The Pakistan Credit Rating Agency Limited

Rating Report

JS Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2022	AA-	A1+	Stable	Maintain	-
23-Jun-2021	AA-	A1+	Stable	Maintain	-
29-Jun-2020	AA-	A1+	Stable	Maintain	-
28-Dec-2019	AA-	A1+	Stable	Maintain	-
28-Jun-2019	AA-	A1+	Stable	Maintain	-
28-Dec-2018	AA-	A1+	Stable	Maintain	-
25-Jun-2018	AA-	A1+	Stable	Maintain	-
20-Dec-2017	AA-	A1+	Stable	Maintain	-
22-Jun-2017	AA-	A1+	Stable	Maintain	-
20-Oct-2016	AA-	A1+	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The ratings reflect the relative position of JS Bank in the country's competitive banking landscape. This stems from largely intact customer deposit system share (end-Dec21: 2.2%, End-Dec20: 2.4%). Funding base comprises of borrowings and deposits where term deposit is relatively higher compared to peers. The focus of the bank has been to optimize its cost structure, build profitability around branch network and customer base. The bank has assembled experienced and qualified management team to head various departments. The strategy of the bank revolves around creating a more balanced approach to customer acquisition and offering unique digital solutions to customers. The bank has made substantial capital investment in its digital proposition and launched a new brand ‘Zindigi’, which has been designed to tap the market of Gen Z and millennials by offering them simple and user-friendly digital financial solutions. Meager increase in advances is recorded owing to a cautious lending approach. A sizable increase is recorded in the investment book; owing to higher investment in government securities. A continued uptick in NPLs is a cause for concern, though 1QCY22 NPLs witnessed a minor decline. Going forward, management will focus on enhancing improving coverage on NPLs and enhancing recoveries. Markup income witnessed an increase attributable to the enhanced investments whilst attrition was recorded in non-mark up income. Despite high provisioning expenses, net profitability remained largely intact YoY. In order to strengthen the risk management framework, bank has segregated credit and risk functions into different sub-categories based on functions and geographies. The bank expects to boost profits by growing direct and ancillary business. Pakistan’s economy has gone through several varied phases in last two years due to the COVID-19 pandemic. Banking sector continued to flourish with high profitability. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher inflation. This has repercussions for the entire system including banking.

Ratings are dependent on JS Bank's ability to sustain its profitability to support the internal generation of capital. Meanwhile, upholding asset quality, maintaining its share of advances and deposits in banking sector, adding diversity to income stream, maintaining a cushion in CAR, and a strong governance framework is critical.

Disclosure	
Name of Rated Entity	JS Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Commercial Bank(Jun-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure JS Bank Limited (JSBL), was incorporated in March 2006, as a public limited joint-stock company and commenced commercial banking operations on December 30, 2006, as an amalgamation of Jahangir Siddique Investment Bank Limited and American Bank Ltd. (Pakistan operations).

Background JS Bank Limited is a subsidiary of Jahangir Siddiqui & Co. Limited (JSCL). The bank is operating through 282 branches in Dec-21(Dec-20: 308).

Operations JS Bank is a scheduled bank, engaged in commercial banking and related services. Most of the branches are concentrated in Sindh and Punjab. The Bank started as a medium-sized bank but lately followed an aggressive growth strategy.

Ownership

Ownership Structure JS Bank Limited is a subsidiary (~75%) of Jahangir Siddiqui & Co. Limited (JSCL). Other shareholders include banks and financial institutions, and foreign investors while the remaining stake is distributed amongst local individuals and other shareholders.

Stability JS Bank Limited is a subsidiary of JSCL, developed as a diversification strategy of the sponsor group. The bank's shareholding pattern is expected to remain stable in the foreseeable future.

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.

Financial Strength JSCL has a stake in different companies like 100% owned subsidiaries JS Infocom Limited, JS International Limited, Energy Infrastructure (Private) Limited, Quality Energy Solutions (Private) Limited.

Governance

Board Structure The board comprises eight members including the CEO, out of which two are non-executive directors and five are independent directors. President & CEO is a non-elected executive director.

Members' Profile With the presence of JS Group on the board, the group's experience in the financial sector is expected to play an important role in JSBL's strategy.

Board Effectiveness The board exercises close monitoring of the management's policies and the bank's operations through its four committees, namely a) Audit, b) Risk Management (RMC) c) IT, and d) Human Resource, Remuneration & Nomination.

