The Pakistan Credit Rating Agency Limited

Rating Report

JS Bank Limited | TFC II

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
	A+	-	Stable	Maintain	-
01-Mar-2018	A+	-	Stable	Initial	-
20-Dec-2017	A+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect improving relative position of JS Bank in the country's competitive banking landscape. This stems from enhanced system share in deposit and advances. The bank added a sizable amount of ~PKR 63bln to its customer deposit base YOY basis at Dec-17. The bank's borrowings from financial institutions increased, alongside rise in SBP refinance. The increased liquidity has been deployed in advances (96% 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 PIBs are dominant. The current NPLs absolute amount is low. The strategy of the bank is i) to foster penetration of existing network beyond 323 branches over the near-term; ii) spread advances book through different products over multiple sectors; The Bank has designed a broad spectrum of new products. iii) build non-fund based income; and iv) hold strength in treasury operations. The challenge to profitability is dried return of capital gains. The bank expects the profits to be boosted from growing direct and ancillary business. JS Bank has adequate capital level (CAR at end-Mar18: ~11.4% primarily tier I).

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.

Disclosure

Name of Rated Entity	JS Bank Limited | TFC II
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instruments Rating Methodology(Jun-17),Rating Methodology | Basel III Instruments(Mar-18)
Related Research	Sector Study | Commercial Bank(Jun-18)
Rating Analysts	Jhangeer Hanif | jhangeer@pacra.com | +92-42-35869504

JS BANK LIMITED (JSBL) PROFILE	
Incorporated	2006
Profile	A medium sized commercial bank with the network of 323 branches.
Legal Status	Listed
Head Office	Karachi

INDUSTRY SNAPSHOT

The banking sector has experienced highest growth in terms of advances in 2017 over the last decade. As a consequence, there is mounting pressure on capital adequacy ratio of the banks. The challenge is exacerbated as the internal generation of capital (profits) are witnessing a dip. Some relief on income side is expected with recent uptick in interest rates.

OWNERSHIP

- JSBL is a subsidiary (~75%) of Jahangir Siddiqui & Company Limited (JSCL). Other shareholders include Banks and Financial Institutions (~2%), and Foreign Investors (~2%) while the remaining stake is distributed amongst local individuals and other shareholders.

GOVERNANCE & MANAGEMENT

- The overall control of the bank vests in the Board of Directors (BoD) including the CEO. The board comprises nine members including CEO, out of which five are non-executive directors and three are independent directors.
- Chairman of the Bank has resigned on May 28, 2018.
- Mr. Khalid Imran, the President/CEO of the bank, possesses substantial and well-rounded professional experience. He brings with him over 41 years of work experience in Pakistani and foreign banks.
- Mr. Basir Shamsie is the designated CEO. He is expected to take over in a short time. He possess work experience of more than 25 years, primarily in the banking sector.

RISK MANAGEMENT

- During CY17, owing to the growth in its loan book, the bank's advances to deposits ratio (ADR) showed an increasing trend (CY17: 63.5%; CY16: 41.5%).
- JSBL maintained high concentration in its sectoral mix, with top 3 sectors: corporate sector (76%), SME (16%) and lastly consumer finance (6%) which comprise most of the gross advances (CY17: 94%; CY16: 83%; CY15: 97%).
- Client concentration decreased significantly with top 20 customers now demonstrating 16% of JSBL's overall advances in contrast to 24% in CY16. The bank's portfolio mainly comprises of private segment, (% of total finances: CY17: 80%; ~CY16: 95%)
- During CY17, owing to small increased NPLs and inclining trend in provisioning, the bank's loss coverage ratio improved (1QCY18: 82%; CY17: 84%; CY16: 80%).
- JSBL's Investments to Deposits ratio stood at 58% at end-Dec17 (end-Dec16: 59%); the ratio is maintained as bank expanded its advances book on the back of deposit growth.

