The Pakistan Credit Rating Agency Limited

Rating Report

JS Bank Limited | TFC Tier 1

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Feb-2019	A	-	Stable	Initial	-
28-Dec-2018	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 was able to maintain its customer deposit base at 9MCY18. The bank’s borrowings from financial institutions decreased. The increased liquidity has been deployed in advances (26% rise on YOY basis). The growth is substantial and needs continuous vigilance. NPLs have emerged in the recent period, which is a concern. 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. The bank is facing a challenge on its CAR. The management is pursuing another issue of bonds-Tier I this time to bolster its CAR. It would only enable it to comply with regulatory requirement for December 2018. Further room need to be created.

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 Tier 1
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Financial Institution(Jun-18),Methodology | Basel III Compliant - Debt Instrument(Jun-18)
Related Research	Sector Study | Commercial Bank(Jun-18)
Rating Analysts	Saliha Sajid | saliha.sajid@pacra.com | +92-42-35869504

Profile

Structure JS Bank Limited (JSBL), incorporated in March 2006, after the merger of the Pakistan branches of American Express Bank Limited (AEBL) and Jahangir Siddiqui Investment Bank Limited (JSIBL), commenced its banking operations on December 30, 2006. The bank, with its Head Office in Karachi, is listed on the Pakistan Stock Exchange since 2007.

Background JSBL was established to capitalize on the presence of JS Group in the financial sector and to strengthen the group's array of services. JSBL, incorporated in Pakistan, is a scheduled bank, engaged in commercial banking operations and related services.

Operations JSBL, incorporated in Pakistan, is a scheduled bank, engaged in commercial banking operations and related services.

Ownership

Ownership Structure 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.

Stability JSCL is the holding company for Jahangir Siddiqui Group (JS Group). Majority shareholding will rest with JS Group in foreseeable future.

Business Acumen JS Group is engaged in a diverse set of activities with its focus on the financial sector, including asset management, securities and commodities brokerage, commercial banking, and insurance. Besides its concentration in the financial sector, JS group has interests, though limited, in transportation, textile, sugar, media, real estate and building material and allied sectors.

Financial Strength Financial strength of the sponsor considered strong as its a renowned name and diversified interests in various sectors.

Governance

Board Structure 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.

Members' Profile Mr. Suleman Lalani has been appointed as Director, w.e.f October 01, 2018 and Chairman w.e.f October 26, 2018. He himself accompanied with diversified experience. Other board members are also seasoned professionals accompanying diversified background. With the strong presence of JS Group on the board, the group's experience is likely to play an important role in JSBL's strategy.

Board Effectiveness The BoD exercises close monitoring of the management's policies and the bank's operations through its three committees, namely a) Audit, b) Risk Management (RMC) and c) Human Resource, Remuneration & Nomination Committee.

Financial Transparency The auditors of the bank, EY Ford Rhodes, Chartered Accountants (member firm of Ernst & Young Global Limited), have expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2017. An interim review was performed on financial statements for the six months period till June 30th, 2018.

Management

Organizational Structure The bank has a well-defined organizational structure, whereby the bank's operations are grouped under twelve department Heads.

Management Team Mr. Basir Shamsie is appointed as President & CEO in place of Mr. Khalid Imran w.e.f. July 16, 2018. He possess work experience of more than 25 years, primarily in the banking sector and associated with JS Group for very long.

Effectiveness The bank has various committees in place at the management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined by the board. These include i) Management Committee, ii) Integrated Risk Management Committee (IRMC), iii) Asset and Liability Committee (ALCO), iv) Central Credit Committee, and v) Operational Risk Management Committee.

MIS JSBL successfully upgraded Temenos (T-24) Core Banking System from R7 to R14 release in February 2016. To compete in new digital era, bank is now working on data warehousing & business intelligence system to drive up product innovation, customer eccentricity & better decision making.

Risk Management Framework A sound structure of risk management committees, comprising the Risk Management Committee and the Audit Committee, is in place which keeps an eye on the overall risk profile of the bank. The IRMC and ALCO of management operate within the established framework in order to monitor the bank's activities and maintain the risk level within predefined limits.

Business Risk

Industry Dynamics The banking industry witnessed significant expansion in the loan book. Last year and YTD (2018) both witnessed huge deployments. This is expected to slow down. New projects require gestation period and additionally crowding-out effect may take place. Rising interest rates mean profitability of the sector would take support. Yet NPLs, as a result, may also transpire. CAR is reaching the maximum requirement by December 2018 (11.9%). This will create a challenge for some of the players.

