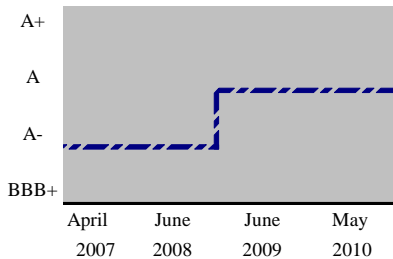




RATINGS (MAY 2010)
JS BANK LIMITED (JSBL)

	New	Previous
Entity		
Long Term	A	A
Short Term	A1	A1
Outlook	Negative	-



FINANCIAL DATA
PKR (mln)

	1Q10	2009	2008
Total Assets	34,152	32,895	21,628
Equity	5,434	5,623	5,785
Net Income	(189)	(595)	55
Equity / Total Assets %	15.9	17.1	26.8
Net NPLs / Equity %	5.2	6.8	5.6
SBP CAR %	22.3	24.0	28.9

* Based on unaudited accounts for the 3 months ended March 31, 2010.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect JSBL’s association with a diversified business group – the JS Group. The ratings also take into account the expanding outreach of the bank, supplemented by the requisite technology infrastructure, which is expected to aid envisaged growth. Although the bank enjoys relatively better positioning amongst peers (small sized banks), it has yet to convert its edge into profitable operations.
- The ratings have been assigned a negative outlook and are critically dependent upon timely augmentation of the bank’s capital, thus, ensuring compliance with regulatory requirements. Meanwhile, translation of branch expansion and increased balance sheet footing into profitability to arrest capital erosion would be important. At the same time, maintaining good asset quality, improving the bank’s franchise, and a stable management team remain critical.

ASSESSMENT

- The domestic economy continues to face various challenges. Although certain macroeconomic indicators have improved, chronic power crisis, stubborn inflationary pressure, and adverse law and order situation are affecting the overall economic activity. This is reflected in the weakening asset quality of banks. Moreover, heavy government borrowing for budgetary support, high cost of funds, and the sector’s cautious approach kept private sector credit off-take limited. The pace of accumulation of NPLs has stalled lately, but maintaining sound asset quality remains a challenge for the banking sector, especially for medium and small banks.
- During 2009, JSBL focused on expanding its network, though a little behind its plans due to JSBL’s unsuccessful bid to acquire the operations of the Royal Bank of Scotland. Nevertheless, leveraging its enhanced footprint, the bank posted substantial growth in terms of deposits (40%) and advances (27%). This led to a lower ADR, but the bank was able to preserve its spread (2009: 3.7%; 2008: 3.4%), while enjoying better liquidity. However, high operating costs, coupled with significant provisioning expense – attributable to diminution in the value of investments and NPLs – adversely impacted the bottomline. The performance of the bank remained subdued during 1Q10, mainly on account of the high cost structure.

Going forward, JSBL plans to further strengthen its branch network to increase brand awareness and mobilize low cost deposits. Meanwhile, on the lending side, it intends to maintain its focus on the corporate sector, with particular emphasis on the textile, chemicals, and fertilizer industries. Given the subdued macroeconomic environment, achieving good quality credit expansion would be critical.

JSBL witnessed a significant increase in NPLs during the year due to depressed economy and certain fraudulent activities in the bank. However, these exposures are adequately provided, as indicated by a low net NPLs/equity ratio. The advances portfolio mainly comprises the corporate sector (74%), followed by consumer (21%), and SME (1%). The sectoral diversification has improved with around 33% of the advances stemming from three sectors (textile, chemicals and pharmaceuticals, and financial) of the economy (2008: 50%). However, the loan book remains concentrated in terms of individual exposures, with the 20 largest advances making up 50% of total lending portfolio.

The major portion in the deposit base is of time deposits, followed by demand and savings. Going forward, the bank intends to increase CASA deposits to rationalize funding costs. Meanwhile, the top 20 group deposits contribute around 33% to the total deposits, leading to significant concentration risk. The investment portfolio witnessed considerable growth during 2009 and constituted 23% (2008: 18%) of the bank’s asset base at end ‘09. Its composition has remained largely unchanged and is dominated by government securities (86%), signifying high liquidity.

The bank utilizes Temenos T24 as its core software. Although the bank has acquired the risk module, it is not yet implemented. Meanwhile, the management is focusing on strengthening its overall risk management and control systems to avoid any potential collusion.

The equity base was eroded due to losses incurred during 2009 and 1Q10. As a result, JSBL was unable to meet 2009’s Minimum Capital Requirement of PKR 6bln. In this regard, the management is considering various options, including fresh equity injection by a potential partner, issuance of shares, or merger with a group company. Timely materialization of the initiatives remains critical. Meanwhile, the current level of CAR is high, offering significant room for expansion.

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 101 branches in 49 cities, 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%) 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. The bank assembled an experienced top management team initially, which has experienced changes recently. Given the nascent stage of the bank and still developing operational and control mechanism, identification and retention of key management personnel remains critical.