RATING REPORT

Zarai Taraqiati Bank Limited

REPORT DATE:
June 29, 2016

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	Stable		Stable	
Government Debt Obligations	AAA	A-1+	AAA	A-1+
Outlook	Stable		Stable	
Date	*Jun 16,'16*		*Jun 19,'15*	

COMPANY INFORMATION

Incorporated in 2002	**External auditors:** M/s Riaz Ahmad & Co. and M/s BDO Ebrahim & Co.
Public Limited Company	**Chairman of the Board:** Mr. Syed Yawar Ali
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Syed Talat Mehmood
State Bank of Pakistan : 76%	
Government of Pakistan : 23.8%%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities;
http://www.jcrvis.com.pk/images/gse.pdf

Zarai Taraqiati Bank Limited

RATING RATIONALE

The ratings assigned to ZTBL take into account the implicit support of Government of Pakistan (GoP) being the ultimate shareholder of the bank through State Bank of Pakistan (SBP). The ratings also draw comfort from the prominent role of ZTBL in the agriculture development of the country. Earlier GoP had decided to convert outstanding SBP debt-principal (Rs. 51.3b), subordinated loan (Rs. 3.2b) and accrued markup (Rs. 35.0b) owed by the Bank to SBP as on June 30, 2014 into equity investment of SBP in the bank. However, subsequently, it was mutually agreed between the Bank and SBP that SBP debt-principal and subordinated loan amounting to Rs. 54.5b will be 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. Meanwhile, markup on existing debt shall be accrued upto Dec 31, 2015 amounting to Rs. 40.2b and will be converted into ordinary shares.

Advances: Gross loan portfolio of the bank increased to Rs. 134.7b (FY14: Rs. 115.5b) at end-FY15 and further to Rs. 137.3b by end-1QFY16. Awami Zarai Scheme (AZS) and Sada Bahar Scheme (SBS) continue to be the flagship products of the bank. The management has defined per acre loan ceilings for major crops while overall loan ceiling is maintained at Rs. 1.5m. Asset quality indicators exhibited improvement on a timeline basis with gross infection reducing to 12.3% by end-FY15 (FY14: 16.2%) and further to 10.1% by end-1QFY16. Net infection has also trended downwards

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 increased to 36.8% of total investment (FY14: 17.3%) which poses interest rate risk; however given size of investments in relation to total assets, same is considered manageable. Around 17% of the portfolio comprises investment in a blue chip stock which carries sizeable unrealized surplus; the management intends to offload the said investment to generate additional liquidity.

Liquidity: Liquidity profile draws strength from the sizeable investment in government securities carried on balance sheet. While deposit base posted a growth of around 35% during FY15, deposit trends have yet to achieve maturity also reflected by high concentration levels. Inview of this, the institution may need to maintain a sizeable liquidity cushion.

Profitability: While revenue from lending portfolio posted healthy growth on the back of higher advances portfolio, core earning of the bank declined attributable to markup expense recognized on borrowing and subordinated debt from SBP, a one-off item. Going forward, markup expense is expected to rationalize and would primarily include markup expense pertaining to preference shares, in addition to deposit cost. Spreads of the institution improved to 8.2% (FY14: 7%) during FY15 on account of higher yield on mark-up bearing assets as pricing on loan products was revised upward while funding cost marginally reduced.

Capitalization: Bank's core capital amounted to Rs. 77.8b by end-1QFY16 (FY15: Rs. 76.9b; FY14: Rs. 121.1b). Net NPLs as a percentage of the bank's tier-1 capital were reported at 14.0% at end-1QFY16 (FY15: 18.7%; FY14: 12.2%); improvement in this area is however warranted. Capital Adequacy Ratio (CAR) improved to 49.7% (FY14: 25.6%) at end-FY15, well above the regulatory requirement.

Board, Management & IT Infrastructure: The bank benefits from the diverse experience of its Board members. Overall, the senior management team has largely remained stable though various divisional heads continue to have acting charge. With the implementation of CBAS and Oracle – ERP system, overall IT infrastructure of the institution is expected to be strengthened.

