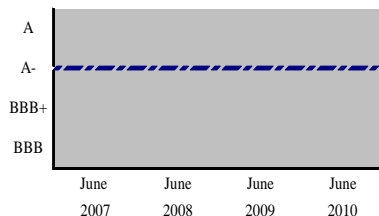
RATINGS (JUNE 2010)

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.

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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.

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1. RATINGS

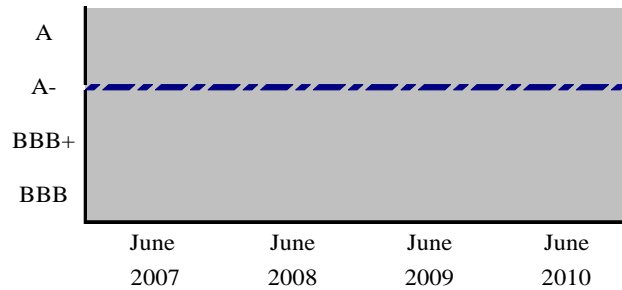
- High credit quality
- Ratings have been placed on Rating Watch, while a negative outlook also assigned

	NEW*	PREVIOUS
ENTITY		
Long Term	A-	A-
Short Term	A2	A2
<i>Outlook</i>	Negative	Negative

*Rating Watch pending completion of acquisition

The ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Long-term Rating History – Atlas Bank Limited (ATBL)

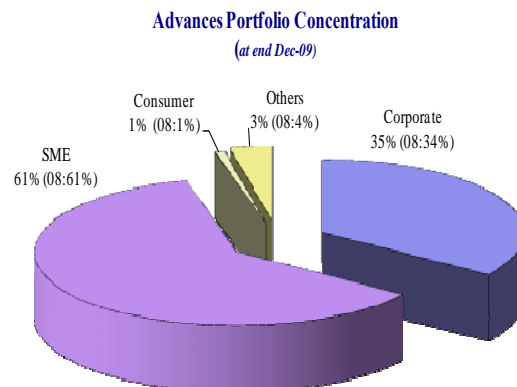


2. PROFILE

- Small sized bank
- Acquisition in process

2.1 Atlas Bank Limited (ATBL) is a small-sized bank, with nominal share in total system assets at end-Dec09. It commenced operations in March 2004 and was later acquired by Atlas Group (AG), through its holding company – Shirazi Investments (Pvt.) Limited (SIL) – and the Shirazi family in December 2005. In July 2006, Atlas Investment Bank Limited (AIBL) was merged with ATBL and accordingly its subsidiary, Atlas Capital Markets (Pvt.) Limited became the wholly owned subsidiary of the bank. In 2007, the bank elicited equity participation of an international DFI, DEG. The bank currently operates through a network of 40 branches spread over various cities.

2.2 Strategy: The bank’s primary focus was to establish itself as a retail bank with a higher emphasis on SME segment. Following this strategy, ATBL significantly increased its SME loan portfolio. This was achieved on the back of program lending in the past. In order to support its growth, the bank underwent a re-branding exercise during 2008 to augment the bank’s image and counter its inherent constraint in mobilizing low cost deposits. As part of this plan, ATBL revamped its branches with a customer-centric approach and launched a comprehensive retail strategy to complement it. Moreover, the management had planned further growth in advances for the year.



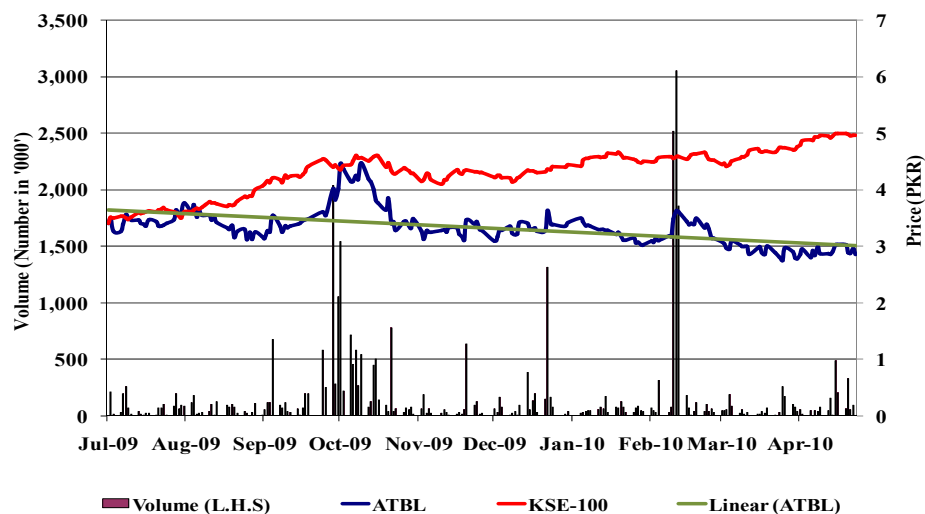
However, the management had to rollback the targeted growth and implementation of the retail strategy, following the economic downturn and merger plans.

