The Pakistan Credit Rating Agency Limited

Rating Report

JS Bank Limited | PPTFC | Dec-16

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2020	A+	-	Stable	Maintain	-
28-Dec-2019	A+	-	Stable	Maintain	-
28-Jun-2019	A+	-	Stable	Maintain	-
28-Dec-2018	A+	-	Stable	Maintain	-
25-Jun-2018	A+	-	Stable	Maintain	-
20-Dec-2017	A+	-	Stable	Maintain	-
22-Jun-2017	A+	-	Stable	Maintain	-
15-Feb-2017	A+	-	Stable	Initial	-
17-Nov-2016	A+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect relative position of JS Bank in the country's competitive banking landscape. This stems from improved deposit system share (end-Dec19: 2.3%). Funding base comprising borrowings and deposits where term deposit witnessed notable increase in CY19. In the upcoming year, this may have implications on cost of fund. NPLs have emerged in the recent period, which is a concern. Going forward, higher provisioning expense may pose a challenge to profitability of the bank which is already diluted. There was a potential drag of mark to market losses, which has evaporated as of today. The bank was able to cover up its losses incurred during the year while approaching towards the closure of the year end. The strategy of the bank is i) consolidate advances book and replace it with liquid collateralized advances to maintain CAR, ii) build non-fund based income; and iii) hold strength in treasury operations. The challenge to profitability in CY19 was dried return of capital gains. The bank expects the profits to be boosted from growing direct and ancillary business. Total CAR, on stand alone basis stood at 12.93% (Tier-I at 10.33% as at Dec19) Needs to beef up to make room for future growth. Covid-19 has posed challenges to the banking sector, as almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.

Ratings are dependent on JS Bank's ability to sustain its profitability to support internal generation of capital. 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	PPTFC	Dec-16
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	PACRA_Methodology_FI(Jun-19),PACRA_Methodology_DI Basel III_FY19(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Commercial Bank(Jun-20)
Rating Analysts	Usama Zubair | usama.zubair@pacra.com | +92-42-35869504

Profile

Structure JS Bank Limited (JSBL), incorporated in March 2006, formed as a result of amalgamation of Jahangir Siddiqui Investment Bank Limited with the commercial banking operations of American Express Bank Ltd Pakistan. The bank, with its Head Office in Karachi, is listed on the PSX since 2007.

Background JS Bank was established to capitalize on the presence of JS Group in the financial sector and to strengthen the group's array of services. The bank has achieved significant growth in terms of its outreach (Branches CY19: 360, CY18: 345; CY17: 321; CY07: 9).

Operations JS Bank is a scheduled bank, engaged in commercial banking and related services. The bank is operating through 360 branches including one wholesale branch in Bahrain (CY18: 1 branch). Most of the branches are concentrated in Sindh and Punjab.

Ownership

Ownership Structure JS Bank Limited is a subsidiary (~75%) of Jahangir Siddiqui & Co. Limited (JSCL). Other shareholders include Banks and Financial Institutions (2.45%), and Foreign Investors (2.2%) while the remaining stake is distributed amongst local individuals and other shareholders.

Stability As the bank's sponsor shareholding remained 70% for many years and increased to 75%; evident of sponsor confidence on the bank. The bank's shareholding will remain stable for the longer term.

Business Acumen The business acumen of the bank is considered strong. JSCL is the holding company for JS Group. 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. JSCL (rated 'AA' by PACRA) in December 2019, has interests in other subsidiaries/ associates in addition to JSBL.

Financial Strength CY18, JSCL performance was adequate and reported profit after tax of PKR 562.3mln but in CY19 profit after tax deteriorated to PKR 24.6mln.

Governance

Board Structure The board comprises nine members including CEO, out of which five are non-executive directors and three are independent directors. President & CEO is a non-elected executive director. On October 24th, 2019 Mr. Sohail Aman joined the board as an independent director.

Members' Profile 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 four committees, namely a) Audit, b) Risk Management, c) IT and d) Human Resource, Remuneration & Nomination. Meeting's attendance considered strong with formal maintenance of meeting minutes.

Financial Transparency The auditors of the bank, EY Ford Rhodes, Chartered Accountants (member firm of Ernst & Young Global Limited), has expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2019.

Management

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

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 27 years, primarily in the banking sector. He is assisted by highly experienced and qualified top management team heading various departments.

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.

MIS With the implementation of Data Warehousing, Data Science and Business Intelligence solutions there is rapid product innovation, customer service improvement and decision making established across the bank through automation of MIS reports for senior management of the bank.

