

## Zarai Taraqiati Bank Limited

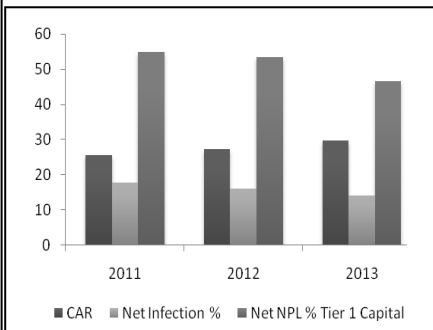
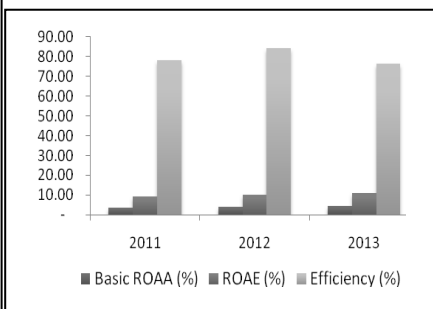
Chairman: Syed Yawar Ali; President/CEO: Syed Talat Mehmood

August 8, 2014

**Analysts:** Maimoon Rasheed  
Syed Adil Hussain

Category	Latest	Previous
Entity	AAA/A-1+	A/A-2
	Aug 8, '14	Dec 17, '13
Outlook	Stable	Stable

### Key Financial Trends



	2011	2012	2013
Net Advances (Rs. in b)	84.7	88.1	95.3
Deposits (Rs. in b)	9.0	11.1	14.9
Cost of Funds (%)	6%	5.8%	5.5%
Profit / (Loss) (Rs. in b)	2.1	2.6	3.5
Equity (Rs. in b)	25.2	27.6	29.7
CAR (%)	25.7%	27.3%	29.7%
Liquid Assets % Deposits, Borrowings & accrued mark-up	27%	32%	35%
Net Infection (%)	17.8%	16.2%	14.1%

### Rating Rationale

Zarai Taraqiati Bank Limited (ZTBL) has been availing credit lines obtained from the State Bank of Pakistan (SBP) that has remained a major portion of ZTBL's funding base over the years. The ratings take into account the recent decision by the Government of Pakistan (GoP) to reconcile the outstanding liabilities on the balance sheet of ZTBL towards the SBP and convert the same into equity. As a result of this exercise, the previously prevailing uncertainty as regards the balance owed to SBP has been eliminated and an amount of Rs. 89.5b (Principal: Rs. 54.5b; Accrued Mark-up: Rs. 35b) will be converted into equity.

The importance of ZTBL is underscored by the fact that the bank remains the premier agriculture sector development finance institution that is used as a financing arm by the GoP. The bank has significant presence in rural markets, operating through a network of 380 branches. The implicit support of the GoP had been a key consideration in the previously assigned entity ratings with GoP as the primary shareholder of the bank; the recent decision of the GoP demonstrates its support to the mandate of the institution while also validating JCR-VIS' assumption underlying the assigned ratings. The said transaction will augment the bank's equity base by Rs. 89.5b and notably improve the stand alone risk profile of the bank. Moreover, the demands on liquidity will also be considerably reduced. Based on the demonstrated support by the GoP, the entity ratings have been converged into the 'AAA/A-1+' ratings assigned to the Government Guaranteed Obligations of the bank.

The demand for agriculture related credit has been on a rising trend in Pakistan. Despite potential to expand core operations, scarcity of funds has been hampering ZTBL's ability to expand its loan book. While there has been a measured growth in the bank's loan book, share of ZTBL in the overall agriculture financing of the country has been declining over the years. Going forward, the management is expecting sustenance in market share on account of increased potential of funds availability, an outcome of balance sheet restructuring.

ZTBL has an extensive branch network spread across the country. The bank has enhanced its focus to expand its deposits base. The safety of deposits mobilized by the bank is explicitly guaranteed under the Bank's (Nationalization) Act, 1974. Total deposits stood higher at Rs. 14.9b (FY12: Rs. 11.1b) at end-FY13; the increase was mainly manifested in savings accounts. Although proportion of current deposits in the deposit mix declined on a timeline basis, these still comprise 57% (FY12: 73%) of total deposits. Rural client base has enabled the bank to maintain a high proportion of current accounts; translating into low cost of deposits. The management is projecting considerable increase in deposit base over medium to long-term horizon.

Gross loan portfolio increased to Rs. 102.2b (FY12: Rs. 95.2b) at end-FY13, depicting growth of 7.4%. Lending portfolio of the bank comprises production and development loans pertaining to short and long-term financing, respectively. Production loans comprise higher proportion (59%) of the gross loan portfolio as at end-FY13. Sada Bahar Scheme (SBS) is the most popular lending product of the bank that pertains to revolving credit financing with a 3 year maturity period and cleanup of outstanding balance once every year. SBS constitutes around 40% of the gross loan portfolio. In order to reduce product concentration, the bank intends to diversify its product suite over the next five years.

The bank follows a risk-averse investment policy with the investment portfolio primarily comprising government securities. Liquidity arising out of fresh deposit mobilization was also deployed into low risk government securities. The bank has also initiated treasury operations, though the quantum of same is currently limited. As per management, the bank has applied to the SBP for commercial banking license. JCR-VIS will continue to track the scope of business activities undertaken by the bank and un-guaranteed portion of liabilities in relation to total balance sheet footing; any meaningful change in this regard may trigger rating review.

Revision in mark-up rates over time has improved the commercial viability of the institution; continuous check on overheads and portfolio quality is essential to allow the recent changes to translate into sustained improvement in profitability. Following the conversion of SBP's debt into equity, mark-up expenses associated with the same will be eliminated, having a positive impact on profitability.

After a gap of about one year, the board of directors (BoD) was reconstituted in June'14. The previous board had completed its term in June'13. The new board consists of personnel having diverse range of experience and educational background. Moreover, there was a change at the helm of the institution. The management team is now spearheaded by Mr. Talat Mehmood who was appointed as President during 1Q14. Mr. Mehmood carries more than 4 decades of domestic and international banking experience. The position of COO was also filled during the outgoing year with the appointment of Mr. Aman Ullah Sheikh. Mr. Sheikh has 26 years of experience at senior management positions in ZTBL. Stability in the management team is considered essential, going forward.

### Overview of the Institution

ZTBL, formerly ADBP, was formed through the repeal of ADB Ordinance 1961. ADBP was established following the merger of Agricultural Development Finance Corporation and Agricultural Bank of Pakistan. ZTBL took over all assets, business, contracts and liabilities of ADBP and started its countrywide operations as a public limited banking company on December 14, 2002. The bank has the explicit mandate to provide finance and credit facilities to small farmers and low-income households. 99% of the ownership rests with Federal Government. Financial statements for 2013 were audited by M/s Riaz Ahmad & Co. and M/s Ilyas Saeed & Co. **JCR-VIS**

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: ENTITY</u></b>				
08-Aug-14	AAA	Stable	A-1+	Upgrade
17-Dec-13	A	Stable	A-2	Initial
30-May-13				Withdrawn
12-Jul-12	B+	Stable	B	Reaffirmed
12-Apr-12	B+	Stable	B	Reaffirmed
21-Dec-11	B+	Rating Watch - Developing	B	Rating Watch - Developing
13-Aug-10	AAA (B+)*	Stable (Stable)*	A-1+ (B)*	Reaffirmed (Reaffirmed)*