Financial Transparency The auditors of the bank, KPMG Taseer Hadi & Co, Chartered Accountants has expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2021.

Management

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

Management Team Mr. Basir Shamsie is the President & CEO. He possesses work experience of more than 31 years, primarily in the banking sector, and associated with JS Group for a long period.

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. These include i) Leadership Team Committee, ii) Integrated Risk Management Committee (IRMC), iii) Asset and Liability Committee (ALCO), iv) Central Credit Committee, v) Operational Risk Management Committee vi) Information Technology Steering Committee and several other committees.

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 reporting automation is also under implementation which will lead to a system-based generation of Risk Management data which will enhance Risk Operations management.

Risk Management Framework A sound structure of risk management committees, comprising the Board Risk Management Committee and the Board Audit Committee, is in place which keeps an eye on the overall risk profile of the bank. The Integrated Risk Management Committee (IRMC), Portfolio Management Committee (CRC) and Operational Risk Management Committee (ORMC), Compliance Committee, and Asset & Liability Committee (ALCO) of management operate within the established framework to monitor the bank's activities and maintain the risk level within predefined limits.

Business Risk

Industry Dynamics Pakistan's economy has gone through several varied phases in the last two years. It was deeply impacted by the magnitude of the COVID19 pandemic. The economic activity revived afterward and Pakistan posted a GDP growth rate of ~4.0% in FY21 after a contraction in the economy of -0.4% in FY20 (GDP growth figures were revised after the base year was changed from FY05-06 to FY15-16). The banking sector continues to flourish with high profitability. The banking sector weightage is approximate ~25% of the KSE 100 index. Total banking assets posted growth of ~19% YoY whilst investments surged by 21% YoY to PKR ~14.4trln (end-Dec20: PKR ~11.9trln). Gross Advances of the sector recorded growth (23%) to stand at PKR ~10.9trln (end-Dec20: PKR ~8.8trln). Non-performing loans witnessed a slight uptick of 4% to PKR ~860bln. Capital Adequacy Ratio stood at 16.7% (regulatory requirement of 11.5%). During CY21, banking sector deposits enhanced to PKR ~21.6trln (grew by ~17%). Hence, ADR rationalized to 47% (end-Dec20: ~45%). Net profitability of the sector was recorded at PKR ~267bln (CY20: PKR ~244bln); up 9% YoY. However, the growth of the equity base of the sector recorded meager uptick of 0.8% YoY attributable to a handsome dividend payout.

Relative Position JSBL - a medium sized bank with the system share, (Customer Deposits: CY21: 2.2%; CY20: 2.4%).

Revenues During CY21, mark up income witnessed attrition and was recorded at PKR 39.1bln as compared to PKR 43bln in the previous year, primarily on account of reduced markup earned on advances. Net mark up income of the bank enhanced to PKR 11.9bln (CY20: PKR 9.8bln) owing to decrease in mark up expensed. The Bank's investment yield was recorded at 8.5% (CY20: 10.3%). During 1QCY22, NIMR increased to 17.7% and was recorded at PKR 3.3bln compared to a similar period last year.

Performance Non-markup expenses illustrated downward trend mainly on account of controlled compensation expenses. During 1QCY22, non-mark up expenses to total income stood at 78%. Similarly, spread improved in first quarter and inched up to 2.9%. Hence, the pre-provision operating profit stood at PKR 4.2bln (CY20: PKR 3.3bln).

Sustainability Going forward, the bank intends to concentrate on mobilizing non-remunerative LCY deposits in order to reduce concentration on high-cost FI and institutional deposits. Further, the management intends to remain conservative towards lending activities and its objective is to shift the portfolio from low-margin large ticket credit exposures to high margin with small ticket size and less risk weightage to improve the core income.

Financial Risk

Credit Risk During CY21, net advances book improved to 1.6% (end-Dec21: PKR 254.2bln; end-Dec20: PKR 250.2bln). The bank's advances to deposits ratio (ADR) decreased (end-Dec21: 55.2%; end-Dec20: 57.8%). JS bank maintained high concentration in its segment mix, with corporate at 72%, SME around 20% and individuals at 6%.

Market Risk In line with the industry, JSBL invested the majority investment in government securities (96.3% of total investments). During the first half, a significant rise was observed in investment and recorded at PKR 300bln as compared to PKR 231bln in CY21.

