RATING REPORT

ZaraiTaraqiati Bank Limited

REPORT DATE:
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RATING ANALYSTS:
Maimoon Rasheed
maimoon@jcrvis.com.pk

M. Daniyal
daniyal.kamran@jcrvis.com.pk

RATING DETAILS

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

COMPANY INFORMATION

Incorporated in 2002	**External auditors:**HorwathHussainChaudhary& Co & BDO Ebrahim & Co, Chartered Accountants
Public Limited Company	**Chairman of the Board:**Mr. Syed Yawar Ali
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:**Mr. Syed TalatMehmood
Government of Pakistan : 100%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities (June, 2016):
http://jcrvis.com.pk/kc-meth.aspx

OVERVIEW OF THE INSTITUTION

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.

Profile of CEO

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.

Financial Snapshot

Net equity: FY16– Rs.82.4b, FY15- Rs.79.2b

Net profit: FY16 – Rs. 3.3b; FY15: Rs. 5.3b

RATING RATIONALE

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 beclassified 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.

Advances: 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-1QFY16. 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.

Investments: 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.

Liquidity: 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. Inview of this, the institution may need to maintain a sizeable liquidity cushion.By end-1QFY17, liquid assets as percentage of deposits and borrowings stood at48.5% (FY16: 48.9%; FY15: 36.3%).

Profitability: 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.

Capitalization: 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 (FY6: 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.

Board, Management & IT Infrastructure: 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.

Corporate Profile

On August 28, 2002, Agricultural Development Bank of Pakistan (ABDP) was converted into a public limited company as the Federal Government of Pakistan (GoP)transferredand converted all assets, contracts, liabilities, proceedings and undertakings of ADBP intoZaraiTaraqiati Bank Limited (ZTBL). Consequently, ZTBL was incorporated as a public limited company in 2002 under the Companies Ordinance, 1984. The bank's registered and principal office is situated at 1-Faisal Aveneue, Islamabad.

ZTBLprovides agriculture credit and banking services to farmers across the country. The bank continues to remain the largest public sector agriculture development financial institution in the country. ZTBL has a limited banking license which restricted the institution from undertaking broad range of banking business.The bank has applied for commercial banking license to the State Bank of Pakistan (SBP); approval of which is subject to achievement of certain milestones.

Kissan Support Services Limited (KSSL) is a wholly owned subsidiary of the bank. KSSL was incorporated in 2005 and provides advisory, consultancy and other support services including security and janitorial services to ZTBL.

With the induction of Mr. Abdul GhafoorMirza, members of Board of Directors (BoD) increased to nine (end-FY15: 8)by end-FY16. SixBoDmembers are independent directors, while there is one nominee director each of SBP and Ministry of Finance (MOF). Syed Talat Mahmood, Chief Executive Officer (CEO) of ZTBL is the only executive director on the board. The Board comprises seasoned professionals with diverse experience.During the ongoing year, Mr. Saeed Ahmad, a nominee director of SBP, resigned from the board; the said position is currently vacant. Profile of the incoming director is attached as Annexure-1 to the report.

During FY16, eight BoD meetings took place; attendance is considered satisfactory. Board meetings pertained to discussion of compliance on decisions taken during previous board meetings, banking operations, periodic accounts, variance report, IT roadmap, budget plan and action,and Institutional Risk Assessment Framework (IRAF).

To maintain oversight on business operations,nine committees have been formed at the board level including Audit Committee, Human Resource Management Committee, Risk Management Committee, Nomination Committee, Procurement Committee, Investment Committee, Committee on Information Technology, Agriculture Technology Committeeand Board Committee on Non-Performing Loans and Special Assets Management.Committees' composition and number of meetings convened during FY16 is attached as Annexure-II to the report.

The bank's management team has been spearheaded by SyedTalatMehmood since April, 2014. Mr. Mehmood carries more than three decades of domestic and international banking experience. As per the organogram, various departments report to the Chief Operating Officer (COO); COO reports directly to the CEO. Some divisions also reports directly to the CEO. The bank operates through 15 divisions and 61 departments.

