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
25-Jun-2019	A-	A2	Stable	Maintain	YES
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	-

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. This helped in beefing up the equity which has been diluted by the losses of last two years. The incumbent management team has taken initiatives to augment the revenue stream, while rationalising the cost structure. The resultant benefit is seen in the bank's financial performance during the ongoing calendar year. 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 outlook captures the need 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-19)
Rating Analysts	Muhammad Noor ul Haq | muhammad.noorulhaq@pacra.com | +92-42-35869504

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 and 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-Dec18. 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% as at end-Dec18. 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 grim condition. The increasing regulatory requirements, growing competition and squeezing margins have made it more difficult for FWBL as going concern. However, the Govt. has put up the bank for privatization.

Business Acumen Presence of nominee directors from MoF and other stakeholder on the board of the Bank signifies valuable expertise and contributes to the overall business acumen.

Financial Strength The Ministry of Finance (MoF) injected PKR 1,000mln each as capital in FY15 & FY16 respectively and PKR 500mln in FY17 and also Govt. put some space in budget FY19 for further injection, which shows the Govt.'s interest in survival and function of the bank, as well as willingness to support it financially when required. However, MoF has been bailing out the bank in the past and shall continue to do so in the future until FWBL is successfully privatized.

Governance

Board Structure The overall control of the bank currently vested in the Six-member Board of Directors which included the President and three NEDs. Currently, three positions are vacant after retirement of Independent Directors in Jan19.

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 practicing 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 board meetings, attendance of board members remained adequate.

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. However, audited financial reports for the CY18 are not available due to the incomplete BoD.

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 ~28 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.

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 year 2018 was a marked year as the industry saw an expansion of ~22% in advances, although the deposit growth rate stayed in single digit. As a result the industry saw a rise in the ADR ratio from 50% to 55%. In terms of advances expansion, a predominant portion went in to energy sector followed by textile, individuals and agriculture. Corporate sector claimed the major portion of the borrowings with small amounts going into commodity, consumer and SME sectors. Profitability of the banks has taken a hit due to incremental costs and provisioning on account of NPLs. After a lapse of few years the industry NPLs have seen an accretion which is a concern going forward.

Relative Position Within the banking sector of Pakistan FWBL holds the lowest position in all aspects with its system share in customer deposits being 0.13% and 0.12% in advances, FWBL has the lowest profitability and performance ratios as well since it has been going in losses for last couple of years.

Revenues During CY18, discount rate registered a steep increase of 500bps in absolute terms and FWBL has positioned itself in this rising interest rate environment and showed a markup income growth of 13%. Non-markup income block of the Bank was reported at PKR 130mln, an increase of ~7% over corresponding period last year led by a considerable increase of PKR 27mln. However, due to high deferred tax expense Bank's PAT for the end-Dec18 clocked at a loss of 246mln (CY17: PKR 238mln).

Performance Despite a challenging operating environment, the Bank's PBT for the year stands at loss of PKR 104mln (CY17: PKR 116mln), showing improvement of 11%. Non-markup expenses for the year slightly increased by ~3% YoY. The bank's operational cost was high in CY18; the management is bringing efficiency which is having positive input in the ongoing year.

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. The Credit Administration Department (CAD) ensures proper documentation and compliance of loan requests as per SBP and bank's policies. thin the defined parameters.

Market Risk The bank's investment portfolio entirely comprises of government securities. T-bills represented a majority 99.9% in overall portfolio at end-Dec18 (end-Dec17: ~98%) while investment in PIBs has been reduced to almost nil at end-Dec18. Thus, exposure of the bank to interest rate risk remains limited. Despite the fact that risk has been lowered through such prudence, so have sources for income through investment.

Liquidity And Funding FWBL had shed off its costly deposits in CY14 and the trend continued in CY18 as well. During the year, overall non-remunerative deposit base of the bank registered a decent increase of ~12.5%, herein, CASA ratio also improved to 93% at end-Dec18 (Dec-17 91.2%). The bank continues to face aggressive competition by peer banks with better outreach and the rise of micro-finance banks in the country, currently offering higher returns.

