

Press Release

VIS Reaffirms Entity Ratings of Zarai Taraqiati Bank Limited

Karachi, June 27, 2024: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Zarai Taraqiati Bank Limited ('ZTBL' or 'the Bank') 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 Government of Pakistan's 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 ratings is 'Stable'. Previous rating action was announced on June 22, 2023.

The ratings assigned to ZTBL take into account sponsor profile of the Bank, with ownership held directly by the Government of Pakistan (GoP) and indirectly through the 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. 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.

ZTBL experienced an increase in gross advances during 2023, reversing the previous year's decline, due to higher loan disbursements during the year, predominantly development loans. The overall recovery ratio experienced a slight decrease. Hence, the Bank experienced an increase in non-performing loans (NPLs). Provisioning coverage fell, mainly due to a reduction in specific provisions, with a significant portion of assets classified in the OAEM category. Asset quality remains under pressure, evidenced by a high gross infection ratio and rising net infection ratios.

ZTBL's liquidity profile remains strong, supported by comfortable and rising cash balances, placements, and investments, which provide more than 100% coverage against non-bank, unsecured obligations. This strength is reflected in Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank's investment portfolio is largely allocated to government securities, representing negligible credit risk. With a significant portion of investment portfolio being in floating-rate Pakistan Investment Bonds (PIBs), market risk exposure is minimal. The Bank's borrowings from SBP include Rs. 54.5b in the form of redeemable preference shares, due in Mar'27, with principal and return guaranteed by the Federal Government of Pakistan.

ZTBL achieved a significant turnaround in profitability in 2023, driven by higher net interest income from the treasury segment, along with other major contributor being recoveries of charged off portfolio. The Bank's profit after tax more than doubled compared to the previous year. Operating expenses increased in line with inflation, yet the Bank's efficiency ratio improved due to the excess of recurring income over recurring expenses.

The Bank's Capital Adequacy Ratio (CAR) improved due to an increase in Common Equity Tier-1 capital, stemming from higher retained profits, and growth in Tier-2 Capital from increased eligible general provisions. Despite an increase in Risk-Weighted Assets (RWAs), the greater rise in total capital resulted in a higher 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.

For further information on this ratings announcement, please contact at 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria:

Government Supported Entities

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

VIS Issue/Issuer Rating Scale

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