Changesin senior management include induction of new COO and Head Information Technology. During FY16, Mr. AmerHussainreplacedMr. Amanullah Sheikh as COO. Mr. Hussain carries more than 25 years of professional banking experience and had been associated with the Standard Chartered Bank – local and international – at senior management level positions. Mr. Aamir Zafar has been appointed as Head-Information Technology; he was previously servingthe Bank of Punjab as Chief Technical Officer (CTO). Total staff strength of the bank including contractual employees was reported at 5,700 (FY15: 5,706) at end-FY16.

Branch Network

During FY16, 22 new ZTBL branches were opened comprising 15 conventional and 7 deposit taking branches. At end-FY16, branch network increased to 460 (FY15: 438). Around 56% of the branches are located in Punjab followed by Sindh (20%), KPK (12%), Baluchistan (7%), AJK (3%) and GBC (2%). Branch network is projected to increase to 489 by end-FY17.Province wise breakup of branch network is tabulated below:

Table 1: Branch Network

Province	Number of Branches	
	FY16	**FY15**
Punjab	258	236
Sindh	91	91
KPK	57	60
Baluchistan	33	31
AJK	11	11
GB	10	9
Total	**460**	**438**

The bank operates through 32 zonal officesspread across the country. Staff strength at branch level varies between 10 to 15 depending on the branch size. Each branch is headed by a Branch Manager (BM) while other branch staff includes OperationsManager, Mobile Credit Officers (MCOs) and a teller.BM reports to the Zonal Chief who in turns reports to the COO. As a result of deposit mobilization activity initiated by the bank, Business Development Officers (BDOs) are also deployed at major branches of major zones; the bank plans to gradually deploy BDO at all branches.BDOs report to the Regional Sales Manager (RSM), who would report to the Zonal Sales Manager (Cluster Head); Zonal Sales Manager would ultimately report to the National Sales Manager; National Sales Manager heads the Liability Marketing Division at ZTBL.

Number of loss making branches increased to 152 (FY15: 134) by end-FY16.Typically, a new branch takes 2-3 years to become profitable. Moreover, as per management, most loss making branches are located in areas having poor law and order situation.

Loan Approval Mechanism

During the period under review, there has been no change in the loan approval mechanism. Loan approval process continues to be decentralized. Initial client screening including cash flow analysis is conducted by MCOs following which documents are forwarded to the CAD officer for verification. The loan sanctioning limit varies from scheme to scheme. BM can sanction loan upto Rs. 1.0m, loan amounts ranging between Rs. 1.0m to Rs. 1.2m are sanctioned by Zonal Chief while loans exceeding Rs. 1.2m are sanctioned by Zonal Credit Committee; under SadaBahar Scheme (SBS) and development loans, BM can sanction amount up to Rs. 0.5m.

Credit Worthiness Report (CWR) is solicited from SBP for all cases despite loan amount or loan cycle. Moreover, borrower's basic fact sheet is a part of loan application form. Track record of borrowers is also verified through market intelligence. As per bank's policy, borrowers with write-off or overdue history are not extended loans. Moreover, client with delayed repayment can only avail 90% of the existing loan amount.

Overall loan ceiling is maintained at Rs. 1.5m. The management has defined loan ceilings for major crops based on different factors including cost of seed, pesticide, fertilizer, tractor and labor charges which are updated on a periodic basis.Per acre loan amount for major crops is tabulated below.

Table 2: Crop ceiling amount

Crop	Per acre loan amount
Cotton	Rs. 39,000
Sugarcane	Rs. 53,000
Rice	Rs. 34,000
Maize	Rs. 34,000 –Rs. 38,000
Potato	Rs. 51,000
Wheat	Rs. 29,000

Tobacco	Rs. 35,000

MCOs are responsible for conducting post disbursement utilization check for 100% cases. For development loans, utilization is checked within 1 month while for production loans, utilization check is conducted after 2 months of disbursement. Post disbursement utilization checks are also conducted by BMs (25%), zonal recovery managers (10%), zonal chiefs (5%) and Internal Audit Department (25%).

Credit Administration and Risk Management Division

Credit Administration & Risk Management Division (CA&RMD) is headed by Mr. M. Shah Zaman. The division is divided into fourdepartments namely Credit Administration Department (CAD), Risk Management Department (RMD), Internal Control over Financing Reporting (ICFR) Department and IT security department.CA&RMD has been established independent of operations and reports directly to the CEO. A Board Risk Committee and two separate management levelcommittees on credit risk and operational risk have been set up at the Head office to address related issues.

