



The Pakistan Credit Rating Agency Limited

Rating Report

JS Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
22-Jun-2016	A+	A1+	Positive	Maintain	-

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-Dec20: 2.4%, End-Dec19: 2.3%). Funding base comprising borrowings and deposits where term deposit witnessed a notable increase in CY20. Meager increase in advances recorded attributable to risk-averse approach. NPLs witnessed a continued uptick; which is a concern. The bank has assembled a highly experienced and qualified top management team to head various departments. Markup income witnessed an increase attributable to the enhanced investments. The commendable increase recorded in non-mark-up income which in turn supplemented the profitability. The bank was able to clock in good profitability in CY20 as compared to last two years. The bank has achieved internal re-organization; this has been done with a view to focus the targeted areas of growth while meeting the associated challenges. The strategy of the bank is encompassing creating a pull strategy to create a more balanced approach to customer acquisition and refurbished digital platform by offering various unique solutions to customers. Further strengthening in risk framework is being ensured through segregation of credit and risk function into sub-categories on the basis of functions and geography. The bank expects the profits to be boosted from growing direct and ancillary business. Total CAR, on a stand-alone basis, stood at 12.77% (Tier-I at 10.22% as at Dec20) needs to beef up to make room for future growth.

COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures are taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

Ratings are dependent on JS Bank's ability to sustain its profitability to support the internal generation of capital. Meanwhile, upholding asset quality, maintaining system share in terms of advances and deposits, adding diversity to an income stream, sound CAR, and 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 FI (Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@pacra.com +92-42-35869504



Profile

Structure JS Bank Limited (JSBL), incorporated in March 2006, formed as a result of amalgamation of Jahangir Siddiqui Investment Bank Limited with the commercial banking operations of American Express Bank Ltd Pakistan. The bank, with its Head Office in Karachi, is listed on the PSX since 2007.

Background JS Bank was established to capitalize on the presence of JS Group in the financial sector and to strengthen the group's array of services. The bank is operating through 282 branches in Mar-21 (Dec-20: 308).

Operations JS Bank is a scheduled bank, engaged in commercial banking and related services. The bank is operating through 282 branches including one wholesale branch in Bahrain (Dec-20: 1 branch). Most of the branches are concentrated in Sindh and Punjab.

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 As the bank's sponsor shareholding remained 70% for many years and increased to 75%; evident of sponsor confidence in the bank. The bank's shareholding will remain stable for the longer term.

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. Besides its concentration in the financial sector, JS Group has interests, though limited, in transportation, textile, sugar, media, real estate, and building material and allied sectors. JSCL (rated 'AA' by PACRA) in February 2021, has interests in other subsidiaries/ associates in addition to JSBL.

Financial Strength During CY20, JSCL performance was adequate where the company reported a profit of PKR 1,205mln.

Governance

Board Structure The board comprises nine members including the CEO, out of which five are non-executive directors and three are independent directors.

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

Board Effectiveness The BoD exercises close monitoring of the management's policies and the bank's operations through its four committees, namely a) Audit, b) Risk Management, c) IT, and d) Human Resource, Remuneration & Nomination. Meeting attendance considered strong with formal maintenance of meeting minutes.

Financial Transparency The auditors of the bank, EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2020.

Management

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

Management Team Mr. Basir Shamsie is appointed as President & CEO in place of Mr. Khalid Imran w.e.f. July 16, 2018. He possesses work experience of more than 27 years, primarily in the banking sector. He is assisted by a highly experienced and qualified top management team heading various departments.

Effectiveness Bank has various committees in place at management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined by the board.

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 system based generation of Risk Management data which will enhance Risk Operations management.

Risk Management Framework The Integrated Risk Management Committee (IRMC), Credit Risk 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 The indicators of the banking sector reflected a mixed trend where the economy is recovering from the effects of the COVID-19 pandemic. Despite challenging economic conditions prevailing in CY20 due to the COVID-19 outbreak, the banking sector managed to grow at a decent pace. Deposits of the banking sector grew by 16.1% to PKR 18,519bln (CY19: PKR 15,953bln) as compared to 11.9% growth in CY19. The surge in deposits provided the necessary funding support to finance the robust rise in investments (CY20: PKR 11,935bln; CY19: PKR 8,939bln) and particularly towards government instruments. During CY20, advances witnessed a mild contraction owing to slackness amid the COVID-19 pandemic outbreak. The policy measures rolled out by the SBP enabled the sector to enhance profitability, improve resilience and limit credit risk. With the completion of the deferment period allowed, the aftermath is yet to be comprehended by the industry.

Relative Position JSBL - a medium-sized fast-growing bank with the system share, (Customer Deposits: CY20: 2.4%; CY19: 2.3%;), during recent years. During CY20, the bank was able to show growth in terms of deposits by 17.1%; in line with its peers. In terms of net advances, an increase of 2.96% was observed (CY20: PKR 250.1bln, CY19: PKR 242.9bln).

Revenues During CY20, JSBL's mark-up income witnessed a sizeable increase to PKR 43bln (CY19: PKR 41.5bln) owing to the increase in investment. The bank's markup expense decreased slightly attributable to a significant decrease in the bank's borrowings. Hence, the bank reported the cost of yield at 7.2% (CY19: 8.1%). Bank earned NIMR of PKR 9.7bln (CY19: PKR 7bln). Total net revenue stands at PKR 16.4bln (CY19: PKR 10.9bln) showing a significant increase. Bank's net revenue in 1QCY21 clocked in at PKR 9.6bln (1QCY20: PKR 12.9bln).