2.3 Merger Proposals: Considering the increasingly tough economic fundamentals, stiff regulatory requirements and ATBL’s relatively modest standing in the overall banking industry, the sponsors of ATBL have been actively pursuing possible merger opportunity with a similar-sized bank. Initially, a proposal to merge with KASB Bank was initiated and after considerable diligence, it was called-off as the sponsors of both banks failed to agree upon the swap ratio. Subsequently, ATBL’s sponsors decided to merge with Silk Bank (*formerly Saudi-Pak Commercial Bank Limited*), which was also cancelled, as the merger methodology could not be finalized.

2.4 Acquisition by Suroor Investments: As a result of non-materialization of afore-mentioned merger proposals, the sponsors, in Nov-09, entered into an agreement to divest its stake to Suroor Investment Limited (SI) – a Mauritius based firm, sponsored by a UAE-based group with key interests in real estate. SI has acquired major stake in Arif Habib Bank Limited and is in the process of acquiring major stakes in ATBL and Mybank. SI plans to merge the three entities to form a single bank – Summit Bank, after which ATBL would cease to exist. In light of the proposed merger, SBP had granted ATBL an extension for meeting the minimum capital requirement (MCR), which expired at end-Mar ’10. Subsequently, the bank has filed for an extension to the relaxation, till finalization of the said merger process or June 30, 2010.

2.5 SI has made 33% payment till date, while the originally decided deadline (end-Feb ’10) for conclusion of the deal has lapsed. Meanwhile, the bank’s share price has fallen by more than 40% since inception of the acquisition process and considering the depleting financial health of the bank, further deterioration is expected if the sale to SI is not concluded promptly. Hence, any further material delay in conclusion of the sale will be detrimental to the bank, as the bank does not have any focused plan for the near-term. However, the management of the bank believes that the process will conclude by end-June10.

ATBL's Stock Price–Volume Chart



2.6 Subsidiary: Atlas Capital Markets (Pvt.) Limited (ACML), a wholly owned subsidiary of the bank, is member of all the three Stock Exchanges in Pakistan and currently offers equity and money market brokerage, advisory and consultancy services from major cities. ACML provides brokerage services to public and private entities and a large number of retail customers. Besides, the company is also a member of the National Commodity Exchange Limited. Moreover, it has the expertise to address the various financial needs such as debt restructuring, advisory in both buy and sell side for mergers, acquisitions and privatization transactions, issuance of equity and debt paper, arrangement of underwriting syndicates and asset management for its clients. ACML, being a subsidiary of ATBL, will also be transferred to SI once the transaction is completed.

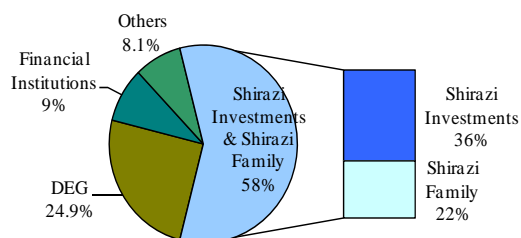
3. OWNERSHIP

- Association with Atlas Group (AG)
- No role of DEG, subsequent to acquisition by Suroor Investments

3.1 Atlas Bank Limited is majority owned by Atlas Group (AG), through its holding company, Shirazi Investments (Pvt.) Limited (SIL), and the Shirazi family, while DEG also owns sizeable stake in the bank. However, DEG has a put option as per the original agreement with Shirazis, and intend to exercise the same prior to the merger process, and hence will have no role in the merged bank.

3.2 AG was founded in 1962 with the establishment of Shirazi Investments (Pvt.) Limited (SIL). Since then, AG has emerged as one of the leading business groups in the country. SIL is engaged in trading of shares, fund management, underwriting, real estate and warehousing. SIL functions as a holding company and has played a key role in the promotion and acquisition of companies for the group.

Shareholding Structure
(as at end-Mar 10)



3.3 AG is a diversified group involved in auto, engineering, financial services, power generation and trading sectors. It consists of six private limited companies and eight public limited companies out of which six are listed on the stock exchanges in Pakistan. AG has an aggregate equity and assets (excluding the bank) of PKR 25bln and PKR 60bln respectively, and annual turnover of PKR 60bln. The Group’s staff strength has crossed 7,000.

3.4 DEG, one of the largest European development finance institutions for long-term project and company financing, is a subsidiary of KfW Bankengruppe (KfW Banking group). KfW, rated AAA by the big three rating agencies is owned 80% by the German federal government. For more than 40 years, DEG has been financing and structuring the investments in developing and transition countries, by providing long-term capital to private enterprises investing in those countries. DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from

agriculture to infrastructure and manufacturing to services. To date DEG has provided over EUR 8 billion of finance globally.

(EUR mln)	2009	2008	2007
Equity	1,336	1,388	1,369
Investments	3,073	3,064	2,286
Total Assets	3,643	3,755	3,223
Net Profit	(50)	19	117

Since its foundation in 1962 DEG has contributed to the financing of twenty-eight projects with an overall investment amount totaling EUR 120mln in Pakistan.

4. GOVERNANCE

- Experienced and diversified board
- Effective committee structure

4.1 ATBL's seven-member board of directors comprises three representatives of AG, including two sponsors from Shirazi family, while three are independent directors and the bank's president, Mr. Aziz Rajkotwala.