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.

Corporate Profile

Zarai Taraqiati Bank Limited (ZTBL) was incorporated as a public limited company in 2002 under Companied Ordinance, 1984. The bank provides 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 restricts the institution from undertaking broad range of banking business. The bank has applied for commercial banking license to the State Bank of Pakistan (SBP); however no decision has yet been taken with regards to the same.

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. The bank plans to establish ZTBL foundation for welfare activities of serving and retired bank employees in the areas of housing, education and health.

Board of Directors (BoD) comprises eight members including the CEO. 6 directors are independent while there is one nominee director of SBP. During FY15, there were two changes at the Board with Mr. Tanvir Butt replacing Mr. Mohsin Azis and Mr. Zahid Idris Mufti replacing Mr. Asif Sharif. The Board comprises seasoned professionals with diverse experience. Profile of the incoming directors is attached as Annexure-1 to the report.

Discussion during the Board and Board committee meetings is considered thorough with active participation from all Board members. During FY15, 8 Board meetings were convened; discussion prevailed on various strategic matters including operating performance vis-à-vis budget, portfolio quality, IT infrastructure, regulatory compliance, branch expansion, product development and SBP debt transaction. Extracts of minutes of Board committees is also presented to the Board for discussion.

To maintain active oversight on business operations, Board has formed eight committees including Board Audit Committee (BAC), Human Resource Management Committee, Risk Management Committee, Nomination Committee, Procurement Committee, Investment Committee, Committee on Information Technology and the recently formed Agriculture Technology Committee. During FY15, Board Business Strategy Committee was merged with Board Committee on Information Technology. Composition and number of committee meetings convened during FY15 is attached as Annexure-2 to the report.

The bank's management team is spearheaded by Mr. Talat Mehmood since April, 2014. Mr. Mehmood carries more than three decades of domestic and international banking experience. As per the organogram, various departments report into the Chief Operating Officer who reports to the CEO. The bank operates through 15 divisions and 53 departments. Rotations within senior management include appointment of ex-CFO as Head of Internal Audit Division while ex-Company Secretary was appointed as CFO of the bank. Overall, the senior management team has largely remained stable though various divisional heads continue to have acting charge. Total staff strength of the bank including contractual employees was reported at 5,706 (FY14: 5,787) at end-FY15.

Branch Network

Branch network increased to 438 (FY14: 416) locations by end-FY15. Around 54% of the branches are located in Punjab followed by Sindh (21%), KPK (14%), Baluchistan (7%), AJK (3%) and GBC (2%). Branch network is projected to increase to 461 by end-FY16. Province wise breakup of branch network is tabulated below

Province	Number of Branches

	FY15	FY14
Punjab	236	221
Sindh	91	89
KPK	60	53
Baluchistan	31	33
AJK	11	11
GBC	9	9
Total	**438**	**416**

The bank operates through 32 zonal offices and 4 area offices spread 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 operation officer, Mobile Credit Officers (MCO), branch accountant and teller. BM reports to the Zonal Chief who in turns reports to the Chief Operating Officer (COO). BM's are given targets for both asset and liability sales. Going forward, the management plans to induct Business Development Officers (BDOs) who would report to zonal liability manager who would in turn report to zonal chief.

With decline of 21 branches, number of loss making branches reduced to 134 (FY14: 155). 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 was 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 to 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 Sada Bahar Sceme (SMS) and development loans, BM can only sanction 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.

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 Dr. Shah Zaman, who has been given an acting charge. The division is divided into three areas namely Credit Administration Department (CAD), Risk Management Department (RMD) and Internal Control Over Financing

Reporting Department. The scope of the department involves managing the overall risk profile of the institution. As per best practices, head of the division reports directly to the Board Risk Management Committee.

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 Business Risk Review meetings which are held on a regular basis. Moreover, stress testing is performed on a quarterly basis.

