The Pakistan Credit Rating Agency Limited

Rating Report

First Women Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Dec-2018	A-	A2	Stable	Maintain	-
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	-

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 bank has brought clarity to strategic direction of the bank with independent focus on commercial and developmental mandate of FWBL. Since the spreads further squeezed, business margins were tested, hence, the bank booked loss; diluting the positive impact of equity injection; hence profitability remains 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.

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 | Financial Institution(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Commercial Bank(Jun-18)
Rating Analysts	Muhammad Noor ul Haq | muhammad.noorulhaq@pacra.com | +92-42-35869504

Commercial Bank

The Pakistan Credit Rating Agency Limited

Profile

Structure First Women Bank Limited (hereinafter referred as "FWBL" or "the Bank") was incorporated on 21st November 1989.

Background FWBL set up for the banking needs of women. The bank focuses on catering to women at all levels of economic activity; micro, SME and corporate. The Bank commenced its business with a paid-up capital of PKR 100mln, 90% of which was contributed in varying proportions by five leading Public Sector banks of the country.

Operations The FWBL operates through a network of 42 branches spread over 24 cities nationwide as at end-Sep18. The bank maintains online connectivity for all its branches, providing basic online banking and ATM services to its customers. FWBL mainly provides borrowing facilities for commercial and development purposes.

Ownership

Ownership Structure Ministry of Finance's (MoF) shareholding has 82.6%. The rest of the shareholding is divided among the five big commercial banks (NBP, HBL, MCB, UBL and ABL).

Stability FWBL is primarily dependent on funds from the MoF although the bank itself is in a dire condition. The MoF injected PKR 1,000mln each as capital in FY15 and FY16 and a further PKR 500mln in FY17.

Business Acumen The Federal Government through Ministry of Finance occupies ~83% stake in the bank. The GOP decided to privatize the bank and due diligence exercise is in progress. The commission is confident to complete this procedure at the earliest.

Financial Strength GOP is the major Shareholder of the bank. Bank has an asset base of PKR 22bln as at Sep-18 (CY17: PKR 25bln) and equity of PKR 3.5bln.

Governance

Board Structure The overall control of the bank currently vests in the eight-member board of directors which includes the President and seven NEDs. Three of the directors represent shareholder banks, while three are independent.

Members' Profile Previously, the expertise of the board in terms of industry knowledge and banking acumen was extensive because the majority of the members were practising bankers and heads of various departments with an intimate understanding of the banking sector in Pakistan, and as such, were well placed to advise the management on its strategic direction.

Board Effectiveness The board has formulated four committees. The bank is undergoing a paradigm shift with respect to strategy and successful implementation of the formulated business plan would be contingent to BoD's effectiveness. During the year in seven board meetings, attendance of board members remained low, due to change in the personnel and structure of the board.

Financial Transparency The audit committee comprises four members and reports directly to the BoD, all of whom are non-executive directors while two of them are independent directors including the chairman. The external auditor of FWBL – KPMG, Taseer Hadi & Co., who expressed an unqualified opinion on the bank's financial statements for CY17.

Management

Organizational Structure The organization is structured along functional lines with the various department heads, along with the management committees, reporting directly to the President.

Management Team Ms Naushaba Shahzad, (Acting) President & CEO, with diverse banking experience, excellent solution finding and prompt responsiveness, She has managed and headed the Risk Management Division, Financial Services Desk and Credit Portfolio of the Bank, including Syndicate Financing, Corporate Credit, SME and Consumer Financing during his ~25 years career.

Effectiveness The senior management team at FWBL comprises seasoned personnel with brief experience at their current positions. The bank has twelve divisions, the heads of which report directly to the President. The heads of the internal audit and inspection department report directly to the audit committee of the board. The bank has been inducting senior level executives in the last two years to strengthen its management team.

MIS The bank's core-banking application, Auto Banker-II continued automating the operations of the bank. The software ensures efficient information retrieval and report generation while additional security measures are now in place to limit unwanted access. The software also includes an audit trail that records a log of activities to improve monitoring.

Risk Management Framework FWBL has a hierarchical risk management framework in place, where branch officers are responsible for screening out various risks associated with the facilities and award internal credit rating based on FWBL's defined parameters.

Business Risk

Industry Dynamics The banking industry witnessed significant expansion in the loan book. Last year and YTD (2018) both witnessed huge deployments. This is expected to slow down. New projects require gestation period and additionally crowding-out effect may take place. Rising interest rates mean profitability of the sector would take support. Yet NPLs, as a result, may also transpire. CAR is reaching the maximum requirement by December 2018 (11.9%). This will create a challenge for some of the players.

Relative Position FWBL is a small sized unique nature scheduled bank. Market share of the FWBL during 9MCY18 is remained unchanged(Advances: 0.1% and Deposits: 0.1%).

Revenues During 9MCY18, FWBL's net interest margin witnessed at 3.0% (9MCY17: 3.1%). Costs remained largely flat YoY, allowing the bank to register a net loss of PKR 119mln (CY17: loss of 238mln; CY16: Profit of 11mln).

Performance FWBL's total assets registered an increase of 34% during CY17 predominantly a facet of a rise in earning assets. 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. Loan loss coverage has improved to 75% (9MCY17: ~63%).

Sustainability FWBL aims to grow the size of its loan portfolio while focusing to improve the quality of its exposures. Meanwhile, the bank would strengthen its treasury operations. The management's initiatives and new strategy are expected to bring improvement in bottom-line performance. The bank plans to tap the SME sector to fuel growth, whereas corporate business will also be prioritized.