BUSINESS RISK

- JSBL - a medium sized fast growing bank- has witnessed increase in its system share, (Deposits: CY17: 2.1%; Advances: CY17: 2.9%; Deposits: CY16: 1.8%; Advances: CY16: 1.7%), during recent years. The growth in financing activities has been funded through deposits as well as banks borrowings.
- During CY17, JSBL's mark-up income witnessed sizeable increase. Owing to the increase in asset yield, spreads shrunk due to increasing cost of funds.
- Furthermore, decline in gain on sale of investment, shrank the bank's total revenue. With expansion in the branch network, JSBL's non markup expenses soared which resulted in lower pre-provisioning profit. Meanwhile, owing to the provisioning charged, the bank profitability stood at (CY17: PKR 973mln; CY16: PKR 2,076mln; CY15: PKR 2,026mln; CY14: PKR 1,060mln).
- During 1QCY18, the bank net interest income showed an increasing trend but lower other operating income as compared to the SPLY. Although profits remained healthy of PKR 352mln (1QCY17: PKR 268mln).
- Going forward, the management intends to continue expanding its 'advances' book mainly fueled by deposit mobilization. The Bank is also building its presence fast in the trade business. The bank intends to strengthen its capital in line with the growth path. CAR will be a challenge.

CAPITAL & FUNDING

- During CY17, the JSBL's customer deposits increased by ~33% to ~PKR253bln against the 9% growth achieved by industry. Deposit mobilization remains the key source of funding for the bank.
- The top 20 deposit concentration remained at the same level (CY17: 31%; CY16: 32%). Major growth was witnessed in demand deposits (~40%), followed by time (~25%) and saving (20%) deposits. With a slight increase in CASA mix (CY17: ~48%; CY16: ~47%), the bank's customer deposit mix continues to tilt towards time deposits
- The bank's liquid assets as percentage of deposits decline as compared to last year (end-Dec17: 44%; end-Dec-16: 64%).

Debt Instruments

- 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 has issued unsecured, subordinated, and privately placed 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 instalments 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

PKR mln

BALANCE SHEET	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	CY17	CY16	CY15
Earning Assets				
Advances	233,916	183,621	93,126	76,407
Debt Instruments	1,892	2,389	1,454	2,406
Total Finances	235,809	186,010	94,580	78,812
Investments	156,720	167,620	132,670	114,021
Others	5,485	5,196	12,961	5,695
	398,013	**358,825**	**240,211**	**198,529**
Non Earning Assets				
Non-Earning Cash	15,994	16,289	14,635	9,629
Deferred Tax	-	-	-	-
Net Non-Performing Finances	215	121	271	(138)
Fixed Assets & Others	15,825	13,073	9,584	10,455
	32,034	**29,484**	**24,490**	**19,947**
TOTAL ASSETS	**430,047**	**388,309**	**264,700**	**218,476**
Interest Bearing Liabilities				
Deposits	303,125	290,078	226,099	141,840
Borrowings	96,285	69,556	13,320	54,638
	399,410	359,633	239,419	196,479
Non Interest Bearing Liabilities	14,024	12,006	8,632	6,029
TOTAL LIABILITIES	**413,435**	**371,640**	**248,051**	**202,508**
EQUITY (including revaluation surplus)	**16,613**	**16,669**	**16,650**	**15,968**
Total Liabilities & Equity	**430,047**	**388,309**	**264,700**	**218,476**

INCOME STATEMENT	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	CY17	CY16	CY15
Interest / Mark up Earned	6,869	20,381	15,081	15,328
Interest / Mark up Expensed	(4,790)	(14,139)	(9,353)	(9,738)
Net Interest / Markup revenue	**2,079**	**6,242**	**5,728**	**5,590**
Other Income	1,068	4,051	4,861	3,290
Total Revenue	**3,147**	**10,293**	**10,589**	**8,880**
Non-Interest / Non-Mark up Expensed	(2,598)	(8,302)	(6,848)	(4,890)
Pre-provision operating profit	549	1,991	3,741	3,990
Provisions	(8)	(371)	(352)	(816)
Pre-tax profit	541	1,621	3,390	3,174
Taxes	(189)	(647)	(1,313)	(1,148)
Net Income	**352**	**973**	**2,076**	**2,026**