RMD has implemented an Obligor Risk Rating (ORR) model which takes into account both quantitative and qualitative data with a higher weightage of latter. ORR is initially assigned by MCO for all loans which are subsequently verified by the RMD. As per policy, borrowers with an ORR between 1-4 are eligible for loans. Overall risk profile of the credit portfolio is discussed during the credit risk review meetings which are held on a regular basis. Moreover, stress testing is performed on a quarterly basis.

During the period under review, ZTBL's revisedOperational Risk Model (ORM) was implemented in all branches with key risk indicators (KRIs) identified based on business processes. Changes in the ORM include inclusion of KPIs related to consumer protection, corporate governanceand self-assessment. For monitoring of liquidity risk, liquidity gap reports are discussed during ALCO meetings.

Role and responsibilities of front, middle and treasury back office are defined in Treasury & Investment policy which is revised on an annual basis. Front treasury office reports directly to the COO, whereas middle treasury office reports to the Risk management division.

Internal Audit

The Internal Audit Division (IAD) is headed by Mr. Abdul Ghaffar Bhatti. IAD is functionally divided into three departments namely:

- Field Audit Department.
- Corporate Audit Department
- Information Systems Audit Department (ISD)

Internal Audit at ZTBL is conducted in line with the Internal Audit policy, which is approved by BAC. Overall scope of IAD includes assuring that business operations and procedures are in accordance with regulatory guidelines and internal policies of the bank. IAD operates through nine audit zones located in major cities across the country with each zonal office having around 20-25 resources.

All branches are audited twice a year, irrespective of their risk profile. Areas covered under branch audit include loan disbursement, recovery process, branch operations and cash management. Moreover, 25% of the cases are also examined for loan utilization. All departments at the HO are audited once a year, including IT. Staff strength of ISD is six personnel with relevant experience in networking, database management and system development.

Going forward, IAD aims tostrengthenthe governance and control infrastructure across the organization while the extent of offsite surveillance is expected to be enhanced.Special audit will be conducted where multiple issues are noted. IAD is also devising its Audit Risk Rating Framework which will be evaluated by an independent third party subsequent to itsdevelopment.

Financial Statements of ZTBL for FY16were jointly audited by HorwathHussainChaudhary& Company, Chartered Accountants and BDO Ebrahim& Co. Chartered Accountants. The same have been reappointed for FY17.

Information Technology

The IT infrastructure at ZTBL comprises following major applications

- cDMS (Centralized Deposit Management System)
- cBAS (Centralized Branch Automation System)
- Oracle ERP-EBS (Oracle Enterprise Resource Planning; e-Business Suite)
- Di-MIS (Dynamic Integrated Management Information System)

cDMS is a oracle based real time application catering to the all liability side information system of the bank. During FY16, the bank's legacy centralized Field Operations Computerized System(cFOCS)was replaced with in-house developed cBAS.As per management, cBAS is an interactive system which will significantly improve reporting requirements, while new product requirements will also be met through cBAS. For improved KYC, the system has been integrated with NADRA to carryout biometric verification of customers on a real time basis.

Implementation of Oracle ERP-EBScontinued in FY16. Oracle ERP-EBS is a real time oracle based application for automation of back office operations ensuring effective and efficient controls. Various modules of the ERP system include General Ledger, Enterprise Planning, Budgeting & Financial Analysis, Inventory & Fixed Asset Management, CashManagement, Receivables, Payables and HR management.

Di-MIS is an oracle based centralized application catering to the reporting requirements of the bank. During FY16, the management reporting mechanism was strengthened through newly developed interactive system called iMIS.During FY16, a total of 310,943 Credit Worthiness Report (CWR) were issued through the system to branches for obligor risk rating (ORR).

ZTBL has recently decided to acquire state-of-the-art core banking system (CBS). E&Y Ford Rhodes – Chartered Accountants have been hired as consultants for the selection and acquisition of the new CBS. According to the management, acquisition and implementation of new CBS will be initiated during the ongoing year. The required infrastructure compatible with CBS would also be procured accordingly. Implementation of CBSis expected to be completed within the next 2-3 years.

