

Press Release

JCR-VIS Reaffirms Entity Ratings of Zarai Taraqiati Bank Limited

Karachi, June 18, 2015: JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed the entity ratings of Zarai Taraqiati Bank Limited (ZTBL) at 'AAA/A-1+' (Triple A/A-One Plus). JCR-VIS has also reaffirmed ratings of 'AAA/A-1+' (Triple A/A-One Plus) assigned to Government Guaranteed Obligations of ZTBL. Outlook on the ratings is 'Stable'. The previous rating action on the entity ratings was announced on Aug 8, 2014.

Ratings assigned to 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, share issuance process for which is underway, there is a notable improvement in the standalone risk profile of the institution. 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.

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 has been on large institutional deposits, which poses risk of withdrawal, as was witnessed recently. Broad based growth in deposits is warranted to avoid any stress on the liquidity profile of the institution. Nonetheless, 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 and demand on liquidity has largely been eliminated with the conversion of SBP debt and accrued markup into equity.

Agriculture sector posted growth of 2.1% during FY14 as compared to 2.9% in the preceding year. Timely availability of agriculture credit continues to remain an important factor underpinning growth in the sector. 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; disbursements during the year were significantly higher than the assigned target. Quality of financing portfolio has room for improvement.

Growth in lending portfolio, increase in pricing of loan products and decline in interest expense on account of conversion of SBP borrowings into equity positively reflected on the earnings profile of the bank. Positive momentum in profitability may continue on the back of growing advances portfolio and reduced liabilities. However, sizeable amount of un-provided NPLs may create a drag on institution's profitability, if they remain unrecovered.

For further information on this rating announcement, please contact the undersigned (Ext: 508) or Ms. Sobia Maqbool, CFA (Ext: 506) at 021-35311861-70 or fax to 021-35311873.

Mohammed Khalid Ali
Advisor

JCR-VIS Entity Rating Criteria: Government Supported Entities (July 2002): <http://jcrvis.com.pk/images/gse.pdf>

Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS Credit Rating Company Limited (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, 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 in this report. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. JCR-VIS is paid a fee for most rating assignments. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.