VIS Credit Rating Company Limited *(Formerly JCR-VIS Credit Rating Company Limited)* **www.vis.com.pk**

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Press Release

VIS Reaffirms Entity Ratings of Zarai Taraqiati Bank Limited

Karachi, June 26, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of ZTBL at 'AAA/A-1+' (Triple A/A-One Plus). VIS has also reaffirmed ratings of 'AAA/A-1+' (Triple A/A-One Plus) assigned to Government Guaranteed Obligations, primarily Preference Shares of ZTBL. The medium to long-term rating of 'AAA' denotes highest credit quality, with negligible risk factors, being only slightly more than for risk-free debt of Government of Pakistan. The short-term rating of 'A-1+' denotes highest certainty of timely payment, liquidity factors are outstanding and safety is just below risk free short-term obligations of Government of Pakistan. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 28, 2018.

The assigned ratings take into account the implicit support of Government of Pakistan (GoP) being provided to ZTBL. ZTBL plays a pivotal role in the development of agriculture sector of the country since it is the principal financial institution of GoP for the mobilization of agricultural credit. However, the financial risk profile of the bank has been affected by deterioration in asset quality coupled with decline in liquidity indicators. Moreover, decline in investment portfolio was witnessed along with a slight decrease in gross advances portfolio due to lower disbursements in order to ensure quality advances, and some erosion in equity base. The profitability has also weakened mainly on account of downward pressure on markup spreads, increase in administration expenses, and higher provision charge against non-performing loans.

Gross advances portfolio of the bank decreased slightly on account of lower credit disbursement during FY18 following management's vision to ensure quality disbursement. Assets quality indicators deteriorated during FY18, partially due to increase in NPLs related to sugarcane and potato crops, as depicted by notably higher gross and net infection. Likewise, net NPLs equated to half of the bank's tier-1 equity at end-FY18. Going forward, the management plans to adopt corrective recovery mechanism; encouraging clients to clear their dues; failure to do so will lead to auction of their properties secured as collateral with the bank and/or encashment of post-dated cheques taken as collateral.

ZTBL registered reduction in investment portfolio on account of divesture in government securities during FY18. The investment portfolio mainly consisted of government securities, and hence the overall credit risk emanating from the same is considered minimal. Despite some increase in exposure to PIBs, the interest rate risk arising from PIBs portfolio is still considered manageable as it represents less than 4% of total assets. The weakness in liquidity profile was due to notable decrease in collateral adjusted liquid assets in relation to adjusted deposits and borrowings by end-FY18. According to the management, the bank shed high cost deposit to curtail increasing cost of funds. The concentration of deposits among top 10 customers decreased slightly by end-FY18, though is still considered on the higher side.

The bank earned a lower markup spread on account of decline in yield on markup bearing assets and higher cost of funds during FY18. Non-markup based income also decreased mainly owing to lower credit related fee income, an outcome of lower disbursements. The bank recorded a higher net provision and write-offs against loans & advances. Equity base of the bank decreased on account of a net loss during FY18. The Capital Adequacy Ratio (CAR) of the bank was recorded lower, though still considerably higher than the minimum regulatory requirement. The ratings factor in weak corporate governance as the BoD at ZTBL is not fully functional since June'17 in the absence of approval of three nominated directors out of seven on the Board.

Sheikh AmanUllah, took the charge of acting President in October, 2018. He has embarked upon a number of initiatives including change in business model. The bank commenced Islamic banking operations and expanded its digital platform by installing ATMs. Moreover, the bank is in the process of enhancing focus on value added crops while diversification of its loan portfolio, joint venture schemes with provincial governments for agricultural credit expansion and enhancement of insurance coverage to mitigate potential losses is also on the anvil. Stability in senior management is considered important in attaining long-term strategic goals of the bank. The acquisition of Core Banking System (CBS) along with the IT security software & hardware infrastructure is expected in 4QFY19. The implementation of CBS is expected to be completed within 2 years subsequent to acquisition.

The entity ratings would continue to be dependent upon the implicit support of GoP in capitalization along with management focus on improving the asset quality, corporate governance framework, and concentration levels in deposits. With advent of depositor protection scheme, management expects sovereign guarantee on their deposits to continue; the latter is a key rating driver.

For further information on this rating announcement, please contact the undersigned at 021-35311861-70 or Mr. Maimoon Rasheed at 042-35723411-13.

Javed Callea
Advisor

Applicable rating criterion: Government Supported Entities (June 2016);
http://www.vis.com.pk/kc-meth.aspx

RATING REPORT

Zarai Taraqiati Bank Limited

REPORT DATE:
June 27, 2019

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	AAA	A-1+
Outlook	Stable		Stable	
Government Debt Obligations	AAA		AAA	A-1+
Outlook	Stable		Stable	
Date	*Jun 26,'19*		*Jun 28,'18*	

COMPANY INFORMATION

Incorporated in 2002	**External Auditors:** Horwath Hussain Chaudhary& Co & BDO Ebrahim & Co, Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Syed Yawar Ali (till July'17) **Chief Executive Officer:** Mr. Sheikh AmanUllah
Key Shareholders (with stake 5% or more):	
State Bank of Pakistan : 76.23% Government of Pakistan : 23.75% Other Provinces : 0.02%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Government Supported Entities (June2016);
http://www.vis.com.pk/kc-meth.aspx

Zarai Taraqiati Bank Limited

OVERVIEW OF THE INSTITUTION

ZTBL, formerly Agricultural Development Bank of Pakistan (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 headed by Sheikh AmanUllah since October, 2018. Mr. AmanUllah carries thirty one years of banking experience

Financial Snapshot

Total Equity: FY18: Rs.73.9b, FY17: Rs.76.1b.

Net Loss: FY18: Rs. 668m; FY17: Rs. 6.4b.