4.2 The board's chairman, Mr. Yusuf H. Shirazi is also the Chairman of SIL. He is the pioneer of the group and possesses extensive experience. In addition, his son, Mr. Saquib H. Shirazi is also on the board. He is an MBA from Harvard Business School and is heading Atlas Honda Limited as the CEO. During 1Q10, representative of DEG, has resigned from the board and is being replaced by an independent director.

Name of BoD members	Designation	Institution Representing	Member of BoD Committees
Mr. Yusuf H. Shirazi BA, LLB, D.J.A. (Journalism)	Chairman	Shirazi Investments (Pvt.) Ltd. – Sponsor	-
Mr. Saquib H. Shirazi MBA (Harvard), BS Economics (Wharton)	Director	Shirazi Investments (Pvt.) Ltd. – Sponsor	Executive and Compliance & Risk Management Committees
Mr. Frahim Ali Khan B Com, LLB	Director	Shirazi Investments (Pvt.) Ltd.	Executive, Audit, Compliance & Risk Management and Human Resource Committees
Mr. Sanaullah Qureshi MA. (Oxford)	Director	Independent	Executive Committee
Mr. Tariq Amin M.A. LLB,	Director	Independent	Executive, Audit and Human Resource Committees
Mr. Manzoor Ahmed MBA Finance, CFA	Director	Independent	-
Ms. Aziz Rajkotwala MBA	Chief Executive	-	Executive, Compliance & Risk Management and Human Resource Committees

4.3 ATBL has an effective committee structure to manage risks across all its business lines. Ultimate responsibility for risk management lies with the Board of Directors, with board's Audit and Compliance & Risk Management Committees fulfilling an oversight role. In addition, the board has also established executive and human resource committees. The terms of reference (ToRs) of each committee details the risks that each manages.

5. MANAGEMENT QUALITY

- Higher turnover at senior positions due to the uncertainty of

5.1 ATBL's human resource base was strengthened over the last two years as the bank focused upon improving the infrastructure by inducting professionals with strong academic and professional credentials. At the same time under performing staff was laid off to control the cost structure of the bank. However, recently various senior officials have resigned due to the

- merger
- Adequate reporting structure

uncertainties regarding the sale of the bank. Meanwhile, no new hiring is being done due to the pending sale transaction of the bank. This shows a lack of any alternate strategy, going forward.

5.2 Mr. Aziz Rajkotwala was appointed the bank's CEO in 2007. Mr. Aziz holds an MBA from IBA Karachi and has over 35 years of international and local banking experience. His latest assignment before joining ATBL was as Group Executive, International Banking Group at Habib Bank Limited.

5.3 Although the bank's senior management possess diverse and global banking experience, several of the key personnel were engaged in early part of 2008. Hence, they were relatively new to the institution when the economic crisis started in the second half of 2008. The new management had embarked upon an aggressive growth path early on, and as a result the bank faced problems coping with the downturn. Going forward, the bank will have to retain its human resource in case the proposed acquisition is delayed further.

5.4 ATBL has an adequate reporting structure with the CEO overseeing eleven senior executives. All the group heads manage their respective teams and there is a clear segregation of duties among them and also at the lower tiers.

5.5 Moreover, the management has also established committees for proper execution of tasks and provides a platform for open discussions between various department heads. These include, (i) Management Committee, (ii) Asset & Liability Committee (ALCO), (iii) Risk Management & Credit Committee, (iv) Operational Risk Compliance Committee, (v) HR Committee and (vi) IT Steering Committee. All the committees have established ToRs, which highlight their responsibilities.

- 6. RISK MANAGEMENT**
- Escalating credit risk on loan book
- Well-defined credit evaluation policies & procedures

6.1 The financial turmoil of 2008 has resulted in an escalated focus on risk management procedures. Cognizant of the bank's limited success in evading the crisis, the management has curtailed its aggressive growth plans and is focusing on consolidating its risk management framework, prior to pursuing further growth. Moreover, it has conducted portfolio reviews and diverted its attention towards "early problem recognition" procedures. During the year, the operational risk management function has worked on developing Key Risk Indicators (KRIs) and Risk & Control Self Assessment (RCSAs). This exercise has included updation of policies and procedural manuals, across the bank during the year. In addition, Compliance & Risk Management Committee assessed the suitability of risk management policies for program and relationship lending as well as all other avoidable and unnecessary risks that can potentially impact the bank. This has become a major concern for the bank as traditionally SME segment used to have minimal infection ratio.

6.2 Risk Management Framework:

6.2.1 ATBL's Enterprise Risk Management Department (ERM) oversees risk management and credit administration. At the same time, risk management policies for credit, market and operational risks have been in place duly approved by the board. ERM also follows up on core requirement for implementation of BASEL II. However, ATBL had to defer implementation of Temenos (T-24) across its branches due to uncertainties

involved as a result of proposed merger/ sale.

6.2.2 ATBL has a well-defined credit evaluation structure in place duly approved by the board, under which the credit committee operates with the objective of critically scrutinizing and sanctioning loans. The bank's credit risk management is based on a refined target market and counter party screening process, supported by ongoing client monitoring, industry analysis, bureau checks, income estimation by specialists and portfolio management techniques. In addition to monitoring cash flows of obligors, the bank manages its credit exposure by varying collateral arrangements according to quality of credit. The bank has graded its entire corporate portfolio in accordance with its obligor risk rating criteria. While managing credit risk exposure, ATBL ensures that its customers meet the minimum credit standards defined by the bank.