Risk Management Framework A sound structure comprising Board Risk Management Committee and Board Audit Committee, is in place which keeps an eye on the overall risk profile of the bank. The Integrated Risk Management Committee (IRMC), Compliance Committee and Asset & Liability Committee (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 As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at (CY19: PKR 15,953bln; CY18: PKR 14,254bln), showing a growth of ~12% as compared to 9.5% growth in CY18. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (CY19: PKR 8,939bln; CY18: PKR 7,914bln). Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening .This was only a growth of 3.7% as compared to expansion of 22.2% in CY18. Asset quality saw deterioration – increased NPLs (CY19: PKR 761bln; CY18: PKR 680bln). The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position JSBL - a medium sized fast growing bank with the system share, (Deposits: CY19: 2.6%; CY18: 2.5;), during recent years. During CY19, the bank was able to show growth in term of deposits by 15%; in line with the peers. In term of net advances, slight dip of 4.7% was observed which is on the lower side as compared to peers

Revenues During CY19, JSBL's mark-up income witnessed sizeable increase to PKR 41.6bln (CY18: PKR 29.9bln) owing to the increase in asset yield due to increased markup earned. The bank reported asset yield at 10.3% (CY18: 8.0%). The bank's markup expense increased attributable to significant increase in bank's term deposits. Hence, the bank reported cost of yield at 8.1% (CY18: 5.4%). Bank earned NIMR of PKR 7.0bln (CY18: PKR 8.8bln).

Performance During CY19, other operating income increased to PKR 3.9bln (CY18: PKR 2.1bln) Primarily attributable to curtailed loss on sale of investment on PIBs, listed equity investments and foreign currency bonds. Hence, total net revenue stand at PKR 10.97bln (CY18: PKR 10.95bln), largely same YoY. Non markup expenses increased on account of higher administration and compensation expenses. Resultantly, cost to total net revenue increased manifolds (CY19: 99.6%; CY18: 89.6%). After tax adjustment, the bank's net profit stood at PKR 25mln (CY18: PKR 562mln).

Sustainability Going forward, the management intends to consolidate advances book and replace it with liquid collateralized advances to maintain CAR. The Bank is also building its presence fast in the trade business and intending to strengthen its capital in line with the growth path. However, CAR will be a challenge in growth. Going forward, minimum capital requirements and sustainability of market share by achieving sustainable growth will be of vital importance to the bank.

Financial Risk

Credit Risk During CY19, net advances book took a dip of 4.7% (CY19: PKR 239.1bln; CY18: PKR 251.0bln), the bank's advances to deposits ratio (ADR) decreased (CY19: 65.7%; CY19: 78.4%), against the industry average of 55%. JS bank maintained high concentration in its segment mix, with top: Corporate Sector, Individual and SME which comprises most of the gross advances (CY19: 90%; CY18: 92%). The bank largely maintained client concentration risk with top 20 customers demonstrating 16% of JS Bank's overall advances in contrast to 15% in CY18.

Market Risk During CY19 the investment portfolio of the bank decreased to PKR 139.6bln (CY18: PKR 144.5bln; CY17: PKR 163.9bln). Portfolio decreased mainly due to decrease in Government Securities of PKR 135.4bln. In line with industry, JSBL invested majority investment in government PIBs and T-bills (97% of total investments).

Liquidity And Funding During CY19 the bank's liquid assets as percentage of deposits declined to 36% (CY18: 32%), mainly due to decrease in borrowing. During CY19, JSBL's customer deposits grew by 15% to stand at PKR 369.79bln. During CY19 CA decreased to ~22.5% (CY18: ~25.4%) whereas SA decreased to ~24.3%(CY18: 28.5%) driven by sizable decrease in savings deposits.

Capitalization CY19, JS Bank's total equity stands at PKR 17.3bln (CY18: PKR 15.6bln). Total CAR, on stand alone basis stood at 12.9% (CY18: 12.0%), the SBP requirement for CY19 was at 12.5%. Consequently, the CAR needs to beef up to fuel growth in upcoming year. The equity as percentage of risk weighted assets increased to 5.8% in CY19 (CY18: 4.5%).