Relative Position JSBL - a medium sized fast growing bank with the system share, (Deposits: 9MCY18: 2.1%; Advances: 9MCY18: 3.2%; Deposits: CY17: 2.1%; Advances: CY17: 3:0%), during recent years.

Revenues During 9MCY18, JSBL's mark-up income witnessed sizeable increase to PKR ~22bln (9MCY17: PKR 14bln) owing to the increase in asset yield and substantial growth in lending. Bank earned a NIMR PKR ~7bln (9MCY17: PKR 4bln).

Performance During 9MCY18, Fee, Commission and brokerage, sustainable income source, has supported total net revenue to stand at PKR ~9bln (CY17: PKR 10bln; 9MCY17: PKR 7bln), up ~29% YoY. Decline in dividend income and loss on sales on investment negatively impacted total net revenue. Non markup expenses increased on account of higher administration expenses, however, cost to total net revenue remained same at (9MCY18: 86%; 9MCY17: 86%). Hence, the pre-provision operating profit stood at PKR 1.2bln (9MCY17: PKR 1.0bln), up 16% YoY. Owing to the reversal of provisioning, the bank profitability stood at PKR 756mln (CY17: PKR 973mln; 9MCY17: PKR 417mln). Spread (9MCY18: 2.6%, 9MCY17: 2.1%) witnessed marginal improvement driven by surge in asset yield of the bank.

Sustainability 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 will have to strengthen its capital in line with the growth path followed by advances in order to manage CAR.

Financial Risk

Credit Risk At end-Sep18, owing to the growth in its loan book, the bank's advances to deposits ratio (ADR) showed an increasing trend (end-Sep18: 75%; end-Dec17: 63.5%; end-Dec16: 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 CY17 contrast to 24% in CY16. The bank's portfolio mainly comprises of private segment, (% of total finances: CY17: 80%; ~CY16: 95%). During 9MCY18, the non-performing loans surged to PKR 5.1bln (end-Dec17: PKR 3.2bln). Due to inclusion of fresh NPLs, infection ratio increased to 2.2% (end-Dec17: 1.7%; end-Dec16: 3.5%) and the bank's loss coverage ratio deteriorated (end-Sep18: 57%; end-Dec17: 84%; end-Dec16: 80%).

Market Risk JSBL's Investments to Deposits ratio declined to 41% at end-Sep18 (end-Dec17: 58%) driven by decreased investments – primarily liquid government securities.

Liquidity And Funding As at end-Sep18, JSBL's customer deposits were largely maintained at ~PKR256bln (end-Dec17: PKR 253bln) against the 6% 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%). During 9MCY18, growth was led by saving deposits (~27%), while the demand and time deposits showed a declining trend of 9% and 2% respectively. CASA mix (3QCY18: 50%; CY17: ~48%; CY16: ~47%), improved driven by significant growth in saving deposits. The bank has equal composition of time and current deposits. The bank's liquid assets as percentage of deposits declined to 30% (end-Dec17: 44%; end-Dec-16: 64%) primarily due to decline in liquid assets of bank.

Capitalization JSBL is holding an equity base of PKR 17bln at Sep-18 (CY17: PKR 16bln). The bank CAR stays at 11.4% at end-Sep18.

JS Bank Limited

PKR mln

BALANCE SHEET	30-Sep-18 9M	31-Dec-17 CY17	31-Dec-16 CY16	31-Dec-15 CY15
Earning Assets				
Advances	229,578	183,621	93,126	76,407
Debt Instruments	1,563	2,389	1,454	2,406
Total Finances	231,140	186,010	94,580	78,812
Investments	128,212	167,620	132,670	114,021
Others	4,446	5,196	12,961	5,695
	363,798	**358,825**	**240,211**	**198,529**
Non Earning Assets				
Non-Earning Cash and Balances	14,854	16,289	14,635	9,629
Deferred Tax	-	-	-	-
Net Non-Performing Finances	1,820	121	271	(138)
Fixed Assets & Others	17,323	13,073	9,584	10,455
	33,998	**29,484**	**24,490**	**19,947**
TOTAL ASSETS	**397,796**	**388,309**	**264,700**	**218,476**
Interest Bearing Liabilities				
Deposits	310,287	290,078	226,099	141,840
Borrowings	58,475	69,556	13,320	54,638
	368,762	359,633	239,419	196,479
Non Interest Bearing Liabilities	12,872	12,006	8,632	6,029
TOTAL LIABILITIES	**381,634**	**371,640**	**248,051**	**202,508**
EQUITY (including revaluation surplus)	**16,162**	**16,669**	**16,650**	**15,968**
Total Liabilities & Equity	**397,796**	**388,309**	**264,700**	**218,476**