RATING RATIONALE

The assigned ratings take into account the implicit support of Government of Pakistan (GoP) being provided to Zarai Taraqiati Bank Limited (ZTBL). ZTBL plays a pivotal role in the development of agriculture sector of the country since it's the principal financial institution of GoP for the mobilization of agricultural credit. However, the financial risk profile of the bank has been affected by deterioration in asset quality coupled with decline in liquidity indicators. Moreover, decline in investment portfolio was witnessed along with a slight decrease in gross advances portfolio due to lower disbursements, and some erosion in equity base. The profitability has also weakened mainly on account of downward pressure on markup spreads, increase in administration expenses, and higher provision charge against non-performing advances. Given the government's support to the agriculture sector, the bank remains exposed to downward pressure on mark-up rates on advances.

Advances: Gross advances portfolio of the bank decreased slightly on account of considerable reduction in credit disbursement of Rs. 76.3b (FY17: Rs. 97.1b) during FY18. Kissan Dost Scheme (KDS) and Sada Bahar Scheme (SBS) remained the flagship products of the bank with disbursements of Rs. 7.3b and Rs. 41.1b, respectively. The bank has defined per acre loan ceilings for major crops while maintained the overall loan ceiling at Rs. 1.5m. The advances portfolio concentration in Punjab remained largely the same during FY18, which is in line with the highest population and agricultural related activity. Assets quality indicators deteriorated considerably during FY18 partially due to increase in NPLs related to sugarcane and potato crops. Resultantly, gross infection increased to 29.1% by end-FY18 (FY17: 16.6%) and net infection to 26% (FY17: 14.6%).The extended rain spell in Punjab and KPK may result in further NPLs mainly related to wheat crop during FY19. Going forward, the management plans to adopt corrective recovery mechanism; encouraging clients to clear their dues; failure to do so will lead to auction of their properties secured as collateral with the bank and/or encashment of post-dated cheques taken as collateral.

Going forward, the bank intends to launch a loan product to encourage local farming of import substitution products such as soybean seed to diversify its portfolio. Moreover, the bank plans to increase exposure to value-added crops and disburse loans for the establishment of fruits dehydration units in the KPK region. As per the management, e-Credit scheme is working well with 98% recovery rate, and more provinces are expected to join the said scheme in the upcoming budget. ZTBL is also working with the SBP to expand insurance coverage for more loan products to mitigate the losses.

Investments: ZTBL registered a significant reduction in investment portfolio during FY18, mainly on account of divesture in government securities. The investment portfolio mainly consisted of government securities, and hence the overall credit risk emanating from the same is considered minimal. Despite some increase in exposure to PIBs, the interest rate risk arising from PIBs portfolio is still considered manageable as it represents less than 4% of total assets and a weighted average modified duration of 1.06% years. The equity portfolio comprises investment in a blue chip stock, which carries sizeable unrealized surplus. ZTBL also receives regular dividend from the said investment. Going forward, the management plans to maintain the current investment mix with majority investment in risk-free government securities with no additional investment to be made in the stock market.

Profitability: The bank earned a lower markup income on account of a combination of decline in average advances and investment portfolio and an overall decrease in yield on markup bearing assets during FY18.Yield on mark-up bearing assets decreased mainly on account of lower yield on advances. Disbursement proportion of lower yielding KDS and agri e-Credit scheme production loans increased to 60% (FY17:51%) during FY18. The cost of funds stood slightly higher in line with increase in interest rates. Resultantly, markup spreads stood lower at 4.3% (FY17: 5.9%) during FY18.Non-markup based income also decreased mainly owing to lower credit related fee income, an outcome of lower disbursements. Operating expenses increased by 12.2% on a YoY basis. The bank reported a nominal loss before provisions of Rs. 108.5m (FY17: Rs. 5.45b profit before provision). The bank recorded a higher net provision and write-offs of Rs. 3.26b (FY17: Rs. 957.6m) mainly against loans & advances. Resultantly, ZTBL reported a loss before tax of Rs. 3.4b during FY18. Accounting for deferred taxation, the net loss reduced to Rs. 668m during FY18; the bank had incurred a net loss of Rs. 6.4b in FY17 mainly due to occurrence of hefty extraordinary/unusual expense – charged in respect of pension liability.

Liquidity: The liquidity profile of the bank weakened on account of notable decrease in adjusted (against collateral) liquid assets during FY18 mainly with the divestiture of short-term government securities. Resultantly, the liquid assets in relation to adjusted deposits and borrowings decreased to 29% by end-FY18 (FY17: 51%). Total deposit base of the bank stood lower at Rs. 40.4b by end-FY18 (FY17: Rs. 70.5b; FY16: Rs. 59.9b), which is considerably lower than the target of Rs. 71.9b. According to the management, the bank deliberately shed high cost deposit to curtail increasing cost of funds. Resultantly, proportion of fixed and saving deposits decreased to 79% (end-FY17: 85%) by end-FY18. However, the concentration of deposits among top 10 customers decreased slightly to 60% by end-FY18 (FY17: 63%; FY16: 63%), including 21% deposits related to ZTBL pension fund. Until the required granularity in deposits is achieved, the institution requires maintaining a sizeable liquidity cushion. ZTBL commenced Islamic banking operations on December 17, 2018. Islamic banking division is currently operating 5 branches with focus on deposit taking only, as asset side products are under Shariah and regulatory consideration for approval. The bank also plans to open Islamic banking windows at key conventional branches in major cities. The management attained Rs. 42.5 million benchmark in Islamic deposits by end-FY18. The focus on conventional and Islamic retail deposits will bode well for the bank.

Capitalization: The paid-up capital of the bank remained unchanged during FY18. However, total equity base decreased slightly as the bank reported net loss during FY18. With increase in NPLs and decrease in equity base, net NPLs in relation to the bank's Tier-I equity increased significantly to 50.4% by end-FY18 (FY17: 28.7%). The Risk Weighted Assets (RWA) were recorded at Rs.206.2b at end-FY18 (FY17: Rs. 194.5b) as the impact of lower market and operational risks was offset by the elevation of credit risk. Thereby, with a slightly decrease in total eligible capital, the Capital Adequacy Ratio (CAR) of the bank was recorded lower at 36.8% at end-FY18 (FY17: 39.9%), though still considerably higher than the minimum regulatory requirement.