Operational Risk Model (ORM) is implemented with key risk indicators (KRIs) identified based on business processes. Changes in the ORM include inclusion of KPIs related to consumer protection, corporate governance and self assessment. For monitoring of liquidity risk, liquidity gap reports are discussed during ALCO meetings. The department also conducts new product risk assessments.

An independent middle office was established for monitoring treasury functions during FY15. Role and responsibilities of front, middle and treasury back office are defined in Treasury & Investment policy. Middle office reports to RMD while front office reports to the Head of Treasury.

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)

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 every 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. Staff strength of ISD is six personnel with experience in networking, database management and system development. iAudit Management System has been developed in-house enabling the IAD to audit the operations from their own desk and audit CNIC verifications, credit worthiness reports, loan transactions/examining each voucher and security documents.

Going forward, IAD aims to strengthen the governance and control infrastructure across the organization while the extent of offsite surveillance is expected to be enhanced. Audit frequency would be revised with a focus on risk based audit. Changes are also planned in the organizational structure of IAD.

Financial Statements for FY15 were jointly audited by Riaz Ahmad & Company, Chartered Accountants and BDO Ebrahim & Co. Chartered Accountants. BDO Ebrahim & Co. Chartered Accountants and Horwath Hussain Chaudhury & Co. Chartered Accountants have been appointed as external auditors for the FY 16.

Information Technology

The IT infrastructure at ZTBL comprises following major applications

- cDMS (centralized Deposit Management System)

- cFOCS (centralized Field Operations Computerized 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 at the field level. Anti Money Laundering application has also been implemented which generates alert for transactions amounting over Rs. 1m. cFOCS allows users to record daily disbursement and recovery related transactions and is cobol based. Di-MIS is an oracle based centralized application catering to the reporting requirements of the bank. The bank plans to conduct an external audit of all inhouse developed system during the ongoing year.

Following the user acceptance testing carried out by the users of the bank, Centralized Branch Automation System (CBAS) has been deployed in all the branches as "parallel go live" beginning FY16. CBAS is expected to replace cFOCS by end-FY16. As per management, CBAS is an interactive system which will significantly improve reporting requirements while new products requirements will also be met through CBAS.

Implementation of Oracle ERP is underway. Various modules of the ERP system includes cash management, consolidated GL, Treasury, Accounts Payable, Accounts Receivables, Inter Bank Transfer, Fixed Asset Management, Human Resource, Treasury, Strategic Planning and Budgeting. During FY15, various ERP modules were in parallel testing/UAT phase.

The entire branch network is connected to a centralized data center, located at the HO. For data transmission, the bandwidth of the Wide Area Network (WAN) between the HO and field offices has been upgraded to 2 Mbps. For Business Continuity Plan (BCP), a failover site is in place at Staff College, Islamabad. BCP drills are conducted on periodic basis. At head office, a backup policy is inplace for data security.

Financial Analysis

Earlier the Government of Pakistan (GoP) had decided to convert outstanding SBP debt-principal (Rs. 51.3b), subordinated loan (Rs. 3.2b) and accrued markup (Rs. 35.0b) owed by the Bank to SBP as on June 30, 2014 into equity investment of SBP in the bank. It was also decided that Bank's claim against GoP on account of mark-up differential and various Presidential Relief Packages shall be waived off by the Bank. However, subsequently, it was mutually agreed between the Bank and SBP that SBP debt and subordinated loan amounting to Rs. 54.5b will be converted into redeemable preference shares carrying markup of 7.5% per annum payable on semi-annual basis. Preference share will be redeemable in one bullet payment on Dec 31, 2025; principal of the preference shares and return thereon is guaranteed by the GoP. Meanwhile, markup on existing debt shall be accrued upto Dec 31, 2015 amounting to Rs. 40.2b and will be converted into ordinary shares; the same has been shown as share deposit money.

Asset Mix

Asset base of the bank increased by around 15% and amounted to Rs. 187.6b by end-FY15 (FY14: Rs. 163.6b). The increase was manifested in lending portfolio and bank placements. Net advances reflected 69.1% (FY14: 66.4%) of the asset base while bank placements also increased to 8.8% (FY14: 3.4%) of the asset base. Investment portfolio reflected 10.5% of the asset base at end-FY15 (FY14: 17.9%).

