The Pakistan Credit Rating Agency Limited

JS BANK LIMITED
RATING REPORT

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

REPORT CONTENTS

DECEMBER 2017

RATING RATIONALE

The ratings reflect improving relative position of JS Bank in the country's competitive banking landscape. This stems from enhanced system share in deposit. The bank added a sizable amount of PKR 58bln to its deposit base YOY basis at Sep-17. The bank's borrowings from financial institutions increased, alongside rise in SBP refinance. The increased liquidity has been deployed in advances (77% rise on YOY basis). The growth is substantial and needs continuous vigilance. The comforting factor is sizeable uptick in total investment book, of which government papers are dominant. The current NPLs absolute amount is low. The strategy of the bank is i) to foster penetration of existing network beyond 306 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 and reduced NIMR margin. JS Bank has adequate capital level (CAR at end-Sep17: ~10.7% primarily tier I). This is expected to improve after issuance of fresh Tier II.

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, sound CAR 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.

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 has been appointed as the deputy CEO in May, 2017. He possess work experience of three decades, primarily in the banking sector.

Risk Management and Asset Quality

- During 3QCY17, earning assets grew by ~65%; 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.
- JSBL's asset quality remained strong (3QCY17: 2.1%; CY16: 3.5%; CY15: 3.8%).

Performance

- Net interest margin largely remained intact PKR 4,375mln in absolute terms during 3QCY17 While there is dip of in percentage term (3QCY17: ~31%; 3QCY16: 38%).
- The bank's non- interest income almost remained same YoY (3QCY17: PKR 2,538mln; 3QCY16: PKR 2,732mln) mainly due to fee, commission and brokerage income, which resultantly further strengthened the total net revenue - although there is decrease in capital gains.
- JSBL posted a lower profit YoY (3QCY17: PKR .417bln; 3QCY16: PKR 1.2bln) mainly due to increased cost of ~ PKR 1bln as compared to SPLY of the bank.
- Bank's advances to deposits ratio increased on the back of significant increase in advances more as compared to deposits (3QCY17: 55%; CY16: 41.5%). Bank's advnaces book increase ~ PKR 70bln as compared to SPLY.
- 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

- The deposits of the bank increased to ~ 34% during 3QCY17 as compared to the SPLY. Deposit base remained tilted towards interest rate sensitive, Major growth was witnessed in time deposits (~18%), followed by demand (~9%) in nine months.
- The Banks's borrowing from financial institutions increased ~ 39% YOY during 3QCY17 most of which invested in government securities (3QCY17: PKR 180bln: 3QCY16: 116bln)
- Increased investment in government securities has improved the overall liquidity position. Thus, the bank's liquid assets as percentage of deposits are higher significantly at end-Sep17: 58% (64% in CY16).

JSBL PPTFCI 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.

JSBL TFCII

- JSBL is going to issue unsecured, subordinated, and OTC listed TFCs of PKR 3,000mln including a green shoe option of PKR 1,000mln. 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 2024. Profit is based on average 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.

JS Bank Limited

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	CY16	CY15	CY14
Earning Assets				
Advances	150,092	93,126	76,407	61,679
Debt Instruments	2,538	1,454	2,406	2,607
Total Finances	152,630	94,580	78,812	64,287
Investments	191,764	132,670	114,021	81,906
Others	8,224	12,961	5,695	11,935
	352,618	**240,211**	**198,529**	**158,128**
Non Earning Assets				
Non-Earning Cash	17,508	14,635	9,629	8,599
Deferred Tax	-	-	-	-
Net Non-Performing Finances	56	271	(138)	498
Fixed Assets & Others	13,564	9,584	10,455	9,492
	31,128	**24,490**	**19,947**	**18,589**
TOTAL ASSETS	**383,746**	**264,700**	**218,476**	**176,717**
Interest Bearning Liabilities				
Deposits	273,778	226,099	141,840	108,740
Borrowings	82,304	13,320	54,638	50,538
	356,082	239,419	196,479	159,278
Non Interest Bearing Liabilities	11,411	8,632	6,029	4,359
TOTAL LIABILITIES	**367,493**	**248,051**	**202,508**	**163,637**
EQUITY (including revaluation surplus)	**16,253**	**16,650**	**15,968**	**13,080**
Total Liabilities & Equity	**383,746**	**264,700**	**218,476**	**176,717**

