

JS BANK LIMITED (JSBL)

RATINGS (JUNE 2008)

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ENTITY	NEW	PREVIOUS
Long Term	A-	A-
Short Term	A2	A2
Outlook	Positive	-

FINANCIAL DATA

PKR (mln)

	31-12-07	31-12-06
Total Assets	20,328	12,545
Equity	5,141	3,004
Net Income	35.4	(0.4)
Equity / Total Assets %	25.29	23.94
Net NPLs / Equity %	0.50	0.00

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect JSBL's association with a strong and diversified business group – JS group. At the same time, the ratings factor in the progress made in terms of formulating a cogent business strategy, development of core management team, and implementation of technology infrastructure.
- The ratings have been assigned a positive outlook. These are dependent on the bank's success in capitalizing on its technology infrastructure and parentage to overcome its constraints of limited size, outreach, franchise, concentrated deposit base, and revenue streams in a timely manner, leading to improved standing amongst peers. Meanwhile stability and cohesiveness of the core management team would remain important.

ASSESSMENT

- The bank has evolved a comprehensive growth strategy. The management, in the first phase, intends to establish JSBL as a high-end bank by participating in complex corporate credit transactions and establishing foothold in affluent retail market by offering high-quality services helping in deposit mobilization and at the same time tapping consumer finance opportunities. This would be followed by a relatively aggressive entry into mass consumer market and SME segment. However, this phase of growth would be more aligned to expansion in the branch network.
- The bank, like most small banks, is expected to face difficulties in mobilizing business in the presence of large and more established players in the sector and weakening economic fundamentals. However, the bank, leveraging on American Express Bank's inherited clientele and relationships of JS group, is initially targeting top tiered corporates for desired growth in advances. The bank is developing a Retail Banking Group (RBG), whose main objective would be to target retail and SME customers through well-designed business and marketing plan. Meanwhile, the bank intends to achieve a size of around 125 branches till end-2010. Initially, focus would be on key commercial and urban areas of the country, while in the long-term, the bank has plans to further expand its outreach to smaller cities to reach low cost retail customer base.
- During first year of operations, JSBL, while putting in place the core management team, focused on setting up a strong infrastructure to achieve efficiency and effectiveness in its overall banking operations. The bank fully implemented an established core banking software – Temenos – a development placing JSBL ahead of a few of its peers. During the year, the bank achieved reasonable growth in its deposit base, though emanating from a limited number of clients. However, given that the bank has to offer relatively higher return to attract depositors, while settling for relatively lower yield on its lending to achieve credit expansion, its spreads are likely to remain under pressure over the near-term. Nevertheless, as the bank has strong footing in investment advisory services, it is expected to provide support to its bottom line. Moreover, the group's expertise in capital market operations would also help the bank in capturing profitable opportunities to supplement its revenues, especially in the initial years of operations.
- Currently, the bank is in the process of strengthening its risk management function. The bank has devised detailed risk management policies and guidelines for all areas of risks separately. Furthermore, the bank has purchased Risk Management Module of Temenos – T-Risk – which offers risk management solutions in accordance with Basel-II guidelines. Meanwhile, the bank is in the process of developing an Internal Risk Rating model to determine obligor's overall risk probability. This would help in keeping the quality of assets in line with overall risk appetite of the bank. All these developments are expected to strengthen the bank's overall systems and procedures, while increasing its capacity to manage diverse product range and growing business volumes.
- The bank has a smaller size but to meet the regulatory capital requirement maintains higher level of capitalization. Although the current level of CAR offers significant room for credit expansion, with restricted internal generation, the bank would remain dependent on its sponsor's support for meeting increasing absolute capital requirements as prescribed by SBP, going forward.

PROFILE

- JS Bank Limited (JSBL), formed after merger of American Express Bank's Pakistan branches (AEBL) and Jahangir Siddiqui Investment Bank Limited, commenced its banking operations on December 30, 2006. The bank, listed on Karachi Stock Exchange, is a subsidiary (57%) of Jahangir Siddiqui & Co. Limited (JSCL), the holding company of Jahangir Siddiqui (JS) group, mainly for its interests in the financial sector. JSCL enjoys a very strong market standing and financial strength carrying a long-term rating of 'AA+' from PACRA. JS group is involved in a diverse set of activities with focus on the financial sector, including asset management, securities brokerage, commercial banking, micro finance, insurance, and trade finance services.
- Mr. Jahangir Siddiqui, the founder of JS group, chairs the seven-member BOD of the bank. Mr. Naveed Qazi, the CEO of the bank, has over two decades of banking experience. His last assignment was with AEBL, as COO of Pakistan operations.