Governance and Digitalization: The BoD at ZTBL consists of four members, of which two members are independent and one is the nominee of the Ministry of Finance. The BoD is non-functional since June'17. The management is currently headed by Mr. Sheikh AmanUllah, who has been serving as the acting President of the bank since October, 2018. Apart from a few changes, the senior management depicted stability.

ZTBL has officially launched 03 ATMs after getting 1-link approval certification and plans to add another 100 by end-FY19. In addition, more than 1,500 ATMs cards have been issued to the bank employees while issuance of the same to customers is expected to begin from June, 2019. The state-of-the-art core banking system (CBS) for conventional, commercial, and Islamic Banking has been approved, and acquisition of CBS along IT security software & hardware infrastructure is expected in the 4th quarter of FY19. The implementation of CBS is expected to be completed within 2 years subsequent to acquisition. In addition, the bank plans to make various enhancements in cDMS, CBAS, and the overall IT network infrastructure during FY19.

Corporate Profile

Zarai Taraqiati Bank Limited (ZTBL) was incorporated as a public limited Company under the repealed Companies Ordinance 1984, (now Companies Act, 2017) on October 23, 2002, as required under section 3 of the Agriculture Development Bank of Pakistan (ADBP) Ordinance, 2002. Consequently, all the assets, contracts, liabilities, proceedings, and undertaking of ADBP were transferred to, and vested in ZTBL on December 14, 2002. The bank's registered and principal office is situated at 1-Faisal Avenue, Islamabad.

The main purpose of the bank is to provide sustainable rural finance and service particularly to small farmers and low-income household to strengthen the rural and agriculture sector, mitigate poverty, capital market & investment activities and other banking business. ZTBL is awaiting commercial banking license from the State Bank of Pakistan (SBP), which is subject to the achievement of some 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.

The Board of Directors (BoD) at ZTBL is non-functional since June '17. The Fit and Proper Test (FPT) of four nominees has been cleared while the remaining three members are yet to be nominated by the government. Hence, no BoD meetings were conducted during FY18. The BoD has nine standing committees; Audit Committee, Human Resource Management Committee, Risk Management Committee, Nomination Committee, Procurement Committee, Investment Committee, Committee on Information Technology, Agriculture Technology Committee and Committee on Non-Performing Loans and Special Assets Management.

The management is currently being spearheaded by Mr. Sheikh AmanUllah, who is also serving as the acting President of the bank since October, 2018. Mr. AmanUllah is enriched with 31 years banking experience in Management, Operations, Internal Audit, Corporate Governance, Finance, IT & Restructuring at senior positions with ZTBL and SBP on his credit. He served at key executive positions of all the functional areas of ZTBL i.e. COO, CIA, Head of Finance, Head of HR, Head of IT, Head of Development and Head of Islamic Banking. As per the organogram, some departments report into the Chief Operating Officer (COO) who reports to the CEO. In the absence of COO, the Division/departmental heads report directly to the CEO. The bank operates through 21 divisions and 74departments. Total staff strength of the bank, including contractual employees, was reported at 5,604 at end-FY18 (FY 17: 5,799).

Branch Network

ZTBL opened 14 new branches during FY18 (FY17: 28), consisting of 12 (FY17: 17) conventional/Agri and 2 (FY17: 11) deposit taking branches. Resultantly, the branch network of the bank increased to 502 by end-FY18 (FY17: 488). The bank is also operating five Islamic branches (FY17: nil). The concentration of branches in Punjab increased to 59% by end-FY18 (FY17: 56%), followed by Sindh 19% (FY17: 20%). KPK 12% (FY17: 13%). As per the management, the bank has no plan to open new branches during FY19. Province-wise breakup of branch network is tabulated below:

Province	Number of Branches	
	FY17	FY18
Punjab	274	294
Sindh	95	93
KPK	65	59
Baluchistan	32	34
AJK	11	11
GBC	11	11
Total	**488**	**502**

ZTBL runs its nationwide banking operations through a network of 32 zonal offices. The average headcount employed at branch stood at 14 during FY18, including 6 support staff members from KSSL. Each branch is headed by a Branch Manager (BM) while other branch staff includes operation officer, Mobile Credit Officers (MCO), branch accountant and teller. There was no change in the branch reporting structure during the period under review; BM reports to the Zonal Chief who in turns reports to the COO. BM's are given targets for both asset and liability sales.

For the initiation of deposits mobilization, the bank has deployed 23 Relationship Officers (RO) and 20 Relationship Managers (RM) at major branches of major zones, who report to the Regional Sales Manager (RSM), who would report to the Zonal Sales Manager (Cluster Head); Zonal Sales Manager reports to the National Sales Manager; National Sales Manager heads the Liability Marketing Division at ZTBL. The bank plans to gradually deploy ROs and RMs at all branches.

The number of loss making branches increased further to 207 by end-FY18 (FY17: 164), mainly due to newly established branches which will require at least a year to become profitable. The average turnaround time for conventional, deposit taking branches, and high volume branches is estimated at more than one year.

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 involving cash flow analysis is conducted by MCOs after which documents are forwarded to the CAD officer for verification. The loan sanctioning limit varies from scheme to scheme; however, the same remain unchanged during the review period. BM can sanction loan up to Rs. 1.0m whereas loan amounts ranging between Rs. 1.0m to Rs. 1.2m are sanctioned by Zonal Chief. Loan amounts exceeding Rs. 1.2m are sanctioned by zonal credit committee. Moreover, BM can only sanction up to Rs. 0.5m under Sada Bahar Scheme (SBS) and development loans.