Liquidity And Funding The bank's liquid assets as a percentage of deposits slightly improved as compared to last year at end-Dec21: 146.4% (endDec20: 45.6%) attributable to enhance investment in government securities. During CY21, JSBL's customer deposits grew by 5.0% to stand at PKR 431bln (end-Dec20: PKR 410bln). Top 20 deposit concentration marginally decreased (end-Dec21: ~26%; end Dec20: 28.2%). Further, CA deposits increased to 26.4% (CY20: 24.9%) while SA marginally decreased to 24.9% (CY20: 26.5%). During 1QCY22, the ratio of current deposits further increased to 28.3% while saving deposits moved up by 7.5% and were recorded at 27.5%.

Capitalization As of March 31, 2022, JS Bank's Capital Adequacy Ratio (CAR) stood at 13.61% as compared to 13.77% in 2021. The minimum required CAR as prescribed by SBP is 11.50%.

PKR mln

JS Bank Listed Public Limited	Mar-22 3M	Dec-21 12M	Dec-20 12M	Dec-19 12M
A BALANCE SHEET				
1 Total Finances - net	243,668	250,256	246,065	239,461
2 Investments	297,087	228,315	198,675	139,577
3 Other Earning Assets	1,671	33,125	24,346	30,783
4 Non-Earning Assets	62,206	65,714	55,925	54,131
5 Non-Performing Finances-net	6,216	6,879	7,158	6,474
Total Assets	610,849	584,289	532,168	470,427
6 Deposits	450,951	460,705	433,063	369,790
7 Borrowings	115,422	77,471	55,796	61,963
8 Other Liabilities (Non-Interest Bearing)	22,895	24,089	22,717	21,341
Total Liabilities	589,267	562,265	511,576	453,094
Equity	21,582	22,024	20,592	17,333
B INCOME STATEMENT				
1 Mark Up Earned	13,803	39,125	43,099	41,595
2 Mark Up Expensed	(10,524)	(27,231)	(33,322)	(34,566)
3 Non Mark Up Income	1,210	5,077	6,676	3,943
Total Income	4,488	16,971	16,454	10,972
4 Non-Mark Up Expenses	(3,500)	(12,767)	(13,151)	(10,930)
5 Provisions/Write offs/Reversals	(313)	(1,995)	(1,280)	92
Pre-Tax Profit	675	2,209	2,023	133
6 Taxes	(265)	(905)	(873)	(108)
Profit After Tax	410	1,304	1,150	25
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	2.2%	2.1%	2.0%	1.5%
Non-Mark Up Expenses / Total Income	78.0%	75.2%	79.9%	99.6%
ROE	7.5%	6.1%	6.1%	0.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	3.5%	3.8%	3.9%	3.7%
Capital Adequacy Ratio	N/A	13.8%	12.8%	12.9%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	50.8%	45.0%	45.6%	33.3%
(Advances + Net Non-Performing Advances) / Deposits	54.7%	55.2%	57.8%	65.7%
CA Deposits / Deposits	28.3%	26.4%	24.9%	22.5%
SA Deposits / Deposits	27.4%	24.9%	26.5%	24.3%
4 Credit Risk				
Non-Performing Advances / Gross Advances	5.4%	5.3%	4.6%	4.2%
Non-Performing Finances-net / Equity	28.8%	31.2%	34.8%	37.4%

Credit Rating

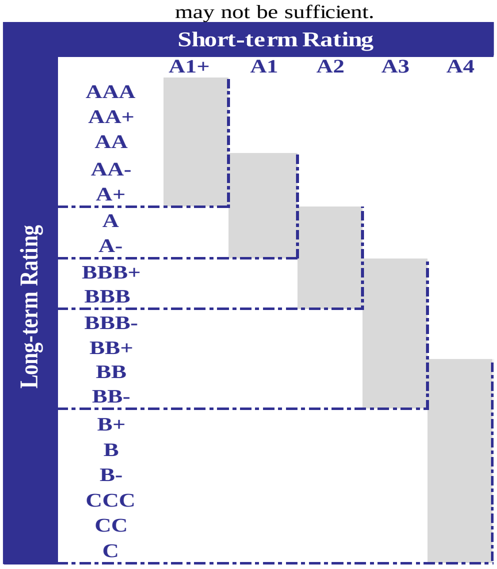
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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 | Clause 11-(A)(p).
(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