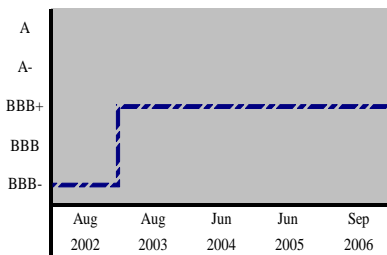


First Women Bank Limited (FWBL)

Ratings (September 2006)
First Women Bank Limited

	New	Previous
Entity		
Long Term	BBB+	BBB+
Short Term	A2	A2

LT ENTITY RATING – HISTORY



Financial Data

<i>PKR (mln)</i>	31-Dec-05	31-Dec-04
Total Assets	10,503.9	9,646.5
Equity	702.3	568.4
Profit After Tax	133.6	124.3
ROA (%)	1.3	1.3
Equity/ Total Assets (%)	6.7	5.9
SBP Capital Adequacy (%)	15.2	20.3

Analysts

Moin Khalid
+92 42 5869504
moin@pacra.com

Shahzad Saleem
+92 42 5869504
shahzad@pacra.com

Rating Rationale Assessment

- The ratings reflect the bank's limited size and franchise value, making it increasingly difficult for FWBL to compete in the highly competitive banking sector. Although the bank has a reasonable branch network and it has achieved an appreciable YoY growth in advances, the advances-to-deposit ratio remains low. This is attributable to constraints faced in terms of efficacy of credit processes and supporting systems, and also to the bank's focus on women borrowers, where the identified avenues are relatively restricted. At the same time, the ratings recognize the management's continuing initiatives at improving the quality of systems and processes, development of human resource and technology infrastructure for strengthening the bank's institutional capacity.
- During 2005, the bank achieved an appreciable YoY growth in advances, leading to an increase in advances-to-deposit ratio. However, it still remained at a fairly low level (end-05: 28%). Despite a notable rise in net interest revenue, arising from improvement in spreads and growth in advances, the overall profitability registered only a modest increase from the previous year. This was attributable to reduced contribution of other operating income, which included one-off capital gains on sales of government securities during 2004, and increase in operating costs, mainly due to upward revision in salary structure of the bank. The salary structure was revised to make it more in line with the sector, so as to retain and attract qualified and experienced staff.
- During 1H06, the advances portfolio registered a slight decline, while the spreads improved further – an outcome of time lag in transferring the impact of increasing interest rates to depositors. The resulting increase in net interest revenue led to a modest improvement in profitability, despite increasing operating costs. Having put in place the necessary infrastructure and systems and processes, the management is now targeting an increasing deployment of funds into advances, while maintaining the overall risk profile of the loan book. In this regard, it is also exploring new avenues for targeting women borrowers. Meanwhile, the bank also plans to launch consumer financing in the near future, with a relatively conservative growth stance in the initial phase. These measures, while helping the bank in actively pursuing its overall objectives, are also expected to have a positive impact on profitability.
- The bank's loan book is dominated by SMEs segment (around two-third), while the proportion of trade related financing is nominal. NPLs registered a moderate decline from the previous year, due to limited fresh infection and appreciable level of recoveries. This together with additional provisioning during the year, mainly because of revision in criteria for provisioning under regulations, reduced the uncovered impaired portfolio to a modest level. Considering the low risk appetite as demonstrated by the strong collateralization policy, the asset quality is expected to be maintained, going forward. The individual concentration, as measured by the proportion of top 20 exposures in the loan book, is relatively high. However, major portion of these exposures are either backed by liquid securities or comprises premier corporates and other established businesses, having long outstanding relationships with the bank.
- The investment portfolio of the bank, constituting around 40% of the total asset base at end-1H06, is mainly dominated by government securities. The investments in PIBs, constituting a sizeable proportion of the total investments (46%), have a reasonably high average effective yield. Resultantly, despite the sharp upsurge in the interest rates, the deficit on revaluation of these securities is still nominal. Moreover, the adverse impact of any further increase in the interest rates is likely to be mitigated by improving returns on funds deployed in short-term MTBs and substantial money market placements.
- The equity base of the bank increased to PKR 780mln at end-1H06, through full retention of profits. The bank has an exemption from SBP for compliance with the prescribed minimum capital requirement till December 31, 2006. While considering various proposals for equity enhancement, the management, at the same time is also pursuing the possibility of obtaining special dispensation from SBP regarding statutory capital requirements on the ground of its unique nature. Meanwhile, the Cabinet Committee on Privatization (CCoP) has recently included FWBL in the list of institutions to be privatized but the mode and timeline of the process for privatization remain uncertain.

Background

- First Women Bank Limited (FWBL) was established in 1989 with a vision to be the leading bank for women, catering to the special economic needs of women both in urban & rural areas of Pakistan and enabling them to participate more actively in the economic process. As a policy, the bank provides borrowing facilities mainly to those entities, a). which are at least 50% owned by women, or b). a woman is the Managing Director, c). or women employees are 50% or more of the total workforce. The original five nationalized commercial banks – with four subsequently privatized – and Ministry of Women Development owns the bank's share capital, each having one nominee director on the BoD. The bank currently operates through a network of 38 branches spread over 23 cities nationwide and has over 500 employees.
- The change of management under the leadership of the new President in 2001 provided the bank with the much-needed strategic focus and ongoing formulation of effective risk management systems necessary for viable operations in addition to strengthening the staff support. The management is assiduously steering the bank towards a healthy financial condition, while redressing the operational weaknesses. While the contract of the incumbent president has expired, she retains this position "till further orders". This situation adds another element of uncertainty to future prospects.