Credit Worthiness Report (CWR) is generated for all cases irrespective of 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 internal policy, delinquent clients with write-off or overdue history are not extended loans. In addition, 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
Potato	Rs. 51,000
Wheat	Rs. 29,000
Tobacco	Rs. 35,000

MCOs are responsible for conducting post disbursement utilization check for entire population. For development loans, utilization is checked within one month while for production loans, meanwhile utilization check for development loans 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

Mr. Hakeem Khan replaced Mr. Muhammad Shah Zaman as the head of Credit Administration & Risk Management Department (CA&RMD) during FY18. The department is sub-divided into three functional areas, including Credit Administration Department (CAD), Risk Management Department (RMD), and IT Security department. The scope of the department is effective management of overall risk profile of the bank. In addition to Board Risk Management Committee, the bank has formed the Internal Risk Management Committee and Basel Implementation Committee for effective oversight of risk functions. As per best practices, CA&RMD works independently of operations and reports directly to the CEO. The total staff strength stood at 22 employees at end-FY18 (FY17: 14) against the approved requirement of 35.

The RMD is further sub-divided into four functional units, namely Credit Risk Unit, Market & Liquidity Risk Unit, Basel Accord & Coordination Unit, and Operational Risk Unit. RMD has implemented an Obligor Risk Rating (ORR) model, which takes into account both quantitative and qualitative data with a higher weightage of latter. MCO initially assigns ORR for all loans which is subsequently verified by the RMD. As per policy, the bank does not lend to watch-list clients; customers with ORR between 1 and 4 are only eligible for loans. If the ORR of a particular client exceeds 5, the case is transferred to Zonal Chief for corrective action.

As per the SBP's recommended risk identification and monitoring tools for operational risk management, the bank has implemented Operational Risk Model. ORM consists of two components, including Key Risk Indicators (KRI) and Control Self-Assessment Report (CSAR). The objective of KRI is to provide useful information which works as an early warning system and identifies the areas of weakness in the business/administrative unit. Whereas, the objective of CSAR is to identify those areas or activities which are exposing the bank to numerous risk factors. The data is collected from all the branches on a quarterly basis and the questionnaire addresses HR issues, litigation matters, business risks, IT risks, and branch operations. In addition, RMD uses exception reports and major audit and RMD observations as a tool to identify risks and analyze their impact and suggest mitigation plan.

The identified risks and suggested mitigation controls are reported to the senior management and Board during the Business Risk Review (BRR) meetings which are held on a regular basis. BRR meetings also include risk profile of credit portfolio, a brief overview of on Basel III, and assets-wise capital charge position under Basel III transits. Moreover, the credit risk related metrics are discussed at product, sector, branch and zone levels. The department also assigns risk rating to all the new products developed. Moreover, stress testing is performed on a quarterly basis.

For monitoring of liquidity risk, liquidity gap reports are discussed during ALCO meetings ZTBL's also places and regularly monitors limits on its investment portfolio to optimize the risk and return trade-off. At end-FY18, the investment in TFCs/Sukuk was exceeding approved limit, while T-bills, Call/TDRs and PIBs limits were in compliance. The department also conducts new product risk assessments. The 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 directly to COO.

Internal Audit

Mr. Farooq Aftab is currently serving as Acting Head of Internal Audit. The overall structure of Internal Audit Department (IAD) remained sub-divided into three functional divisions, namely Field Audit Department (FAD), Corporate Audit Department (CAD), and Information System Audit Department (ISAD).

The scope of IAD is to conduct audit of all the branches, HO departments, information system and mitigate the risk of fraud and financial irregularities. Moreover, IAD assures that business operations and procedures are in accordance with regulatory guidelines and internal policies of the bank. FAD is further segregated into 3 Implementation Units, 1 Planning & Coordination Unit, and 1 Commercial Audit Unit. FAD performs its branch audit function through a network of 9 zones located in major cities across the country, with each zonal office having around 20 to 25 resources. Likewise, CAD further sub-divided into 3 Corporate Audit Teams, 1 Implementation & Coordination Unit, 1 Planning & Development Unit, and 1 Treasury Audit Unit, with staff strengthen ranging 3 to 10. ISAD is sub-divided into Coordination & Implementation Unit, Audit unit, and Planning & Development Unit, having staff strength of 11 at end-FY18 (FY17: 6). The total staff strength of IAD stood at 315 employees at end-FY18 (FY17: 300) against the actual required staff strength of 368.

Irrespective of risk profile, FAD conducts audit of all branches twice a year. Areas covered under branch audit include loan disbursement, recovery process, branch operations and cash management. During the audit exercise, 100% of loan portfolio is examined. In addition, 25% of the cases are also examined for loan utilization. Whereas, the CAD conducts audit of all departments at the HO and zonal offices once a year. The Audit Management System has been developed in-house enabling the IAD to audit the operations from their own desk including CNIC verifications, credit worthiness reports, loan transactions/examining vouchers and security documents.

The branch related audit observations are communicated to the BM on a daily basis. Moreover, after two days, all unresolved observations are escalated to the zonal chief. IAD has developed Audit Risk Rating Framework with the aim to assign risk ratings score to each branch, however, the introduction of Internal Audit Facilitation System (IAFS) has been delayed.

IAD will conduct the audit of all branches as per the revised audit plan for FY19. The management audit for FY19 will cover all the HO departments, including planning & research, vigilance division, Islamic banking, SAM & OREO division, liability marketing division, services division, finance division, treasury division, compliance & ICFR division, agriculture technology division, medical services division, recovery & remedial asset management division, credit administration & risk management division, public relations & media services department, operations division, corporate affairs department, credit division, training & development division, law division, accounting division, and human resource division as well as audit of nine zonal offices.

ISAD is responsible for Information System audits with the objective to determine the accuracy of security and controls in the Information Systems environment by assessing technology practices, policies and procedures. In line with the bank's policy, the ISAD will audit 30 functions of Information System during FY19, including Centralized Deposit Management System (CDMS), Centralized Branch Automation System (CBAS), ERP-Human Resource Module, Oracle Database Security, Interactive Management Information System (IMIS), IT Security and Governance & Controls.

The Financial Statements for FY18 were jointly audited by Horwath Hussain Chaudhary & Co Chartered Accountants and BDO Ebrahim & Co. Chartered Accountants.