Asset base amounted to Rs. 179.8b at end-1QFY16 with net advances and investments representing 73.0% and 11.1% 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. 90b for FY15, ZTBL disbursed Rs. 95.4b against the previous year disbursement of Rs. 81.9b. During FY15, disbursements made towards production and development loans represented 73% (FY14: 77%) and 27% (FY14: 23%), respectively, of total disbursements. Overall banking sector agriculture disbursement amounted to Rs. 515.9b during FY15 (FY14: Rs. 391.4b) against the target of Rs. 500b. ZTBL's share in agriculture lending declined to 18.5% (FY14: 21.5%), however continues to remain highest among all financial institutions. Credit to agriculture sector represents 5.5% of advances of the banking sector at end-FY15 (FY14: 5.4%) with an infection ratio of 13.0% (FY14: 12.4%).

For FY16, ACAC has set disbursement target of Rs. 102b for ZTBL. The bank's disbursements were reported at Rs. 55.3b till end-1Q16.

Gross loan portfolio of the bank increased to Rs. 134.7b (FY14: Rs. 115.5b) at end-FY15, depicting a growth of 16.6%. At end-1QFY16, gross loan portfolio amounted to Rs. 137.3b. ZTBL's lending portfolio comprises production and development loans with a higher proportion of former. Production loans, pertain to financing for working capital requirements, represent 59% while development loans comprises 41% of the net loan portfolio at end-FY15. Under development loans principal and interest is collected bi-annually.

The geographical breakup of gross portfolio largely remained unchanged with Punjab comprising 82.4% (FY14: 82.1%) of the total portfolio, followed by Sindh (FY15: 12.6%; FY14: 12.6%) and KPK (FY15: 3.8%; FY14:4.1%). The highest disbursements were made in Punjab (80.4%) followed by Sindh (13.4%) and KPK (5.2%). Awami Zarai Scheme (AZS) and Sada Bahar 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.

Recoveries made against the performing portfolio amounted to Rs. 88.7b (FY14: Rs. 78.7b) during FY15. Recoveries made by Special Asset Management (SAM) stood at 2.9b (FY14: Rs. 2.6b) for FY15.

In absolute terms, NPLs decreased to Rs. 16.5b (FY14: Rs. 18.7b) and further to Rs. 13.8b at end-1QFY16 owing to higher recoveries. Charged offs made amounted to Rs. 1.2b (FY14: Rs. 1.4b) during FY15. Advances are charged off in accordance with prudential regulations after a period of three years from the date of default.

Asset quality indicators exhibited improvement on timeline basis with gross infection reducing to 12.3% by end-FY15 (FY14: 16.2%; FY13: 17.4%) and further to 10.1% by end-1QFY16 on account of growth in gross advances and lower NPLs by end-FY15. Net infection has also trended downwards. The bank made general provision to the tune of Rs. 3b during FY15. The asset quality indicators are presented in the table below:

	1QFY 16	2015	2014	2013
Gross Infection (excluding write-offs)	10.1%	12.3%	16.2%	17.4%
Gross infection (including write-offs)	10.1%	13.1%	17.1%	18.4%
Net Infection	8.1%	10.9%	13.2%	14.1%

NPLs mainly pertain to OAEM and substandard category with low migration towards higher risk categories. In agriculture credit, migration to loss categories is slower, after 2 to 3 years, in comparison to commercial banks whereby a loan is classified in loss category after completion on one year. The table below depicts the distribution of NPLs among various categories.

	1QFY 16	2015	2014	2013

OAEM	43%	71%	61%	59%
Substandard	36%	14%	15%	15%
Doubtful	15%	11%	13%	14%
Loss	7%	4%	11%	12%

Investments

The bank's investment portfolio is primarily concentrated in government securities representing 82.3% of the total investments at end-FY15 (FY14: 86.2%); overall credit risk profile of the portfolio is considered minimal. T-bills constitute 45.1% (FY14: 66.5%) of the investment portfolio at end-FY15; market risk arising from the same is considered minimal on account of short maturity of the instruments. Exposure in PIBs increased to 36.8% of total investment (FY14: 17%) which poses interest rate risk; however given size of investments in relation to total assets, same is considered manageable.

