



The Pakistan Credit Rating Agency Limited

JS BANK LIMITED TFC II (OTC)

TFCs (Unsecured, Subordinated)	INITIAL [FEB-18]	PRELIMINARY [DEC-17]
TFC II (<i>PKR 2,000mln</i>)	A+	A+

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FEBRUARY 2018

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 professional 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 advances 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 has issued unsecured, subordinated, and OTC listed TFCs of PKR 2,000mln on December 29, 2017. 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.

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.



BALANCE SHEET	30-Sep-17 9M	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 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 Bearing 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 9M	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 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 9M	31-Dec-16 CY16	31-Dec-15 CY15	31-Dec-14 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



Regulatory and Supplementary Disclosure

[Rated Entity](#)

JS Bank Limited

[Name of Issuer](#)

JS Bank Limited

[Sector](#)

Banking

[Type of Relationship](#)

Solicited

[Purpose of the Rating](#)

Regulatory Requirement
Independent Risk Assessment

[Rating detail](#)

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Dec-17	A+	-	Stable	Preliminary

[Instrument Details](#)

Instrument	Size of Issue (PKR mln)	Tenor (yrs) & Maturity	Intallment Frequency	Rate	Major Principal Redemption	Call Option	Trustee
TFCII: Unsecured, subordinated	2,000	7 yrs - Dec-2024	Semi-annual	6M-KIBOR+140 bps	49.88% each in the 7th year	Call option on any profit payment date on/ or after 5 years of issue date with prior approval of SBP	Pak Burnei Investment Company

[Related Criteria and Research](#)

[Specific Methodology:](#)

Bank Rating Methodology [2017]
Debt Instruments Rating Methodology [Jun-17]

[Research:](#)

Banking Sector - Viewpoint | Jun-17

[Rating Analysts](#)

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[Rating Team Statement](#)

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