

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

## RATING REPORT

### ZaraiTaraqati Bank Limited

**REPORT DATE:**

20 June, 2017

**RATING ANALYSTS:**

Maimoon Rasheed  
[maimoon@jcrvis.com.pk](mailto:maimoon@jcrvis.com.pk)

M. Daniyal

[daniyal.kamran@jcrvis.com.pk](mailto:daniyal.kamran@jcrvis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	AAA	A-1+	AAA	A-1+
<b>Outlook</b>	Stable		Stable	
<b>Government Debt Obligations</b>	AAA	A-1+	AAA	A-1+
<b>Outlook</b>	Stable		Stable	
<b>Date</b>	Jun20,'17		Jun 16,'16	

#### COMPANY INFORMATION

<b>Incorporated in 2002</b>	<b>External auditors:</b> Horwath Hussain Chaudhary & Co & BDO Ebrahim & Co, Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Syed Yawar Ali
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Syed Talat Mehmood
Government of Pakistan : 100%	

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities (June, 2016):

<http://jcrvis.com.pk/kc-meth.aspx>

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

## ZaraiTaraqiati Bank Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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.</p>	<p>The ratings assigned to ZTBL take into account the implicit support of its sovereign sponsor; Government of Pakistan (GoP), the primary shareholder of the bank. The ratings also recognize 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. As mutually agreed between the bank and State Bank of Pakistan (SBP), SBP debt-principal and subordinated loan amounting Rs. 54.5b have been recently 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. As per SBP directive, these preference shares have to be classified and treated as borrowings by ZTBL. Meanwhile, markup on SBP debt accrued upto Dec 31, 2015, amounting Rs. 40.2b, has been converted into ordinary common shares.</p>
<p><b>Profile of CEO</b></p> <p>ZTBL's management team has been spearheaded by Syed TalatMehmood since April, 2014. Mr. Mehmood carries more than three decades of domestic and international banking experience.</p>	<p><b>Advances:</b> Gross loan portfolio of the bank increased to Rs. 141.3b (FY15: Rs. 134.7b) by end-FY16 and further to Rs. 143.2b by end-1QFY17. AwamiZarai Scheme and SadaBahar Scheme continue to be the flagship products of the bank. Asset quality indicators deteriorated on a timeline basis with gross infection increasing to 15.8% (FY15: 12.3%) on account of increase in NPLs at end-FY16. Net infection also trended upwards increasing to 14.3% (FY15: 10.9%) at end-FY16. With net recoveries during 1QFY17, asset quality indicators improved to a certain extent.</p> <p><b>Investments:</b> The bank's investment portfolio is primarily concentrated in government securities; overall credit risk profile of the portfolio is considered minimal. Exposure in PIBs declined; given size of investment in PIBs in relation to total assets, interest rate risk is considered manageable. Around 10% of the portfolio comprises investment in a blue chip stock which carries sizeable unrealized surplus; the bank also receives regular dividend from this avenue.</p> <p><b>Liquidity:</b> Liquidity profile mainly emanates from the sizeable investment in government securities carried on balance sheet. Total deposit base of the bank increased by around 67% and amounted to Rs. 59.9b (FY15: Rs. 35.9b) by end-FY16. The growth was manifested in term deposits; proportion of which increased to 64.4% (FY15: 39.2%) of the total deposit base. Deposit trends have yet to achieve maturity reflected by its high concentration levels. In view of this, the institution may need to maintain a sizeable liquidity cushion. By end-1QFY17, liquid assets as percentage of deposits and borrowings stood at 48.5% (FY16: 48.9%; FY15: 36.3%).</p>
<p><b>Financial Snapshot</b></p> <p>Net equity: FY16 – Rs.82.4b, FY15- Rs.79.2b</p> <p>Net profit: FY16 – Rs. 3.3b; FY15: Rs. 5.3b</p>	<p><b>Profitability:</b> While revenue from lending portfolio posted reasonable growth on the back of higher advances portfolio, core earning of the bank declined on account of higher provision expense during FY16. Spreads of the bank stood higher at 7.3% (FY15: 6.5%) on the back of lower cost of funds. Cost of funds declined mainly due to the absence of one-off markup expense that was recognized in FY15. Going forward, markup expense would primarily include interest pertaining to preference shares, in addition to deposit cost. With downward revision in mark-up rates at end-June'16, yield on mark-up bearing assets is likely to decline, leading to pressure on spreads, going forward.</p>
	<p><b>Capitalization:</b> Subsequent to conversion of share deposit money into paid-up capital, share capital of the bank increased to Rs. 52.7b (FY16: 12.5b) while total equity of the bank amounted to at Rs. 82.7b (FY16: 82.4b; FY15: Rs. 79.2b) by end-1QFY17. Net NPLs as a percentage of tier-1 equity stood at 18.9% (FY16: 24.8%; FY15: 18.7%). Capital Adequacy Ratio (CAR) was maintained at 46.1% (FY16: 46.7%; FY15: 49.7) at end-1QFY17.</p>
	<p><b>Board, Management &amp; IT Infrastructure:</b> The bank benefits from the diverse experience of its Board members. Overall, the senior management team has largely remained stable. With the implementation of CBAS and Oracle – ERP system, overall IT infrastructure of the institution is expected to be strengthened. ZTBL has recently taken decision to acquire state-of-the-art core banking system (CBS) with the help of a consultant.</p>

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

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR billions)</i>		<b>Annexure I</b>		
<b><u>BALANCE SHEET</u></b>		<b>MAR 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Total Investments		43.4	37.1	19.8
Advances		136.2	135.8	129.6
Total Assets		220.4	215.6	187.6
Borrowings		56.5	55.9	57.1
Deposits & other accounts		64.9	59.9	35.9
Subordinated Loans		Nil	3.2	3.2
Tier-1 Equity		80.1	80.0	76.9
Net Worth		82.7	82.4	79.2
<b><u>INCOME STATEMENT</u></b>		<b>MAR 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Net Mark-up Income		3.9	14.2	12.2
Net Provisioning/ (reversal)		2.4	2.0	(0.4)
Non-Markup Income		0.9	4.4	5.6
Operating Expenses		2.4	10.1	9.9
Profit Before Tax		(0.09)	6.5	8.4
Profit After Tax		0.1	3.3	5.3
<b><u>RATIO ANALYSIS</u></b>		<b>MAR 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Gross Infection (%)		13.3%	15.8%	12.2%
Provisioning Coverage (%)		21.1%	11.2%	12.7%
Net Infection (%)		10.8%	14.3%	10.9%
Cost of deposits (%)		-	4.5%	3.1%
Net NPLs to Tier-1 Capital (%)		18.8%	24.8%	18.7%
Capital Adequacy Ratio (C.A.R (%))		46.1%	46.7%	49.7%
Markup Spreads (%)		-	7.3%	6.5%
Efficiency (%)		61.5%	68.2%	79.5%
Basic ROAA (%)		4.3%	4.1%	5.2%
ROAA (%)		0.2%	1.6%	3.0%
Liquid Assets to Deposit & Borrowings (%)		48.5%	48.9%	36.3%

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

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Annexure 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](http://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](http://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](http://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.

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

REGULATORY DISCLOSURES		Annexure III			
<b>Name of Rated Entity</b>	Zarai Taraqati Bank Limited				
<b>Sector</b>	Specialized Bank				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	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
	<b><u>RATING TYPE: GOVERNMENT GUARANTEED OBLIGATIONS</u></b>				
	20-June-17	AAA	A-1+	Stable	Reaffirmed
	16-June-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
	<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				