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
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	-
25-Jun-2018	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the improving position of JS Bank in the country's competitive banking landscape. This stems from its growing presence in the conventional banking sector and lately, via its enhanced stake in one of the rising Islamic bank. The bank is poised to reap fruits from both markets and especially in future, as the industry is gearing towards conversion to Islamic banking. On a consolidated basis, the bank is expected to report a much higher customer deposit system share. On a standalone basis, the bank streamlined its costs, boosting core profitability through focused management efforts on its branch network and customer base. Efficacy in the funding cost plus deployment of assets at a superior rate benefited the bottomline. The latest numbers, as represented by the management, are sanguine. The emphasis is on sustained digital spending to achieve a balanced approach to customer acquisition and provide distinctive digital solutions. In 9MCY23, the bank's digital initiative 'Zindigi' saw strong growth, attracting 2.4 million new users. The platform targets Gen Z and millennials with user-friendly financial solutions. The customer penetration through JS Mobile App and JS BOT reflected a growth of 52% and 63% respectively. The Credit portfolio illustrated a decline attributable to the continuous efforts of consolidation of advances around quality lending. This reflected in the form of a reduction in NPLs. The investment portfolio is majorly vested with Government Securities. The loan infection ratio (7.1%) remained lower than the industry average. Going forward, management has a keen focus on coverage of NPLs and other recoveries. Interest income reflected a sizeable increase at PKR 64.5bln (9MCY22: PKR 48.7bln) reflecting a growth of 32% attributable to a higher contribution of markup from investments. The quantum of Foreign Exchange Income is large (9MCY23: PKR 3.7bln; 9MCY22: PKR 1.9bln), aligning with the industry-wide trend. Despite higher provisioning expense, the bank’s bottom line increased manifold YoY clocking at PKR 2.3bln (9MCY22: PKR 820mln). The bank has recently penetrated into the growing Islamic Banking Industry in Pakistan through the acquisition of a significant stake in BankIslami Pakistan Limited (BIPL). BIPL has demonstrated remarkable growth with an active presence in more than 150 cities through 415 branches. Presently, it is operating in the Islamic domain with a deposit base of PKR 461.9bln. The dividend income from BIPL shall augment the overall profitability.

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 the banking sector, adding diversity to the income stream, building and maintaining a cushion in CAR congruent to its ratings are critical.

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-23),Methodology | Financial Institution Rating(Oct-23)
Related Research	Sector Study | Commercial Bank(Jun-23)
Rating Analysts	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Structure JS Bank Limited (JSBL) is a banking company whose shares are listed on Pakistan Stock Exchange Limited. The bank is currently operating through 281 branches (CY22: 281 branches); one wholesale branch in Bahrain.

Background The bank was incorporated in March 2006 due to the amalgamation of Jahangir Siddiqui Investment Bank Limited with the commercial banking operations of American Express Bank Limited Pakistan.

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 achieved a strong foothold in the Islamic banking industry attributable to the acquisition of a significant stake in BankIslami Pakistan Limited (BIPL).

Ownership

Ownership Structure JS Bank Limited is a subsidiary (71.21%) of Jahangir Siddiqui and Co. Limited (JSCL). Randeree Family holds 11.92% of the stake through Mr. Shabir Ahmed Randeree and Mr. Ahmed G.M. Randeree while the remaining stake is widely spread.

Stability JS Bank Limited is a subsidiary of JSCL, developed as a diversification strategy of the Sponsoring group. The acquisition of a rising Islamic bank (BankIslami Pakistan Limited) also adds to the financial muscle of the sponsors.

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 a stake in different companies like 100% owned subsidiaries; JS International Limited, Energy Infrastructure Holdings (Private) Limited, and Quality Energy Solutions (Private) Limited.

Governance

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

Members’ Profile All members are highly qualified and seasoned professionals. The group has a strong foothold in the financial sector and it plays a significant role in the bank's overall 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, 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, 2022.

Management

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

Management Team Mr. Basir Shamsie is the President & CEO of the bank. He possesses an extensive experience of more than 29 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 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 the planned automation of MIS reports for senior management.

