



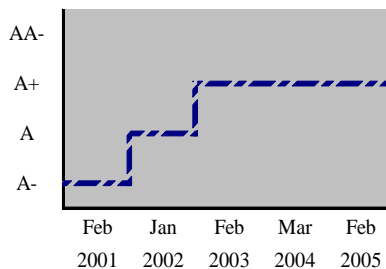
JAHANGIR SIDDIQUI INVESTMENT BANK LIMITED

Ratings (February 2006)

Entity	New	Previous
Long-term	A+*	A+
Short-term	A1*	A1

Jahangir Siddiqui Investment Bank Ltd.
* **Rating Watch**

LT-RATING HISTORY



Summary Data

PKR (million)

	30-Jun-0	30-Jun-04
Total Assets	4,816.5	3,501.7
Equity	1,315.6	947.6
Net Income	368.0	440.7
ROE (%)	32.52	59.21
Total	248.35	227.53
Debt/Equity (%)		

Analysts

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Rating Rationale

Assessment

- JSIBL's ratings reflect its robust performance emanating from its continued success in optimising earnings from capital market operations. The volatility risk emanating from these operations is mitigated by the bank's strong capital structure, as well as the sound risk management techniques employed. Meanwhile, the ratings have been placed on rating watch pending the outcome of the expected amalgamation with American Express Bank Limited (Pakistan Branches).
- The bank's main source of revenue, as in the previous year, was through capital market operations – proprietary trading and COT/CFS transactions - followed by money market operations. The bank's loan portfolio is being slowly expanded, leading to higher interest based revenue (8.3% of total net revenue at end-05) while fee-based income continues to constitute a nominal proportion of revenue.
- JSIBL's YoY performance - measured in terms of ROA and ROE - reflected a decline owing mainly to a lower quantum of capital gains. However, in the sectoral setting, its performance still remains at the higher end. The bank managed significant volume expansion in terms of money market operations and its loan portfolio. With largely maintained spreads, this had a positive impact on interest-based revenue. However, this was offset by an increase in cost-to-total net revenue-which still remains at the lower end among peers- due to increased investment in human resource, as well as a one-time fee paid for increase in authorised capital. Going forward, despite subdued profitability from capital market operations in 1QFY06, the management remains sanguine about performance prospects. However, any material augmentation in any of the aforementioned revenue streams - in the current transitional phase leading up to the amalgamation - is unlikely.
- The bank has adopted stringent measures to manage the risk associated with its extensive stock market activities. This involves setting exposure limits to various sectors, stocks, brokers, tenor, and overall investment limits. While limits associated with proprietary trading are benchmarked to the bank's equity, the management plans to increase its exposure to mutual funds. The bank's loan portfolio has remained impairment free despite the recent expansion. Although portfolio concentration is high, this is expected to improve in line with future growth targets. Investment in TFCs is made on the basis of their credit ratings. All investments are continuously monitored, and weekly reporting practices are followed. Overall, the bank's association with the JS group, and access to the requisite expertise and resources, helps in the management of risks.
- The bank's capital structure remains strong - and at the higher end among peers - on the back of a strong profit retention policy. The bank has high liquidity, an outcome of its sizeable investment portfolio dominated by fundamentally strong and REPOable investments.

Support

- While there is no contractual obligation on the part of the parent company to support JSIBL in the event of a contingency, in PACRA's opinion, such support is likely to be forthcoming, should it prove necessary.

Background

- Jahangir Siddiqui Investment Bank Limited (JSIBL) commenced commercial operations in September 1993. Jahangir Siddiqui and Company Ltd. (JSCL) – the principal shareholder, with 62.41% stake in JSIBL – assumed control of the bank in September 1999. Starting as a traditional securities firm, JSCL is now the main holding company of the Jahangir Siddiqui Group. With its considerably expanded equity and asset base, the company is embarked upon new initiatives, with a dynamic approach in identifying new growth opportunities with the proven ability to take quick but prudent investment decisions.
- The present board of directors of the bank comprises seven members, majority of whom have been nominated by JSCL. Access to quality human resource, with the requisite skill sets and experience, is an important benefit derived from the bank's association with the JS Group.
- JSIBL is expected to merge with the local branches of American Express Bank in the near future. Consequently, the rating has been placed on rating watch. The merged entity will be a commercial bank with an initial network of five branches. In the post-amalgamation scenario, the new entity is likely to face new challenges and far more intense competition. In the short run, therefore, performance indicators are likely to be affected. It could, therefore, take a while for the banking company to establish its franchise value in the new peer setting despite the continued affiliation with a strong corporate group.