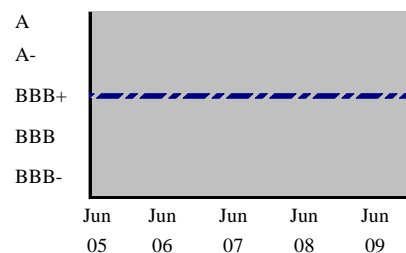


RATINGS (JUNE 2009)
**FIRST WOMEN'S BANK LIMITED
(FWBL)**

	NEW	PREVIOUS
Entity		
Long Term	BBB+	BBB+
Short Term	A2	A2

HISTORY – LT ENTITY RATING

FINANCIAL DATA
(Amounts in PKR mln)

	Mar 09*	Dec-08	Dec-07
Total Assets	7,243	7,303	8,985
Equity	1,143	1,135	1,028
Net Income	8	106	158
ROE (%)	2.8	9.8	16.7
ROA (%)	0.4	1.3	1.8
Equity/ Total Assets (%)	15.8	15.6	11.4
Net NPLs / Equity (%)	5.25	6.0	1.9

*Based on unaudited accounts for 3-months ended March 31, 2009

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the bank's relatively small size, restricted operations due to the unique nature of the bank's mandate and subdued prospects in an increasingly competitive environment. Meanwhile, the bank remains non-compliant with the minimum paid-up capital requirement and uncertainty regarding this aspect is a major impediment in its growth.
- The ratings are dependent on the bank's ability to timely address the ambiguity regarding its future. Internal capacity building, in terms of augmenting the human resource skill-set and enhancing the IT infrastructure would remain crucial. Meanwhile, any material deterioration in asset quality would have negative implications for the ratings.

ASSESSMENT

- CY08 proved to be a challenging year for the whole banking sector in Pakistan. High inflation, slowdown in GDP growth and deteriorating law and order situation reduced the repayment capacity of borrowers, leading to a rising trend in NPLs. Furthermore, heavy government borrowing created a tight liquidity scenario, crowding out the private sector. However, FWBL was able to modestly expand its advances portfolio. The bank's spreads improved during the year on the back of better asset yield. Nevertheless, higher provisioning requirements due to increased NPLs, and the revaluation deficit on investments dragged down the bottom line. Meanwhile, the bank was able to curtail its operational costs, which lent support to its profitability. Going forward, the bank's performance is expected to remain under pressure due to the subdued operating environment and revaluation deficit on investments.
- While FWBL was able to maintain a CAR of 23.4% – well above the statutory requirement – the bank has not been able to resolve its chronic non-compliance with the regulatory capital requirements for commercial banks. Its equity base remains weak and hinders the bank's future prospects. Although the SBP has granted the bank exemption from these requirements till December 2009, no plans have been finalized for its restructuring / recapitalization. The new President has taken up this matter strongly with the shareholders and regulators, but no definite timelines have been finalized. Meanwhile, the bank remains on the GoP's privatization agenda.
- The advances portfolio largely comprises SMEs (59%) and experienced deterioration in asset quality due to higher NPLs on a YoY basis (CY08: 5%; CY07: 3%). However, the NPLs remain on the lower side when compared with peers and impact of net NPLs on equity remains low. With around 46% of the advances stemming from two sectors of the economy and the twenty largest exposures constituting around 58% of the total lending portfolio, the concentration risk remains high. Yet, some comfort can be drawn from the fact that most of these advances are backed by liquid securities, or disbursed to established corporates and businesses.
- FWBL's deposit base eroded substantially (21%) in CY08, primarily due to outflows from savings deposits. The top 20 deposits contribute around 36% of total deposits, with a small portion (around 10%) being interest rate sensitive. The deposits are primarily mobilized from government and semi-government institutions, signifying relative stability.
- The investment strategy of FWBL is conservative. The investment portfolio (PKR 2,305mln at end-Mar09) is highly concentrated in government securities, with a major portion in PIBs. However, high proportion of long-dated bonds exposes the bank to market risk that has already crystallized in the form of a sizeable revaluation deficit. Equity securities are a very small portion of the total portfolio.
- FWBL's key strength is the loyal customer base that it has built over time. Customers have tended to graduate from small loans to large, while continuing their banking relationship with FWBL. Apart from loan transactions, the bank also provides business support training to women entrepreneurs, which enhances the goodwill of the bank. The reluctance of regular commercial banks in supporting SMEs, especially those being run by women, enables the bank to retain clients over long periods.
- While FWBL has made considerable progress in documenting various internal policies and procedures, the non-availability of an integrated MIS undermines the effectiveness of these control systems. Further, the caps placed on staffing and new hiring by the regulatory bodies also impacts the operational efficiency of the bank.

PROFILE

- Formed in 1989, FWBL's mandate was to cater to the special banking needs of women in Pakistan. The bank operates a network of over 38 branches spread across major cities and possesses a customer base of around 90,000 active clients.
- Ownership of FWBL lies with five banks (HBL, MCB: 26%; UBL, ABL, NBP: 9%) and the Ministry of Women's Development (20%), with the President appointed by the Federal Government. All shareholders have one nominee on the BoD. While the board continues to review the operational performance, they have shown limited willingness to address the strategic issue of the bank's future.
- The new President appointed during the period, Ms. Shafqat Sultana, has been with the bank since inception and has received various awards for her contributions to the bank. She is supported by the Executive Committee of the management, which oversees the day to day operations of the bank.