



The Pakistan Credit Rating Agency Limited

Rating Report

First Women Bank Limited	Report Contents
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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Maintain	-
23-Jun-2017	A-	A2	Stable	Maintain	-
07-Apr-2016	A-	A2	Stable	Upgrade	-
29-Jun-2015	BBB+	A2	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings primarily reflect strong association of FWBL with the Government of Pakistan (GoP) - the major shareholder - demonstrating continued commitment and support. Subsequent to injection of equity of PKR 1bln over last two years, GoP has injected another PKR 500mln in CY17. The bank thus has reached to a capital of PKR ~3.7bln. The management has brought clarity to strategic direction of the bank with independent focus on commercial and developmental mandate of FWBL. During CY17, as the spreads further squeezed, business margins were tested, hence, the bank booked loss for the year after recording profit in previous year; hence profitability will remain a challenge, going forward. The bank's high cost operational structure - though controlled on YoY basis - and provision expense on increasing non-performing loans continued to drag the performance. Cognizant of the matter, the management targets volumetric growth in deposits and advances, herein, efficient and effective use of the IT system along with synergies are being explored with other institutions to lend profitably with limited risk exposure. The internal control system of the bank has depicted steady improvement. The management is focusing to reduce its funding cost; thereby improving its spreads. Meanwhile, given recent capital compliance, the management has resources and clarity available to implement its business plan.

The ratings are dependent on the bank's ability to achieve bottom-line profitability on a sustainable basis. Successful execution of the new business strategy, while improving efficacy of the risk management framework to improve asset quality - which is currently suppressed - remains important.

Disclosure	
Name of Rated Entity	First Women Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17),Methodology Bank Rating(Jun-17)
Related Research	Sector Study Commercial Bank(Jun-18)
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FIRST WOMEN BANK LIMITED (FWBL) PROFILE	
Incorporated	1989
Profile	<ul style="list-style-type: none"> First Women Bank Limited is a small sized unlisted bank, operating with a network of 42 branches at end-Mar18. The bank carries commercial and developmental mandate.
Legal Status	Unlisted
Head Office	Karachi

INDUSTRY SNAPSHOT
<p>The banking sector has experienced highest growth in terms of advances in 2017 over the last decade. As a consequence, there is mounting pressure on capital adequacy ratio of the banks. The challenge is exacerbated as the internal generation of capital (profits) are witnessing a dip. Some relief on income side is expected with recent uptick in interest rates.</p>

OWNERSHIP
<ul style="list-style-type: none"> GoP is the major sponsor of the bank with 82.6% holding through Ministry of Finance (MoF) while MCB, HBL, ABL, NBP and UBL jointly hold remaining 17.4% MoF injected PKR 1,000mln each as capital in FY15 and FY16 and a further PKR 500mln in FY17

GOVERNANCE
<ul style="list-style-type: none"> The overall control of the bank vests in eight-member board of directors which includes the President and seven NEDs The board comprises qualified and experienced professionals with sound industry knowledge and extensive banking acumen Currently, there are multiple casual vacancies on the BoD; timely appointment of directors is important

MANAGEMENT
<ul style="list-style-type: none"> Ms. Tahira Raza was appointed as President and CEO of FWBL in Apr-14. She has been reappointed as President & CEO of FWBL in Apr-17 by MoF She has over 40 years of banking experience and has previously been associated with FWBL as one of the founding executive Senior management team at FWBL comprises seasoned personnel. The management has brought clarity to strategic direction of the bank with independent focus on commercial and developmental mandate

RISK MANAGEMENT
<ul style="list-style-type: none"> FWBL's total assets registered a considerable increase of 34% during CY17 predominantly a facet of rise in earning assets. Meanwhile, net non-earning assets improved YoY (CY17: 7%; CY16: 12%) in-line with the trend prevalent in the previous periods, reducing the drag on earning profile of the bank During 1QCY18, earning assets witnessed considerable decline of 31%. The decrease in earning assets reflects the bank's inability to successfully implement positive growth strategy post optimization of related funding structure; thus deposit base has also declined by ~23% Top-20 advances concentration (including government exposure) increased to 96% at end-Dec17 (Dec16: 91%; Dec15: 92%); reflecting high concentration risk. Government exposures represented 49% in overall advances at end-CY17 (CY16: 34%) ADR of the bank rationalized to ~55% (CY16: 60%) as against industry average of 50% During CY17, FWBL's overall asset quality witnessed improvement on account of recoveries and no further lending to sectors with higher infection ratio Moreover, loan loss coverage has improved to 75% (end-CY16: ~65%); thus net NPLs have been controlled. Fresh equity injection during CY17 reduced drag of un-provided NPLs on equity considerably