Information Technology

The IT infrastructure at ZTBL comprises following major applications;

- cDMS (centralized Deposit Management System)
- CBAS (centralized Branch Automation Computerized)
- Oracle ERP-EBS (Oracle Enterprise Resource Planning; e-Business Suite)
- i-MIS (Interactive Management Information System)

cDMS is an oracle based real time application providing all liability side information system of the bank. The bank has made several enhancements in cDMS to improve the overall functionality. During FY18, TDR and PO/DD were implemented to replace manual data migration with the automated one. The integration of cDMS with the CBAS for Auto vouchers was also completed, which has helped reflect up-to-dated GL information. Moreover, the bank also integrated loan and deposit systems' separate window into cDMS and CBAS for Islamic banking business. Going forward, the bank plans to further enhance cDMS by implementing second phase of GO-AML, NIFT (Accounting & Process), and second phase of ATM as well as system changes as per SBP-DPC circular during FY19.

CBAS is an interactive system with inbuilt improved reporting system. During FY18, the concurrent day-end closing of branches was roll-out in CBAS, which was a pre-requisite to ATM operations. CBAS was enhanced with the addition of SAM recovery coordinator which will facilitate the recovery operations in field offices where such coordinators have been appointed by the bank. As per the implementation of credit policy department's circular, Sada Bahar Scheme Phase 1 was also added in CBAS. The bank intends to rollout three new enhancements in CBAS during FY19, including Phase 2 implementation of Loan Origination & Collection System (LOCS), adaptation of electronic land record system for agricultural financing, and deceased account settlement. During the Phase 2 of LOCS, the bank will computerize processing of loan application, automate the CAD function, and automate the security document and loan application. On Islamic banking front, the integrated pool management and profit distribution will be introduced during FY19.

The bank has received 1-link approval certification and has officially launched 03 ATMs so far which are running 24/7. ZTBL has a plan to add another 100 ATMs by end-FY19. The Phase 1 of procurement of Middleware, ATM switch & Card Management System (Debt Card Facility with PayPak) has been completed, while the Phase 2 is in process and consists of ATM card requisite form, mini statement, fund transfer, inter-bank fund transfer, bill payment, and biometric verification. Around 1,500 Europay, MasterCard and Visa (EMV) based biometric ATM cards have been issued to the bank employees, and issuance of the same to customers is expected to begin from June, 2019. The procurement of banking services enablers, which include mobile banking application and utility bills, is expected in the 3rd quarter of FY19.

The state-of-the-art core banking system (CBS) for conventional, commercial, and Islamic Banking has been approved, and acquisition of CBS along IT security software & hardware infrastructure is expected in the 4th quarter of FY19. The implementation of CBS is expected to be completed within the next 2 years.

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 is maintained at 2 Mbps. During FY18, the bank revamped its Business Continuity Plan (BCP) and established a real-time DR site in Lahore. BCP drills were conducted on a periodic basis. During FY19, the bank plans to strength its IT network by establishing managed network infrastructure at branch formation level, enhance media connectivity with Layer – 3 MPLS Data Service and provision of video conferencing facility at remote offices. In addition, IT operations enhancements will include installation of tape liberty and centralized backup solution, establishment of Network Operation Center (NOC) Room at ZTBL head office, and upgradation of Active Delivery Service & in-house email solution.

Financial Analysis

Asset base of the bank stood lower at Rs. 202.5b at end-FY18 (FY17: Rs. 256.3b) due to decline in investment portfolios and advances. The bank's advances portfolio decreased slightly to Rs. 144.7b by end-FY18 (FY17: Rs. 147.5b). The share of advances in overall asset mix increased to 71% (FY17: 58%) due to significant decline in investments portfolio which amounted to Rs. 28.5b at end-FY18 (FY17: Rs. 70.2b) and constituted 14% of total assets (FY17: 27%). Cash and bank balance placements with other financial institutions also decreased to Rs. 10.1b by end-FY18 (FY17: Rs. 23.1b) and accounted for 5% of total assets (FY17: 9%).

Other assets mainly comprised accrued markup, taxation, and receivables from the government and amounted to Rs. 20.6b (FY17: Rs. 18.0b), representing 10% of total assets (FY17: 7%). Operating fixed assets remained largely stable at Rs. 2.3b at end-FY18 (FY17: Rs. 2.2b) while deferred tax asset increased to Rs. 4.7b (FY17: Rs. 0.9b) due to higher tax losses carried forward and provision against NPLs. The asset mix of the bank is presented in the table below:

Rs. Billion	**FY16**	**FY17**	**FY18**
Cash & Balances	10.9%	9.0%	5.3%
Lending to FIs	0.0%	0.46%	0.0%
Investments	17.2%	27.4%	14.1%
Advances (net)	63.0%	55.0%	67.0%
Operating Assets	1.0%	0.9%	1.1%
Other Assets	7.9%	7.7%	12.5%
Total	**215.6**	**256.3**	**202.5**

Credit Risk

The Agriculture Credit Advisory Committee (ACAC) of the SBP sets the disbursement target for ZTBL. The bank ZTBL disbursed Rs. 76.3b during FY18 (FY17: Rs. 97.1b), which is significantly less than the target of Rs. 114b. The mix changed slightly as production loans accounted for 74% of total disbursements during FY18 (FY17: 77%) while share of development loans increased to 26% (FY17: 23%). Sada Bahar Scheme (SBS) and Kissan Dost Scheme (KDS) remained the flashing products of the bank. KDS provides financing for agriculture inputs for seasonal crop production at concessional rates. SBS entails financing for working capital requirements as well as production need on annual revolving. During FY18, disbursements under SBS amounted to Rs. 41.1b with a share of 54%, while disbursements under KDS amounted to Rs. 7.3b with a share of 10% of total disbursements. The ACAC has set the disbursement target at Rs. 86.4b for FY19.

