The Pakistan Credit Rating Agency Limited

Rating Report

JS Bank Limited | TFC Tier 1

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	A	-	Stable	Maintain	-
29-Jun-2020	A	-	Stable	Maintain	-
28-Dec-2019	A	-	Stable	Maintain	-
28-Jun-2019	A	-	Stable	Maintain	-
21-Feb-2019	A	-	Stable	Initial	-
28-Dec-2018	A	-	Stable	Preliminary	-

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. Meagre 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 the last two years. The bank has achieved internal reorganization; this has been done to focus the targeted areas of growth while meeting the associated challenges. The bank's strategy encompasses 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 based on functions and geography. The bank expects the profits to be boosted from growing direct and ancillary business. On a stand-alone basis, total CAR 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 | TFC Tier 1
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | DI Basel III(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Commercial Bank(Jun-21)
Rating Analysts	Timnat Thomas | timnat.thomas@pacra.com | +92-42-35869504

Issuer Profile

Profile JS Bank Limited ("JSBL" or the "Issuer"), 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. 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 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. 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. JSCL (rated ‘AA’ by PACRA) in February 2021, has interests in other subsidiaries/ associates in addition to JSBL.

Governance The board comprises nine members including the CEO, out of which five are non-executive directors and three are independent directors. 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. 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. 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 The bank has a well-defined organizational structure, whereby the bank’s operations are grouped under twenty seven departments. 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. 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 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. 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). 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.

Financial Risk During CY20, JSBL’s mark-up income witnessed a sizeable increase to PKR 43bln (CY19: PKR 41.5bln) owing to the increase in investment. 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. The bank’s net profit stood at PKR 1.1bln (CY19: PKR 25mln). Net profit for 1QCY21 is PKR 390mln (1QCY20: PKR 383mln). 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%. The equity as a percentage of risk-weighted assets increased to 6.3% in CY20 (CY19: 5.8%).

Instrument Rating Considerations

About The Instrument The Bank issued its third rated, privately placed, unsecured, subordinated, perpetual and non-cumulative TFC amounting to PKR 2.5bln in Dec-18. The issue amount contributed towards JSBL's additional Tier 1 Capital for capital adequacy requirements as per guidelines set by SBP. the funds so raised were planned to be utilized in JSBL's business operations. The profit is being paid semi-annually in arrears on a non-cumulative basis on the outstanding issue amount at the rate of 6M-KIBOR+ 225bps. Tier I TFC is differentiated from Tier II in two key aspects: (i) perpetual & (ii) non-cumulative. Furthermore, upon reaching a pre-defined trigger point or point of non-viability (PONV), the Tier I TFC may be partially or fully converted into equity/written off as per the discretion/instructions of SBP. The bank retains the call option on the profit payment date, which may be exercised, on or after five years of issue, subject to SBP’s approval.

Relative Seniority/Subordination Of Instrument The Issue will be unsecured and subordinated to payment of principal and profit of all other claims except ordinary shares. In addition to the Lock In Clause, the Instrument will be subject to 1) loss absorption upon the occurrence of a Pre-Specified Trigger (“PST”) i.e. issuer’s CET1 ratio falls to/below 6.625% of Risk-Weighted Assets; and 2) loss absorption and/or any other requirements of SBP upon the occurrence of a Point of Non-Viability (“PONV”). Upon reaching the pre-defined trigger point or point of non-viability (PONV), the Tier I TFC may be partially or fully converted into equity/written off as per the discretion/instructions of SBP. The Issuer will have full discretion over the amount and the timing of profit distribution, and waiver of any profit distribution or other payment will not constitute an event of default.

Credit Enhancement The instrument is unsecured.

PKR mln

JS Bank Limited Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 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

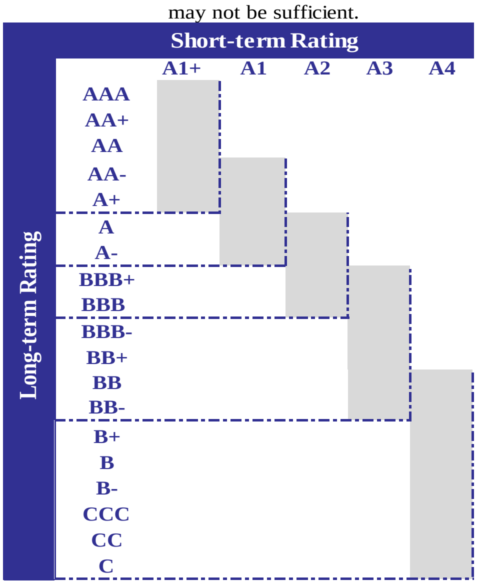
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

(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

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Additional Tier 1 Capital Term Finance Certificate	2,500 mln	Perpetual i.e. no fixed or final redemption date	Unsecured and subordinated to all other obligations of the bank	N/A	N/A	Pak Brunei Investment Company Limited	N/A

Name of Issuer	JS Bank Limited
Issue Date	31-Dec'18
Maturity	Perpetual i.e. no fixed or final redemption date
Call Option	JSBL may call the TFCs at par (either partially or in full), with prior approval of SBP or any profit payment date after 5 years from the issue date

Due Date Principle	Opening Principal	Principal Repayment	Due Date Markup/ Profit	6M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln		
Issuance							2,500
30-Jun-19	2,500	-	6 M KIBOR + 2.25%	10.79%	163	163	2,500
31-Dec-19	2,500	-	6 M KIBOR + 2.25%	13.11%	192	192	2,500
30-Jun-20	2,500	-	6 M KIBOR + 2.25%	13.48%	197	197	2,500
31-Dec-20	2,500	-	6 M KIBOR + 2.25%	7.22%	118	118	2,500
30-Jun-21	2,500	-	6 M KIBOR + 2.25%	7.35%	120	120	2,500
31-Dec-21	2,500	-	6 M KIBOR + 2.25%	0.00%	28	28	2,500
30-Jun-22	2,500	-	6 M KIBOR + 2.25%	0.00%	28	28	2,500
31-Dec-22	2,500	-	6 M KIBOR + 2.25%	0.00%	28	28	2,500
30-Jun-23	2,500	-	6 M KIBOR + 2.25%	0.00%	28	28	2,500
31-Dec-23	2,500	-	6 M KIBOR + 2.25%	0.00%	28	28	2,500
		0			**931**	**931**	