Alternate delivery channel such as 'ZaraiPaisa' is being introduced in a phased manner as the bank has signed Memorandum of Understanding (MoU) with U-Microfinance Bank Ltd. Process to introduce ATMs in the bank has already been initiated as the management plans to install around 100 ATMs by end-FY17; debit cards are intended to be launched during the next 3 months.

The entire branch network is connected to a centralized data center, located at the head office. For data transmission, the bandwidth of the Wide Area Network (WAN) between the Head Office and field offices was upgraded to 2 Mbps.For Business Continuity Plan (BCP), a failover site is in place at Staff College, Islamabad. Back-up of data is run daily according to standard operating procedures both onsite and offsite. Backup policy is inplace for data security. BCP and DR drills are conducted at regular intervals.

Financial Analysis

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, 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.

Asset Mix

Asset base of the bank increased by around 14.9% and amounted to Rs. 215.6b (FY15: Rs. 187.6b) at end-FY16. The increase was primarily manifested in investmentsand advances portfolio of the bank. At end-FY16, investments amounted to Rs. 37.1b (FY15: Rs. 19.8b) and reflected 17.2% (FY15: 10.5%) of the asset base, while net advances amounted to Rs. 135.8b (FY15: Rs. 129.6b) andreflected 63.0% (FY15: 69.1%) of bank's asset mix at end-FY16.Cash and bank balances amounted to Rs. 23.6b (FY15: Rs. 18.9b) and reflected 10.9% (FY15: 10.2%) of the asset base. The table below shows the asset mix of ZTBL:

Table6: Asset Mix

	1QFY17	FY16	FY15
Cash & Balances	7.4%	10.9%	10.1%
Lending to FIs	1.0%	0.0%	0.0%
Investments	19.7%	17.2%	10.5%
Advances (net)	61.8%	63.0%	69.1%
Operating Assets	1.0%	1.0%	1.1%
Other Assets	9.1%	7.9%	9.2%
Total *(Rs. in Billions)*	**220.4**	**215.6**	**187.6**

At end-1QFY17, asset base amounted to Rs. 220.4b with net advances and investments representing 61.8% and 19.7% of the asset base, respectively.

Credit Risk

Disbursement target to ZTBL is allocated by the Agriculture Credit Advisory Committee (ACAC) of SBP.Against the disbursement target of Rs. 90.0b for FY16, ZTBL disbursed Rs. 92.8b during FY16; amount disbursed for FY16 was lower than previous year's disbursement of Rs. 95.4b. During FY16, disbursements made towards production and development loans represented 78% (FY15: 73%) and 22% (FY15: 27%), respectively.For FY17, ZTBL has set disbursement target of Rs. 102b. Highest disbursements were made in Punjab (81.7%) followed by Sindh (13.5%) and KPK (3.9%).

During the period under review, ZTBL launched e-credit scheme for a tenure of five years in collaboration with the Government of Punjab.According to the terms and conditions, Government of Punjab pays mark-up (12.5%) on the loan to ZTBL.During FY16, loan amount disbursed under e-credit scheme amounted to Rs. 373m; loan tenure for each crop is 6 months. Loan disbusrsement to forty thousand farmers is targeted for FY17.

At end-FY16,gross loan portfolio of the bank increased to Rs. 141.3b (FY15: Rs. 134.7b) depicting a growth of 4.9%.At end-1QFY17, gross loan portfolio amounted to Rs. 143.2b.ZTBL's lending portfolio comprises production and development loans with a higher proportion of former. Production loans pertained to financing for working capital requirements andrepresented58% while development loans represented 42% of the net loan portfolio at end-FY16.

The geographical breakup of gross portfolio largely remained unchanged with Punjab comprising 82.6% (FY15: 82.4%) of the total portfolio, followed by Sindh (FY16: 12.9%; FY15: 12.6%) and KPK (FY16:

3.4%; FY15:3.8%). AwamiZarai Scheme (AZS) and SadaBahar Scheme (SBS) continue to be the flagship products of the bank.AZS is a revolving finance facility availed to get agriculture inputs. SBS provides financing for working capital as well as production need on annual revolving basis.