6.2.3 The bank continually assesses and monitors credit exposures to ensure timely identification of potential problem credits. ATBL has a credit classification and review system in place to assist in managing the quality of credit risk within its lending portfolio. Independent of the bank's credit and risk management, the recovery efforts against infected portfolio is carried on an ongoing basis through Special Asset Management Department (SAM).

6.2.4 In the SME segment, while designing the product program, the different parameters to cover credit risk are built in the same. These product programs are approved by the board prior to start of business solicitation. It is the responsibility of the SME business head, country credit manager, policy head and the enterprise risk manager to ensure conformance with credit risk management policies. Historically, this segment had performed considerably well, but witnessed a significant increase in infection rate (12.8%) during the year (2008: 8.6%).

6.2.5 Presently, the bank is using the traditional gap analysis and modified duration analysis models to measure the interest rate risk. It is also in the process of carrying out stress testing of its portfolio against interest rate hikes and any potential currency devaluations. The management plans to adopt relatively modern techniques like simulation and Value at Risk subsequent to the implementation of the new core banking software, which is subject to the merger process.

6.2.6 The bank has adopted a systematic approach to control the rising trend of NPLs by introducing MIS based follow up of overdue from day one, at the grass root level. Accordingly, account officers have been made responsible for the respective accounts. Resultantly, all those accounts where the mark-up is not received within ten days of falling due or an installment remains unpaid for 30 days, a very aggressive follow up starts immediately at the account officer level which keeps on escalating to the higher levels depending upon the aging of the default. If an account crosses 90 days, it is transferred to SAM, which makes all efforts to put it back on rail.

6.3 Credit Risk:

6.3.1 ATBL's financing portfolio, constituting 58% of the total assets at end-1QCY10 (end-09: 57%), is highly concentrated in the SME segment (at

end-Dec 09: SME: 61%, corporate: 35%, consumer: 1%). However, the portfolio is sectorally diversified with largest concentrations being in textiles (14.5%) and food, tobacco and beverages sector (14%). As compared to most of its peers, credit concentration remained low (top 20 concentration to total advances; group-wise: 19%), as a result of dominance of small value SME loans. However, given persistent economic downturn and ATBL's exposure to relatively less resilient SME segment, asset quality has weakened over the year. This is also evident from the infection ratio (15.9%) present in the SME segment. In addition, due to the uncertainty in the merger of the bank, fresh lending has been halted, resulting in a decrease in the loan book.

6.3.2 Loan loss experience: ATBL witnessed a substantial increase in NPLs (NPLs to gross advances: 1QCY10: 16.3%, 2009: 13.7%, 2008: 6.9%). This was mainly attributable to high interest rates in early part of 2009, depressed economic fundamentals,

PKR mln	1QCY10	2009	2008
Gross Finances	17,119	17,837	20,493
NPLs	3,224	2,807	1,468
Provisions (Specific + General)	1,388	1,222	854
NPLs/Gross Advances (%)	16.3 %	13.7 %	6.9 %
Provisions/NPLs (%)	43.1 %	43.5 %	58.1 %
Net NPLs / Equity (%)	83.6 %	62.1 %	16.4 %

and seasoning of ATBL's loan portfolio. Around 21% of these NPLs emanated from textiles sector, which constitutes just 14.5% of ATBL's advances portfolio.

6.4 Market Risk:

6.4.1 The investment portfolio of the bank (1QCY10: 13%, 2009: 15%, 2008: 8% of total assets) comprises debt securities, mainly government securities and to a lesser extent equities. The bank has exposure in the stock market through direct investment in stocks and in the form of mutual fund units. Although the bank had disposed off all its units in fixed income mutual funds during 2008, it has once again invested into the mutual funds during 2009 (PKR 1,313mln).

6.4.2 Mutual fund investment in money market and income funds are susceptible to interest rate movements. The risk is considered to be low given the nature of these investments as most of these funds primarily invest in short-term debt instruments/transactions and floating rate TFCs. Moreover, close monitoring of the trends in market prices and selection of liquid and dividend-yielding securities continue to provide risk mitigation.

6.4.3 The market risk in government securities also arises from fluctuation in interest rates. Investments in PIBs (1QCY10: 25%, 2009: 21%, 2008: 34%) are inherently exposed to interest rate risk because of their long-term nature. However, T-bills (1QCY10: 38%, 2009: 41% of total investments) being short-term in nature, provide cushion against adverse interest rate movements. The bank is in the process of implementing Value at Risk (VAR) model, while stress testing of its portfolio with interest rate rise is also underway.

6.5 Asset Liability Management and Liquidity:

6.5.1 The bank has in place an Asset and Liability Committee (ALCO) that monitors the liquidity position on a regular basis, and ensures that adequate inter-bank call borrowing lines are available to meet any contingency. The

committee decides on product pricing, mix of assets, liabilities, and stipulates liquidity and interest rate risk limits, monitors them, articulates the bank's interest rate view and determines the business strategy for the bank.