Investment portfolio of the bank reduced to Rs. 19.8b (FY14: Rs. 29.1b) at end-FY15; at end-1QFY16, investment portfolio amounted to Rs. 20.0b. The table below presents the investment portfolio mix:

Investments (at market value) Rs. in billions	2015	%	2014	%
Government securities	16.3	82%	25.3	86%
PIBs	7.3	37%	5.1	17%
T-Bills	8.9	45%	19.2	66%
Sukuks	-	-	0.8	3%
Shares – Listed	3.4	17%	3.9	13%
TFCs – Listed	0.04	<1%	0.04	<1%
Other	0.1	<1%	0.1	<1%
Total	19.8		29.1	

Composition of listed and unlisted equity portfolio remained unchanged during FY15. Listed equity portfolio comprises investment in share of Nestle Pakistan Limited (Nestle) representing 17.0% (FY14: 13.4%) of total investments; during FY15, the bank received dividend income to the tune of Rs. 81.8m (FY14: Rs. 66.7m) from the aforementioned scrip. In addition, there is sizeable unrealized revaluation gain on the shares of Nestle. Investment in unlisted companies comprising Uqab breeding farm limited and Mubarik dairies limited were written off during FY15 as these companies are in liquidation process.

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

ZTBL's investment in wholly owned subsidiary, Kissan Support Services Limited (KSSL), amounted to Rs. 100m at end-FY15 (end-FY14: Rs. 100m).

Liquidity & Deposits

With conversion of SBP markup amounting to Rs. 40.2b into equity, overall liquidity profile of the institution stands improved. Liquidity profile also draws strength from the sizeable investment in government securities carried on balance sheet. Liquid assets as a proportion of deposit and borrowings reduced to 41.5% (FY14: 128.1%) and further to 32.7% at end-1QFY16; high proportion at end-FY14 is attributable to lower quantum of borrowings as earlier it was decided that all SBP borrowings would be converted into equity.

During FY15, total deposit base of the bank increased by around 35% and amounted to Rs. 35.9b (FY14: Rs. 26.7b). Growth was mainly manifested in the last quarter of the outgoing year; in view of this, deposit trends have to depict maturity. At end-1QFY16, deposit base stood at Rs. 30.4b. Share of CASA reduced to around 61% of the overall deposit base (FY14: 98%) while share of term deposits increased to about 39% (FY14: 2%). Composition of the deposit mix is presented in table below:

Rs. Millions	2015		2014	
	Amount	%	Amount	%

Term Deposits	14,075	39%	496	2%
PLS Deposits	8,619	24%	13,768	52%
Current Deposits	13,254	37%	12,411	46%
Total (inc unclaimed)	35,948	100%	26,702	100%

Deposit mix, in terms of retail and institutional deposits, remained unchanged with retail deposits comprising 35% (FY14: 36%) of total deposits at end-FY15. Concentration in the deposit base remains high with top 10 depositors comprising 21% of total deposits at end-FY15 (end-FY14: 44.5%). Moreover, largest depositors represented 10% of total deposits and pertained to a current account held by a government entity. Given the concentration levels, the bank has yet to develop a broad base access to deposit.

Deposits feature geographic concentration with 84% of deposits mobilized from Punjab. Geographic concentration of deposits is presented in table below:

Region	FY15	FY14
Punjab	84%	79%
Sindh	6%	8%
KPK	5%	7%
Baluchistan	1%	2%
GBC & AJK	4%	4%

The bank is also engaged in money market activities with repo borrowings amounting to Rs. 5.9b at end-FY15 (FY14: Rs. 969.3m); average balance of the repo borrowings stood at Rs. 1b as against Rs. 1.2b in the preceding year.