Risk Management Framework Integrated Risk Management Committee (IRMC), Portfolio Management Committee (PMC), Operational Risk Management Committee (ORMC), Compliance Committee (CC), Remedial Management Committee (RMC), and Asset & Liability Committee (ALCO) operates 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 experienced a notable decline in FY23, witnessing a sharp drop in its real GDP growth to a mere 0.3%. However despite this, banking sector has been thriving primarily due to higher net interest income, driven by increased interest rates. For the period ended 3QCY23, Pakistan's banking sector's total assets posted growth of ~25% YoY whilst investments surged by 29% to PKR ~23.26trln (end-Dec22: PKR ~18.4trln). Gross Advances of the sector recorded growth (6%) to stand at PKR ~12.596trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed a slight uptick of 7% YoY to PKR ~965bln. The capital Adequacy Ratio stood at 19.1% (regulatory requirement of 11.5%).

Relative Position JS Bank Limited falls in the category of medium-tier banks. The bank's ownership in a full-fledged Islamic bank (BIPL) reflects its strong positioning in the respective industry. During CY22, the Islamic banking deposits posted a recognizable growth of 42% whereas the Conventional banking deposits surged by 13%. Furthermore, the SBP's initiative to enhance the Islamic banking sector’s share of assets and deposits to 30% of the overall banking sector shall garner positive benefits for JSBL, going forward.

Revenues During CY22, the bank’s net markup income recorded a healthy increase of 24.8% on a YoY basis to stand at PKR 14.8bln (CY21: PKR 11.8bln) attributable to a sizeable increase in markup earned recorded at PKR 72bln (CY21: PKR 39.1bln). Consequently, the bank’s net markup income to total income increased to 73.7% (CY21: 70.1%). The bank’s asset yield improved to 13.8% (CY21: 8.0%). The cost of funds recorded a sizeable increase and clocked in at 10.3% (CY21: 5.3%). During 9MCY23, the bank’s net markup income stood at PKR 14.7bln. The bank’s asset yield recorded an uptick to 16.6% whereas the spread inclined to 4.5%.

Performance During CY22, the bank’s non-markup income slightly increased to PKR 5.3bln (CY21: PKR 5bln). Foreign exchange income increased on a YoY basis (CY22: PKR 2.1bln; CY21: PKR 1.1bln), whereas the dividend income recorded a dilution (CY22: PKR 130mln; CY21: PKR 574mln). Hence, the bottom line witnessed a dip to PKR 965mln (CY21: PKR 1.3bln). During 9MCY23, the bank's non-markup expenses were clocked at PKR 15.7bln. The bank's net profitability increased manifold to stand at PKR 2.3bln.

Sustainability On the Strategic side, the bank adopted a conservative approach towards its lending portfolio. Resultantly, the infection ratio remained largely the same. The management took several digitization initiatives in the areas of Transformation and Data Sciences. Lately, the bank launched Nano loan and Instant debit card products for its customers.

Financial Risk

Credit Risk During CY22, the bank’s net advances book declined to PKR 222.2bln (end-Dec21: PKR 246.9bln). The top 5 sector exposure stands at 66% with the highest exposure in individuals standing at 22% followed by Food, tobacco, and beverages at 14%, Textile at 12%, Airlines at 11%, and Power and Water at 7%. The bank’s net advances to deposits ratio (ADR) declined to 49.8% (end-Dec21: 55.2%). The infection ratio increased YoY (end-Dec22: 6.8%, end-Dec21: 5.3%). The loan loss coverage ratio declined YoY (end-Dec22: 45.5%, end-Dec21: 48%). At end-Sep23, the net advances witnessed a slump at PKR 195.9bln attributable to the strategic decision of Quality lending. Hence, the bank's ADR posted a dip at 41.8%.

Market Risk At end-Dec22, the bank’s investment portfolio illustrated an upward trend YoY to stand at PKR 301.7bln (end-Dec21: PKR 228.3bln). At end-Sep23, the bank's investment book remained largely the same standing at PKR 300.6bln.