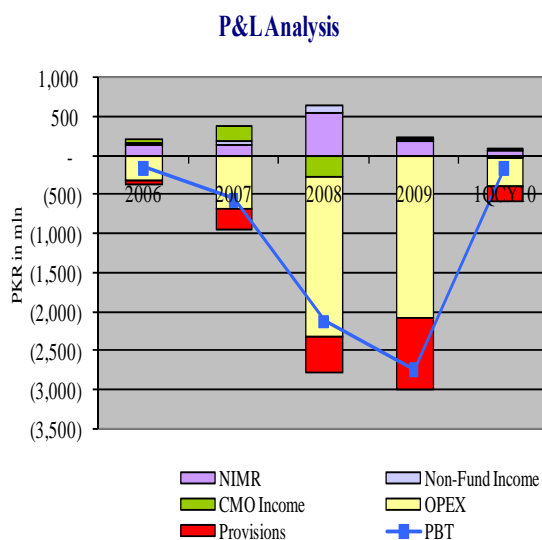
6.5.2 ATBL's investment portfolio has recovered to almost the pre liquidity crunch level. Hence the bank has been able to neutralize the effects of unrealized losses and disposal of securities during the tight liquidity period (investments at 1QCY10: PKR 3,720mln, 2009: PKR 4,561mln, 2008: PKR 2,343mln, 3QCY08: PKR 4,627mln) and eased liquidity management concerns for the bank to some extent. Majority of investments are in government securities. At end-Dec '09 government securities constitute 61% of the investment portfolio (1QCY10: 65%), while the rest is attributable to equity investments.

6.6 Operational Risk: ATBL took a number of initiatives to strengthen its risk management framework and prepare for the BASEL II requirements. Furthermore, the bank has plans to procure risk management modules for credit and market risks to meet the Basel II requirements. Currently, the bank is implementing the JCR-VIS risk-rating module for scoring its corporate and commercial obligors.

7. BUSINESS RISK

- Weakening economic fundamentals constraining bank's performance
- High-cost structure
- No focused strategy due to acquisition process

7.1 The bank's performance in terms of profitability remained constrained during 2009 and 1QCY10 owing largely to a comparatively high cost structure; inherently lower spreads, and weakening economic fundamentals. The net interest revenue worsened considerably during the year posting a 64% decrease in 2009 (1QCY10: 60% increase). This was mainly due to stagnation in loan book size following merger-related uncertainties. The bank's total net revenue was supported marginally by non-fund and dividend incomes. Although fee based income remained persistent over the year, losses in dealing in foreign currency (1QCY10: PKR 38mln, 2009: PKR 79mln) largely offset the upside.

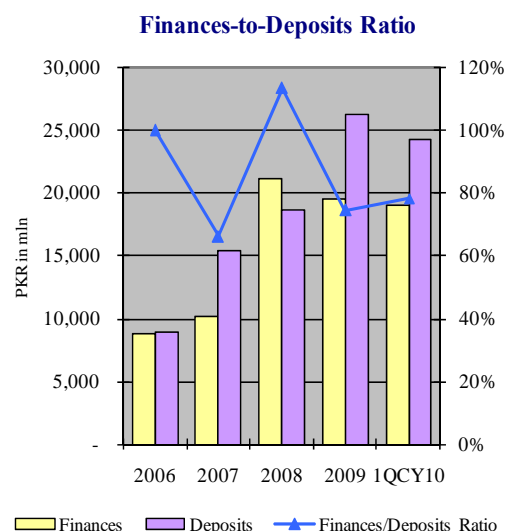
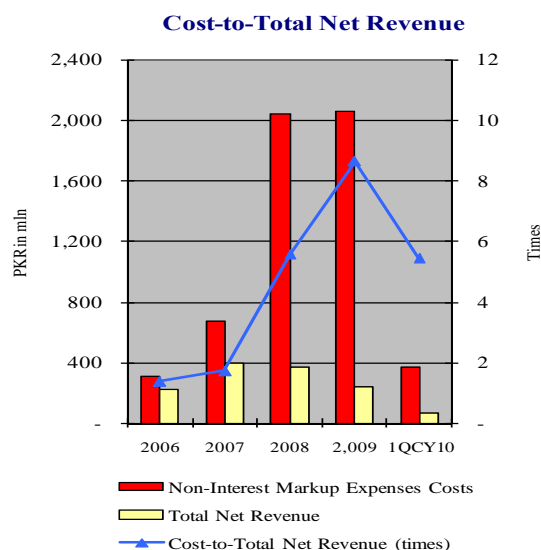


7.2 The non interest/ markup expenses remained at almost the same level as the previous year (1QCY10: PKR 364.8mln, 2009: PKR 2,062mln, 2008: PKR 2,040mln). Hence the pre-provisioning operating loss stood at PKR 295.8mln (2009 loss: PKR 1,814.3mln, 2008 loss: PKR 1,661.9mln). The provisioning increased significantly showing a 106% increase at the end of 2009 (1QCY10: PKR 184.4mln, 2009: PKR 912.8mln, 2008: PKR 443.5mln). Going forward, the provisioning will further increase due to rising

NPLs. Moreover, deterioration in the asset quality and persistently high operating cost structure dampened its profitability. The bank has for the third consecutive year posted a net loss (1QCY10 loss: PKR 369.1mln, 2009 loss: PKR 1,703.1mln, 2008 loss: PKR 1521.7mln), which increased by 11.8% on YoY basis.

