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
28-Jun-2024	AA	A1+	Stable	Upgrade	-
29-Dec-2023	AA-	A1+	Positive	Maintain	-
23-Jun-2023	AA-	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

JS Bank acquired majority stake (75.12%) in BankIslami Pakistan Limited in Aug 2023, marking a significant milestone and reinforcing its position as one of Pakistan's fastest growing financial institutions. This acquisition has set JS Bank apart from the rest of its peers. The assigned ratings reflect JS Bank's consolidated position after the aforementioned acquisition. The positive fundamentals of the Islamic banking industry in general also lend support to the ratings. In addition, the ratings highlight JS Bank's growing stature, on a standalone basis, as a medium-sized bank. The management has a clear business strategy aimed at bolstering profitability through efficiency. JS Bank has increasingly gained a tech-savvy image, while continuously augmenting its futuristic layout. It has heavily invested in its digital services; "Zindigi," has become a hallmark of the bank’s digital presence. It is designed to provide Gen Z and millennials with simple, user- friendly digital financial solutions. Zindigi is fast establishing itself as one of the country's growing market place apps.
The ratings recognize a geographically dispersed and swiftly established branch network, which is expected to support the build-up of low-cost core deposit. The contribution of current account is less than desired and the management is cognizant of this and hence intends to take steps to enhance the contribution. The bank continuously shed high-cost deposit, to ensure positive return on each account. The net advances depicted a decline owing to consolidation in the bank's lending portfolio, amidst current economic landscape. Concurrently, there was a slight uptick in infection ratio, due to the aforementioned consolidation. However, the bank increased its loan loss coverage ratio, by enhancing the provisioning quantum. The investment portfolio majorly comprises government securities, titled towards floater instruments. This ensures less exposure on account of market volatility. The bank has a strong equity base. Capital Adequacy Ratio is above the regulatory requirement and depicting an upward trajectory, as the management has shown. There is an express intention shown by the management to build core capital in future. Effective governance has been crucial in guiding the bank's strategic execution, balancing sustainable shareholder value with regulatory compliance.

Ratings are dependent on JS Bank's ability to sustain positioning and also profitability trend to ensure internal generation of capital. Meanwhile, upholding asset quality and managing cost structure is important.

Disclosure

Name of Rated Entity	JS Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Profile

Structure JS Bank Limited (JSBL), incorporated in March 2006, was formed because of the amalgamation of Jahangir Siddiqui Investment Bank Limited with the commercial banking operations of American Express Bank Limited Pakistan.

Background The bank is operating through 291 branches (CY22: 281 branches); one wholesale branch in Bahrain.

Operations JS Bank is a scheduled bank, engaged in commercial banking and related services. Most of the branches are concentrated in Sindh and Punjab while the bank also has an overseas branch in Bahrain. The bank is categorized as a medium-tier bank.

Ownership

Ownership Structure JS Bank Limited is a subsidiary (~71.21%) 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. A significant development for the Bank during the year 2023 was the acquisition of a 75.12% controlling stake in BankIslami Pakistan through sale purchase agreement and public offer. BankIslami is a premier Islamic Bank, incorporated in the year 2004 and listed on the PSX, and operates with a network of over 400+ branches. This acquisition has solidified JS Bank's position in the country's financial landscape, and reflects the Bank's commitment to broaden its product offerings for meeting the diverse needs of its customers.

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 a focus on the financial sector, including asset management, securities, commodities, brokerage, commercial banking, and insurance.

Financial Strength JSCL has stakes in different 100% owned subsidiary companies such as JSCL, JS International Limited, Energy Infrastructure Holdings (Private) Limited, and Quality Energy Solutions (Private) Limited. During CY23, the bank, one of the Subsidiary of JSCL, entered into agreements to acquire majority shareholding in BIPL.

Governance

Board Structure The board comprises seven members including the Chairman and CEO, out of which five are independent directors and one is a non-executive director. The bank’s President & CEO is an executive director.

Members’ Profile All members are highly qualified and seasoned professionals. 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 Committee, b) Risk Management Committee (RMC) c) IT Committee, and d) HR Remuneration & Nomination Committee.

Financial Transparency M/s KPMG Taseer Hadi & Co. Chartered Accountants are the external auditors of the bank. They have expressed an unqualified opinion on the bank’s financial statements for the year ended December 31, 2023.

Management

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

Management Team Mr. Basir Shamsie is the President & CEO of the bank. He possesses an extensive experience of more than 32 years, primarily in the banking sector. He has been associated with JS Group for a long time.

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 Implementing Data Warehousing, Data Science, and Business Intelligence will drive product innovation, improve customer service, and enhance decision-making through automated MIS reports for senior management. The Bank established its digital banking platform Zindigi in the year 2022. Through this platform, the Bank continues to offer a wide range of innovative digital offerings and solutions to its customers, offering convenience and a unique competitive edge in the market.

Risk Management Framework The Integrated Risk Management Committee (IRMC), Portfolio Management Committee (PMC) and Operational Risk Management Committee (ORMC), Compliance Committee (CC), Remedial Management Committee (RMC), and Asset & Liability Committee (ALCO) of management monitor the bank's activities and manage risk within set limits.

Business Risk

Industry Dynamics CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3%% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 18.5% (end-Dec22: 15.5%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position JS Bank Limited falls in the category of medium-tier banks and grabbed a market share of 2% based on customer deposits on standalone basis as of end-Dec 23. While, it stood at 4% on consolidated basis with BIPL.

Revenues During CY23, the bank’s net markup income recorded a healthy increase of 50.8% on a YoY basis to stand at PKR 22.4bln (CY22: PKR 14.9bln) attributable to a sizeable increase in markup earned recorded at PKR 92bln (CY22: PKR 72bln). Consequently, the bank’s net markup income to total income stood at 64.7% (CY22: 73.7%). The bank’s asset yield improved to 17.9% (CY22: 13.8%). The cost of funds recorded a sizeable increase and clocked in at 12.8% (CY22: 10.3%).