INCOME STATEMENT	30-Sep-18 9M	31-Dec-17 CY17	31-Dec-16 CY16	31-Dec-15 CY15
Interest / Mark up Earned	21,613	20,381	15,081	15,328
Interest / Mark up Expensed	(14,969)	(14,139)	(9,353)	(9,738)
Net Interest / Markup revenue	**6,644**	**6,242**	**5,728**	**5,590**
Other Income	2,124	4,051	4,861	3,290
Total Revenue	**8,768**	**10,293**	**10,589**	**8,880**
Non-Interest / Non-Mark up Expensed	(7,559)	(8,302)	(6,848)	(4,890)
Pre-provision operating profit	1,210	1,991	3,741	3,990
Provisions	17	(371)	(352)	(816)
Pre-tax profit	1,227	1,621	3,390	3,174
Taxes	(471)	(647)	(1,313)	(1,148)
Net Income	**756**	**973**	**2,076**	**2,026**

Ratio Analysis	30-Sep-18 9M	31-Dec-17 CY17	31-Dec-16 CY16	31-Dec-15 CY15
Performance				
ROE	6.1% *	6.2%	14.3%	16.0%
Cost-to-Total Net Revenue	86.3%	82.0%	65.0%	55.0%
Provision Expense / Pre Provision Profit	-1.4%	18.6%	9.4%	20.5%
Capital Adequacy				
Equity/Total Assets	4.2%	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	30.1%	44.2%	64.0%	54.0%
Advances / Deposits	74.7%	63.5%	41.5%	54.1%
CASA deposits / Total Customer Deposits	49.8%	47.9%	46.8%	52.6%
Intermediation Efficiency				
Asset Yield	8.1% *	6.9%	7.0%	8.8%
Cost of Funds	5.5% *	4.7%	4.3%	5.5%
Spread	2.6% *	2.2%	2.7%	3.3%
Outreach				
Branches	323	323	307	277

* Annualized

DEBT INSTRUMENT RATING SCALE & DEFINITIONS

The instrument rating reflects forward-looking opinion on credit worthiness of underlying debt 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
Proprietary Information

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Rated, Privately Placed / Listed, Unsecured, Subordinated, Perpetual and Non-Cumulative debt instrument in the nature of Additional Tier 1 Capital Term Finance Certificates	Up to PKR 2,500 Million (inclusive of a Green Shoe Option of PKR 500 Million)	Perpetual	Unsecured	Unsecured	Unsecured	Pak Brunei Investment Company Limited	Unsecured

JS Bank Limited | Tier-I TFC | TFC III | Nov'18	
Name of Issuer	JS Bank Limited
Issue size	Up to PKR 2,500 Million (inclusive of a Green Shoe Option of PKR 500 Million)
Tenor	Perpetual
Maturity	No fixed or final redemption date
Profit Rate	6 Months Karachi Interbank Offer Rate (KIBOR) + 2.25% subject to complying with regulatory requirements as stipulated in State Bank of Pakistan BPRD Circular No. 6 dated August 15, 2013.
Principal Repayment	Perpetual (i.e. no fixed or final redemption date)
Security	Unsecured

JS Limited | TFC III | Redemption Schedule

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate	6M Kibor	Markup Payment	Installment Payable	Principal Outstanding
		PKR in mln						*PKR in mln*
Issuance								
6 months from issuance	Redemption Schedule not applicable since its a perpetual TFC whereby there is no fixed or final redemption date. Profit (if declared) will be payable semi-annually in arrears, on a non-cumulative basis, on the outstanding TFC amount. The first such profit payment will fall due six months from the Issue Date and subsequently every six months thereafter subject to complying with regulatory requirements as stipulated in State Bank of Pakistan BPRD Circular No. 6 dated August 15, 2013.							
12 months from issuance								
18 months from issuance								
24 months from issuance								
30 months from issuance								
36 months from issuance								
42 months from issuance								
48 months from issuance								
54 months from issuance								
60 months from issuance								
66 months from issuance								
72 months from issuance								
78 months from issuance								
84 months from issuance								
90 months from issuance								
96 months from issuance								
102 months from issuance								
108 months from issuance								
114 months from issuance								
120 months from issuance								
		-				-	-	