During FY16, recoveries made against loan portfolio amounted to Rs. 102.0b (FY15: Rs. 88.7b). However, NPLs increased to Rs. 22.7b (FY15: Rs. 16.5b) by end-FY16. NPLs of the bank mainly pertained to OAEM and substandard categories with low migration towards higher risk categories. In agriculture credit, migration to loss categories is relatively slower, i.e., move into loss category after 2 to 3 years of non-payment, whereas in regular commercial credit a loan is classified in loss category after completion of one year. By end-1QFY17, NPLs decreased to Rs. 19.0bmainly onaccount of recoveryfrom OAEM category;NPLs moving intosub-standard categoryalso increased considerably. According to the management, this is on account of seasonal behavior of credit cycle; major recovery is expected by end-2QFY17. The table below depicts distribution of NPLs among various categories.

Table 7: NPL category

	1QFY17	FY16	FY15	FY14
OAEM	39%	74%	71%	61%
Substandard	42%	14%	14%	15%
Doubtful	12%	9%	11%	13%
Loss	7%	3%	4%	11%

Amount charged-offduring FY16 amounted to Rs. 1.4b (FY14: Rs. 1.2b). Special Asset Management (SAM) divisionis responsible for recovery of charged-off loans.During FY16, recoveries made by SAM stood lower at Rs. 1.9b (FY15: Rs. 2.9b).During FY17, the bank plans to launch a 'pilot' project where recovery of 146 branches having SAM portfolio in excess of Rs. 15m will be outsourced to KSSL.

Gross infection increased 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.At end-1QFY17, gross infection improved to 13.3%, whereas net infection also improved to 10.8%. Provisioning coverage stood at 21.1% (FY16: 11.2%; FY15: 12.7%) at end-1QFY17. As a matter of prudence, ZTBL has not availed the benefit of allowed value of mortgaged lands and buildings while computing provision against non-performing loans.Asset quality indicators are presented in the table below:

Table 8: Asset quality indicators

	1QFY17	FY16	FY15	FY14
Gross Infection (excluding write-offs)	13.3%	15.8%	12.3%	16.0%
Gross infection (including write-offs)	14.0%	16.6%	13.1%	17.1%
Net Infection	10.8%	14.3%	10.9%	13.2%

At end-FY16, contingent liabilities amounted to Rs. 10.9b (FY15: Rs. 2.3b) as a result of 370 cases filed against the bank in various courts of law by employees.

Investments

Investment portfolio of the bank increased to Rs. 37.1b (FY15: Rs. 19.8b) at end-FY16. The bank's investment portfolio is primarily concentrated in government securities representing 89.2% (FY15: 82.3%) of total investments at end-FY16; overall credit risk profile of the investment portfolio is, therefore, considered low. At end-FY16, T-bills constituted 67.4% (FY15: 45.1%) of the investment portfolio; market risk arising from the same is considered low on account of short maturity of the instruments. Exposure in PIBs in the investment portfoliodecreased to 21.8% (FY15: 37.2%). Weighted average modified duration of PIB portfolio was reported at 2.9 years (FY15: 3.4 years) at end-FY16; given size of investment in PIBs in relation to total assets, interest rate risk is considered manageable.

By end-1QFY17, investment portfolio increased to Rs. 43.4b;increase in the portfolio manifested in T-bills. The table below presents the investment portfolio mix:

Table 9: Investment portfolio

Investments (at market value)	FY16	%	FY15	%
Government securities	33.1	89.2	16.3	82%
PIBs	*8.1*	*22%*	*7.3*	*37%*
T-Bills	25.0	67%	8.9	45%
Shares – Listed	3.9	10%	3.4	17%
TFCs – Listed	0.04	<1%	0.04	<1%
Other	0.1	<1%	0.1	<1%
Total(*Rs. in billions*)	**37.1**		**19.8**	

Composition of listed and unlisted equity portfolio remained unchanged during FY16. Listed equities portfolio comprisesinvestment in Nestle Pakistan Limited (Nestle).During FY16, the bank received dividend income to the tune of Rs. 148.5m (FY15: Rs. 81.8m) from the aforementioned investment. In addition, there is a sizeable surplus on revaluationof investment in Nestle amounting Rs. 3.8b (FY15: Rs. 3.3b)at end-FY16.Investment in unlisted companies comprise investment in Pakistan Mercantile Exchange Limited (PMEX) amounting Rs. 10.5m, which has been fully provided for.ZTBL's investment in its wholly owned subsidiary, KSSL was maintained at Rs. 100m (FY15: Rs. 100m) by end-FY16.