Gross advances portfolio of the bank decreased slightly to Rs. 144.7b by end-FY18 (FY17: Rs. 147.5b) due to lower disbursements. The bank's lending portfolio is composed of production and development loans, with a higher proportion of the former. The production loans pertain to provision of financing for working capital requirements, whereas the principal and interest on development loans is collected bi-annually. The average loan size increased slightly to Rs. 211,325 during FY18 (FY17: Rs. 210,000). The bank's target is to maintain gross advances portfolio of Rs. 146.0b by end-FY19.

ZTBL is actively working on development of new loan products. In collaboration with the government, the bank has recently introduced a new scheme in order to provide credit assistance for the establishment of around 300 dairy units in the rural areas of the Azad Jammu & Kashmir (AJ&K). The markup on the principal amount at a rate of 16.8%

per annum will be paid by the Livestock and Dairy Development Department, Azad Govt. of AJ&K. However, the burden of defaulted amount along with the charges will be borne by the borrower. The maximum limit size of the scheme is Rs. 1.0m per borrower/per party. In addition, the bank plans to introduce three new products; i) financing for 3-Wheeler Loader Rickshaw, ii) financing for Milk Chilling Unit, and iii) financing for Small Oil Expeller Units for Soybean, Sunflower, Mustard and Olive Oil.

Recoveries made, including principal and markup, against the performing portfolio amounted to Rs. 56.0b during FY18 (FY17: Rs. 60.5b). Going forward, the management is projecting total recovery of Rs. 116.3b against the performing and non-performing advances. Recoveries related to Special Asset Management (SAM) were recorded at 1.7b (FY17: Rs. 2.0b) during the outgoing year, and the management is targeting recovery of Rs. 1.8b during FY19.

The geographical concentration of gross advances portfolio remained largely the same. Punjab accounted for 82.3% of total portfolio at end-FY18 (FY17: 82.3%), followed by Sindh 13.3% (FY17: 13.4%), and KPK 3.1% (FY17: 3.2%) while the remaining 1.3% pertained to Baluchistan, AJK, and GBC.

Total NPLs of the bank increased further to Rs. 42.1b by end-FY18 (FY17: Rs. 24.5b) due to slower recoveries and incremental NPLs emanating from the short-term and dairy sector loans. The share of NPLs pertaining to short-term production loans increased further to 45% by end-FY18 (FY17: 42%) mainly on account of weakness in market prices of sugarcane and potato crops. The dairy sector remained the second most vulnerable lending avenue and accounted for 31% of total NPLs at end-FY18 (FY17: 32%). Meanwhile, the amounted charged off increased to Rs. 2.3b during FY18 (FY17: Rs. 1.5b). Advances are charged off in accordance with prudential regulations after a period of three years from the date of default. For production loans, the classification is made in accordance to the actual amount of default; meanwhile, for development loans the entire principal is classified as NPL even if the overdue payment is a trivial amount.

A substantial amount of Rs. 27.9b pertained to OEM at end-FY18 (FY17: Rs. 15.9b), which is an early caution for the Bank to ensure timely recovery of outstanding loans, scrutinize its existing credit disbursement and recovery policies and control credit risk before conversion of those into default/losses ultimately. In the agriculture credit, migration to loss categories is made after 2 to 3 years, as compared to after one year in case of commercial banks. The management may require to remain cognizant as considerable amount is moving towards lower category of classification entailing higher provisioning. The table below depicts the distribution of NPLs among various categories:

	FY16	FY17	FY18
OAEM	74%	65%	66%
Substandard	14%	18%	17%
Doubtful	9%	12%	12%
Loss	3%	5%	5%

The asset quality indicators of the bank have weakened on a timeline basis. The gross infection increased to 29.1% by end-FY18 (FY17: 16.6%) due to a significant increase in NPLs and a slight decline in gross advances portfolio, whereas net infection increased to 26% (FY17: 14.6%). However, the net provisioning coverage decreased marginally to 14.2% by end-FY18 (FY17: 14.6%). The general provision was maintained at Rs. 3.0b (FY17: Rs. 3.0b). As a matter of prudence, ZTBL has not availed the benefit of allowed value of mortgaged lands and buildings while computing the provision against nonperforming loans. The asset quality indicators are presented in the table below:

	FY16	FY17	FY18
Gross Infection (excluding charge-offs)	15.8%	17.4%	27.5%
Gross infection (including charge-offs)	16.6%	17.6%	29.1%
Net Infection	14.3%	14.6%	26.0%

Going forward, the bank intends to launch a loan product for import substitution products such as soybean seed to diversify its portfolio. Moreover, the bank plans to increase exposure to value-added crops and disburse loans for the establishment of fruits dehydration units in the KPK region. As per the management, e-Credit scheme is working well with 98% recovery rate, and more provinces are expected to join the said scheme in the upcoming budget. ZTBL is also working with the SBP to expand insurance coverage for more loan products to mitigate the losses.

Investments

Investment portfolio of the bank decreased to Rs. 28.5b by end-FY18 (FY17: Rs. 70.2b; FY16: Rs. 37.1b) due to divesture of government securities. Resultantly, the proportion of government securities in overall investment portfolio was recorded lower at 75% at end-FY18 (FY17: 92%; FY16: 89%). The bank's exposure in T-bills decreased to Rs. 13.3b (FY17: Rs. 57.7b; FY16: Rs. 25.0b) due to divestures.

The credit risk arising from investment portfolio is considered low as T-bills constituted 47% of total investments at end-FY18 (FY17: 82%; FY16: 67%). The market risk emanating from the same is also considered low owing to short-term maturities. The carrying value of PIBs stood slightly higher at Rs. 8.0b (FY17: Rs. 6.5b; FY16: Rs. 8.1b), constituting 28% of total investment portfolio at end-FY18 (FY17: 9%; FY16: 22%). During FY18, the bank recorded a deficit of Rs. 443.7m on PIBs due to higher interest rates, compared to a surplus of Rs. 48.8m in the corresponding period. In the increasing interest rate scenario, the market risk emanating from PIBs portfolio has increased accordingly, although it is still considered manageable on account of relatively smaller quantum of the same in relation to total assets. The ALCO intends to have 70% to 80% of its deposits in treasury portfolio, which stood at 53.5% at end-FY18.

