The Pakistan Credit Rating Agency Limited

JS BANK LIMITED
PROPOSED PPTFC

PPTFCs Issue (Unsecured, Subordinated)	**PRELIMINARY [NOV-16]**
TFC (*PKR 3,000mln*)	A+
Including exercisable Green Shoe option of *PKR 1,000mln*	

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NOVEMBER 2016

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 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 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 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).

JSBL TFC Issue

- The team informed the RC that JSBL is in the process of issuance of unsecured, subordinated, and privately placed TFCs of PKR 3,000mln (Inclusive of a green shoe option of PKR 1,000mln). The issue amount would 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 absorbancy 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.

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

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+ 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 or 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**. "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.

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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	Not Applicable

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 - Nov-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

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Rating Team Statement

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