

Press Release

VIS Reaffirms Entity Ratings of Zarai Taraqiati Bank Limited

Karachi, June 22, 2023: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Zarai Taraqiati Bank Limited (ZTBL) at 'AAA/A-1+' (Triple A/A-One Plus). The medium to long-term rating of 'AAA' denotes highest credit quality; the risk factors are negligible, being only slightly more than for risk-free debt of Government of Pakistan's (GoP) debt. The short-term rating of 'A-1+' denotes 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. Outlook on the assigned rating is 'Stable'. The previous rating action was announced on June 30, 2022.

The ratings assigned to ZTBL take into account the implicit support of GoP being the sole shareholder of the bank. The ratings incorporate the fundamental role of ZTBL in the overall ecosystem of the country since the bank remains the principal development financial institution used as an agricultural financing arm by the GoP. The Bank operates through 501 branches, which are governed by 31 zonal offices. Out of total branch network, number of Islamic branches stood at 15 (2021: 5) as of June 20, 2023. After the Federal Government's directives last year to end the Riba-based banking and financial system within the next five year, ZTBL has embarked upon converting into an Islamic Bank. The management contemplates to convert 20 branches into full-fledged Islamic branches by the end of this year as per timeline provided by SBP and at least 50 branches would be converted by end of the following year.

The gross loan portfolio has been depleting on a timeline basis on account of subdued disbursements amid portfolio consolidation. During 2022, there was a turnaround in the Bank's net profitability after being in loss for the last consecutive five years, on the back of considerably higher risk adjusted returns from treasury operations and sizable net reversals in provisioning. This has been made possible through notable improvements in corporate governance framework and strengthened internal controls via digitization and centralization of various processes in the past few years. Infection ratios have exhibited improvement on a timeline basis due to reduction in non-performing loans (NPLs) on the back of recoveries and lower incidence of fresh infection. However, the Bank's asset quality, in terms of net NPLs to Tier-1 equity, remained compromised with limited loss absorption capacity.

Liquidity has remained adequate with sizable investments in government securities. The Bank's net investments portfolio exhibited multi-fold growth as a result of participation in open market operations (OMO) conducted by SBP. The growth is largely manifested in T-bills, which constituted more than four-fifth of the total investment mix as of Mar'23. In addition, considerable portion of the PIBs portfolio is floating rate while overall duration of the PIBs portfolio remained manageable. Therefore, credit and market risk arising from investment portfolio is considered low. Capital Adequacy Ratio has remained sound and well above regulatory requirement. The management projects further growth in earning profile in full year on the back of improvement in asset quality along with higher profitability from treasury operations. Going forward, meeting recovery targets, improving asset quality indicators, strengthening deposit base while maintaining liquidity and capitalization at an adequate level will remain key rating sensitivities for the standalone strength and risk profile of the Bank.

For further information on this rating announcement, please contact Ms. Tayyaba Ijaz, CFA at 042-35723411-13 (Ext. 8001) and/or the undersigned at 021-35311861-64 (Ext. 201) or email at info@vis.com.pk


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VIS Entity Rating Criteria: Government Supported Entities (July 2020)

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

Rating Scales & Definitions:

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

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