Profitability

While revenue from lending portfolio posted healthy growth on the back of higher advances portfolio, core earning of the bank declined to Rs. 5.2b (FY14: Rs. 6.1b) attributable to higher markup expense on borrowing and subordinated debt from SBP; during FY15, the bank recognized accrued markup on the facilities to the tune of Rs. 5.1b for the period between June 30, 2014 to Dec 31, 2015.

Income from advances portfolio increased to Rs. 16.6b (FY14: Rs. 12.9b) on account of volumetric growth in the portfolio and represented 91.0% of total markup income (FY14: 83.2%). Yield on performing advances was reported higher at 15.5% (FY14: 14.4%) as pricing across lending products was revised upwards by upto 150 bps. Inline with decline in benchmark rates, return on investment portfolio reduced to 8.2% (FY14: 8.7%). With higher return on advances portfolio offsetting the impact of lower yield on investment portfolio, overall yield on markup bearing assets increased to 13.7% (FY14: 12.7%) during FY15.

Despite higher proportion of term deposits in the deposit mix, cost of deposits largely remained unchanged (FY15: 3.4%; FY14: 3.5%). Low deposit cost only has a limited impact on the bank's overall cost of funding since deposits only meet around 29% of the bank's funding requirements. Overall cost of funding declined marginally to 5.5% (FY14: 5.7%).

With higher yield on mark-up bearing assets and lower cost of funding, spreads of the bank increased to 8.2% (FY14: 7%) during FY15.

Non-markup income increased to Rs. 5.6b (FY14: Rs. 4.5b) during FY15 on account of higher income from loan processing fee and recoveries against charged-off loans. Moreover, gain on sale of securities increased to Rs. 366.4m (FY14: Rs. 118.1m).

Administrative expenses increased by around 26% and amounted to Rs. 9.8b (FY14: Rs. 7.8b) with employee related expenses representing 75% of the total administrative expenses (FY14: 73%). During FY14, the bank realized reversal in lieu of defined benefit plans and other benefits to the tune of Rs. 944.9m; during FY15, charge against the same amounted to Rs. 251.7m. Overheads of the bank increased to 5.6% (FY14: 5.0%) during FY15; overheads compare favorably to microfinance banks while are higher than commercial banks.

Net reversal against non-performing portfolio was reported at Rs. 413.1m during FY15 against incremental provisioning of Rs. 1.5b in previous year. With higher non markup income and net provisioning reversal offsetting the impact of lower net markup income and higher administrative expenses, profit before tax largely remained unchanged at Rs. 8.4b (FY14: Rs. 8.3b). Accounting for taxation, profit stood at Rs. 5.3b (FY14: Rs. 5.4b).

Net interest income amounted to Rs. 3.8b during 1QFY16 (1QFY15: Rs. 4.2b). Provision against non performing advances amounted to Rs. 1.5b while administrative expenses stood at Rs. 2.1b. Accounting for taxation, the bank reported a profit of Rs. 733.1m during 1QFY16 (1QFY15: Rs. 1.1b).

Capitalization

Total equity of the bank was reported lower at Rs. 79.2b (FY14: Rs. 124.6) at end-FY15 with share deposit money declining to Rs. 40.2b (FY14: Rs. 89.5b). Bank's core capital amounted to Rs. 77.8b by end-1QFY16 (FY15: Rs. 76.9b; FY14: Rs. 121.1b). Net NPLs as a percentage of the bank's tier-1 capital were reported at 14.0% at end-1QFY16 (FY15: 18.7%; FY14: 12.2%); improvement in this area is however warranted.

Risk Weighted Assets (RWA) were reported higher at Rs. 165.7 (FY14: Rs. 135.5b) at end-FY15 with increase manifested in RWA pertaining to credit and operational risk. However, the increase in RWA was offset by growth in admissible capital which amounted to Rs. 42.3b as against Rs. 34.7b in the preceding year. Resultantly, Capital Adequacy Ratio (CAR) was maintained at 25.5% (FY14: 25.6%) at end-FY15, well above the regulatory requirement.