Ratio Analysis	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	CY17	CY16	CY15
Performance				
ROE	8.7% *	6.2%	14.3%	16.0%
Cost-to-Total Net Revenue	85.3%	82.0%	65.0%	55.0%
Provision Expense / Pre Provision Profit	1.4%	18.6%	9.4%	20.5%
Capital Adequacy				
Equity/Total Assets	3.8%	4.2%	5.8%	6.2%
Capital Adequacy Ratio as per SBP	11.4%	12.0%	14.1%	12.5%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	32.2%	44.2%	64.0%	54.0%
Advances / Deposits	77.4%	63.5%	41.5%	54.1%
CASA deposits / Total Customer Deposits	48.8%	47.9%	46.8%	52.6%
Intermediation Efficiency				
Asset Yield	7.3% *	6.9%	7.0%	8.8%
Cost of Funds	5.0% *	4.7%	4.3%	5.5%
Spread	2.3% *	2.2%	2.7%	3.3%
Outreach				
Branches	323	323	307	277

* Annualized

Redemption Schedule - TFCII Dec17

6 Months KIBOR Ask Rate as of 28Dec2017	6.21%		
Spread:	1.40%	Participation Fee	0.50%
Effective Rate - 1st Installment	**7.61%**		
Face Value Per TFC	100,000		
Issue Date	Friday, December 29, 2017		
Maturity Date	Sunday, December 29, 2024		
Issue Amount	2,000,000,000		

Years	Months	Date	No. of Days	Principal Redemption Schedule	Principal Redemption	Expected Profit	Total Redemption	Principal Outstanding
	0	29-Dec-17						2,000,000,000
	6	29-Jun-18	182	0.02%	400,000	75,891,506.85	76,291,506.85	1,999,600,000
1	12	29-Dec-18	183	0.02%	400,000	76,293,231.45	76,693,231.45	1,999,200,000
	18	29-Jun-19	182	0.02%	400,000	75,861,150.25	76,261,150.25	1,998,800,000
2	24	29-Dec-19	183	0.02%	400,000	76,262,708.05	76,662,708.05	1,998,400,000
	30	29-Jun-20	183	0.02%	400,000	76,247,446.36	76,647,446.36	1,998,000,000
3	36	29-Dec-20	183	0.02%	400,000	76,232,184.66	76,632,184.66	1,997,600,000
	42	29-Jun-21	182	0.02%	400,000	75,800,437.04	76,200,437.04	1,997,200,000
4	48	29-Dec-21	183	0.02%	400,000	76,201,661.26	76,601,661.26	1,996,800,000
	54	29-Jun-22	182	0.02%	400,000	75,770,080.44	76,170,080.44	1,996,400,000
5	60	29-Dec-22	183	0.02%	400,000	76,171,137.86	76,571,137.86	1,996,000,000
	66	29-Jun-23	182	0.02%	400,000	75,739,723.84	76,139,723.84	1,995,600,000
6	72	29-Dec-23	183	0.02%	400,000	76,140,614.47	76,540,614.47	1,995,200,000
	78	29-Jun-24	183	49.88%	997,600,000	76,125,352.77	1,073,725,352.77	997,600,000
7	84	29-Dec-24	183	49.88%	997,600,000	38,062,676.38	1,035,662,676.38	-
Total				**100%**	**2,000,000,000**	**1,026,799,912**	**3,026,799,912**	

ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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 or 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.** "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.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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 or 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'.

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, a suspended 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, or e) the entity/issuer defaults.

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) 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 | Chapter III | 14-(f-VII)
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