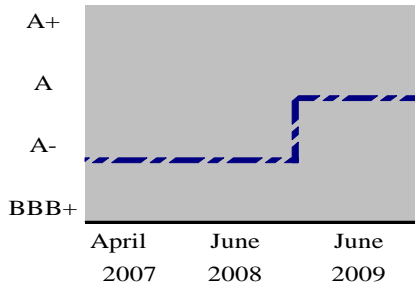


RATINGS (JUNE 2009)

JS BANK LIMITED (JSBL)

Entity	New	Previous
Long Term	A	A-
Short Term	A1	A2



FINANCIAL DATA

PKR (mln)

	1Q09	2008	2007
Total Assets	23,854	21,628	20,328
Equity	5,870	5,785	5,141
Net Income	(348)	55	35
Equity / Total Assets %	24.6	26.8	25.3
Net NPLs / Equity %	2.9	5.6	0.5
CAR %	28.9	28.9	34.0

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

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the improvement in JSBL’s relative positioning amongst peers and appreciable progress accomplished in formulating a cogent business strategy, strengthening systems and controls, developing a core management team, expanding the branch network and successfully implementing the technology infrastructure. The bank’s association with a diversified business group – the JS Group – is a key rating factor. The group is providing proactive support – financial resources and strategic guidance – to the bank in establishing itself in a highly competitive banking industry.
- The management’s ability to fortify the bank’s franchise and successfully implement its business strategy, while keeping the associated risks at an acceptable level, would be critical for the ratings. Meanwhile, any material deterioration in asset quality and/or liquidity management, in turn, impacting JSBL’s risk absorption capacity, could have negative rating implications.

ASSESSMENT

- The domestic economy faced multiple challenges during 2008, arising from high inflation, deteriorating law and order situation, slowdown in GDP growth, an erratic stock market and high interest rates. This had negative repercussions for the banking industry’s credit quality and liquidity profile. JSBL, still in gestation phase, focused on setting up a strong infrastructure to achieve efficiency and effectiveness in its operations. In this regard, the bank has successfully implemented Temenos (T-24), which has also allowed the management to better control operational risks.
- In 2008, the bank posted significant growth in its advances (42%) and enhanced its deposit base on the back of expanded outreach. The higher quantum of business improved the bank’s performance indicators, but the high cost structure, mainly attributable to the gestation phase and ongoing expansion, kept the profitability low. JSBL’s performance deteriorated in 1Q09 due to higher provisioning for NPLs and revaluation deficit on investments.
- Going forward, the management intends to aggressively increase its branch network to 119 by year end. It has expressed interest in acquiring the Royal Bank of Scotland, although the timeline for the acquisition, if successful, is unclear. The bank envisages strong growth in advances and deposits, in line with its expansion plans. It would focus on retail and SME sectors and Tier 2 corporates. Nevertheless, given the subdued operating environment, it is critical for the bank to adopt a prudent growth strategy to sustain strong asset quality.
- The advances portfolio of the bank largely comprises the corporate sector (90%), with the consumer and SME sectors representing a small portion. Although the bank experienced a significant rise in NPLs on YoY basis (1Q09: 4.4%; 2008: 4.6%; 2007: 2.2%), it compares favourably with peers and the impact of NPLs on equity remains low. With around 50% of the advances stemming from three sectors of the economy and the twenty largest exposures constituting around 38% of the total lending portfolio, the concentration risk remains high. However, comfort can be drawn from the fact that majority of the exposures are with high-rated entities, backed by strong collateralization.
- The bank consolidated its deposit base during 1Q09 to reduce reliance on high cost deposits. The composition of deposits changed in favour of demand deposits (45%), followed by time (38%) and savings (17%). Meanwhile, due to initial phase of operations, the deposit base remains highly concentrated. However, sizeable group deposits (19% of total deposits at end 2008) provide a stable source of funding.
- The bank has a large investment portfolio (20% of the asset base), mainly dominated by short-term government securities (87%), signifying high liquidity. Going forward, the revaluation deficit (PKR 381mln), arising out of equity and mutual fund investments, could impact the profitability.
- The bank announced a 20% right issue (PKR 1,021mln) in 2008 to meet the regulatory capital requirement. The bank remains well-capitalized, due to a low proportion of risk weighted assets, with CAR at 28.9%, which offers room for credit expansion. However, considering the constrained internal generation capacity, sponsor support might be required for meeting capital requirements, especially in the short term.

PROFILE

- JSBL, incorporated in March 2006 after the merger of American Express Bank Limited’s (AEBL) Pakistan branches and Jahangir Siddiqui Investment Bank Limited, commenced operations on December 30, 2006. It operates through a network of 72 branches in 29 cities (as at end June ’09), with its Head Office in Karachi. Listed on the Karachi Stock Exchange since 2007, it has three main business units: i) Retail and consumer banking, ii) Corporate and commercial banking, and iii) Treasury and investment banking. JSBL is a subsidiary (64% after subscription of the recent right issue) of Jahangir Siddiqui & Co. Limited (JSCL).
- Mr. Jahangir Siddiqui, JS group’s founder, chairs the bank’s seven-member BoD (excluding the CEO). Mr. Naveed Qazi, the CEO, has over two decades of banking experience. His last assignment was as COO of AEBL’s Pakistan operations. The BoD exercises close monitoring of the management’s policies and the bank’s operations through its three committees, namely i) Risk Management; ii) Human Resource; and iii) Audit.

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