RATING REPORT

Zarai Taraqiati Bank Limited

REPORT DATE:
June 29, 2016

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AAA	A-1+
Outlook	Stable		Stable	
Government Debt Obligations	AAA	A-1+	AAA	A-1+
Outlook	Stable		Stable	
Date	*Jun 16,'16*		*Jun 19,'15*	

COMPANY INFORMATION

Incorporated in 2002	**External auditors:** M/s Riaz Ahmad & Co. and M/s BDO Ebrahim & Co.
Public Limited Company	**Chairman of the Board:** Mr. Syed Yawar Ali
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Syed Talat Mehmood
State Bank of Pakistan : 76%	
Government of Pakistan : 23.8%%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities;
http://www.jcrvis.com.pk/images/gse.pdf

Zarai Taraqiati Bank Limited

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 mandate to provide finance and credit facilities to small farmers and low-income households.

RATING RATIONALE

The ratings assigned to ZTBL take into account the implicit support of Government of Pakistan (GoP) being the ultimate shareholder of the bank through State Bank of Pakistan (SBP). The ratings also draw comfort from the prominent role of ZTBL in the agriculture development of the country. Earlier GoP had decided to convert outstanding SBP debt-principal (Rs. 51.3b), subordinated loan (Rs. 3.2b) and accrued markup (Rs. 35.0b) owed by the Bank to SBP as on June 30, 2014 into equity investment of SBP in the bank. However, subsequently, it was mutually agreed between the Bank and SBP that SBP debt-principal and subordinated loan amounting to Rs. 54.5b will be converted into redeemable preference shares carrying markup of 7.5% per annum payable on semi-annual basis; principal of the preference shares and return thereon is guaranteed by the GoP. Meanwhile, markup on existing debt shall be accrued upto Dec 31, 2015 amounting to Rs. 40.2b and will be converted into ordinary shares.

Advances: Gross loan portfolio of the bank increased to Rs. 134.7b (FY14: Rs. 115.5b) at end-FY15 and further to Rs. 137.3b by end-1QFY16. Awami Zarai Scheme (AZS) and Sada Bahar Scheme (SBS) continue to be the flagship products of the bank. The management has defined per acre loan ceilings for major crops while overall loan ceiling is maintained at Rs. 1.5m. Asset quality indicators exhibited improvement on a timeline basis with gross infection reducing to 12.3% by end-FY15 (FY14: 16.2%) and further to 10.1% by end-1QFY16. Net infection has also trended downwards

Investments: The bank's investment portfolio is primarily concentrated in government securities; overall credit risk profile of the portfolio is considered minimal. Exposure in PIBs increased to 36.8% of total investment (FY14: 17.3%) which poses interest rate risk; however given size of investments in relation to total assets, same is considered manageable. Around 17% of the portfolio comprises investment in a blue chip stock which carries sizeable unrealized surplus; the management intends to offload the said investment to generate additional liquidity.

Liquidity: Liquidity profile draws strength from the sizeable investment in government securities carried on balance sheet. While deposit base posted a growth of around 35% during FY15, deposit trends have yet to achieve maturity also reflected by high concentration levels. Inview of this, the institution may need to maintain a sizeable liquidity cushion.

Profitability: While revenue from lending portfolio posted healthy growth on the back of higher advances portfolio, core earning of the bank declined attributable to markup expense recognized on borrowing and subordinated debt from SBP, a one-off item. Going forward, markup expense is expected to rationalize and would primarily include markup expense pertaining to preference shares, in addition to deposit cost. Spreads of the institution improved to 8.2% (FY14: 7%) during FY15 on account of higher yield on mark-up bearing assets as pricing on loan products was revised upward while funding cost marginally reduced.

Capitalization: Bank's core capital amounted to Rs. 77.8b by end-1QFY16 (FY15: Rs. 76.9b; FY14: Rs. 121.1b). Net NPLs as a percentage of the bank's tier-1 capital were reported at 14.0% at end-1QFY16 (FY15: 18.7%; FY14: 12.2%); improvement in this area is however warranted. Capital Adequacy Ratio (CAR) improved to 49.7% (FY14: 25.6%) at end-FY15, well above the regulatory requirement.

Board, Management & IT Infrastructure: The bank benefits from the diverse experience of its Board members. Overall, the senior management team has largely remained stable though various divisional heads continue to have acting charge. With the implementation of CBAS and Oracle – ERP system, overall IT infrastructure of the institution is expected to be strengthened.

Appendix III

FINANCIAL SUMMARY

(amounts in PKR billions)

BALANCE SHEET	MAR 31, 2016	DEC 31, 2015	DEC 31, 2014
Total Investments	20.0	19.8	29.3
Advances	131.3	129.6	108.6
Total Assets	179.8	187.6	163.6
Borrowings	54.6	57.1	0.97
Deposits & other accounts	30.4	35.9	26.7
Subordinated Loans	3.2	3.2	-
Tier-1 Equity	77.8	77.0	121.2
Net Worth	79.7	79.2	124.6

INCOME STATEMENT	MAR 31, 2016	DEC 31, 2015	DEC 31, 2014
Net Mark-up Income	3.8	12.2	13.1
Net Provisioning/ (reversal)	1.5	(0.41)	1.5
Non-Markup Income	1.0	5.6	4.5
Operating Expenses	2.1	10.0	7.8
Profit Before Tax	1.2	8.4	8.3
Profit After Tax	0.7	5.3	5.4

RATIO ANALYSIS	MAR 31, 2016	DEC 31, 2015	DEC 31, 2014
Gross Infection (%)	10.1	12.3	16.2
Provisioning Coverage (%)	21	13	21
Net Infection (%)	8.1	10.9	13.2
Cost of deposits (%)	-	3.4	3.5
Net NPLs to Tier-1 Capital (%)	14	19	12
Capital Adequacy Ratio (C.A.R (%))	48.6	49.7	25.6
Markup Spreads (%)	-	8.2	7
Efficiency (%)	51	53	79
Basic ROAA (%)	2.3	4.9	3.5
ROAA (%)	1.6	3.0	3.5
Liquid Assets to Deposit & Borrowings (%)	32.7	41.5	128

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix IV

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix V

Name of Rated Entity	Zarai Taraqiati Bank Limited
Sector	Specialized Bank
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
16-June-16	AAA	A-1+	Stable	Reaffirmed
18-Jun-15	AAA	A-1+	Stable	Reaffirmed
08-Aug-14	AAA	A-1+	Stable	Upgrade
17-Dec-13	A	A-2	Stable	Initial
30-May-13	-	-	-	Withdrawn
12-July-12	B+	B	Stable	Reaffirmed
05-Apr-12	B+	B	Stable	Reaffirmed
21-Dec-11	B+	B	Rating Watch Developing	Rating Watch Developing
RATING TYPE: GOVERNMENT GUARANTEED OBLIGATIONS				
16-Jun-16	AAA	A-1+	Stable	Reaffirmed
18-Jun-15	AAA	A-1+	Stable	Reaffirmed
17-Dec-13	AAA	A-1+	Stable	Reaffirmed
29-Aug-13	AAA	A-1+	Stable	Reaffirmed
12-July-12	AAA	A-1+	Stable	Reaffirmed
5-Apr-12	AAA	A-1+	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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