The Pakistan Credit Rating Agency Limited

# JS BANK LIMITED

| | NEW [OCT-16] | PREVIOUS [JUN-16] |
|---|---|---|
| Long-Term | AA- | A+ |
| Short-Term | A1+ | A1+ |
| Outlook | Stable | Positive |

**REPORT CONTENTS**



OCTOBER 2016

## Profile &Ownership

- JS Bank Limited (JSBL), incorporated in March 2006, commenced its banking operations on December 30, 2006.
- JSBL was established to capitalize on the presence of JS Group in the financial sector and to fortify the group's array of services.
- JSBL is a subsidiary (~70%) of Jahangir Siddiqui & Company Limited (JSCL). JSCL also holds ~97% of preference shares issued in Feb-14.
- JSBL operates with network of 278 branches at end-Sep16.

## Governance

- The board comprises nine members including CEO, out of which five are from JSCL including chairman, there are three independent directors.
- Mr. Ali Jehangir Siddiqui, Non-executive director - JSCL, was elected as Chairman of the board in March 2016.
- The board members have a good mix of government and private sector exposure which brings their vast experience on the board.

## Management

- The senior management team at JSBL comprises seasoned professionals; majority having long term association with the bank and JS group.
- Current president & CEO Mr. Khalid Imran has extensive banking experience of four decades.
- The bank has a well-defined organizational structure, whereby the bank's operations are grouped under eleven department heads.

## Risk Management and Asset Quality

- During 9MCY16 JSBL's earning assets grew by ~10%; a facet of increased investments in government securities.
- At end-Sep15, advances were mainly concentrated in corporate segment, which constituted 84% (C15: 84%) of the total net advances book.
- Client concentration improved slightly in terms of top 20 customers constituting 27% of JSBL's overall net advances at end-Sep16 in contrast to 29% at end-Dec15.
- JSBL's asset quality remained strong as compared to Dec-end15 (CY15: 3.8%; CY14: 4.8%).

## Performance

- On the back of 33% growth in deposits since CY15, JSBL's market share increased signifanctly to 1.84%.
- Spreads largely remained intact. Nevertheless, higher business volumes resulted in increased net interest revenues.
- The bank has shown significant growth in other income YoY (9MCY16: PKR 2,732mln; 9MCY15: PKR 2,177mln) mainly due to gains from sale of investments which resultingly further strengthened the total net revenue.
- JSBL posted healthy profit YoY (9MCY16: PKR 1,118mln; 9MCY15: PKR 1,082mln).
- Bank's advance to deposit ratio decreased slightly on the back of significant increase in deposits(9MCY16: 42.2%; CY15 54.1%) .
- Going forward, the management intends to continue expanding its advances' book mainly fueled by deposit mobilization. In this regard, mid-tier corporates, commercial and SME sectors would remain in focus. The management is also focusing on priority banking. Treasury operations would continue to support total revenue.

## Capital & Funding

- Deposit base remained tilted towards interest rate sensitive (saving and time) deposits which constitute ~73% of total customer deposits.
- Despite siginifacnt increase in deposits, JSBL's top-20 depositors' concentration remained stagnant at ~32%(~32% in CY15).
- Increased investment in government securities has improved the overall liquidity position. Thus, the bank's liquid assets as percentage of deposits improved significantly at end-Sep16: 62% (53% in CY15).

## RATING RATIONALE

The ratings reflect strengthened relative position of JS Bank in the country's competitive banking landscape. This emanates from enhanced system share (approaching 2% of deposits at end-Sep16). The benefit has trickled down whereby concentration - both in deposits and advances - is approaching adequate levels. Expanded branch network is supporting deposit growth. Meanwhile, JS Bank is carefully building its loan book; although asset quality is good. The strategy is to i) foster penetration of existing branches while expanding the network beyond 300 branches over the near-term; ii) spread advances book through different products over multiple sectors; iii) build non-fund based income; and iv) hold strength in treasury operations. JS Bank has adequate capital level (CAR at end-Sep16: ~12% primarily tier I). However, credit expansion may put some pressure on CAR, for which the bank has option to add support through tier II capital.

## KEY RATING DRIVERS

Ratings are dependent on JS Bank's ability to maintain its growth trajectory to establish itself in the medium-sized banking space of Pakistan. Meanwhile, upholding asset quality, adding diversity to income streams, and strong governance framework are critical.