Capitalization After 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%. This revision is only applicable as long as the bank remains a public sector entity, and bank will not be allowed to pay dividend until its paid-up capital and reserves reach PKR 6bln and per party exposure limit of the bank will be 50%. However, Bank's CAR on Dec18 stands at 46.12% (Dec17: 53.86%),

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Financial Summary

First Women Bank Limited

PKR mln

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
	CY18	CY17	CY16	CY15
Earning Assets				
Advances (Net of NPL)	9,048	8,459	7,515	7,359
Debt Instruments	10	11	12	-
Total Finances	9,058	8,470	7,528	7,359
Investments	9,183	13,584	8,020	11,067
Others	1,573	110	190	142
	19,814	**22,164**	**15,738**	**18,568**
Non Earning Assets				
Non-Earning Cash	1,750	1,391	1,104	1,096
Deferred Tax	13	152	250	264
Net Non-Performing Finances	379	409	698	612
Fixed Assets & Others	1,395	720	731	808
	3,537	**2,672**	**2,783**	**2,779**
TOTAL ASSETS	**23,351**	**24,837**	**18,521**	**21,347**
Interest Bearning Liabilities				
Deposits	18,398	16,231	13,709	15,163
Borrowings	109	3,904	744	2,832
	18,507	20,135	14,453	17,996
Non Interest Bearing Liabilities	1,317	969	587	518
TOTAL LIABILITIES	**19,824**	**21,104**	**15,040**	**18,513**
EQUITY (including revaluation surplus)	**3,527**	**3,733**	**3,481**	**2,833**
Total Liabilities & Equity	**23,351**	**24,837**	**18,521**	**21,347**

INCOME STATEMENT	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
	CY18	CY17	CY16	CY15
Interest / Mark up Earned	1,444	1,276	1,162	1,516
Interest / Mark up Expensed	(702)	(602)	(522)	(819)
Net Interest / Markup revenue	**742**	**675**	**639**	**698**
Other Income	129	118	200	397
Total Revenue	**871**	**792**	**839**	**1,095**
Non-Interest / Non-Mark up Expensed	(925)	(897)	(891)	(847)
Pre-provision operating profit	(53)	(100)	(7)	260
Provisions	(51)	(16)	11	(225)
Pre-tax profit	(104)	(116)	4	34
Taxes	(143)	(122)	7	19
Net Income	**(246)**	**(238)**	**11**	**53**

Ratio Analysis	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
	CY18	CY17	CY16	CY15
Performance				
ROE	-7.1%	-6.9%	0.4%	2.2%
Cost-to-Total Net Revenue	106.2%	113.2%	106.1%	77.4%
Other operating income/ Total net revenue	14.8%	14.9%	23.8%	36.3%
Capital Adequacy				
Equity/Total Assets	14.3%	14.5%	18.0%	12.6%
Capital Adequacy Ratio as per SBP	46.1%	53.9%	46.6%	41.2%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	60.5%	69.9%	62.9%	62.7%
Advances / Deposits	51.3%	54.7%	59.9%	52.6%
CASA deposits / Total Customer Deposits	95.7%	93.0%	85.5%	88.6%
Intermediation Efficiency				
Asset Yield	6.9%	6.8%	6.8%	8.9%
Cost of Funds	3.6%	3.5%	3.2%	4.8%
Spread	3.2%	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.

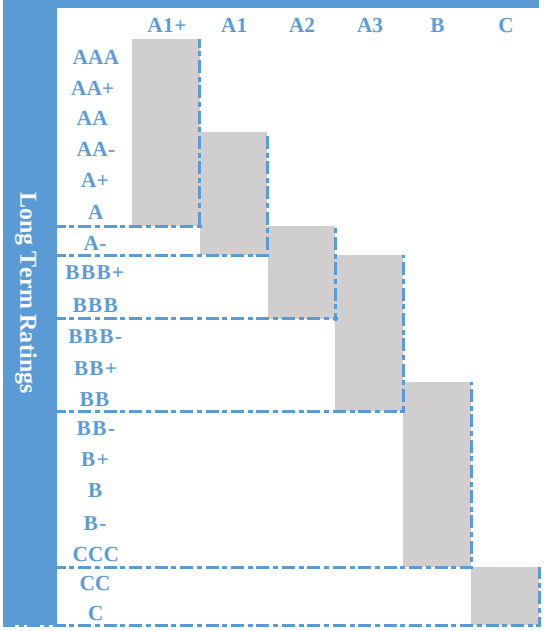
Long Term Ratings

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