Performance During CY23, the bank’s non-markup income increased to PKR 12.2bln (CY22: PKR 5bln). Foreign exchange income increased on a YoY basis (CY23: PKR 5.8bln; CY22: PKR 2.1bln), whereas the dividend income also increased (CY23: PKR 1.8bln; CY22: PKR 0.13bln). Further, a profit on the sale of securities was recorded at PKR 0.1bln. Hence, the bottom line witnessed a rise to PKR 4.3bln (CY22: PKR 0.9bln).

Sustainability The bank has been able to substantially reduce high-cost FI and institutional deposits. Going forward, the bank intends to continue concentrating on the mobilization of non-remunerative deposits.

Financial Risk

Credit Risk During CY23, the bank’s gross performing advances book declined to PKR 197.6bln (end-Dec22: PKR 222.2bln). This decline corresponded with a notable reduction in bank’s net advances to deposits ratio (ADR) declined to 41.9% (end-Dec22: 49.8%). The infection ratio increased YoY (end-Dec23: 7.6%, end-Dec22: 6.8%). This trend highlights a cautious approach by the bank in extending advances, potentially influenced by factors such as risk management strategies and market conditions.

Market Risk At end-Dec23, the bank’s investment portfolio declined on YoY to stand at PKR 285bln (end-Dec22: PKR 301bln). At end-Mar24, the bank's investment book rise to stand at PKR 318bln. Such maneuvers could indicate a proactive stance by the bank in optimizing its investment portfolio for enhanced returns or risk management

Liquidity And Funding The bank’s liquid assets as a percentage of deposits recorded a sizeable increase YoY (end-Dec23: 59.2%, end-Dec22: 57.3%). The bank’s deposit base increased to PKR 486.3bln (end-Dec22: PKR 464.1bln). CA and SA proportions stood at 33% (end-Dec22: 30.8%); and 28.2% (end-Dec22: PKR 28.6%). The bank's strategic management of liquidity and deposit growth, is potentially reflecting its efforts to maintain a healthy balance between liquid assets and deposits while optimizing the composition of its deposit base.

Capitalization At end-Dec23, the equity base was recorded at PKR 40.3bln (end-Dec22: PKR 21.5bln). Equity to total assets rise to 6.8% (end-Dec22: 3.5%). This remarkable expansion in equity underscores the bank's strengthened financial position and enhanced capacity to absorb risks.

PKR mln

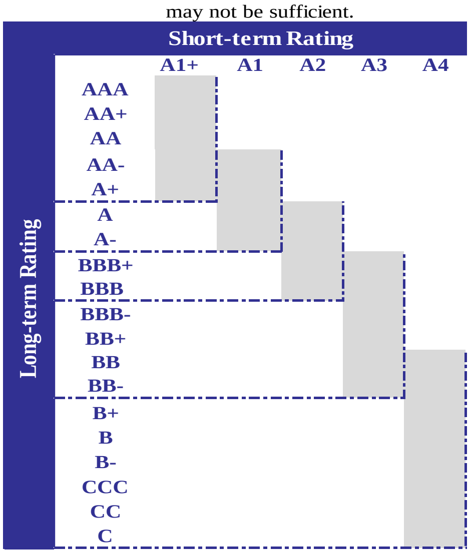
JS Bank Limited Public Listed Company	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	199,891	224,203	250,256	246,065
2 Investments	285,466	301,758	228,315	198,675
3 Other Earning Assets	8,342	13,152	33,125	24,346
4 Non-Earning Assets	89,885	68,997	65,714	55,925
5 Non-Performing Finances-net	5,849	8,605	6,879	7,158
Total Assets	589,433	616,715	584,289	532,168
6 Deposits	486,283	464,132	460,705	433,063
7 Borrowings	35,720	104,803	77,471	55,796
8 Other Liabilities (Non-Interest Bearing)	27,107	26,234	24,089	22,717
Total Liabilities	549,110	595,169	562,265	511,576
Equity	40,322	21,547	22,024	20,592
B INCOME STATEMENT				
1 Mark Up Earned	92,087	72,047	39,125	43,099
2 Mark Up Expensed	(69,678)	(57,191)	(27,231)	(33,322)
3 Non Mark Up Income	12,205	5,300	5,077	6,676
Total Income	34,614	20,156	16,971	16,454
4 Non-Mark Up Expenses	(23,291)	(16,926)	(12,767)	(13,151)
5 Provisions/Write offs/Reversals	(2,807)	(1,099)	(1,995)	(1,280)
Pre-Tax Profit	8,515	2,131	2,209	2,023
6 Taxes	(4,180)	(1,166)	(905)	(873)
Profit After Tax	4,335	965	1,304	1,150
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.7%	2.5%	2.1%	2.0%
Non-Mark Up Expenses / Total Income	67.3%	84.0%	75.2%	79.9%
ROE	14.0%	4.4%	6.1%	6.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	6.8%	3.5%	3.8%	3.9%
Capital Adequacy Ratio	12.5%	13.3%	13.8%	12.8%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	59.2%	57.3%	46.4%	45.6%
(Advances + Net Non-Performing Advances) / Deposits	41.9%	49.8%	55.2%	57.8%
CA Deposits / Deposits	33.0%	30.8%	26.4%	24.9%
SA Deposits / Deposits	28.2%	28.6%	24.9%	26.5%
4 Credit Risk				
Non-Performing Advances / Gross Advances	7.6%	6.8%	5.3%	4.6%
Non-Performing Finances-net / Equity	14.5%	39.9%	31.2%	34.8%

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information