



The Pakistan Credit Rating Agency Limited

Rating Report

First Women Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2020	A-	A2	Stable	Maintain	YES
24-Dec-2019	A-	A2	Stable	Maintain	YES
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	-
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. The bank received capital injections in previous years mainly to comply with minimum capital requirements. The current management team has taken initiatives to augment the revenue stream, while rationalizing 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 implemented with other institutions for calibration. The internal control system of the bank has depicted steady improvement. The management had taken various strategic initiates including, improvement of net spread through reducing its funding cost, expansion of retail customer base through launching BDO model, improving lending and trade business through onboarding investment grade rated corporate, highly performing SME business and re-branding corporate image. The management is also bringing efficiency which has had positive performance in the ongoing year. Bank's PAT for CY19 clocked at PKR 247mln (CY18: loss of PKR 246.2mln) which improved equity, which was diluted in previous years due to losses. Covid-19 has posed challenges to the banking sector, as almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.

The ratings capture the need to sustain a growth trend in profitability and deposits. Revision and successful execution of the business strategy, while improving efficacy of the risk management framework to improve asset quality.

Disclosure

Name of Rated Entity	First Women Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_FI(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Kanwal Ejaz kanwal.ejaz@pacra.com +92-42-35869504

**Profile**

Structure First Women Bank Limited (hereinafter referred as “FWBL” or “the bank”) was incorporated on 21st November 1989. It operates as full fledge commercial bank.

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 is mainly owned by govt. with major shareholding of Ministry of Finance.

Operations The FWBL operates through a network of 42 branches spread over 24 cities nationwide as at Dec-19. The bank maintains online connectivity for all its branches, providing basic online banking and ATM services to its customers. FWBL provides all type of banking services to Corporates, SMEs and other commercial entities with a complete bouquet of services. The bank has also launched internet banking services during the year.

Ownership

Ownership Structure The Ministry of Finance's (MoF) has as shareholding of 82.6% as at Dec-19. The rest of the shareholding is divided among the five big commercial banks (NBP, HBL, MCB, UBL and ABL). The Ministry has enhanced its stake through multiple tranches of capital injection over the years.

Stability Given the backing of the government of Pakistan through the Ministry of Finance, PACRA believes the ownership as stable. The bank is on the privatization list and would see transition as per the plans of the government.

Business Acumen Presence of nominee directors from MoF on the board of the Bank signifies valuable expertise and contributes to the overall business acumen. The bank itself has accumulated a vast experience of the markets where it has been performing.

Financial Strength Bank received capital injection in 2015, 2016 & 2017 mainly to comply with the minimum capital requirements.

Governance

Board Structure As of end-CY19, FWBL had three members of Board of Directors which included the President and 2 NEDs. Currently, several positions are vacant after retirement of Independent Directors in Jan19. These positions need to be filled to enable the bank to further expedite the strategic initiative.

Members' Profile The expertise of the current board members in terms of industry knowledge is good. However due to multiple casual vacancies the number of members is insufficient to produce a viable and diversified acumen, required for decision making.

Board Effectiveness The board has formulated various sub committees. The bank undertook a new strategic direction that led to positive transformation, which could take further impetus as the board gets completed and provides support to the bank.

Financial Transparency The audit committee, comprising four members, reports directly to the BoD. Audited financial reports for 2019 is not available, due to non-appointment of auditors as there were multiple vacant positions in BoD. This is an important matter and needs to be addressed immediately.

Management

Organizational Structure The organization is structured along functional lines: the Divisional Heads and the various management committees, reporting directly to the President.

Management Team Ms. Naushaba Shahzad, (Acting) President & CEO, is a veteran banking professional. Under her leadership, the bank has taken positive strides that has significantly improved its financial performance. As a permanent role previously, she has managed and headed the Risk Management Division, Credit Portfolio of the Bank, Foreign exchange and trade business during her ~30 years career. She is assisted by a team of professionals.

Effectiveness The senior management team at FWBL comprises seasoned personnel with extensive banking industry experience. The bank has inducted more experienced and skillful resources in the senior management team which has resulted in effective execution of the business strategy.

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 in place. The software also includes an audit trail that records a log of activities to improve monitoring.

Risk Management Framework FWBL manages risk centrally through Management Risk committee, an independent risk, compliance function, other control functions and regional office level set ups. For credits branch officers are primarily responsible for initial risk screening and assign internal credit risk rating based as per rating models which is further validated by the regional credit risk manager. The current management team has focused on improving the regulatory compliances and has taken steps to address the long pending issues, pertaining to cards operation, know your customer (KYC), IT infrastructures and Information security.

Business Risk

Industry Dynamics The banking industry saw a very good year in 2019 in terms of profitability. Due to the outbreak of Covid-19, multiple challenges are on the horizon.

Relative Position Within the banking sector of Pakistan, FWBL has a system share in customer deposits being 0.1% and 0.13% in advances.

Revenues During the period the discount rate remained on the higher end. FWBL has positioned itself positively that showed a markup income growth of 57% YoY to PKR 2,261 mln (CY18: PKR 1,444mln), while markup expense increased correspondingly. Non-markup income block of the Bank was reported at PKR 204mln for CY19, an increase of 57% over corresponding period last year.

