

RATING REPORT

Zarai Taraqati Bank Limited

REPORT DATE:

June 27, 2024

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/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	June 27, '24		Jun 22, '23	

COMPANY INFORMATION

Incorporated in 2002	External Auditors: BDO Ebrahim & Co Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Naeemuddin Khan
Key Shareholders (with stake 5% or more)	Chief Executive Officer: Mr. Tahir Yaqoob Bhatti
State Bank of Pakistan: 76.23%	
Government of Pakistan: 23.75%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Government Supported Entities

<https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf>

Rating Scales & Definitions:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Zarai Taraqati 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 Chairman

Mr. Naeemuddin Khan has an extensive international banking experience in different areas. He previously held the positions of President/CEO of the Bank of Punjab, Managing Director/CEO of Pak Libya Holding Company, Member Banking of Corporate and Industrial Restructuring Corporation (Finance Division, GoP), SEVP of United Bank Limited and also served in Emirates International Bank and ANZ Grindlays Bank PLC. He holds graduate degree.

Profile of CEO

Mr. Tabir Yaqoob Bhatti is a seasoned banking professional with diverse experience. He previously held the positions of President/CEO of Punjab Provincial Cooperative Bank Limited, SEVP/Group Head of Faysal Bank Limited, SEVP/Business Head of JS Bank Limited, Group Chief/Group Head of Allied Bank Limited, Executive Vice President of Askari Bank Limited, and Country Head S.A.M of Askari Bank Limited. He also served in National Bank of Pakistan. Currently he serves as Chairman Board, Kissan Support Services (Private) Limited (a wholly owned subsidiary of ZTBL) and Member Board, PASSCO. He holds an MBA and M.Com. Degrees. He is also qualified DCMA and DAIBP. He completed "High Impact Leadership Program" from Columbia Business School, New York, USA.

RATING RATIONALE

Zarai Taraqati Bank Limited ('ZTBL' or 'the Bank') was incorporated as a Public Limited Company under the now repealed Companies Ordinance 1984, (replaced by Companies Act, 2017) on October 23, 2002, as required under section 3 of the Agriculture Development Bank of Pakistan (ADBP) Ordinance, 2002. Consequently, all the assets, contracts, liabilities, proceedings, and undertaking of ADBP were transferred to, and vested in ZTBL on December 14, 2002. The main purpose of the Bank is to provide sustainable rural finance and services particularly to small farmers and low-income households to strengthen the rural and agriculture sector, mitigate poverty, capital market & investment activities and other banking businesses.

Key Rating Drivers:

Ratings draw comfort from the sponsor profile of ZTBL. ZTBL is owned by the Government of Pakistan (GoP) directly, as well as indirectly through State Bank of Pakistan (SBP). The sovereign ownership of ZTBL, along with historically demonstrated track record of financial support to the Bank, translates in strong sponsor support, which has been factored into the assigned rating.

The ratings incorporate the fundamental role of ZTBL in the overall ecosystem of the country since the Bank remains the principal financial institution used as an agricultural financing arm by the GoP. The Bank operates through 501 (CY22: 501) branches, of which the number of Islamic branches stood at 25 (CY22: 5).

In 2023, ZTBL saw an increase in gross advances, compared to a decline in the previous year. During the outgoing year, loans disbursed increased to Rs. 91.0b, up from Rs. 69.6b in 2022. Development loans constituted 52.6% (CY22: 47.4%) of disbursements. The Bank overall recovery ratio decreased to 78% (CY22: 82%), while targeting 80% for 2024. Non-performing loans (NPLs) rose by 2.5% in CY23, despite recoveries from previously classified and charged-off portfolio. Provisioning coverage decreased, primarily due to decrease in specific provisions, with a sizeable portion classified in OAEM category. Asset quality remains under stress, with a high gross infection ratio, albeit having dipped last year, and increasing net infection ratios in 2023.

Adjusting for investments held as lien against borrowings, ZTBL holds comfortable and rising cash balances, placements and investments, which support the liquidity profile of the entity. More than 100% coverage is held against non-bank, unsecured obligations, reflected also in an LCR of 825% and an NSFR of 121%.

A significant part of the investment portfolio is allocated to government securities. Given that majority of Pakistan Investment Bonds (PIBs) are floating rate, investment portfolio is less vulnerable to market risk. The borrowings from SBP comprise Rs. 54.5b in the form of redeemable preference shares, which are due on March 7, 2027. The principal and return on these shares are guaranteed by the Federal Government of Pakistan.

ZTBL witnessed a turnaround in profitability in 2023, largely attributed to higher net interest income from the treasury segment, along with other major contributor being recoveries of charged off portfolio. The Bank reported growth of more than 2 times in its profit after tax in CY23 compared to last year. Operating expenses also increased in CY23, largely consistent with inflation. Given the excess of recurring income over recurring expenses, the Bank's efficiency ratio improved in CY23 over prior year. After sizeable net provisioning reversals, profit before tax was reported at Rs. 17.6b, marking a significant increase from Rs. 7.5b in the previous year.

