The Pakistan Credit Rating Agency Limited

JS BANK LIMITED
RATING REPORT

	NEW [JUN-17]	PREVIOUS [OCT-16]
Long-Term	AA-	AA-
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2017

Profile &Ownership

- JS Bank Limited (JSBL), incorporated in March 2006, commenced its banking operations on December 30, 2006; operates with network of 307 branches.
- JSBL is a subsidiary (~70%) of Jahangir Siddiqui & Company Limited (JSCL). JSCL also holds ~97% of preference shares issued in Feb-14.

Governance & Management

- The board comprises nine members including CEO, out of which five are non-executive directors including the chairman and three are independent directors.
- President & CEO is a non-elected executive director.
- Mr. Ali Jehangir Siddiqui, Non-executive director - JSCL, was elected as Chairman of the board in March 2016.
- Current president & CEO Mr. Khalid Imran, possess substantial and well-rounded prosfessional experience of four decades.
- Mr. Basir Shamsie is appointed as deputy CEO in May, 2017. He possess work experience of three decades, primarily in the banking sector.

Risk Management and Asset Quality

- During CY16, earning assets grew by ~21%; a facet of increased investments in government securities; concentration in sectoral mix was maintained in advances, with top 3 sectors: corporate sector, commodity sector and lastly consumer finance advances (CY16: 83%; CY15: 97%; CY14: 91%).
- Client concentration improved significantly in terms of top 20 customers constituting 27% of JSBL's overall net advances at end-Dec16 in contrast to 54% at end-Dec15.
- JSBL’s asset quality remained strong (1QCY17: 3.4%; CY16: 3.5%; CY15: 4.8%).

Performance

- On the back of ~51% growth in deposits since past few years, JSBL’s witnessed a gradual increase in its system share, (CY16: Deposits: 1.8%; Advances: 1.8%; CY15: Deposits: 1.6%; Advances: 1.4%).
- Spreads largely remained intact. Nevertheless, higher business volumes resulted in increased net interest revenues.
- The bank has shown a growth in non- interest income YoY (1QCY17: PKR 1,205mln; CY16: PKR 4,802mln) mainly due to realized gains from sale of investments, which resultantly further strengthened the total net revenue.
- JSBL posted a sustained profit YoY (CY16: PKR 2.0bln; CY15: PKR 2.0bln).
- Bank’s advance to deposit ratio went down slightly on the back of significant increase in deposits (9MCY17: 42.2%; CY16: 41.5%). Growth in financing activities has been funded mainly through deposits, which grew by ~51% during CY16 (CY15: 30%).
- Going forward, the management intends to continue expanding its advances’ book mainly fueled by deposits with focus on mid-tier corporates, commercial and SME sectors. The management is also focusing on priority banking.

Capital & Funding

- Deposit base remained tilted towards interest rate sensitive, Major growth was witnessed in time deposits (~70%), followed by demand (~47%).
- Top 20 deposit concentration significantly decreased (CY16: 26%; CY15: 32%).
- Increased investment in government securities has improved the overall liquidity position. Thus, the bank’s liquid assets as percentage of deposits improved significantly at end-Mar17: 62% (65% in CY16).

JSBL PPTFC Issued

- JSBL has issued unsecured, subordinated, and privately placed TFCs of PKR 3,000mln. The issue amount support the bank to keep its Capital Adequacy Ratio (CAR) at comfortable level. The tenor of this instrument is 7 years ending in 2023. Profit is based on 6M-KIBOR Plus 140bps p.a. payable semi-annually in arrears. Major Principal Repayment (99.76%) would be in two equal semi-annual installments of (49.88%) each, in the seventh year. JSBL retains the call option on profit payment date, which may be exercised, on or after five years of issue, subject to SBP’s approval.

RATING RATIONALE

The ratings reflect improving relative position of JS Bank in the country's competitive banking landscape. This stems from enhanced system share (approaching 2% of deposits at end-Dec 16 and end- Mar 17). The bank added a sizable amount of PKR 85bln to its deposit base in 2016. The benefit has dripped down whereby concentration - both in deposits and advances - is improving. Expansion in branch network is supporting deposit mobilization drive. Meanwhile, JS Bank is carefully building its loan book; although asset quality is largely maintained. The strategy of the bank is i) to foster penetration of existing network beyond 307 branches over the near-term; ii) spread advances book through different products over multiple sectors; iii) build non-fund based income; and iv) hold strength in treasury operations. The challenge to profitability is drying return of capital gains. JS Bank has adequate capital level (CAR at end-Dec 16: ~14% primarily tier I). However, credit expansion may put some pressure on CAR, for which the bank has option to add support through tier II capital.