7.3 ATBL's advances-to-deposit ratio (ADR) has decreased substantially subsequent to the period of the deposit run during 4Q08. Nevertheless, in order to rationalize its ADR, ATBL sought high-cost deposits, further pushing up its already high funding costs. The resulting negative impact on spreads was further amplified as ATBL had to reprofile its loan book to lower rates with a decline in interest rates during the early part of 2009.

7.4 Going forward, performance prospects of the bank appear subdued, as the earning ability of the bank has been badly impaired. However, the management being cognizant of the weakening profitability has planned to streamline its high operating costs. To achieve this, the bank has stopped any additional advances and put a hold on its annual branch expansion plan. Although these measures are expected to provide support in the near-term, the bank will have to come up with a concrete plan in case the merger is delayed.



8. FUNDING & CAPITAL

- Limited fund mobilization ability
- Weakening equity base

8.1 Funding:

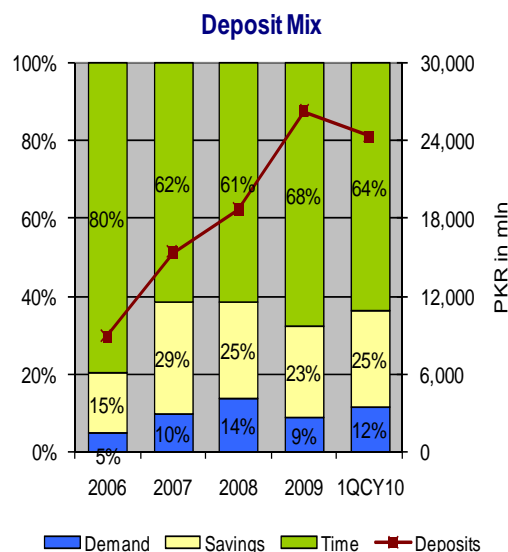
8.1.1 ATBL's funding mix has changed in favor of deposits (1QCY10: 95%, 2009: 97%, 2008: 78%), largely attributable to continued increase in deposits during 2009 (1QCY10: PKR 24,268mln, 2009: PKR 26,174mln, 2008: PKR 18,646mln). However, considering the banks limited outreach and relative inability to raise deposits at competitive rates, sustaining this growth will not

be easy. In addition, the uncertainties due to the sale transaction will also impact deposit mobilization ability of the bank.

8.1.2 The liquidity crisis that was prevalent at the end of 2008, which led to high deposit withdrawals has eased out (1QCY10: 24,268mln, 2009: PKR 26,174mln, 2008: PKR 18,646mln, Sept-08: PKR 23,726mln). As a result bank's advances-to-deposit ratio (ADR) has subsided to nearly 73% at end-Dec 09 (1QCY10: 76%). The top 20 deposits contribution of around 48% raises concentration concerns for the bank. Most of these deposits

are government or semi-government accounts. These accounts are rating-sensitive¹, hence any negative rating action will result in their withdrawal, causing a severe liquidity crisis.

8.2 Capital: Significant accumulated losses over the years have eroded ATBL's equity base, and in turn, its risk absorption capacity. Critically, the bank's net NPLs as a percentage of equity (1QFY10: 84%, 2009: 62%, 2008: 16.4%) has shown significant increase, which is going to be a potential drag on ATBL's risk absorption capacity, if not recovered. At the same time, a further loss during the year has reduced ATBL's CAR to 6.18% at 1QCY10 (2009: 6.76%, 2008: 10.3%, required by SBP: 10%). In order to meet regulatory requirements, the bank needs to augment its capital structure. The bank was non-compliant with the MCR of PKR 6bln and CAR of 10% at end-Dec09. The bank has requested for an extension to meet the MCR and CAR from SBP till June 30, 2010. However, given the probability of fresh infection in loan portfolio further dragging the capital base, there is a need to expedite the merger process, to provide the much needed capital infusion to support the bank in the medium term.