INCOME STATEMENT	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	CY16	CY15	CY14
Interest / Mark up Earned	14,186	15,081	15,328	11,113
Interest / Mark up Expensed	(9,811)	(9,353)	(9,738)	(7,259)
Net Interest / Markup revenue	**4,375**	**5,728**	**5,590**	**3,854**
Other Income	2,647	4,861	3,290	2,590
Total Revenue	**7,022**	**10,589**	**8,880**	**6,444**
Non-Interest / Non-Mark up Expensed	(5,977)	(6,848)	(4,890)	(4,010)
Pre-provision operating profit	1,046	3,741	3,990	2,435
Provisions	(221)	(352)	(816)	(826)
Pre-tax profit	825	3,390	3,174	1,608
Taxes	(408)	(1,313)	(1,148)	(548)
Net Income	**417**	**2,076**	**2,026**	**1,060**

Ratio Analysis	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	CY16	CY15	CY14
Performance				
ROE	5.3% *	14.3%	16.0%	10.2%
Cost-to-Total Net Revenue	86.4%	65.0%	55.0%	60.7%
Provision Expense / Pre Provision Profit	21.1%	9.4%	20.5%	33.9%
Capital Adequacy				
Equity/Total Assets	4.1%	5.8%	6.2%	6.6%
Capital Adequacy Ratio as per SBP	10.8%	14.1%	12.5%	12.6%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	58.3%	64.0%	54.0%	48.1%
Advances / Deposits	55.0%	41.5%	54.1%	57.4%
CASA deposits / Total Customer Deposits	45.8%	46.7%	52.6%	53.5%
Intermediation Efficiency				
Asset Yield	6.4% *	7.0%	8.8%	8.9%
Cost of Funds	4.3% *	4.3%	5.5%	5.6%
Spread	2.1% *	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

Regulatory and Supplementary Disclosure

Rated Entity

Name of Issuer	JS Bank Limited
Name of Issue	JS Bank Limited | TFC
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
22-Jun-17	AA-	A1+	Stable	Maintain
20-Oct-16	AA-	A1+	Stable	Upgrade
22-Jun-16	A+	A1+	Positive	Maintain
22-Jun-15	A+	A1+	Stable	Maintain
13-Mar-15	A+	A1+	Stable	Upgrade

Instruments Detail

Name of Instrument	Size of Issue	Tenor	Security
TFCs (Subordinated, Privately Placed)	PKR 3,000mln	7 years	Unsecured
TFCs Issue (Subordinated, Privately Placed)	PKR 3,000mln	7 years	Unsecured

Amortization Schedule

See Annexure I & Annexure II

Related Criteria and Research
Methodology:
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | Jun-17

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit

Disclaimer

Rating Shopping
PACRA maintains principle of integrity in seeking rating business.
PACRA has used due care in preparation of this

Conflict of Interest
PACRA, the analysts involved in the rating

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating

The analysts or any of its family members do

PACRA may provide consultancy/advisory

PACRA receives compensation from the entity

PACRA ensures that the credit rating assigned

Surveillance
PACRA monitors all the outstanding ratings

PACRA reviews all the outstanding ratings on

PACRA initiates immediate review of the

Reporting of Misconduct
PACRA has framed and implemented whistle-

Confidentiality
PACRA has framed a confidentiality policy to

Where feasible and appropriate, prior to issuing

Prohibition
None of the information in this document may

Probability of Default (PD)

PACRA's Rating Scale reflects the expectation

JSBL PPTFC Redemption Schedule - Tentative Annexure

Base Rate defined as the average rate "Ask Side" of the 6 (six) month Karachi Interbank Offered Rate ("KIBOR") prevailing 1 (one) Business Day prior to the Issue Date and thereafter 1 (one) Business Day prior to each Redemption Date