BUSINESS RISK
<ul style="list-style-type: none"> Significant dip in non-markup income (down by 10% YoY, CY16: down by 20% YoY) attributable largely to lower gain booked on sale of investments (down by 93%) has put further pressure on the revenue base The bank successfully curtailed administrative costs during the year. However, lower revenue base primarily driven by lower non-core income resulted in bank registering pre provisioning operating loss of PKR 104mln (CY16: loss of PKR 7mln) Going forward, FWBL plans to maintain size of its loan portfolio, improve quality of exposures, work on recoveries and strengthen treasury operations The bank is also focusing on alternative delivery channels to improve its outreach and open up a new income stream

CAPITAL & FUNDING
<ul style="list-style-type: none"> Overall deposit base of the bank registered a decent increase of ~19%, herein, CASA ratio also improved to 93% at end-Dec17 (end-Dec16: 86%). Top-20 depositors' concentration increased to 40% (end-Dec16: 29%) Deposit base remained tilted towards interest rate sensitive (saving and time) deposits which constitute ~80% of total deposits The bank enjoys good liquidity position; (liquid assets-to-total deposits and borrowings ratio CY17: 70%, CY16: 63%) MoF has injected PKR 1,000mln in two tranches over the last two years to bridge the MCR deficit of FWBL. New equity injection by GoP in CY17 of PKR 500mln further improved the risk absorption capacity of the bank



BALANCE SHEET	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	CY17	CY16	CY15
Earning Assets				
Advances (Net of NPL)	8,149	8,459	7,515	7,359
Debt Instruments	6	11	12	-
Total Finances	8,155	8,470	7,528	7,359
Investments	7,103	13,576	8,020	11,067
Others	81	110	190	142
	15,339	22,157	15,738	18,568
Non Earning Assets				
Non-Earning Cash	1,025	1,391	1,104	1,096
Deferred Tax	153	152	250	264
Net Non-Performing Finances	702	417	698	612
Fixed Assets & Others	842	713	731	808
	2,722	2,672	2,783	2,779
TOTAL ASSETS	18,062	24,829	18,521	21,347
Interest Bearing Liabilities				
Deposits	12,503	16,260	13,709	15,163
Borrowings	1,117	3,904	744	2,832
	13,620	20,164	14,453	17,996
Non Interest Bearing Liabilities	721	933	587	518
TOTAL LIABILITIES	14,341	21,096	15,040	18,513
EQUITY (including revaluation surplus)	3,721	3,733	3,481	2,833
Total Liabilities & Equity	18,062	24,829	18,521	21,347
INCOME STATEMENT	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	CY17	CY16	CY15
Interest / Markup Earned	298	1,276	1,162	1,516
Interest / Markup Expensed	(123)	(602)	(522)	(819)
Net Interest / Markup revenue	175	675	639	698
Other Income	32	118	200	397
Total Revenue	207	792	839	1,095
Non-Interest / Non-Mark up Expensed	(222)	(900)	(891)	(847)
Pre-provision operating profit	(14)	(104)	(7)	260
Provisions	5	(12)	11	(225)
Pre-tax profit	(9)	(116)	4	34
Taxes	(3)	(122)	7	19
Net Income	(12)	(238)	11	53
Ratio Analysis	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	CY17	CY16	CY15
Performance				
ROE	-1.3%	-6.9%	0.4%	2.2%
Cost-to-Total Net Revenue	107.2%	113.6%	106.1%	77.4%
Other operating income/ Total net revenue	15.6%	14.9%	23.8%	36.3%
Capital Adequacy				
Equity/Total Assets	19.9%	14.5%	18.0%	12.6%
Capital Adequacy Ratio as per SBP	48.9%	53.9%	46.6%	41.2%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	57.8%	69.7%	62.9%	62.7%
Advances / Deposits	70.8%	54.6%	59.9%	52.6%
CASA deposits / Total Customer Deposits	91.5%	93.0%	85.5%	88.6%
Intermediation Efficiency				
Asset Yield	6.4%	6.8%	6.8%	8.9%
Cost of Funds	2.9%	3.5%	3.2%	4.8%
Spread	3.4%	3.3%	3.6%	4.0%
Outreach				
Branches	42	42	42	42



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
BB-		
B+	High credit risk.	
B	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.	
B-		
CCC	Very high credit risk.	
CC	“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
C		
D	Obligations are currently in default.	

<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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