Liquidity And Funding The bank’s liquid assets as a percentage of deposits recorded a sizeable increase YoY (end-Dec22: 57.3%, end-Dec21: 46.4%). The bank’s deposit base inclined to PKR 464.4bln (end-Dec21: PKR 460.7bln). CASA sizably improved on a YoY basis (end-Dec22: 59.4%; end-Dec21: 51.3%). At end-Sep23, the total deposits of the bank further increased to PKR 484.1bln.

Capitalization At end-Dec22, the Equity to total assets inched down to 3.5% (end-Dec21: 3.8%). As of end-Sep23, the bank's Capital Adequacy Ratio was reported at 12.6% remaining compliant with the minimum regulatory requirement by State Bank of Pakistan (SBP).

PKR mln

JS Bank Limited Listed Public Limited	Sep-23 9M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	197,898	224,203	250,256	246,065
2 Investments	300,629	301,758	228,315	198,675
3 Other Earning Assets	2,798	13,152	33,125	24,346
4 Non-Earning Assets	84,616	68,997	65,714	55,925
5 Non-Performing Finances-net	6,102	8,605	6,879	7,158
Total Assets	592,043	616,715	584,289	532,168
6 Deposits	484,112	464,132	460,705	433,063
7 Borrowings	43,330	104,803	77,471	55,796
8 Other Liabilities (Non-Interest Bearing)	27,633	26,234	24,089	22,717
Total Liabilities	555,074	595,169	562,265	511,576
Equity	36,969	21,547	22,024	20,592
B INCOME STATEMENT				
1 Mark Up Earned	64,503	72,047	39,125	43,099
2 Mark Up Expensed	(49,751)	(57,191)	(27,231)	(33,322)
3 Non Mark Up Income	6,921	5,300	5,077	6,676
Total Income	21,672	20,156	16,971	16,454
4 Non-Mark Up Expenses	(15,763)	(16,926)	(12,767)	(13,151)
5 Provisions/Write offs/Reversals	(1,238)	(1,099)	(1,995)	(1,280)
Pre-Tax Profit	4,671	2,131	2,209	2,023
6 Taxes	(2,350)	(1,166)	(905)	(873)
Profit After Tax	2,321	965	1,304	1,150
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	3.3%	2.5%	2.1%	2.0%
Non-Mark Up Expenses / Total Income	72.7%	84.0%	75.2%	79.9%
ROE	10.6%	4.4%	6.1%	6.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	6.2%	3.5%	3.8%	3.9%
Capital Adequacy Ratio	12.6%	13.3%	13.8%	12.8%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	60.3%	57.3%	46.4%	45.6%
(Advances + Net Non-Performing Advances) / Deposits	41.8%	49.8%	55.2%	57.8%
CA Deposits / Deposits	30.9%	30.8%	26.4%	24.9%
SA Deposits / Deposits	33.7%	28.6%	24.9%	26.5%
4 Credit Risk				
Non-Performing Advances / Gross Advances	7.1%	6.8%	5.3%	4.6%
Non-Performing Finances-net / Equity	16.5%	39.9%	31.2%	34.8%

Credit Rating

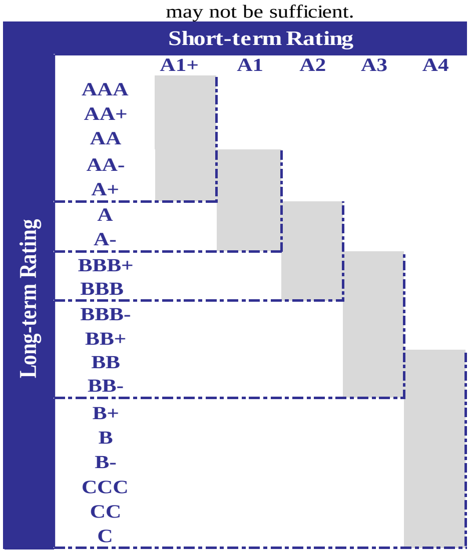
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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