Financial Risk

Credit Risk The bank manages its credit risk through various policies, checks and balances. The evaluation of credit proposals are managed by three committees. During 9MCY18 ADR of the bank rationalized to ~53% (CY17: 55%) as against industry of 54%.

Market Risk The bank's investment portfolio entirely comprises of government securities. T-bills represented a majority 99.8% in the overall portfolio at end-Sep18 (end-Dec17: ~99.9%) while investment in PIBs has been reduced to almost nil at end-Sep18.

Liquidity And Funding The ALCO monitors the liquidity position on a regular basis. Bank's liquid assets-to-total deposits and borrowings ratio at end-Sep18: 55% (CY17: 70%, CY16: 63%). At the end-Sep18, CASA ratio also improved to 93% (end-Dec17: 91%). The bank continues to face aggressive competition by peer banks with better outreach.

Capitalization Capital subsequent to the change in minimum capital requirement for FWBL from PKR 10bln to PKR 3bln (net of losses), SBP has raised the minimum CAR requirement to 18% until paid-up capital and reserves of the bank reach PKR 6bln. This revision is only applicable as long as the bank remains a public sector entity. FWBL's CAR has 48% at 9MCY18 (CY17: 54%).

First Women Bank Limited

PKR mln

BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	CY17	CY16	CY15
Earning Assets				
Advances (Net of NPL)	8,720	8,459	7,515	7,359
Debt Instruments	11	11	12	-
Total Finances	8,731	8,470	7,528	7,359
Investments	7,976	13,576	8,020	11,067
Others	2,198	110	190	142
	18,904	**22,157**	**15,738**	**18,568**
Non Earning Assets				
Non-Earning Cash	1,385	1,391	1,104	1,096
Deferred Tax	152	152	250	264
Net Non-Performing Finances	426	417	698	612
Fixed Assets & Others	761	713	731	808
	2,723	**2,672**	**2,783**	**2,779**
TOTAL ASSETS	**21,628**	**24,829**	**18,521**	**21,347**
Interest Bearning Liabilities				
Deposits	17,263	16,260	13,709	15,163
Borrowings	80	3,904	744	2,832
	17,343	20,164	14,453	17,996
Non Interest Bearing Liabilities	671	933	587	518
TOTAL LIABILITIES	**18,014**	**21,096**	**15,040**	**18,513**
EQUITY (including revaluation surplus)	**3,613**	**3,733**	**3,481**	**2,833**
Total Liabilities & Equity	**21,628**	**24,829**	**18,521**	**21,347**

INCOME STATEMENT	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	CY17	CY16	CY15
Interest / Mark up Earned	990	1,276	1,162	1,516
Interest / Mark up Expensed	(463)	(602)	(522)	(819)
Net Interest / Markup revenue	**527**	**675**	**639**	**698**
Other Income	89	118	200	397
Total Revenue	**616**	**792**	**839**	**1,095**
Non-Interest / Non-Mark up Expensed	(688)	(900)	(891)	(847)
Pre-provision operating profit	(71)	(104)	(7)	260
Provisions	(35)	(12)	11	(225)
Pre-tax profit	(105)	(116)	4	34
Taxes	(14)	(122)	7	19
Net Income	**(119)**	**(238)**	**11**	**53**

Ratio Analysis	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	CY17	CY16	CY15
Performance				
ROE	-4.5%	-6.9%	0.4%	2.2%
Cost-to-Total Net Revenue	111.7%	113.6%	106.1%	77.4%
Other operating income/ Total net revenue	14.5%	14.9%	23.8%	36.3%
Capital Adequacy				
Equity/Total Assets	16.1%	14.5%	18.0%	12.6%
Capital Adequacy Ratio as per SBP	47.5%	53.9%	46.6%	41.2%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	55.3%	69.7%	62.9%	62.7%
Advances / Deposits	53.0%	54.6%	59.9%	52.6%
CASA deposits / Total Customer Deposits	95.2%	93.0%	85.5%	88.6%
Intermediation Efficiency				
Asset Yield	6.4%	6.8%	6.8%	8.9%
Cost of Funds	3.3%	3.5%	3.2%	4.8%
Spread	3.1%	3.3%	3.6%	4.0%
Outreach				
Branches	42	42	42	42

Rating Scale

Credit Rating Scale & Definitions

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

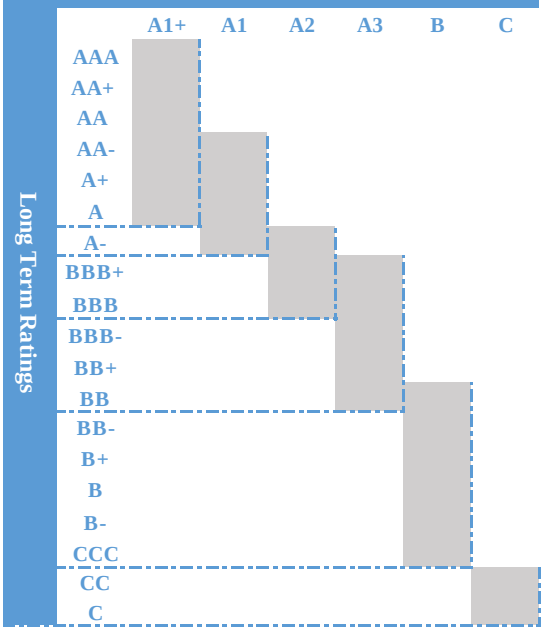
Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. 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.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** Substantial credit risk "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.
D	Obligations are currently in default.

Short Term Ratings

A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.

Short Term Ratings



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/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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, the rating should be considered withdrawn.

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, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Rating Team Statements
(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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(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)

Independence & Conflict of interest
(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)
Proprietary Information