6 Months KIBOR Ask Rate as of	
Spread:	1.40%
Effective Rate - 1st Installment	**1.40%**
Face Value Per TFC	100,000
Issue Date	Friday, December 29, 2017
Maturity Date	Sunday, December 29, 2024
Issue Amount	3,000,000,000

Years	Months	Date	No. of Days	Principal Redemption Schedule	Principal Redemption	Expected Profit	Total Redemption	Principal Outstanding
	0	29-Dec-17						3,000,000,000
	6	29-Jun-18	182	0.02%	600,000	20,942,466	21,542,466	2,999,400,000
1	12	29-Dec-18	183	0.02%	600,000	21,053,323	21,653,323	2,998,800,000
	18	29-Jun-19	182	0.02%	600,000	20,934,089	21,534,089	2,998,200,000
2	24	29-Dec-19	183	0.02%	600,000	21,044,900	21,644,900	2,997,600,000
	30	29-Jun-20	183	0.02%	600,000	21,040,688	21,640,688	2,997,000,000
3	36	29-Dec-20	183	0.02%	600,000	21,036,477	21,636,477	2,996,400,000
	42	29-Jun-21	182	0.02%	600,000	20,917,335	21,517,335	2,995,800,000
4	48	29-Dec-21	183	0.02%	600,000	21,028,054	21,628,054	2,995,200,000
	54	29-Jun-22	182	0.02%	600,000	20,908,958	21,508,958	2,994,600,000
5	60	29-Dec-22	183	0.02%	600,000	21,019,631	21,619,631	2,994,000,000
	66	29-Jun-23	182	0.02%	600,000	20,900,581	21,500,581	2,993,400,000
6	72	29-Dec-23	183	0.02%	600,000	21,011,208	21,611,208	2,992,800,000
	78	29-Jun-24	183	49.88%	1,496,400,000	21,006,996	1,517,406,996	1,496,400,000
7	84	29-Dec-24	183	49.88%	1,496,400,000	10,503,498	1,506,903,498	-
Total				**100%**	**3,000,000,000**	**283,348,202**	**3,283,348,202**	

JSBL PPTFC Redemption Schedule

Annexure

6 Months KIBOR Ask Rate as of December 13, 2016	**6.13%**
Spread:	**1.40%**
Effective Rate	**7.53%**
Face Value Per TFC	**5,000**
Issue Date	**12/14/2016**
Maturity Date	**12/14/2023**
Issue Amount	**3,000,000,000**

Years	Months	Date	No. of Days	Principal Redemption Schedule	Principal Redemption	Expected Profit	Total Redemption	Principal Outstanding
	0	14-Dec-16						3,000,000,000
	6	14-Jun-17	182	0.02%	600,000	112,640,548	113,240,548	2,999,400,000
1	12	14-Dec-17	183	0.02%	600,000	113,236,800	113,836,800	2,998,800,000
	18	14-Jun-18	182	0.02%	600,000	112,595,492	113,195,492	2,998,200,000
2	24	14-Dec-18	183	0.02%	600,000	113,191,496	113,791,496	2,997,600,000
	30	14-Jun-19	182	0.02%	600,000	112,550,436	113,150,436	2,997,000,000
3	36	14-Dec-19	183	0.02%	600,000	113,146,193	113,746,193	2,996,400,000
	42	14-Jun-20	183	0.02%	600,000	113,123,541	113,723,541	2,995,800,000
4	48	14-Dec-20	183	0.02%	600,000	113,100,889	113,700,889	2,995,200,000
	54	14-Jun-21	182	0.02%	600,000	112,460,323	113,060,323	2,994,600,000
5	60	14-Dec-21	183	0.02%	600,000	113,055,585	113,655,585	2,994,000,000
	66	14-Jun-22	182	0.02%	600,000	112,415,267	113,015,267	2,993,400,000
6	72	14-Dec-22	183	0.02%	600,000	113,010,281	113,610,281	2,992,800,000
	78	14-Jun-23	182	49.88%	1,496,400,000	112,370,211	1,608,770,211	1,496,400,000
7	84	14-Dec-23	183	49.88%	1,496,400,000	56,493,815	1,552,893,815	-
Total				**100%**	**3,000,000,000**	**1,523,390,875**	**4,523,390,875**	