

RATING REPORT

Zarai Taraqiati Bank Limited

REPORT DATE:

June 22, 2015

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	
Date	Jun 18, '15		Aug 8, '14	
Government Debt Obligations	AAA	A-1+	AAA	A-1+
Outlook	Stable		Stable	
Date	Jun 18, '15		Dec 17, '13	

COMPANY INFORMATION

Incorporated in 1961

External auditors: **M/s Riaz Ahmad & Co. and M/s Ilyas Saeed & Co**

Public Limited Banking Company

Chairman of the Board: **Mr. Syed Yawar Ali**

Key Shareholders (with stake 5% or more):

Chief Executive Officer: **Mr. Syed Talat Mehmood**

Government of Pakistan : 99.9%

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

RATING RATIONALE

The 'AAA/A-1+' ratings assigned to Zarai Taraqiati Bank Limited (ZTBL) take into account the implicit support of Government of Pakistan (GoP) being the primary shareholder of the bank, directly and through State Bank of Pakistan (SBP). Following the conversion of SBP debt and accrued markup into equity, there is a notable improvement in the standalone risk profile of the institution. Liquidity profile of the institution has also strengthened as demand on liquidity has reduced considerably. Ratings also draw strength from the importance of ZTBL in the overall ecosystem of the country as the bank remains the premier agriculture sector development financial institution which is used as a financing arm by the GoP.

Agriculture sector posted growth of 2.1% during FY14 as compared to 2.9% in the preceding year. Timely availability of agricultural credit continues to remain an important factor underpinning growth in the sector. As per estimates, only 35-40% of credit requirement of agriculture sector is being met by the formal banking system reflecting ample room for enhancement of agriculture financing portfolio.

In contrast to prior years, share of ZTBL in the overall agriculture financing activity of the country has trended upwards during FY14. Gross advances exhibited 13% growth during FY14 while disbursements during the year were significantly higher than the assigned target. In terms of product mix, Awami Zarai Scheme (AZS) and Sada Bahar Scheme (SBS) continue to be the flagship products of the bank. In an effort to reduce product concentration risk, management has launched various new schemes catering to both agri and non-agri requirements. Maximum loan amount for any product was revised to Rs. 1.5m from Rs. 1.0m while loan ceilings for all major crops are updated on a periodic basis. Quality of financing portfolio has room for improvement.

In recent years, the bank has increased its focus on deposit mobilization activities. The safety of deposits mobilized by the bank is explicitly guaranteed under the Bank's (Nationalization) Act, 1974. The management's focus had been on large institutional deposits, which poses risk of withdrawal, as was witnessed recently. Deposit base after increasing to Rs. 26.7b (FY13: Rs. 14.9b) by end-FY14 reduced to Rs. 14.8b at end-1QFY15 on account of a single deposit withdrawal. Broad based growth in deposits is warranted to avoid any stress on the liquidity profile of the institution.

Overall liquidity profile of the institution is currently considered strong as financing activities of the bank are now predominantly funded by equity as against borrowings in the past, with equity representing 76% of assets (FY13: 22%).

Growth in lending portfolio, increase in pricing of loans products and decline in interest expense on account of conversion of SBP borrowings into equity positively reflected on the earnings profile of the bank with core earnings increasing to Rs. 5.4b (FY13: Rs. 1.4b). Declining interest rate scenario is expected to strengthen ZTBL's spreads as pricing on deposits is market based while loan pricing is fixed. Positive momentum in profitability is expected to continue on account of a growing advances portfolio and reduced interest expense. Sizeable amount of un-provided NPLs may create a drag on institution's profitability, if they remain unrecovered.

Appendix II

FINANCIAL SUMMARY

(amounts in PKR billions)

<u>BALANCE SHEET</u>	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Total Investments	29.3	23.6	17.9
Advances	108.6	95.3	88.1
Total Assets	163.6	148.4	131.6
Borrowings	0.97	55.2	51.3
Deposits & other accounts	26.7	14.9	11.1
Subordinated Loans	-	3.2	3.2
Tier-1 Equity	121.2	29.6	27.6
Net Worth	124.6	32.5	29.4
<u>INCOME STATEMENT</u>	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Net Mark-up Income	13.1	9.1	7.6
Net Provisioning	1.5	1.1	1.1
Non-Markup Income	4.5	4.9	4.4
Operating Expenses	7.8	7.7	7.1
Profit Before Tax	8.3	5.2	3.9
Profit After Tax	5.4	3.4	2.6
<u>RATIO ANALYSIS</u>	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Gross Infection (%)	16.2	17.4	19.9
Provisioning Coverage (%)	21	22	22
Net Infection (%)	13.2	14.1	16.2
Cost of deposits (%)	3.5	2.1	1.9
Net NPLs to Tier-1 Capital (%)	12	47	53
Capital Adequacy Ratio (C.A.R (%))	25.6	29.6	27.3
Markup Spreads (%)	7.4	6.4	5.8
Efficiency (%)	59	85	93
Basic ROAA (%)	3.5	1.0	0.4
ROAA (%)	3.5	2.4	2.0
ROAE (%)	6.9	10.9	9.2
Liquid Assets to Total Liabilities (%)	144	33	32

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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 IV				
Name of Rated Entity	Zarai Taraqati 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	
	<u>RATING TYPE: ENTITY</u>					
	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	
	<u>RATING TYPE: GOVERNMENT GUARANTEED OBLIGATIONS</u>					
	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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