TFC portfolio of ZTBL comprises investment in a commercial bank with an instrument rating of 'AA-' depicting sound credit risk profile.

Liquidity & Deposits

Liquidity profile of the bank draws strength from its sizeable investment in government securities carried on balance sheet. At end-FY16, liquid assets (adjusted for collateral) increased to Rs. 55.9b (FY15: Rs. 32.8b) primarily on account of increase in the investment portfolio, whereas total deposits and borrowings (adjusted for Repo transactions) increased to Rs. 114.3b (FY15: 90.4b) on account of higher deposit base of the bank. By end-1QFY17, liquid assets as a proportion of deposit and borrowings stood at48.5% (FY16: 48.9% ;FY15: 36.3%).

During FY16, total deposit base of the bank increased by around 67% and amounted to Rs. 59.9b (FY15: Rs. 35.9b).The growth was manifested in term deposits; proportion of which increased to 64.4% (FY15: 39.2%) of the total deposit base. Resultantly, share of CASA declined to around 35.6% of the overall deposit base (FY15: 60.8%). Composition of the deposit mix is presented in table below:

Table 10: Deposit mix

Rs. Millions	FY16		FY15	
	Amount	%	Amount	%
Term Deposits	38,552	64%	14,075	39%
Saving Deposits	8,687	15%	8,619	24%
Current Deposits	12,632	21%	13,254	37%
Total (inc unclaimed)	59,871	100%	35,948	100%

Concentration in the deposit baseremained high with top 10 depositors comprising 62.5% (FY15: 58.9%) of total deposits at end-FY16. Inview of this, the institution may need to maintain a sizeable liquidity cushion.

Profitability

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. Yield on performing advances was reported lower at 15.0% (FY15: 15.5%) on account of decline in mark-up on advances. Return on investment portfolio reduced to 6.4% (FY15: 8.1%) on account of decline in benchmark rates. With lower return on advances and investments portfolio, overall yield on markup bearing assets decreased to 12.7% (FY15: 13.8%) during FY16.

On account of higher proportion of term deposits in the deposit mix, cost of deposits increased to4.5% (FY15: 3.1%) during FY16. However,overall cost of funding declined to 5.4% (FY15: 7.3%) on account of decline in cost of borrowings to 6.4% (FY15: 9.3%). Cost of funds declined mainly due to the absence of one-off markup expense that was recognized in FY15.Resultantly, spreads of the bank stood higher at 7.3% (FY15: 6.5%) during FY16

Non-markup income declined to Rs. 4.4b (FY15: Rs. 5.6b) during FY16mainly on account of lower recoveries against charged-off loans. Moreover, gain on sale of securities stood lower at Rs. 179.3m (FY15: Rs. 366.4m). During FY17, the bank has embarked upon initiation of various non-fund based initiatives, which isexpected to help in increasing non-mark-up income, going forward.

During FY16, administrative expenses remained largely stagnant at Rs. 9.8b (FY15: Rs. 9.8b). As a result, overheads of the bank decreased to 4.8% (FY15: 5.6%).During FY16, the bank realized charges in the form of adjustments to fixed assets to reconcile the opening balances of books of accounts and fixed asset schedule; fixed asset charge amounted to Rs. 168.9m (FY15: nil) in FY16..

Net provisioning against non-performing portfolio was reported at Rs. 1.8b during FY16 against net reversal of Rs. 573m in the previous year. Write-off under relief package amounted to Rs. 207m (FY15: 160m). With lower non-markup income and higher provision charge offsetting the impact of higher net markup income, profit before tax declined to Rs. 6.5b (FY15: Rs. 8.4b). Accounting for taxation, profit stood at Rs. 3.3b (FY15: Rs. 5.3b) in FY16.

Net interest income amounted to Rs. 3.9b during 1QFY17 (1QFY16: Rs. 3.8b). Provision against non performing advances amounted to Rs. 2.4b (1QFY16: Rs. 1.5b), while administrative expenses increased to Rs. 2.4b (1QFY16: Rs. 2.1b). This along with relatively lower non-fund based income led to lower net income ofRs. 129.6m during 1QFY17 (1QFY16: Rs. 733.1m).