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ATLAS BANK LIMITED

BALANCE SHEET

	31-Dec-09	31-Dec-08	31-Dec-07
	<i>(PKR in mln)</i>		
A. FINANCES			
1. Loans, Cash Credits and Running Finances	16,834.3	18,252.5	6,235.4
2. Net Investment in Finance Lease	686.6	1,532.9	2,654.4
3. Bills Discounted and Purchased	113.8	60.7	58.0
<i>Advances</i>	17,634.8	19,846.0	8,947.8
4. Debt Instruments - net	202.1	647.2	878.3
<i>Total Finances</i>	17,836.8	20,493.2	9,826.1
B. OTHER EARNING ASSETS			
1. Deposits with Banks	400.1	138.5	18.5
2. Lending to Financial Institutions	838.4	114.0	4,427.8
3. Investments			
a. Government Securities	2,801.7	1,557.1	2,980.0
b. Equity Investments (Incl. Mutual Funds)	1,759.6	786.6	858.6
c. Fixed Income Mutual Funds/Preference Shares	-	-	850.0
	4,561.3	2,343.7	4,688.6
<i>Other Earning Assets</i>	5,799.9	2,596.1	9,134.9
C. TOTAL EARNING ASSETS (A+B)	23,636.7	23,089.4	18,961.0
D. FIXED ASSETS / INTANGIBLE ASSETS	1,516.3	1,633.0	1,335.2
E. NON-EARNING ASSETS			
1. Cash and Bank Balances	1,274.7	1,530.8	1,698.2
2. Deferred Tax	1,813.6	1,010.3	169.0
3. Others	1,043.0	999.6	526.2
4. Net Non-Performing Advances			
a. Non-Performing Advances	2,807.2	1,467.9	775.2
b. Accumulated Provisions (Prudential Specific)	(1,220.4)	(759.2)	(474.9)
c. Accumulated Provisions (Prudential General)	(1.6)	(4.8)	(5.7)
d. Accumulated Provisions (General)	-	-	-
	1,585.2	703.9	294.7
<i>Non-Earning Assets</i>	5,716.5	4,244.7	2,688.0
F. TOTAL ASSETS	30,869.5	28,967.0	22,984.3
G. CUSTOMER DEPOSITS			
1. Demand	2,349.8	2,570.3	1,521.0
2. Savings	6,104.8	4,627.1	4,378.2
3. Time	17,719.0	11,449.1	9,423.5
<i>Deposits</i>	26,173.7	18,646.4	15,322.7
H. BORROWINGS			
1. SBP Refinance	918.1	379.3	224.6
2. Financial Institutions	25.0	4,944.1	1,080.0
3. Sub-ordinated Loan / TFCs	-	-	-
<i>Borrowings</i>	943.1	5,323.4	1,304.6
I. OTHER LIABILITIES (Non-Interest Bearing)			
1. Deferred Tax Liability	-	-	-
2. Bills Payable	265.9	255.7	288.9
3. Others	1,004.8	1,084.5	883.8
<i>Other Non-interest Bearing Liabilities</i>	1,270.7	1,340.2	1,172.7
J. EQUITY			
1. Share Capital	5,001.5	5,001.5	5,001.5
2. Reserves:			
a. Statutory Reserve	2.5	2.5	2.5
b. Capital Reserves	585.1	577.5	577.5
c. Revenue Reserves	0.0	0.0	0.0
d. Unappropriated Profit	(3,035.0)	(1,331.9)	(321.4)
	(2,447.5)	(751.9)	258.7
<i>Pure Equity</i>	2,554.0	4,249.6	5,260.1
3. SURPLUS/(DEFICIT) ON REVALUATION			
1. Revaluation of Investments	(71.9)	(592.6)	(75.9)
2. Revaluation of Fixed Assets	-	-	-
<i>Surplus/(Deficit) on Revaluation</i>	(71.9)	(592.6)	(75.9)
<i>Total Equity</i>	2,482.1	3,656.9	5,184.2
L. TOTAL LIABILITIES & EQUITY	30,869.5	28,967.0	22,984.3
M. CONTINGENT LIABILITIES			
1. Trade Related	576.4	1,156.4	1,523.4
2. Guarantees	627.2	681.3	1,140.5
	1,203.6	1,837.6	2,663.9

* This amount consists a borrowing of PKR 2,650 bln from the SBP at 18% (Total line: PKR 4,500 bln)



ATLAS BANK LIMITED

INCOME STATEMENT

	31-Dec-09	31-Dec-08	31-Dec-07
			(PKR in mln)
1. Interest / Mark up Earned	3,387.9	2,975.8	1,434.2 *
2. Interest / Mark up Expensed	(3,189.3)	(2,421.2)	(1,294.4)
3. NET INTEREST / MARK UP REVENUE (NIMR)	198.6	554.6	139.8
4. Other Operating Income			
a. Fees, Commission, Brokerage	61.2	59.8	22.7
b. Dividend Income	32.7	50.3	37.8
c. Income from Dealing in Foreign Currencies	(79.3)	8.8	15.5
d. Realized and Unrealized Gains/(Loss) on Sale of Investments	0.8	100.3	166.9
e. Others	24.7	14.0	7.9
	40.2	233.3	250.8
5. TOTAL NET REVENUE	238.8	787.9	390.6
6. Other Income / (Loss)	9.0	11.9	0.2
	247.8	799.8	390.8
7. NON-INTEREST/MARK UP EXPENSES			
a. Personnel Expenses	(918.5)	(1,042.9)	(302.2)
b. Other Non-interest/Mark Up Expenses	(1,143.5)	(997.5)	(366.7)
	(2,062.0)	(2,040.4)	(668.9)
8. PRE-PROVISION OPERATING PROFIT	(1,814.3)	(1,240.7)	(278.1)
9. PROVISIONS			
a. Provision for Loan Losses /write offs			
i. Specific provision	(524.7)	(359.1)	(274.7)
ii. General provision	-	0.8	3.0
iii. Bad debts directly written off	-	-	(0.0)
b. Provision for Diminution in Investments	(388.1)	4.7	0.3
	(912.8)	(353.5)	(271.5)
10. PRE-TAX PROFIT	(2,727.1)	(1,594.2)	(549.6)
11. Taxes	1,024.0	583.7	240.5
12. NET INCOME	(1,703.1)	(1,010.6)	(309.0)
13. Unappropriated Profit / (Loss) Brought Forward	(1,331.9)	(321.4)	(12.3)
14. Adjustments	-	-	-
	(3,035.0)	(1,331.9)	(321.4)
15. Appropriations			
a. Statutory Reserve	-	-	-
b. Capital Reserve	-	-	-
c. Revenue Reserve	-	-	-
d. Contingency Reserve / Other Reserves	-	-	-
e. Reserve for Issue of Bonus Shares	-	-	-
f. Cash Dividend	-	-	-
	-	-	-
16. Unappropriated Profit / (Loss) Carried Forward	(3,035.0)	(1,331.9)	(321.4)