PKR mln

JS Bank Limited Listed Public Limited	Dec-19 12M	Dec-18 12M	Dec-17 12M	Dec-16 12M
A BALANCE SHEET				
1 Total Finances - net	239,461	251,374	189,717	94,580
2 Investments	139,577	144,527	163,944	132,670
3 Other Earning Assets	32,887	4,457	5,196	12,961
4 Non-Earning Assets	51,421	51,617	32,533	24,219
5 Non-Performing Finances-net	6,474	4,780	90	271
Total Assets	469,821	456,754	391,479	264,700
6 Deposits	369,790	321,413	290,078	226,099
7 Borrowings	61,963	104,055	69,556	13,320
8 Other Liabilities (Non-Interest Bearing)	20,734	15,668	15,177	8,632
Total Liabilities	452,488	441,137	374,810	248,051
Equity	17,333	15,617	16,669	15,427
B INCOME STATEMENT				
1 Mark Up Earned	41,595	29,997	20,381	15,081
2 Mark Up Expensed	(34,566)	(21,188)	(14,139)	(9,353)
3 Non Mark Up Income	3,943	2,141	4,051	4,861
Total Income	10,972	10,950	10,293	10,589
4 Non-Mark Up Expenses	(10,930)	(9,807)	(8,302)	(6,848)
5 Provisions/Write offs/Reversals	92	(239)	(371)	(351)
Pre-Tax Profit	133	905	1,621	3,390
6 Taxes	(108)	(342)	(647)	(1,313)
Profit After Tax	25	562	973	2,077
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	1.5%	2.1%	1.9%	2.4%
Non-Mark Up Expenses / Total Income	99.6%	89.6%	80.7%	64.7%
ROE	0.1%	3.5%	6.1%	13.2%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	3.7%	3.4%	4.3%	5.8%
Capital Adequacy Ratio	12.9%	12.0%	12.0%	14.1%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	36.0%	32.1%	46.5%	61.2%
(Advances + Net Non-Performing Advances) / Deposits	65.7%	78.4%	63.5%	41.5%
CA Deposits / Deposits	22.5%	25.4%	25.9%	39.4%
SA Deposits / Deposits	24.3%	28.5%	21.3%	15.8%
4 Credit Risk				
Non-Performing Advances / Gross Advances	4.2%	3.3%	1.7%	3.5%
Non-Performing Finances-net / Equity	37.4%	30.6%	0.5%	1.8%

Rating Scale | Debt Instrument 2019

Debt Instrument Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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	Years	Security	Quantum of security	Nature of Assets	Book value of Assets (PKR mln)	Trustee
Unsecured, Subordinated, Rated & Privately Placed	3bln	7	Unsecured	N/A	N/A	N/A	Pak Brunei Investment Company Ltd

JS Bank Limited |PPTFC| Dec-16 | Redemption Schedule								
Due Date Principle*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate (KIBOR+1.4%)	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
Issuance	3,000,000,000		14-Dec-16					3,000,000,000
6 months from issuance	3,000,000,000	600,000	14-Jun-17	7.53%		112,640,548	113,240,548	2,999,400,000
12 months from issuance	2,999,400,000	600,000	14-Dec-17	7.57%		113,838,324	114,438,324	2,998,800,000
18 months from issuance	2,998,800,000	600,000	14-Jun-18	7.61%		113,791,725	114,391,725	2,998,200,000
24 months from issuance	2,998,200,000	600,000	14-Dec-18	8.38%		125,968,757	126,568,757	2,997,600,000
30 months from issuance	2,997,600,000	600,000	14-Jun-19	12.04%		179,961,121	180,561,121	2,997,000,000
36 months from issuance	2,997,000,000	600,000	14-Dec-19	14.45%	13.05%	217,126,492	217,726,492	2,996,400,000
42 months from issuance	2,996,400,000	600,000	14-Jun-20	14.88%	13.48%	223,542,933	224,142,933	2,995,800,000
48 months from issuance	2,995,800,000	600,000	14-Dec-20			223,498,171	224,098,171	2,995,200,000
54 months from issuance	2,995,200,000	600,000	14-Jun-21			222,232,352	222,832,352	2,994,600,000
60 months from issuance	2,994,600,000	600,000	14-Dec-21			223,408,646	224,008,646	2,994,000,000
66 months from issuance	2,994,000,000	600,000	14-Jun-22			222,143,316	222,743,316	2,993,400,000
72 months from issuance	2,993,400,000	600,000	14-Dec-22			223,319,122	223,919,122	2,992,800,000
78 months from issuance	2,992,800,000	1,496,400,000	14-Jun-23			222,054,281	1,718,454,281	1,496,400,000
84 months from issuance	1,496,400,000	1,496,400,000	14-Dec-23			111,637,180	1,608,037,180	-
		3,000,000,000				**2,535,162,967**	**5,535,162,967**	