RATING REPORT

Zarai Taraqiati Bank Limited

REPORT DATE:
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RATING ANALYSTS:
Maimoon Rasheed
maimoon@jcrvis.com.pk

Maham Qasim
Maham.qasim@jcrvis.com.pk

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 28,'18*		*Jun 20,'17*	

COMPANY INFORMATION

Incorporated in 2002	**External auditors:** Horwath Hussain Chaudhary & Co & BDO Ebrahim & Co, Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Syed Yawar Ali (till July'17)
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Syed Talat Mehmood
State Bank of Pakistan : 76.23% Government of Pakistan : 23.75% Other Provinces : 0.02%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities (June 2016);
http://jcrvis.com.pk/docs/Meth-GSEs201606.pdf

Zarai Taraqiati Bank Limited

OVERVIEW OF THE INSTITUTION

ZTBL, formerly Agricultural Development Bank of Pakistan (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.

Profile of CEO

ZTBL's management team has been spearheaded by Syed Talat Mehmood since April, 2014. Mr. Mehmood carries more than three decades of domestic and international banking experience.

Financial Snapshot

Total equity: FY17: Rs.76.1b, FY16: Rs.82.4b

Net profit / (Loss): FY17– (Rs.6.4b); FY16: Rs. 3.3b

RATING RATIONALE

The ratings assigned to Zarai Taraqiati Bank Limited (ZTBL) take into account the implicit support of Government of Pakistan (GoP) being the sole shareholder of the bank. The ratings also derive strength from the prominent role of ZTBL in the overall economic dynamics of the country since the bank remains the principal agriculture sector development financial institution which is used as a financing arm by the GoP. However, the financial risk profile of the bank has been adversely impacted during FY17 owing to a large one time provision against staff retirement benefits amounting Rs. 10.6b, leading to some erosion in equity. The bank's profitability has also been affected by increasing provision requirement primary due to lower category of classification of non-performing loans in FY17 and 1QFY18. Pressure on spreads has also been witnessed on a timeline basis. Given the government's support to the agriculture sector, the bank remains exposed to downward pressure on mark-up rates on loans.

Advances: The gross advances portfolio exhibited steady increase owing to favorable environment in the agro based economy since the sector posted highest growth rate of 3.8% in over a decade as per economic survey of Pakistan FY17/18. Subsequently, commercial banks improved their penetration in the sector as a result of which ZTBL's share in agriculture lending slightly declined during the outgoing year. The bank remained short of agri disbursement target allocated by State Bank of Pakistan; however, it still remains the primary player in agriculture lending with highest disbursement amounting to Rs. 97b. Kisan Dost Scheme (KDS) 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. Province-wise concentration of advances remained sizeable, which is in line with the Punjab's population and highest agricultural related activity nationwide. Asset quality indicators exhibited nominal deterioration during FY17 with gross infection increasing during the outgoing year; however the same was somewhat curtailed by end-1QFY18. Net infection also trended downwards during the ongoing year as a result of higher provisioning coverage owing to progression of non-performing loans to subsequent loss category. Going forward, the management projects downward trend in infection ratios by adopting corrective recovery mechanism; encouraging clients to clear their dues; failure to do so will lead to auction of their properties secured as collateral with the bank.

Investments: Given ZTBL's investment portfolio is largely concentrated in government securities; overall credit risk originating from the same is considered minimal. Exposure in PIBs declined; given size of investment in PIBs in relation to total assets, interest rate risk is considered manageable. The equity portfolio comprises investment in a blue chip stock which carries sizeable unrealized surplus; the bank also receives regular dividend from the said company. Going forward, the management plans to maintain the current investment mix with majority investment in risk-free government securities with no additional investment to be made in the stock market.

Liquidity: Liquidity profile remains underpinned with sizeable investment in government securities carried on balance sheet. Moreover, deposit base posted growth of around 18% during the outgoing year. In addition, the deposit concentration in terms of top 10 depositors, corporate deposit base and geographical breakdown remains on a higher side. Until the required granularity in deposits is achieved, the institution requires maintaining a sizeable liquidity cushion.

