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
28-Dec-2019	A+	-	Stable	Maintain	-
28-Jun-2019	A+	-	Stable	Maintain	-
28-Dec-2018	A+	-	Stable	Maintain	-
25-Jun-2018	A+	-	Stable	Maintain	-
01-Mar-2018	A+	-	Stable	Initial	-
20-Dec-2017	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 system share in deposit which largely remained the same and depleted advances. The bank's funding base enhanced attributable to slight increase in deposit base, however borrowings from financial institutions decreased. The increased liquidity inched up to ~33.4% since Dec18 mainly due to less borrowings from financial institutions. Hence, ADR significantly reduced to 74.3%. 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 by currently high markup on deposits and mark to market losses, these are expected and diluted as reaching maturity. The strategy of the bank is i) to foster penetration of existing network beyond 345 branches over the near-term; ii) consolidate advances book and replace it with liquid collateralized advances to maintain CAR, 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; Total CAR stood at 12.1% (Tier-I at 9.5% as at Sep19). The management has represented that, with their concerted efforts, it would stand compliant as on end- Dec2019. This along with other performance indicator would be reviewed upon finalization of the annual financial statement for 2019.

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 | TFC II
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-19)
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 9MCY19: 345, 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 345 branches including one wholesale branch in Bahrain (CY17: 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 & Company Limited (JSCL). Other shareholders include Banks and Financial Institutions (~3%), and Foreign Investors (~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 75.0%; evident of sponsor confidence on the bank. The bank's shareholding will remain stable for the longer term.

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. JSCL (rated 'AA' by PACRA in February 2019), has interests in other subsidiaries/ associates in addition to JSBL.

Financial Strength During CY18, JSCL performance was adequate and reported profit after tax of PKR 562mln but made a loss in 9MCY19 of PKR 578mln.

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 in the replacement of Mr. Shahab Anwar Khawaja.

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, 2018.

Management

Organizational Structure The bank has a well-defined organizational structure, whereby the bank's operations are grouped under thirteen 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 25 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 JSBL successfully upgraded Temenos (T-24) Core Banking System from R7 to R14 release in February 2016. The MIS reports are generated on daily, weekly and monthly basis and reviewed by CEO and Heads.

Risk Management Framework A sound structure comprising Risk Management Committee and Audit Committee, is in place which keeps an eye on the overall risk profile of the bank. The bank currently uses basic indicator approach to assess operational risk for regulatory capital calculations. The bank has implemented the IBM Integration Bus, as their common integration platform between core banking and allied systems.

Business Risk

Industry Dynamics Despite challenging macroeconomic environment, banking sector maintained its growth trajectory during 9MCY19, backed by decent growth in deposits (9MCY19: PKR 14,945bln; 9MCY18: 13,603bln). However, lending was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics (9MCY19: PKR 9,641bln; 9MCY18: 6,942bln). Meanwhile, advances witnessed a slowdown owing to subdued economic activity, cautious lending approach and monetary tightening (9MCY19: PKR 8,014bln; 9MCY18: 7,422bln). Asset quality saw some deterioration – increased NPLs, particularly in sugar and energy sectors (9MCY19: PKR 758 bln; 9MCY18: 637bln). The profitability of the banking sector improved due to 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 bank, with the system share, (Deposit: 9MCY19: 2.0%, CY18: 2.1%). During 9MCY19 the bank system deposit share largely remained the same.

Revenues During 9MCY19, gross mark-up income witnessed increase to PKR 30.3bln (CY18: PKR 29.3bln; 9MCY18: 21.6bln) up by ~40% YoY, owing to the increase in asset yield and growth in lending. The bank reported asset yield at 10.4% (CY18: 8.0%; 9MCY18: 8.1%). The bank's markup expense increased by ~95% YoY, attributable to significant increase in bank's deposits from individual and financial institutions. Hence, bank reported cost of fund at 8.1% (CY18: 5.4%; 9MCY18: 5.5%). Due to the above factors bank reported slight decrease in NIMR of PKR 5.3bln YoY (CY18: PKR 8.8bln: 9MCY18: PKR 6.6bln).

Performance Other operating income increased to PKR 2.3bln (CY18: PKR 2.1bln: 9MCY18: PKR 2.1bln) mainly due to FX income and gain on sales of fixed asset. Hence, total net revenue stand at PKR 7.6bln (CY18: PKR 10.9bln: 9MCY18: 8.8bln). Cost to total net revenue increased more than 100% (CY18: 90.5%, 9MCY18: 85.6%). Hence, the bank booked pre-provision operating loss of PKR 297mln stood (CY18: Profit: PKR 1.1bln). Owing to the provisioning, bank's loss amplified to PKR 578mln (CY18: Profit: PKR 562mln). Spread (9MCY19: 2.3%, 9MCY18: 2.6%) witnessed a marginal decline driven by surge in cost of fund of the bank.

Sustainability Going forward, the management intends to consolidate advances book and replace it with liquid collateralized advances to maintain CAR. The bank is facing a challenge on its CAR; further room needs to be created.

Financial Risk

Credit Risk During 9MCY19, advances book inched up by 0.9% (9MCY19: PKR 231.7bln; CY17: 9MCY18: PKR 229.5bln), bank's advances to deposits ratio (ADR) showed an increasing trend (9MCY19: 72.9%; 9MCY18: 74.7%). In CY18 JS Bank maintained high concentration in top 5 sectors to 65% (CY17: 62%); Transportation, Food & Confectionery, Individuals, Textile and Power and Water. During 9MCY19, the bank's NPL ratio increased significantly to ~4.2% owing to sizable increase in NPLs. The bank's loss coverage ratio has diluted (9MCY19: 35.0%; 9MCY18: 57.3%).

