

Zarai Taraqiati Bank Limited

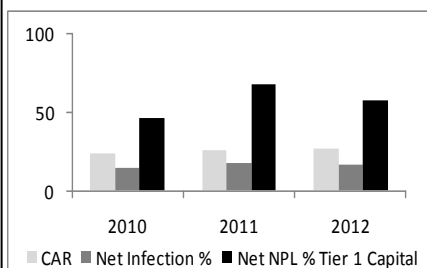
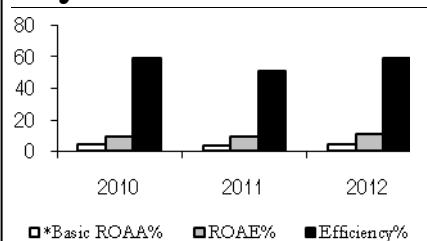
Chairman: Mr. Sultan Ali Chaudhry; President/CEO: Mr. Ihsan-ul-Haq Khan

May 30, 2013

Analysts: Sobia Maqbool, CFA
Maimoon Rasheed

Category	Latest	Previous
GoP Guar. Obligations	AAA/A-1+ <i>Apr 29, '13</i>	AAA/A-1+ <i>June 30, '12</i>
Outlook	Stable	Stable

Key Financial Trends



	2010	2011	2012
Net Advances (Rs. in b)	84.8	84.7	88.1
Deposits (Rs. in b)	9.6	9.0	11.1
Cost of Funds (%)	6	6	5.8
Profit / (Loss) (Rs. in b)	1.9	2.1	2.6
Equity (Rs. in b)	20.9	23	25.6
CAR (%)	23.8	25.7	27.3
Liquid Assets % Deposits & Borrowings	21.6	27.5	29.7
Net Infection (%)	14.8	17.8	16.2

Rating Rationale

The AAA/A-1+ (Triple A/A-One Plus) ratings assigned to Government Guaranteed Obligations of Zarai Taraqiati Bank Limited (ZTBL) take into account the Federal Government guarantee on credit lines obtained from the State Bank of Pakistan (SBP) that form the pre-dominant source of the bank's funding. Safety of deposits mobilized by ZTBL is also guaranteed under the Banks' (Nationalization) Act, 1974.

At end-Dec'12, balance sheet footing of the bank was higher at Rs. 131.9b. Net advances increased to Rs. 88.1b (FY11: Rs. 84.7b) though its proportion in total assets declined to 66.8% (Dec'11: 69.2) by end Dec'12. While various new loan products have been launched by the bank in FY12, Sada Bahar Scheme has remained the flagship product of the bank, though its proportion has been declining in the total portfolio. Awami Zarai Scheme, which relates to crop production loan, has witnessed an increase over time. The management intends to increase the proportion of this scheme in overall loan portfolio.

As part of its restructuring, the bank had initially submitted a proposal to SBP for restructuring of the outstanding credit lines and subordinate debt to the tune of Rs. 54.5b; terms of the same could not be finalized. The management has been in continuous negotiations with SBP in this regard. The management plans to submit a plan whereby remission in net debt is proposed after adjustment of ZTBL's claim on account of markup differential due to previous cap on lending rate. The terms of restructuring, if finalized, could have significant implications for the risk profile of the institution. Meanwhile, the bank managed to increase its deposit base in FY12 though its proportion in overall funding base remained moderate. This along with equity expansion through profit retention provided additional liquidity mainly manifested in government securities and, to some extent, in TFCs having good credit quality. Liquid assets as a proportion of borrowing and deposits improved on a timeline basis, though still remaining on the lower side. In view of disagreement on mark-up rate on SBP's credit lines, the total liability of the bank could be different from that recorded on books.

Asset quality indicators of the bank have improved on a timeline basis owing to decline in non-performing loans coupled with moderate growth in the lending portfolio. Gross infection declined to 19.9% (Dec'11: 21.7%) at end-Dec'12. With expansion in equity base to Rs. 25.6b (Dec'11: Rs. 23b), net NPLs to tier-1 capital declined to 57.6% (Dec'11: 68.1%), which is still considered to be on the higher side.

Effective Jan'12, the bank enhanced mark-up rates (with 1% rebate on timely repayment) on both production and development loans from 9% to 11.5% and 13.3%, respectively. Resultantly, return on mark-up bearing assets increased to 11.6% (FY11: 10.2%) in FY12. These rates are applicable on new loans while the existing loans continue to be priced at the previous mark-up rate of 9% till maturity. As previous loans mature, further positive impact in terms of improved spreads is likely to be observed in the on-going year and beyond. Profitability of the bank improved in FY12 to Rs 2.6b (FY11: Rs. 2.1b) primarily on account of higher interest income earned coupled with increase in recoveries against charged off loans.

The board of the bank consists of 11 directors including the Chairman and the President. During FY12, Mr. Ihsan-ul-Haq Khan took charge as President/CEO of the bank replacing Ms. Roohi Raees Khan, who was an acting President. Mr. Ihsan-ul-Haq Khan is a banker by profession having experience as President/CEO of another public sector financial institution.

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. ^[JCR-VIS]