The equity portfolio of the bank comprised shares of Nestle Pakistan Limited (Nestle). The carrying value of equity portfolio stood lower at Rs. 3.9b at end-FY18 (FY17: Rs. 5.0b; FY16: Rs. 3.9b) on account of reduced revaluation surplus of Rs. 3.8b (FY17: Rs. 4.9b; FY16: Rs. 3.8b). The bank received dividend income of Rs. 114.1m during FY18 (FY17: Rs. 176.5m; FY16: Rs. 148.5m). Investment in unlisted companies comprising Pakistan Mercantile Exchange Limited amounting to Rs. 10.5m has been fully provided for. Average return on equities portfolio was recorded at 27% during FY17. The bank has no plan to increase investments in equities.

ZTBL has made investment in TFCs of commercial banks with instrument ratings of 'AA' and above exhibiting sound credit risk profile. The investment in Kissan Support Services Limited (KSSL), a wholly owned subsidiary of the bank, remained unchanged at Rs. 100m at end-FY18 (FY17: Rs. 100m).The table below presents the investment portfolio mix:

Investments (at market value in billions)	**FY17**	**%**	**FY18**	**%**
Government securities	64.2	91.5%	21.3	74.8%
PIBs	*6.52*	*9.3%*	*8.0*	*28.2%*
T-Bills	*57.7*	*82.2%*	*13.3*	*46.7%*
Shares – Listed	5.0	7.1%	3.9	13.6%
TFCs – Listed	0.7	1.1%	2.8	9.6%
Other	0.3	0.4%	0.6	2.0%
Total	**70.2**		**28.5**	

Liquidity & Deposits

The liquidity position of the bank weakened during FY18 as the collateral adjusted liquid assets decreased to Rs. 27.8b (FY17: Rs. 66.8b; FY16: Rs. 55.9b) due to divestiture of government securities. Resultantly, liquid assets in relation to collateral adjusted deposits and borrowings decreased to 29% by end-FY18 (FY17: 51%; FY16: 49%).

Total deposit base of the bank stood lower at Rs. 40.4b at end-FY18 (FY17: Rs. 70.5b; FY16: Rs. 59.9b), which is significantly less than the target of Rs. 71.9b. The largest decline was witnessed in term deposits as the bank intends to focus on the current and saving accounts (CASA). Term deposited amounted to Rs. 28.0b at end-FY18 (FY17: Rs. 44.7b; FY16: Rs. 38.6b), with slightly higher share of 69% in overall deposit mix (FY17: 63%; FY16: 64%). The saving deposits decreased to 4.0b by end-FY18 (FY17: 15.1b; FY16: 8.7b), resulting in significantly lower share of 10% (FY17: 21%; FY16: 15%). Current deposits amounted to Rs. 8.4b at end-FY18 (FY17: Rs. 10.7b; FY16: Rs. 12.6b), as its proportion recovered to 21% (FY17: 15%; FY16: 21%). However, the share of CASA in overall deposit mix decreased slightly to 31% by end-FY18 (FY17: 37%; FY16: 36%). Composition of the deposit mix is presented in table below:

Rs. Millions	FY17		FY18	
	Amount	%	Amount	%
Term Deposits	44,744	63%	27,957	69%
Saving Deposits	15,082	22%	4,023	10%
Current Deposits	10,722	15%	8,393	21%
Total (inc unclaimed)	70,548	100%	40,406	100%

During FY18, the deposit mix by customer type changed as share of corporate deposits stood lower at 70% (FY17: 80%; FY16: 60%) while remaining 30% appropriate to retail depositors (FY17: 21%; FY16: 40%). The concentration of deposits among top 10 customers decreased slightly to 60% by end-FY18 (FY17: 63%; FY16: 63%), including 21% deposits related to ZTBL pension fund. The concentration risk is still considered a bit on the higher side, though top deposits seem sticky in nature as depicted by largely stable concentration ratio.

Redeemable preference shares worth Rs. 54.5b were issued to SBP in March'17 carrying mark-up rate of 7.5% per annum, redeemable in one bullet payment on December 31, 2025.

Going forward, the bank is projecting to have CASA of Rs. 14.1b and TDRs of Rs. 32.1b by end-FY19.

ZTBL commenced Islamic banking operations on December 17, 2018. Islamic banking division is currently operating 5 branches with focus on deposit taking only, as asset side products are under Shariah and regulatory consideration for approval. The bank also plans to open Islamic banking windows at key conventional branches in major cities. For FY19, the target is to build a portfolio of Rs. 1.0b Islamic deposits. The focus on conventional and Islamic retail deposits will bode well for the bank.

Profitability

In line with the decline in the average advances and investment portfolio and lower yield on markup bearing assets, ZTBL earned a markup income of Rs. 18.5b during FY18 (FY17: Rs. 22.1b). Meanwhile, markup expense remained largely the same and amounted to Rs. 8.1b (FY17: Rs. 8.1b), which resulted in considerably lower net markup income of Rs. 10.4b (FY17: Rs. 14.0b).

The markup earned on advances decreased to Rs. 15.1b during FY18 (FY17: Rs. 18.5b) due to a combination of slight reduction in portfolio size and a lower yield on performing advances of 13.54% (FY17: 15.67%). The increase in disbursement proportion of lower yielding KDS and agri e-credit scheme production loans negatively impacted the overall yield on advances portfolio. Similarly, the markup earned on investments amounted to Rs. 2.7b during FY18 (FY17: Rs. 2.8b) on account of reduce portfolio size and slightly lower yield of 6.10% (FY17: 6.27%). During FY18, ZTBL recorded a markup of Rs. 0.59b (FY17: 0.73b) on placements with financial institutions as the impact of slightly higher yield of 4.72% (FY17: 4.65%) was offset by decrease in placements base. Resultantly, the overall yield on markup bearing assets decreased to 10.80% during FY18 (FY17: 12.16%).