KEY RATING DRIVERS

Ratings are dependent on JS Bank's ability to maintain its growth continuously to establish itself in the medium-sized banking space of Pakistan. Meanwhile, upholding asset quality, maintaining system share in terms of advances and deposits, adding diversity to income stream and strong governance framework are critical.

INDUSTRY SNAPSHOT

The banking sector experienced substantial expansion in its deposit base (2016: 14%). Building on the uptick in the economy, advances also grew by a sizeable margin after a lag of many years. Given GDP growth in FY17 and other macro-economic fundamentals, credit expansion is foreseen. Hence, CAR is going to be a challenge, as profits would also suffer due to PIBs maturities.

JS Bank Limited

BALANCE SHEET	31-Mar-17 3MCY17	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 CY14
Earning Assets				
Advances	100,480	93,126	76,407	61,679
Debt Instruments	2,253	1,454	2,406	2,607
Total Finances	102,732	94,580	78,812	64,287
Investments	133,840	132,670	114,021	81,906
Others	13,710	12,961	5,695	11,935
	250,283	**240,211**	**198,529**	**158,128**
Non Earning Assets				
Non-Earning Cash	14,863	14,635	9,629	8,599
Deferred Tax	-	-	-	-
Net Non-Performing Finances	455	271	(138)	498
Fixed Assets & Others	11,289	9,584	10,455	9,492
	26,608	**24,490**	**19,947**	**18,589**
TOTAL ASSETS	**276,890**	**264,700**	**218,476**	**176,717**
Interest Bearning Liabilities				
Deposits	233,199	226,099	141,840	108,740
Borrowings	16,788	13,320	54,638	50,538
	249,987	239,419	196,479	159,278
Non Interest Bearing Liabilities	10,212	8,632	6,029	4,359
TOTAL LIABILITIES	**260,199**	**248,051**	**202,508**	**163,637**
EQUITY (including revaluation surplus)	**16,691**	**16,650**	**15,968**	**13,080**
Total Liabilities & Equity	**276,890**	**264,700**	**218,476**	**176,717**

INCOME STATEMENT	31-Mar-17 3MCY17	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 CY14
Interest / Mark up Earned	3,917	15,081	15,328	11,113
Interest / Mark up Expensed	(2,679)	(9,353)	(9,738)	(7,259)
Net Interest / Markup revenue	**1,238**	**5,728**	**5,590**	**3,854**
Other Income	1,243	4,861	3,290	2,590
Total Revenue	**2,481**	**10,589**	**8,880**	**6,444**
Non-Interest / Non-Mark up Expensed	(2,012)	(6,848)	(4,890)	(4,010)
Pre-provision operating profit	469	3,741	3,990	2,435
Provisions	(59)	(352)	(816)	(826)
Pre-tax profit	410	3,390	3,174	1,608
Taxes	(143)	(1,313)	(1,148)	(548)
Net Income	**268**	**2,076**	**2,026**	**1,060**

Ratio Analysis	31-Mar-17 3MCY17	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 CY14
Performance				
ROE	6.9% *	14.3%	16.0%	10.2%
Cost-to-Total Net Revenue	82.4%	65.0%	55.0%	60.7%
Provision Expense / Pre Provision Profit	12.5%	9.4%	20.5%	33.9%
Capital Adequacy				
Equity/Total Assets	5.6%	5.8%	6.2%	6.6%
Capital Adequacy Ratio as per SBP	12.1%	14.1%	12.5%	12.6%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	61.8%	64.0%	54.0%	48.1%
Advances / Deposits	43.5%	41.5%	54.1%	57.4%
CASA deposits / Total Customer Deposits	46.4%	46.7%	52.6%	53.5%
Intermediation Efficiency				
Asset Yield	7.2% *	7.0%	8.8%	8.9%
Cost of Funds	4.9% *	4.3%	5.5%	5.6%
Spread	2.3% *	2.7%	3.3%	3.4%
Outreach				
Branches	307	307	277	238

* Annualized

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** 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.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

SHORT TERM RATINGS

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	JS Bank Limited
Sector	Banking
Type of Relationship	Solicited

Purpose of the Rating

Regulatory Requirement
Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Oct-16	AA-	A1+	Stable	Upgarde
22-Jun-16	A+	A1+	Positive	Maintain
22-Jun-15	A+	A1+	Stable	Maintain
13-Mar-15	A+	A1+	Stable	Upgrade
27-Jun-14	A+	A1	Stable	Maintain

Related Criteria and Research

Methodology: Bank Rating Methodology
Sector Research: Banking Sector - Viewpoint | Jun-16

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past.