Performance The bank, with concerted efforts of the management, has experienced turn-around from a loss of PKR 246mln for the year ended Dec 2018 to profit of PKR 247mln for the year ended Dec 2019, based on management accounts. Profitability indicators have depicted healthy growth on account of increase in topline revenue of the bank. FWBL managed to keep the cost under control, the operating expenses registered a small increase of 4.1% despite the deposit protection premium levied. Going forward, profitability is expected to depict an increasing trend due to volumetric growth of balance sheet. It is noteworthy as it enables internal capital generation as against the previous trend of equity dilution.

Sustainability The growth trajectory is essential to hold. However, growth in overall profitability will also depend on quantum of impairment charges as borrowers repayment capacity may be affected due to rise in COIVD-19. Further, increasing regulatory requirements/compliances, growing competition and squeezing margins have made it more challenging to keep this growth momentum, going forward.

Financial Risk

Credit Risk As at Dec-19, majority of loans were concentrated in investment grade corporate entities and govt. financing. The bank manages its credit risk through various policies procedures, monitoring, MIS and other checks and balances. The final evaluation/approval of credit proposals is done by three committees at different levels as per their assigned discretionary powers. The Credit Administration Department (CAD) ensures proper documentation and compliance of loan requests as per SBP and bank's policies. Due to prudent risk management, historical rising trend in the NPLs was kept under control. The coverage ratio of NPLs also increased in the CY 2019. Going forward, the management plans to sustain low risk appetite while expanding business volumes with major focus on Corporates and SMEs.

Market Risk The bank's investment portfolio entirely comprises of government securities. T-bills represented a majority ~85% in overall portfolio at Dec19 (Dec18: ~99%) while investment in PIBs is about PKR 1.02bln, which was almost nil at end-Dec18.

Liquidity And Funding The bank's CASA ratio decreased to 77% at end-Dec19 (CY18: 94%). In relative terms due to expansion of base line, the bank continues to face aggressive competition from peer banks with better outreach and the rise of micro-finance banks in the country, currently offering higher returns. The bank also focused on curtailing the high cost deposits, and expanded retail base by launching BDO model.

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 the 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%. As of Dec19, bank's CAR stands at robust level of 35% and total equity is PKR 3,793mln.



PKR mln

**First Women Bank Limited
Listed Public Limited**

Dec-19	Dec-18	Dec-17
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	9,776	9,058	8,470
2 Investments	6,707	9,183	13,584
3 Other Earning Assets	3,312	1,573	110
4 Non-Earning Assets	3,586	3,157	2,263
5 Non-Performing Finances-net	528	379	409
Total Assets	23,910	23,351	24,837
6 Deposits	17,870	18,398	16,231
7 Borrowings	411	109	3,904
8 Other Liabilities (Non-Interest Bearing)	1,836	1,317	969
Total Liabilities	20,116	19,824	21,104
Equity	3,793	3,527	3,733

B INCOME STATEMENT

1 Mark Up Earned	2,261	1,444	1,276
2 Mark Up Expensed	(1,204)	(702)	(602)
3 Non Mark Up Income	204	130	122
Total Income	1,261	873	796
4 Non-Mark Up Expenses	(963)	(925)	(897)
5 Provisions/Write offs/Reversals	(16)	(51)	(16)
Pre-Tax Profit	282	(104)	(116)
6 Taxes	(34)	(143)	(122)
Profit After Tax	247	(246)	(238)

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	4.5%	3.1%	3.1%
Non-Mark Up Expenses / Total Income	76.4%	106.0%	112.6%
ROE	6.8%	-6.8%	-6.6%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	15.9%	15.1%	15.0%
Capital Adequacy Ratio	34.8%	46.1%	53.9%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	47.2%	59.7%	69.1%
(Advances + Net Non-Performing Advances) / Deposits	57.7%	51.3%	54.7%
CA Deposits / Deposits	43.6%	61.7%	56.0%
SA Deposits / Deposits	33.7%	32.4%	35.3%

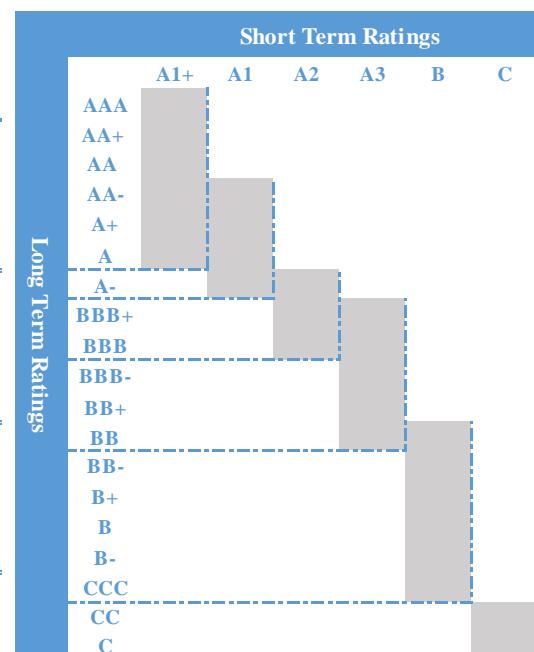
4 Credit Risk

Non-Performing Advances / Gross Advances	15.9%	15.8%	16.5%
Non-Performing Finances-net / Equity	13.9%	10.8%	11.0%

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	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.		
CC			
C			
D	Obligations are currently in default.		



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 surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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 principle 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)

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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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