The markup paid on redeemable preference shares held by the SBP increased to Rs. 4.1b during FY18 (FY17: Rs. 3.4b) owing to normalization of markup rate at 7.50% (FY17: 7.25%). Similarly, the markup on securities sold under repurchased agreement and call borrowings increased to Rs. 469.7 m during FY18 (FY17: Rs. 325.7 m) and Rs. 341.8m (FY17: Rs. 97.1m) respectively, mainly on account of higher average rate of 6.59% (FY17: 5.87%). The markup paid on deposits amounted to Rs. 3.2b during FY18 (FY17: Rs. 3.7b) as the impact of decline in deposits portfolio was offset by a marginally higher rate of 5.62% (FY17: 5.59%). Consequently, the markup spread of the bank decreased to 4.26% during FY18 (FY17: 5.85%) owing to downward pressure on yield on mark-up bearing assets and a slight increase cost of funding.

ZTBL reported a lower non-markup income of Rs. 1.9b during FY18 (FY17: Rs. 2.4b) on account of decline in credit related fees and reduced dividend income. The bank also booked a loss of Rs. 5.8m on the sale of securities during FY18 vis-à-vis a gain of Rs. 40.8m in the corresponding period. During FY18, other income amounted to Rs. 188.6m (FY17: Rs. 240.3m).

The administration expenses increased to 12.3b during FY18 (FY17: Rs. 11.0b) as the bank recorded a pension scheme expenses of Rs. 882.6m vis-à-vis a reversal of Rs. 58.8m in the corresponding period. Resultantly, the employee related expenses accounted for 73% of total administration expenses (FY17: 71%). Due to decrease in the average asset base during FY18, the overheads ratio stood higher at 5.4% (FY17: 4.7%).

The net provision against non-performing portfolio increased to Rs. 4.7b during FY18 (FY17: Rs. 2.6b) while amounts charged off was recorded higher at Rs. 2.3b (FY17: Rs. 1.5b). Bad debts written off directly amounted to Rs. 280.4m during FY18 (FY17: Rs. 262.9m). However, the bank's loss before tax decreased to Rs. 3.4b in the absence of any extraordinary expense during FY18, compared to a loss of Rs. 6.1b in the corresponding period. Accounting for a tax benefit of Rs. 2.7b, the net loss stood at Rs. 668m during FY18 vis-à-vis a loss of Rs. 6.4b in FY17.

Capitalization

The paid -up capital of the bank remained unchanged at Rs. 52.7b at end-FY18 (FY17: Rs. 52.7b) subsequent to a conversion of share deposit money into paid-up in FY17. However, total equity base decreased slightly to Rs. Rs. 73.9b (FY17: Rs. 76.1b) as the bank incurred a loss during FY18. With the decrease in Tier-I equity to Rs. 71.6b (FY17: Rs. 72.9b), net NPLs in relation to the bank's Tier-I equity increased significantly to 50.4% by end-FY18 (FY17: 28.7%). The bank needs to significantly improve its NPLs portfolio to strengthen its risk profile.

The Risk Weighted Assets (RWA) stood higher at Rs. 206.2b at end-FY18 (FY17: Rs. 194.5b) as the impact of lower market and operational risks was offset by the elevation of credit risk. Meanwhile, total eligible capital of the bank was reported lower at Rs. 75.9b at end-FY18 (FY17: Rs. 77.6b). Resultantly, the Capital Adequacy Ratio (CAR) decreased to 36.8% by end-FY18 (FY17: 39.9%), though still considerably higher than the minimum regulatory requirement.

Zarai Taraqiati Bank Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR billions)*			
BALANCE SHEET	**31-Dec-16**	**31-Dec-17**	**31-Dec-18**
Total Investments	37.1	70.2	28.5
Advances	135.8	140.9	135.7
Balances with other Banks	20.1	18.2	6.9
Cash and bank balances	3.5	4.9	3.8
Operating Fixed Assets	2.1	2.2	2.3
Other Assets	17.0	19.9	25.3
Total Assets	215.6	256.3	202.5
Borrowings	55.9	86.8	65.3
Deposits & other accounts	59.9	70.5	40.4
Other Liabilities	14.2	22.9	22.9
Subordinated Loans	3.2	-	-
Tier-1 Equity	80	72.9	71.6
Net Worth	82.4	76.1	73.9
INCOME STATEMENT	**31-Dec-16**	**31-Dec-17**	**31-Dec-18**
Net Mark-up Income	14.2	14.0	10.4
Net Provisioning/ (reversal)	2	2.9	4.7
Non-Markup Income	4.4	2.5	1.9
Operating Expenses	10.1	11.0	12.3
Profit Before Tax	6.5	-6.1	-3.4
Profit After Tax	3.3	-6.4	-0.7
RATIO ANALYSIS	**31-Dec-16**	**31-Dec-17**	**31-Dec-18**
Gross Infection (%)	15.8%	16.6%	29.1%
Provisioning Coverage (%)	11.2%	14.6%	14.2%
Net Infection (%)	14.3%	14.5%	26.0%
Cost of Funds (%)	5.5%	6.3%	6.5%
Net NPLs to Tier-1 Capital (%)	24.8%	28.7%	50.4%
Capital Adequacy Ratio (C.A.R (%))	46.7%	39.9%	36.8%
Markup Spreads (%)	7.2%	5.9%	4.3%
ROAA (%)	1.6%	-2.7%	-0.3%
Liquid Assets to Deposit & Borrowings (%)	48.9%	50.9%	29.3%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 III

Name of Rated Entity	Zarai Taraqiati Bank Limited (ZTBL)
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				
26-June-19	AAA	A-1+	Stable	Reaffirmed
28-June-18	AAA	A-1+	Stable	Reaffirmed
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				
26-June-19	AAA	A-1+	Stable	Reaffirmed
28-June-18	AAA	A-1+	Stable	Reaffirmed
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	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	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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