Zarai Taraqiati Bank Limited Appendix I

Mr. Muhammad Tanvir Butt	Mr. Tanvir serves as Joint Secretary, Finance Division, Government of Pakistan. Mr. Butt holds Masters in Economics and Business Administration and a LLB degree.
Mr. Zahid Idris Mufti	Mr. Mufti has done B.Sc in Civil Engineering, L.L.B. and M.B.A. (Executive). Prior to joining ZTBL, he served in Communication and Works Department, Government of Khyber Pakhtunkhwa for about twenty years. Currently, he is practicing Law in Peshawar High Court, and Islamabad High Court, Islamabad.

Zarai Taraqiati Bank Limited Appendix II

Committee	Composition	Number of Meetings in FY15
Board Audit Committee (BAC)	Mr.Zia-ul-Mustafa Awan (C)	8
	Mr.Saeed Ahmad (M)	
	Mr.Majyd Aziz Balagamwala (M)	
	Mr.Abdul Bari Tareen (M)	
Board Human Resource Committee (BHRC)	Mr.Majyd Aziz Balagamwala (C)	3
	Syed Talat Mahmood (M)	
	Mr.Abdul Bari Tareen (M)	
Board Risk Management Committee (BRMC)	Mr.Saeed Ahmad (C)	2
	Mr.Zia-ul-Mustafa Awan (M)	
	Mr.Mohammad Tanvir Butt(M)	
Board Committee on Information Technology	Mr.Saeed Ahmad (C)	4
	Mr.Zia-ul-Mustafa Awan (M)	
	Mr.Mohammad Tanvir Butt(M)	
Board Nomination Committee (BNC)	Syed Yawar Ali (C)	1
	Mr.Saeed Ahmad (M)	
	Syed Talat Mahmood (M)	
Board Procurement Committee (BPC)	Mr.Abdul Bari Tareen (C)	3
	Mr.Majyd Aziz Balagamwala (M)	
	Mr.Zia-ul-Mustafa Awan (M)	
Board Investment Committee	Mr.Saeed Ahmad(C)	1
	Mr.Majyd Aziz Balagamwala (M)	
	Mr. Zahid Idrees Mufti (M)	
Board Agriculture Technology Committee	Syed Yawar Ali (C)	1
	Mr.Majyd Aziz Balagamwala (M)	
	Mr. Zahid Idrees Mufti (M)	

Appendix III

FINANCIAL SUMMARY

(amounts in PKR billions)

BALANCE SHEET	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	20.0	19.8	29.3
Advances	131.3	129.6	108.6
Total Assets	179.8	187.6	163.6
Borrowings	54.6	57.1	0.97
Deposits & other accounts	30.4	35.9	26.7
Subordinated Loans	3.2	3.2	-
Tier-1 Equity	77.8	77.0	121.2
Net Worth	79.7	79.2	124.6
INCOME STATEMENT	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	3.8	12.2	13.1
Net Provisioning/ (reversal)	1.5	(0.41)	1.5
Non-Markup Income	1.0	5.6	4.5
Operating Expenses	2.1	10.0	7.8
Profit Before Tax	1.2	8.4	8.3
Profit After Tax	0.7	5.3	5.4
RATIO ANALYSIS	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Infection (%)	10.1	12.3	16.2
Provisioning Coverage (%)	21	13	21
Net Infection (%)	8.1	10.9	13.2
Cost of deposits (%)	-	3.4	3.5
Net NPLs to Tier-1 Capital (%)	14	19	12
Capital Adequacy Ratio (C.A.R (%))	48.6	49.7	25.6
Markup Spreads (%)	-	8.2	7
Efficiency (%)	51	53	79
Basic ROAA (%)	2.3	4.9	3.5
ROAA (%)	1.6	3.0	3.5
Liquid Assets to Deposit & Borrowings (%)	32.7	41.5	128

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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 — Appendix V

Name of Rated Entity	Zarai Taraqiati 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				
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				
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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