Profitability & Capitalization: Before tax profit decreased in the outgoing year mainly on account of lower spreads and higher administrative expenses. Spreads declined on account of shift in investment mix entailing low yielding securities and high cost of funds, while annual increments including provision against staff related benefits, and expansion in branch network mainly translated into higher administrative expenses. Markup expense increased on account of higher interest pertaining to preference shares and high expense related to fixed and saving deposits. The bank also reported higher provision charge against non-performing loans during FY17. The non-markup also remained muted in line with lower gain on sale of instruments during FY17. Moreover, a hefty expense amounting Rs. 10.6b related to extraordinary / unusual item was incurred during the outgoing year. Therefore, as a function of the said expense coupled with higher provision charge and depressed spreads, the bank posted a significant loss of Rs. 6.4b during FY17. During 1QFY18, provision against non performing advances increased to Rs. 3.5b on account of progression of NPLs to lower category of classification. The administrative expenses stood higher at Rs. 3.0b on account of higher rate on defined employee pension plan. Accounting for taxation, the bank reported a loss of Rs. 1.4b during 1QFY18. Resultantly, the bank's core capital plummeted; however, CAR remained well above regulatory requirement exhibiting sufficient loss absorption capacity of the institution. The management has devised a 3-year disposal plan whereby a portion of properties will be sold every year to compensate against increasing infection levels; contributing positively to the bottom line with reversal in provisioning. During FY18, the management has projected to auction around 100 properties.

Board, Management & IT Infrastructure: ZTBL's BoD has not been functional since August 17 however now the Government of Pakistan has nominated Board of Directors of the Bank vide notification dated June 6, 2018; FPT Clearance of the same is under process through State Bank of Pakistan. On account of this, no Board or Board Committee meetings were convened after August'17. Barring Chief Operating Officer, the senior management depicted stability; timely appointment of COO is considered critical for effective implementation of the business strategy. ZTBL is in the process of acquisition of Core Banking Software with the help of a consultant.

FINANCIAL SUMMARY *(amounts in PKR billions)*				Appendix-I
BALANCE SHEET	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Total Investments	19.8	37.1	70.2	59.6
Advances	129.6	135.8	140.9	139.9
Balances with other Banks	16.4	20.1	18.2	7.2
Cash and bank balances	2.5	3.5	4.9	2.6
Operating Fixed Assets	2.1	2.1	2.2	2.2
Other Assets	17.2	17.0	19.9	22.4
Total Assets	187.6	215.6	256.3	233.9
Borrowings	57.1	55.9	86.8	73.6
Deposits & other accounts	35.9	59.9	70.5	62.0
Other Liabilities	12.2	14.2	22.9	23.3
Subordinated Loans	3.2	3.2	-	-
Tier-1 Equity	76.9	80	72.9	71.6
Net Worth	79.2	82.4	76.1	75.0
INCOME STATEMENT	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Net Mark-up Income	12.2	14.2	14.0	3.4
Net Provisioning/ (reversal)	-0.4	2	2.9	3.5
Non-Markup Income	5.6	4.4	4.3	1.1
Operating Expenses	9.9	10.1	11.0	3.0
Profit Before Tax	8.4	6.5	-6.1	-2.0
Profit After Tax	5.3	3.3	-6.4	-1.4
RATIO ANALYSIS	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Gross Infection (%)	12.2%	15.8%	16.6%	15.5%
Provisioning Coverage (%)	12.7%	11.2%	14.6%	25.1%
Net Infection (%)	10.9%	14.3%	14.5%	12.1%
Cost of deposits (%)	3.1%	4.5%	5.3%	-
Net NPLs to Tier-1 Capital (%)	18.7%	24.8%	28.7%	24.1%
Capital Adequacy Ratio (C.A.R (%))	49.7%	46.7%	39.9%	-
Markup Spreads (%)	6.5%	7.2%	5.9%	-
Efficiency (%)	79.5%	68.2%	77.3%	87.6%
Basic ROAA (%)	5.2%	4.1%	6.0%	0.2%
ROAA (%)	3.0%	1.6%	-2.7%	-0.6%
Liquid Assets to Deposit & Borrowings (%)	36.3%	48.9%	50.9%	43.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 III

Name of Rated Entity	Zarai Taraqiati Bank Limited (ZTBL)
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				
28-June-18	AAA	A-1+	Stable	Reaffirmed
20-June-17	AAA	A-1+	Stable	Reaffirmed
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				
28-June-18	AAA	A-1+	Stable	Reaffirmed
20-June-17	AAA	A-1+	Stable	Reaffirmed
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.
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