Market Risk During 9MCY19 the investment portfolio of the bank has decreased by 5.8%. During 9MCY19 JS bank's Investments to Deposits ratio stood at 42% (CY18: 45%; CY17: 56.5%); the ratio dropped because of decrease in investments especially in government securities. In line with industry, JSBL invested majority investment in government PIBs and T-bills (98% of total investments).

Liquidity And Funding During 9MCY19 the bank's liquid assets as percentage of deposits declined to 33.4% (CY18: 32.1%), mainly due to decrease in investments. During 9MCY19, JSBL's customer deposits increased by 1.2% to stand at PKR 278.132bln. In CY18 Top 20 deposit concentration remained at the same level (CY18: 25%; CY17: 24%). During 9MCY19 CA decreased to ~22.5% (CY18: ~25.4%) whereas SA decreased to ~25.4%(CY18: 28.5%).

Capitalization During 9MCY19 JS Bank's total equity stands at PKR 15.9bln (CY18: PKR 15.6bln). Total CAR stood at 12.1%. Hence, the bank is on edge of CAR due to aggressive lending during previous year.

PKR mln

JS Bank Limited Listed Public Limited	Sep-19 9M	Dec-18 12M	Dec-17 12M	Dec-16 12M
A BALANCE SHEET				
1 Total Finances - net	236,585	251,374	189,717	94,580
2 Investments	136,189	144,527	163,944	132,670
3 Other Earning Assets	4,990	4,457	5,196	12,961
4 Non-Earning Assets	46,092	51,617	32,533	24,219
5 Non-Performing Finances-net	6,311	4,780	90	271
Total Assets	430,167	456,754	391,479	264,700
6 Deposits	327,064	321,413	290,078	226,099
7 Borrowings	67,419	104,055	69,556	13,320
8 Other Liabilities (Non-Interest Bearing)	19,802	15,668	15,177	8,632
Total Liabilities	414,285	441,137	374,810	248,051
Equity	15,883	15,617	16,669	16,650
B INCOME STATEMENT				
1 Mark Up Earned	30,259	29,997	20,381	15,081
2 Mark Up Expensed	(24,974)	(21,188)	(14,139)	(9,353)
3 Non Mark Up Income	2,321	2,141	4,051	4,861
Total Income	7,606	10,950	10,293	10,589
4 Non-Mark Up Expenses	(7,903)	(9,807)	(8,302)	(6,848)
5 Provisions/Write offs/Reversals	(501)	(239)	(371)	(351)
Pre-Tax Profit	(799)	905	1,621	3,390
6 Taxes	221	(342)	(647)	(1,313)
Profit After Tax	(578)	562	973	2,077
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	1.6%	2.1%	1.9%	2.4%
Non-Mark Up Expenses / Total Income	103.9%	89.6%	80.7%	64.7%
ROE	-4.9%	3.5%	5.8%	12.7%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	3.7%	3.4%	4.3%	6.3%
Capital Adequacy Ratio	12.1%	12.0%	12.0%	14.1%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	33.4%	32.1%	46.5%	61.2%
(Advances + Net Non-Performing Advances) / Deposits	72.9%	78.4%	63.5%	41.5%
CA Deposits / Deposits	22.5%	25.4%	25.9%	39.4%
SA Deposits / Deposits	25.4%	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	39.7%	30.6%	0.5%	1.6%

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

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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	2bln	7	Unsecured	N/A	N/A	N/A	Pak Brunei Investment Company Ltd

JS Bank Limited | TFC II | Redemption Schedule

Due Date Principle*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
Issuance	2,000,000,000		29-Dec-17					2,000,000,000
6 months from issuance	2,000,000,000	400,000	29-Jun-18	7.61%	7.61%	75,891,507	76,291,507	1,999,600,000
12 months from issuance	1,999,600,000	400,000	29-Dec-18	8.43%	8.43%	84,514,053	84,914,053	1,999,200,000
18 months from issuance	1,999,200,000	400,000	29-Jun-19	12.19%	10.79%	121,517,401	121,917,401	1,998,800,000
24 months from issuance	1,998,800,000	400,000	29-Dec-19	14.51%	13.11%	145,410,236	145,810,236	1,998,400,000
30 months from issuance	1,998,400,000	400,000	29-Jun-20			145,381,136	145,781,136	1,998,000,000
36 months from issuance	1,998,000,000	400,000	29-Dec-20			145,352,037	145,752,037	1,997,600,000
42 months from issuance	1,997,600,000	400,000	29-Jun-21			144,528,823	144,928,823	1,997,200,000
48 months from issuance	1,997,200,000	400,000	29-Dec-21			145,293,838	145,693,838	1,996,800,000
54 months from issuance	1,996,800,000	400,000	29-Jun-22			144,470,942	144,870,942	1,996,400,000
60 months from issuance	1,996,400,000	400,000	29-Dec-22			145,235,639	145,635,639	1,996,000,000
66 months from issuance	1,996,000,000	400,000	29-Jun-23			144,413,061	144,813,061	1,995,600,000
72 months from issuance	1,995,600,000	400,000	29-Dec-23			145,177,440	145,577,440	1,995,200,000
78 months from issuance	1,995,200,000	997,600,000	29-Jun-24			145,148,340	1,142,748,340	997,600,000
84 months from issuance	997,600,000	997,600,000	29-Dec-24			72,574,170	1,070,174,170	-
		2,000,000,000				**1,804,908,621**	**3,804,908,621**	