Performance Non-markup expenses increased on account of higher administration and compensation expenses. However, due to the increase in revenue, the cost to total net revenue decreased (CY20: 79.9%; CY19: 99.6%). Hence, the pre-provision operating profit stood at PKR 3.3bln (CY19: PKR 41mln). The bank recorded a net provisioning expense of PKR 880mln for advances. After-tax adjustment, the bank's net profit stood at PKR 1.1bln (CY19: PKR 25mln). Net profit for 1QCY21 is PKR 390mln (1QCY20: PKR 383mln). Spread (CY20: 2.6%, CY19: 2.2%) witnessed a marginal increase driven by a decrease in the cost of funds of the bank. During the year, the Bank's return on equity (ROE) impacted to 6.1% (CY19: 0.1%).

Sustainability Going forward, the management intends to consolidate advances book and replace it with liquid collateralized advances to maintain CAR. The Bank is also building its presence fast in the trade business and intending to strengthen its capital in line with the growth path. However, CAR will be a challenge in growth. Going forward, minimum capital requirements and sustainability of market share by achieving sustainable growth will be of vital importance to the bank.

Financial Risk

Credit Risk During CY20, net advances book improved to 2.9% (CY20: PKR 250.1bln; CY19: PKR 242.9bln). The bank's advances to deposits ratio (ADR) decreased (CY20: 57.8%; CY19: 65.7%). JS bank maintained high concentration in its segment mix, with top: Corporate Sector, Individual and SME which comprises most of the gross advances (CY20: 90%; CY19: 90%). ADR is 1QCY21 is 59% (1QCY20: 62%).

Market Risk The Market Risk Management Unit is supported by Treasury Middle Officer, Chief Risk Officer. In line with the industry, JSBL invested the majority of investment in government securities (96.7% of total investments). The concentration remained the same in 1QCY21 at 96.2%.

Liquidity And Funding The bank's liquid assets as a percentage of deposits increased as compared to last year-end-Dec20: 45.6% (end-Dec19: 33.3%) attributable to enhanced investment in government securities. During CY20, JSBL's customer deposits grew by 22.6% to stand at PKR 410.2bln. The top 20 deposit concentration remained increased slightly (CY20: 28%; CY19: 25%). CA stood at 24.9% (CY19: 22.5%) while SA enhanced to 26.5% (CY19: 24.3%) driven by an increase in savings deposits.

Capitalization JS Bank's total equity stands at PKR 20.6bln (CY19: PKR 17.3bln). Total CAR stood at 12.77% (CY19: 12.93%), the SBP requirement for CY20 was at 11.5%. Consequently, the CAR needs to beef up to fuel growth in the upcoming year. CAR in 1QCY21 is also 12.77%. The equity as a percentage of risk-weighted assets increased to 6.3% in CY20 (CY19: 5.8%).



PKR mln

JS Bank Limited
Listed Public Limited

Mar-21	Dec-20	Dec-19	Dec-18
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	246,972	246,065	239,461	251,000
2 Investments	197,654	198,675	139,577	144,527
3 Other Earning Assets	15,671	24,346	30,783	4,457
4 Non-Earning Assets	51,288	55,925	54,131	51,617
5 Non-Performing Finances-net	7,962	7,158	6,474	5,153
Total Assets	519,547	532,168	470,427	456,754
6 Deposits	425,959	433,063	369,790	321,413
7 Borrowings	46,626	55,796	61,963	104,055
8 Other Liabilities (Non-Interest Bearing)	25,643	22,717	21,341	15,668
Total Liabilities	498,228	511,576	453,094	441,137
Equity	21,319	20,592	17,333	15,617

B INCOME STATEMENT

1 Mark Up Earned	9,612	43,099	41,595	29,997
2 Mark Up Expensed	(6,825)	(33,322)	(34,566)	(21,188)
3 Non Mark Up Income	1,079	6,676	3,943	2,141
Total Income	3,865	16,454	10,972	10,950
4 Non-Mark Up Expenses	(3,097)	(13,151)	(10,930)	(9,807)
5 Provisions/Write offs/Reversals	(106)	(1,280)	92	(239)
Pre-Tax Profit	662	2,023	133	905
6 Taxes	(272)	(873)	(108)	(342)
Profit After Tax	390	1,150	25	562

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	2.1%	2.0%	1.5%	2.1%
Non-Mark Up Expenses / Total Income	80.1%	79.9%	99.6%	89.6%
ROE	7.4%	6.1%	0.1%	3.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	4.1%	3.9%	3.7%	3.4%
Capital Adequacy Ratio	12.8%	12.8%	12.9%	12.0%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	46.5%	45.6%	33.3%	29.7%
(Advances + Net Non-Performing Advances) / Deposits	59.0%	57.8%	65.7%	78.4%
CA Deposits / Deposits	25.5%	24.9%	22.5%	25.4%
SA Deposits / Deposits	28.0%	26.5%	24.3%	28.5%

4 Credit Risk

Non-Performing Advances / Gross Advances	5.0%	4.6%	4.2%	3.3%
Non-Performing Finances-net / Equity	37.3%	34.8%	37.4%	33.0%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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

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- (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.
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- (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)

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