## Financials [Summary]

## JS Bank Limited

PKR mln

| BALANCE SHEET | 30-Sep-16 9MCY16 | 31-Dec-15 Annual | 31-Dec-14 Annual | 31-Dec-13 Annual |
|---|---|---|---|---|
| **Earning Assets** | | | | |
| Advances | 78,949 | 76,407 | 61,679 | 32,405 |
| Debt Instruments | 6,775 | 3,258 | 3,213 | 3,129 |
| Total Finances | 85,725 | 79,665 | 64,892 | 35,535 |
| Investments | 124,077 | 112,771 | 80,892 | 39,216 |
| Others | 2,378 | 5,695 | 11,935 | 22,647 |
| | **212,179** | **198,132** | **157,719** | **97,397** |
| **Non Earning Assets** | | | | |
| Non-Earning Cash | 12,586 | 9,629 | 8,599 | 7,228 |
| Deferred Tax | - | - | - | 884 |
| Net Non-Performing Finances | 686 | 260 | 907 | 1,691 |
| Fixed Assets & Others | 10,548 | 10,455 | 9,492 | 5,570 |
| | **23,819** | **20,344** | **18,998** | **15,373** |
| **TOTAL ASSETS** | **235,999** | **218,476** | **176,717** | **112,770** |
| **Interest Bearning Liabilities** | | | | |
| Deposits | 188,835 | 141,840 | 108,740 | 80,916 |
| Borrowings | 21,833 | 54,638 | 50,538 | 20,151 |
| | 210,668 | 196,479 | 159,278 | 101,067 |
| **Non Interest Bearing Liabilities** | 8,498 | 6,029 | 4,359 | 2,769 |
| **TOTAL LIABILITIES** | **219,166** | **202,508** | **163,637** | **103,836** |
| **EQUITY (including revaluation surplus)** | **16,833** | **15,968** | **13,080** | **8,934** |
| **Total Liabilities & Equity** | **235,999** | **218,476** | **176,717** | **112,770** |

PKR mln

| INCOME STATEMENT | 30-Sep-16 9MCY16 | 31-Dec-15 Annual | 31-Dec-14 Annual | 31-Dec-13 Annual |
|---|---|---|---|---|
| Interest / Mark up Earned | 11,319 | 15,328 | 11,113 | 6,850 |
| Interest / Mark up Expensed | (6,977) | (9,738) | (7,259) | (4,525) |
| **Net Interest / Markup revenue** | **4,342** | **5,590** | **3,854** | **2,325** |
| Other Income | 2,732 | 3,290 | 2,590 | 1,678 |
| **Total Revenue** | **7,074** | **8,880** | **6,444** | **4,003** |
| Non-Interest / Non-Mark up Expensed | (4,907) | (4,890) | (4,010) | (3,049) |
| Pre-provision operating profit | 2,168 | 3,990 | 2,435 | 954 |
| Provisions | (325) | (816) | (826) | (453) |
| Pre-tax profit | 1,843 | 3,174 | 1,608 | 501 |
| Taxes | (724) | (1,148) | (548) | (150) |
| **Net Income** | **1,118** | **2,026** | **1,060** | **351** |

| Ratio Analysis | 30-Sep-16 9MCY16 | 31-Dec-15 Annual | 31-Dec-14 Annual | 31-Dec-13 Annual |
|---|---|---|---|---|
| Performance | | | | |
| ROE | 10.6% | 16.0% | 10.2% | 3.9% |
| Cost-to-Total Net Revenue | 69.4% | 55.0% | 60.7% | 77.1% |
| Provision Expense / Pre Provision Profit | 15.0% | 20.5% | 33.9% | 47.5% |
| Capital Adequacy | | | | |
| Equity/Total Assets | 6.1% | 6.2% | 6.6% | 8.1% |
| Capital Adequacy Ratio as per SBP | 12.0% | 12.5% | 12.6% | 12.0% |
| Funding & Liquidity | | | | |
| Liquid Assets / Deposits and Borrowings | 61.8% | 53.0% | 46.9% | 54.2% |
| Advances / Deposits | 42.2% | 54.1% | 57.4% | 41.7% |
| CASA deposits / Total Customer Deposits | 51.7% | 52.6% | 53.5% | 64.5% |
| Intermediation Efficiency | | | | |
| Asset Yield | 7.5% | 8.8% | 9.0% | 8.6% |
| Cost of Funds | 4.6% | 5.5% | 5.6% | 5.3% |
| Spread | 3.0% | 3.4% | 3.4% | 3.3% |
| Outreach | | | | |
| Branches | 278 | 277 | 238 | 211 |

The Pakistan Credit Rating Agency Limited

# STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or 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+**<br>**AA**<br>**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+**<br>**A**<br>**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+**<br>**BBB**<br>**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+**<br>**BB**<br>**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+**<br>**B**<br>**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**<br>**CC**<br>**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/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.

## Regulatory and Supplementary Disclosure

Rated Entity

**Name of Rated Entity** JS Bank Limited
**Sector** Banking
**Type of Relationship** Solicited

Purpose of the Rating
Regulatory Requirement
Independent Risk Assessment

Rating History

| Dissemination Date | Long Term | Short Term | Outlook | Action |
|---|---|---|---|---|
| 22-Jun-16 | A+ | A1+ | Positive | Maintain |
| 22-Jun-15 | A+ | A1+ | Stable | Maintain |
| 13-Mar-15 | A+ | A1+ | Stable | Upgrade |
| 27-Jun-14 | A+ | A1 | Stable | Maintain |
| 27-Jun-13 | A+ | A1 | Stable | Maintain |
| 19-Jun-12 | A+ | A1 | Stable | Upgrade |

Related Criteria and Research
Methodology: Bank Rating Methodology
Sector Research: Banking Sector - Viewpoint | Dec-15

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Rating Team Statement

**Rating Procedure**
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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