



The Pakistan Credit Rating Agency Limited

JS BANK LIMITED PPTFC

PPTFCs Issue (Unsecured, Subordinated)	INITIAL [FEB-17]	PRELIMINARY [NOV-16]
PPTFC (<i>PKR 3,000mln</i>)	A+	A+

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FEBRUARY 2017

Profile

- 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). JSBL operates with network of 278 branches at end-Sep16.

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 significantly 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 further strengthened the total net revenue.
- JSBL posted healthy profit YoY (9MCY16: PKR 1,118mln; 9MCY15: PKR 1,082mln).
- Bank’s advances to deposits 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 significant 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).

JSBL PPTFC Issue

- JSBL has issued unsecured, subordinated, and privately placed TFCs of PKR 3,000mln. The issue amount support the bank to keep its Capital Adequacy Ratio (CAR) at comfortable level. The tenor of this instrument is 7 years ending in 2023. Profit is based on 6M-KIBOR Plus 140bps p.a. payable semi-annually in arrears. Major Principal Repayment (99.76%) would be in two equal semi-annual installments of (49.88%) each, in the seventh year. JSBL retains the call option on profit payment date, which may be exercised, on or after five years of issue, subject to SBP’s approval.
- As per Basel III capital regulations the issue carries lock-in and loss absorbency clauses that entails that principal and profit payments will not be made if such payment results in shortfall in JSBL’s Minimum Capital Requirement (MCR) or Capital Adequacy Ratio (CAR). Although regulatory benchmark for CAR is increasing, given the bank’s past performance and future projections, cushion to lock-in and loss absorbency clauses is expected to remain comfortable.

RATING RATIONALE

The rating of unsecured, subordinated, and privately placed TFC is primarily based on long-term rating of JS Bank - the issuer. The rating of JSBL reflect its strengthened position 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, for credit expansion, the bank is in process of issuing this tier II TFC.

KEY RATING DRIVERS

Rating is 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.

The Pakistan Credit Rating Agency Limited
JS Bank Limited

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14	31-Dec-13
	9MCY16	Annual	Annual	Annual
PKR mln				
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 Bearing 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

INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14	31-Dec-13
	9MCY16	Annual	Annual	Annual
PKR mln				
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	31-Dec-15	31-Dec-14	31-Dec-13
	9MCY16	Annual	Annual	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



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		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>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.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p>	
B+ B B-	<p>High credit risk.</p> <p>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.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“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.</p>	
D	<p>Obligations are currently in default.</p>	

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.

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Regulatory and Supplementary Disclosure

[Rated Entity](#)

JS Bank Limited

[Name of Issuer](#)

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
17-Nov-16	A+	-	Stable	Preliminary

[Instrument Details](#)

Instrument	Size of Issue (PKR mln)	Tenor (yrs) & Maturity	Intallment Frequency	Rate	Major Principal Redemption	Call Option	Trustee
PPTFC-I: Unsecured, subordinated	3000 Inclusive of Green Shoe option of PKR 1,000mln	7 yrs - Dec-2023	Semi-annual	6M-KIBOR+140 bps	49.88% each in the 7th year	Call option on any profit payment date on/ or after 5 years of issue date with prior approval of SBP	Pak Brunei Investment Co. Limited

[Related Criteria and Research](#)

[Specific Methodology:](#)

Bank Rating Methodology

[Research:](#)

Banking Sector - Viewpoint | June-16

[Rating Analysts](#)

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[Rating Team Statement](#)

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JSBL PPTFC Redemption Schedule

Annexure

6 Months KIBOR Ask Rate as of December 13, 2016	6.13%
Spread:	1.40%
Effective Rate	7.53%
Face Value Per TFC	5,000
Issue Date	12/14/2016
Maturity Date	12/14/2023
Issue Amount	3,000,000,000

Years	Months	Date	No. of Days	Principal Redemption Schedule	Principal Redemption	Expected Profit	Total Redemption	Principal Outstanding
	0	14-Dec-16						3,000,000,000
	6	14-Jun-17	182	0.02%	600,000	112,640,548	113,240,548	2,999,400,000
1	12	14-Dec-17	183	0.02%	600,000	113,236,800	113,836,800	2,998,800,000
	18	14-Jun-18	182	0.02%	600,000	112,595,492	113,195,492	2,998,200,000
2	24	14-Dec-18	183	0.02%	600,000	113,191,496	113,791,496	2,997,600,000
	30	14-Jun-19	182	0.02%	600,000	112,550,436	113,150,436	2,997,000,000
3	36	14-Dec-19	183	0.02%	600,000	113,146,193	113,746,193	2,996,400,000
	42	14-Jun-20	183	0.02%	600,000	113,123,541	113,723,541	2,995,800,000
4	48	14-Dec-20	183	0.02%	600,000	113,100,889	113,700,889	2,995,200,000
	54	14-Jun-21	182	0.02%	600,000	112,460,323	113,060,323	2,994,600,000
5	60	14-Dec-21	183	0.02%	600,000	113,055,585	113,655,585	2,994,000,000
	66	14-Jun-22	182	0.02%	600,000	112,415,267	113,015,267	2,993,400,000
6	72	14-Dec-22	183	0.02%	600,000	113,010,281	113,610,281	2,992,800,000
	78	14-Jun-23	182	49.88%	1,496,400,000	112,370,211	1,608,770,211	1,496,400,000
7	84	14-Dec-23	183	49.88%	1,496,400,000	56,493,815	1,552,893,815	-
Total				100%	3,000,000,000	1,523,390,875	4,523,390,875	