

JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
Member - Association of Credit Rating Agencies in Asia (ACRAA)

Press Release

Ratings of Zarai Taraqiati Bank Limited

Karachi, August 8, 2014: JCR-VIS Credit Rating Company Limited (JCR-VIS) has upgraded the entity ratings of Zarai Taraqiati Bank Limited (ZTBL) from 'A/A-2' (Single A/A-Two) to 'AAA/A-1+' (Triple A/A-One Plus). Outlook on the ratings is 'Stable'.

The rating action is driven by the recent decision by the Government of Pakistan (GoP) to reconcile the outstanding liabilities on the balance sheet of ZTBL towards the State Bank of Pakistan (SBP) and convert the same into equity. As a result of this exercise, the previously prevailing uncertainty as regards the balance owed to SBP has been eliminated and an amount of Rs. 89.5b (Principal: Rs. 54.5b; Accrued Mark-up: Rs. 35b) will be converted into equity.

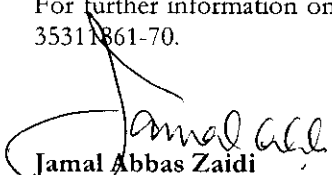
The implicit support of the GoP had been a key consideration in the previously assigned entity ratings with GoP as the primary shareholder of the bank; the recent decision of the GoP demonstrates its support to the mandate of the institution while also validating JCR-VIS' assumption underlying the assigned ratings. The said transaction will augment the bank's equity base by Rs. 89.5b and notably improve the stand alone risk profile of the bank. Based on this demonstrated support by the GoP, the entity ratings have been converged into the 'AAA/A-1+' ratings assigned to the Government Guaranteed Obligations of the bank.

In recent times, ZTBL has also deployed greater efforts in generating deposits. The safety of deposits mobilized by the bank is explicitly guaranteed under the Bank's (Nationalization) Act, 1974. The bank has also initiated treasury operations, though the quantum of same is currently limited. As per management, the bank has applied to the SBP for commercial banking license. JCR-VIS will continue to track the scope of business activities undertaken by the bank and un-guaranteed portion of liabilities in relation to total balance sheet footing; any meaningful change in this regard may trigger rating review.

Revision in mark-up rates over time has improved the commercial viability of the institution; continuous check on overheads and portfolio quality is essential to allow the recent changes to translate into sustained improvement in profitability. Following the conversion of SBP's debt into equity, mark-up expenses associated with the same will be eliminated, having a positive impact on profitability.

After a gap of about one year, the board of directors was reconstituted in June'14. The new board consists of personnel having diverse range of experience and educational background. Moreover, there was a change at the helm of the institution. The management team is now spearheaded by Mr. Talat Mehmood who was appointed as President during 1Q14. The position of COO was also filled during the outgoing year.

For further information on this rating announcement, please contact Ms. Sobia Maqbool, CFA or Mr. Javed Callea at 021-35311861-70.


Jamal Abbas Zaidi
Deputy CEO

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