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 further, leading to pressure on spreads, going forward.

Capitalization

Subsequent to conversion of share deposit money into paid-up capital, share capital of the bank increased to Rs. 52.7b (FY16: 12.5b) by end-1QFY17. Total equity of the bank amounted to 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%).

Risk Weighted Assets (RWA) were reported higher at Rs. 183.8b (FY15: Rs. 166.2b) by end-FY16 with increase manifested in allcredit, market and operational RWA. Admissible capital amounted to Rs. 85.8b as against Rs. 82.6b in the preceding year. As a result,Capital Adequacy Ratio (CAR)declined to46.7% (FY15:49.7%) at end-FY16;CAR of the bank iswell above the regulatory requirement. At end-1QFY17, CAR was reported at 46.1%.According to the SBP directive, inclusion of preference shares have not been allowed in tier-II for the calculation of CAR.

Mr. Abdul GhafoorMirza	Mr. Abdul GhafoorMirza carries more than 35 years of experience; working in various capacities with GoP including Joint Secretary, Economic Affair Division;Joint Secretary (Corporate Finance), GoP; Joint Secretary (Budget), GoP; Advisor, Ministry of Finance and Revenue; Chairman Bank of Punjab and Member of 7th and 8th National Finance Commission. Mr. Abdul GhafoorMirzahas MSc degree in Chemistry and Defence Strategic Studies along with professional trainings from various local and global institutions including financial programming and policy from International Monetary Fund (IMF), USA and financial management training from World Trade Institute, USA.

Committee	Composition	Number of Meetings in FY16
Board Audit Committee (BAC)	Mr.Zia-ul-Mustafa Awan (C)	7
	Mr.Majyd Aziz Balagamwala (M)	
	Mr.Abdul Bari Tareen (M)	
	Mr. Abdul GhafoorMirza (M)	
Board Human Resource Committee (BHRC)	Mr.Majyd Aziz Balagamwala (C)	5
	Syed Talat Mahmood (M)	
	Mr.Abdul Bari Tareen (M)	
	Mr. Abdul GhaffoorMirza (M)	
	Mr. ZahirIdris Mufti (M)	
Board Risk Management Committee (BRMC)	Mr. Abdul GhafoorMirza (C)	3
	Mr.Zia-ul-Mustafa Awan (M)	
	Mr.Mohammad Tanvir Butt(M)	
Board Committee on Information Technology	Mr.Zia-ul-Mustafa Awan (C)	4
	Mr. Abdul GhafoorMirza (M)	
	Mr.Mohammad Tanvir Butt(M)	
Board Nomination Committee (BNC)	Syed Yawar Ali (C)	2
	Mr.Abdul GhafoorMirza (M)	
	Syed Talat Mahmood (M)	
Board Procurement Committee (BPC)	Mr.Abdul Bari Tareen (C)	4
	Mr.Majyd Aziz Balagamwala (M)	
	Mr.Zia-ul-Mustafa Awan (M)	
	Mr. Abdul GhafoorMirza	
Board Investment Committee	Mr.Abdul GhafoorMirza(C)	2
	Mr.Majyd Aziz Balagamwala (M)	
	Mr. Zahid Idrees Mufti (M)	
Board Agriculture Technology Committee	Syed Yawar Ali (C)	6
	Mr.Majyd Aziz Balagamwala (M)	
	Mr. Zahid Idrees Mufti (M)	
	Mr. Abdul Bari Tareen	
	Mr. Abdul GhafoorMirza (M)	
Board Committee on NPLs & SAM	Mr. Abdul GhafoorMirza (C)	1

Mr. Majyd Aziz Balagamwala (M)
Mr. Abdul Bari Tareen (M)

Annexure III

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
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

INCOME STATEMENT	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
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

RATIO ANALYSIS	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
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%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure IV

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

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

(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

'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.

REGULATORY DISCLOSURES					Annexure V
Name of Rated Entity	ZaraiTaraqiati Bank Limited				
Sector	Specialized Bank				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	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
	RATING TYPE: GOVERNMENT GUARANTEED OBLIGATIONS				
	20-June-17	AAA	A-1+	Stable	Reaffirmed
	16-Jun-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
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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.				
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