A significant increase in common equity tier-1 capital, primarily due to higher retained profits, was noted. Additionally, tier-2 capital grew, driven by higher eligible general provisions. The increase in Risk-Weighted Assets (RWAs) was balanced by a proportionately greater increase in total capital, resulting in a higher Capital Adequacy Ratio (CAR). The Bank's reported CAR remains well above regulatory requirements, although not yet adjusted for any impact from IFRS 9 implementation; CAR may be lower upon complete implementation of the standard. Moreover, regulatory risk is evident unless formal exemption from application of IFRS-9 is obtained from regulatory authorities.

Zarai Taraqati Bank Limited

Annexure I

FINANCIAL SUMMARY (Rs. in billions)			
BALANCE SHEET	Dec'21	Dec'22	Dec'23
Cash and Bank Balances with SBP and NBP	5.0	2.6	3.7
Balances with other Banks and/NBFIs/MFBs	26.8	12.6	31.9
Net Investments	82.4	306.8	372.2
Net Advances	91.8	90.5	105.5
Other Assets	16.1	21.5	27.1
Total Assets	254.8	491.1	562.4
Total Deposits	43.6	47.3	57.2
Borrowings	132.4	354.9	399.9
Other Liabilities	24.5	28.6	28.6
Paid Up Capital	52.7	52.7	52.7
Tier-1 Equity	45.0	49.6	66.8
Net Shareholding Equity (Excl. revaluation)	52.9	58.8	72.5
Total Equity	53.9	59.7	74.2
INCOME STATEMENT	CY21	CY22	CY23
Net Mark-up Income	12.2	14.5	24.3
Net Provisioning/ (reversal)	0.8	(3.7)	(5.5)
Non-Markup Income	1.3	1.4	2.4
Operating Expenses	10.9	12.2	14.6
Profit/(Loss) Before Tax	1.8	7.5	17.6
Profit/(Loss) After Tax	-1.7	5.1	11.0
RATIO ANALYSIS	CY21	CY22	CY23
Gross Infection (%)	35.4%	31.3%	28.8%
Provisioning Coverage (%) - Specific	50.1%	42.0%	33.2%
Provisioning Coverage (%) - Total	57.4%	50.9%	41.9%
Net Infection (%)	21.5%	20.9%	21.3%
Net NPLs to Tier-1 Capital (%)	38.5%	33.3%	31.9%
Capital Adequacy Ratio (%)	32.4%	33.7%	37.7%
Markup on earning assets (%)	13.2%	17.2%	23.4%
Cost of Funds (%)	7.1%	11.5%	20.6%
Markup Spreads (%)	6.1%	5.7%	2.9%
LCR (%)	728.0%	728.0%	825.0%
NSFR (%)	127.0%	129.0%	121.0%
Efficiency (%)	81.2%	77.0%	56.5%
ROAA (%)	-0.7%	1.4%	2.1%
ROAE (%)	-3.2%	9.2%	16.7%
Advances to Deposit Ratio	264.4%	227.4%	209.9%
Liquid Assets to deposits & borrowings* (%)	54.1%	62.2%	62.1%

*Adjusted for Collateral

REGULATORY DISCLOSURES		Annexure II			
Name of Rated Entity	Zarai Taraqiati Bank Limited (ZTBL)				
Sector	Specialized Bank				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
	RATING TYPE: ENTITY				
	27-June-24	AAA	A-1+	Stable	Reaffirmed
	22-June-23	AAA	A-1+	Stable	Reaffirmed
	06-June-22	AAA	A-1+	Stable	Maintained
	30-June-21	AAA	A-1+	Rating Watch-Developing	Maintained
	30-June-20	AAA	A-1+	Stable	Reaffirmed
	26-June-19	AAA	A-1+	Stable	Reaffirmed
	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-June-15	AAA	A-1+	Stable	Reaffirmed
08-August-14	AAA	A-1+	Stable	Upgrade	
Instrument Structure	N/A				
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted	Name	Designation		Date	
	Muhammad Arif	SEVP/CFO		30-May-2024	
	Zahid Hussain	SEVP/Group-Head (Business)			
	Asad Ullah Habib	SEVP/Group Head (Operation)			
	Zeeshan Mazhar	CIO-A/CDO (Chief Digital Officer)			
	Muhammad Omer	Group Head-SAM			
	Shah Miftah-ul-Azim	Head-Treasury			
	Abdul Jabbar Karimi	Head-Islamic Banking			
	Salman Arshad	EVP/Divisional Head – NPL & SAM Division			
	Arshad Hassan Awan	EVP/Head Credit Division			