* Included gain on sale of fixed income and money market funds

^ On proportionate basis



ATLAS BANK LIMITED
RATIO ANALYSIS

	31-Dec-09	31-Dec-08	31-Dec-07
A. PERFORMANCE			
1. ROE	-50.07%	-21.25%	-7.38%
2. ROA	-5.69%	-3.89%	-1.55%
3. Provision Expense / Pre Provision Profit	-50.31%	-28.50%	-97.61%
4. Personnel Expenses-to-Total Net Revenue	384.69%	132.37%	77.36%
5. Cost-to-Total Net Revenue	863.64%	258.98%	171.25%
6. Cost-to-Total Net Revenue (net of capital gains)	866.71%	296.75%	299.05%
7. Other Operating Income / Total Net Revenue	16.82%	29.61%	64.22%
8. Other Operating Income (net of capital gains) / Total Net Revenue	16.47%	16.88%	21.48%
9. Taxes / Pre-Tax Profit	37.55%	36.61%	43.77%
10. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	20.14%	16.42%	13.07%
B. CAPITAL ADEQUACY			
1. Equity / Total Assets	8.27%	14.67%	22.89%
2. Adjusted Equity (including revaluation impact) / Total Assets	8.04%	12.62%	22.56%
3. Capital Adequacy Ratio as per SBP	6.76%	10.30%	29.05%
- Tier I CAR	6.76%	11.13%	29.01%
- Tier II CAR	0.01%	-0.84%	0.04%
C. LIQUIDITY			
1. Liquid Assets / Deposits and Borrowings	26.09%	11.90%	50.82%
2. Finances / Deposits	74.20%	113.68%	66.05%
3. Advances / Deposits	73.43%	110.21%	60.32%
4. Finances (net of Refinance) / Deposits	70.70%	111.65%	64.59%
5. Finances / Deposits and Borrowings	71.62%	88.43%	60.87%
6. Finances / Total Assets	62.92%	73.18%	44.03%
7. Government Securities / Total Assets	9.08%	5.38%	12.97%
8. Time Deposits / Total Deposits	67.70%	61.40%	61.50%
9. Borrowings from Financial Institutions/Lending to FIs (times)	0.03	43.37	0.24
D. LOAN LOSS COVERAGE			
1. Non-Performing Advances / Gross Advances	13.73%	6.89%	7.97%
2. Loan Loss Provisions / Non-Performing Advances	43.53%	52.05%	61.99%
3. Loan Loss Provisions* / Non-Performing Advances	43.48%	51.72%	61.26%
4. Net Non-Performing Advances / Equity	62.07%	16.56%	5.60%
5. Net Non-Performing Advances / Adjusted Equity	63.86%	19.25%	5.68%
* excl. general provisions against consumer loans under Prudential Regulations			
E. INTERMEDIATION EFFICIENCY			
1. NIMR (Net Interest/Mark-up Revenue) / Avg. Assets	0.66%	2.14%	0.70%
2. Asset Yield [Interest Earned/Average (Earning Assets-Equity Investments)]	15.34%	14.73%	8.94%
3. Cost of Funds [Interest Expensed / Average (Deposits + Borrowings)]	12.49%	11.93%	8.78%
4. Spread	2.85%	2.80%	0.16%
F. GROWTH			
1. Total Assets	6.90%	26.03%	35.04%
2. Gross Finances	-6.00%	107.16%	15.23%
3. Impaired Lending	91.23%	89.37%	56.95%
4. Investments	94.62%	-50.01%	77.29%
5. Customer Deposits	40.37%	21.69%	73.28%
6. Equity	-31.68%	-19.21%	68.81%
G. OTHERS			
1. No. of Branches	40	40	25
2. Staff Strength			
Bank's own staff	767	855	603
Outsourced	371	616	178
	1,138	1,471	781

* Annualized



STANDARD RATING SCALE & DEFINITIONS

LONG TERM RATINGS

AAA: Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB: Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

BB: Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B: Highly speculative. 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.

CCC, CC, C: High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic developments. A 'CC' rating indicates that default of some kind appears probable. 'C' ratings signal imminent default.

SHORT TERM RATINGS

A1+: Obligations supported by the highest capacity for timely repayment.

A1: Obligations supported by a strong capacity for timely repayment.

A2: Obligations supported by a satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic, or financial conditions.

A3: Obligations supported by an adequate capacity for timely repayment. Such capacity is more susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories.

B: Obligations for which the capacity for timely repayment is susceptible to adverse changes in business, economic, or financial conditions.

C: Obligations for which there is an inadequate capacity to ensure timely repayment.

D: Obligations which have a high risk of default or which are currently in default.

- Notes:**
1. PACRA's ratings are an assessment of the credit standing of entities in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors.
 2. A plus (+) or minus (-) may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' long-term rating category, to categories 'CCC' and below, or to short-term ratings.
 3. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.