The Pakistan Credit Rating Agency Limited

First Women Bank Limited
Entity Ratings Report

	New [Dec-17]	Previous [Jun-17]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

Report contents

December 2017

Profile &Ownership

- First Women Bank Limited (FWBL), established in 1989, is a commercial bank focused towards facilitation of women's financial needs
- The management has brought clarity to strategic direction of the bank with independent focus on commercial and developmental mandate
- The bank operates through a network of 42 branches spread over 24 cities as at end-Sep17
- GoP is the major sponsor of the bank with 80% holding while MCB, HBL, ABL, NBP and UBL jointly hold remaining 20%

Governance

- The overall control of the bank vests in seven-member board of directors which includes the President and six NEDs
- The board comprises qualified and experienced professionals with sound industry knowledge and extensive banking acumen
- The Board has been reconstituted with three new independent directors inducted
- Recently, the bank inducted and appointed Ms. Rukhsana Shah to the BoD as its new chairman; replacing Mr. Mudassir H. Khan

Management

- Senior management team at FWBL comprises seasoned personnel; however, majority has brief experience at their current positions.
- Ms. Tahira Raza was appointed as President and CEO of FWBL in Apr-14
- She has over 40 years of experience in banking and has previously been associated with FWBL as one of the founding executive in 1989

Risk Management

- FWBL's total assets registered a considerable growth of 19% during 9MCY17 predominantly a facet of increase in earning assets
- Net non-earning assets slightly improved YoY (9MCY17: 12%; 9MCY16: 16%) in-line with the trend prevalent in the previous periods, reducing the drag on earning profile of the bank
- The bank's advances to deposit ratio (ADR) has risen to 65% at end-9MCY17 (9MCY16: 58%)
- Top-20 advances (including government exposure) concentration remained almost flat at 91% (Dec15: 92%; Dec14: 71%).

Asset Quality

- During 9MCY17, FWBL's overall asset quality remained same on account of no further lending to sectors with higher infection ratio
- Moreover, loan loss coverage has improved to 63% (end-9MCY16: 57%); thus net NPLs have declined

Performance

- Significant dip in non-markup income in 9MCY17 (down by 35% YoY) attributable largely to lower gain booked on sale of investments (down by 90%) has put further pressure on the revenue base
- Hence, the bank reported a pre-tax loss of PKR 170mln (9MCY16: PKR 39mln).
- Going forward, FWBL plans to maintain size of its loan portfolio, improve quality of exposures, work on recoveries and strengthen treasury operations

Capital & Funding

- Deposit base remained tilted towards interest rate sensitive (saving and time) deposits which constitute ~76%.
- Top-20 depositors' concentration improved to 29% (end-Dec15: 35%)
- However, increased investment in government securities has improved the overall liquidity position; (liquid assets-to-total deposits and borrowings ratio 9MCY17: 61%)
- Post equity injection in over the last two years, FWBL is MCR compliant with a CAR of 52%

RATING RATIONALE

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 1QCY17. The bank thus has reached to a capital of PKR ~4bln. The management has brought clarity to strategic direction of the bank with independent focus on commercial and developmental mandate of FWBL. During CY16, as the spreads further squeezed, business margins were challenged, hence, the bank booked loss for the year after recording profit in previous year; hence profitability is a challenge. The bank's high cost operational structure 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, a new IT system is being implemented and synergies are being explored with other institutions to lend profitably with limited risk exposure. 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.

KEY RATING DRIVERS

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.

INDUSTRY SNAPSHOT

The banking sector experienced substantial expansion in its deposit base (2016: 14%). Building on the uptick in the economy, advances also grew by a sizeable margin after a lag of many years. Given GDP growth in FY17 and other macro-economic fundamentals, credit expansion is foreseen. Hence, CAR is going to be a challenge, as profits would also suffer due to PIBs maturities.

First Women Bank Limited

PKR mln

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
Earning Assets				
Advances (Net of NPL)	8,294	7,515	7,359	7,990
Debt Instruments	19	12	-	-
Total Finances	8,313	7,528	7,359	7,990
Investments	12,140	8,020	11,067	7,301
Others	101	190	142	515
	20,554	**15,738**	**18,568**	**15,806**
Non Earning Assets				
Non-Earning Cash	1,244	1,104	1,096	1,189
Deferred Tax	235	250	264	321
Net Non-Performing Finances	750	698	612	355
Fixed Assets & Others	814	731	808	1,116
	3,043	**2,783**	**2,779**	**2,981**
TOTAL ASSETS	**23,597**	**18,521**	**21,347**	**18,787**
Interest Bearning Liabilities				
Deposits	14,030	13,709	15,163	13,449
Borrowings	5,133	744	2,832	2,503
	19,163	14,453	17,996	15,952
Non Interest Bearing Liabilities	637	587	518	623
TOTAL LIABILITIES	**19,799**	**15,040**	**18,513**	**16,575**
EQUITY (including revaluation surplus)	**3,798**	**3,481**	**2,833**	**2,212**
Total Liabilities & Equity	**23,597**	**18,521**	**21,347**	**18,787**

INCOME STATEMENT	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
Interest / Mark up Earned	895	1,162	1,516	1,798
Interest / Mark up Expensed	(407)	(522)	(819)	(1,118)
Net Interest / Markup revenue	**487**	**639**	**698**	**681**
Other Income	79	200	397	71
Total Revenue	**566**	**839**	**1,095**	**752**
Non-Interest / Non-Mark up Expensed	(684)	(891)	(847)	(786)
Pre-provision operating profit	(103)	(7)	260	(22)
Provisions	(36)	11	(225)	(644)
Pre-tax profit	(139)	4	34	(666)
Taxes	(31)	7	19	166
Net Income	**(170)**	**11**	**53**	**(500)**

Ratio Analysis	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
Performance				
ROE	-6.5%	0.3%	2.2%	-25.3%
Cost-to-Total Net Revenue	120.8%	106.1%	77.4%	104.6%
Other operating income/ Total net revenue	13.9%	23.8%	36.3%	9.4%
Capital Adequacy				
Equity/Total Assets	15.6%	18.0%	12.6%	11.9%
Capital Adequacy Ratio as per SBP	52.2%	46.6%	41.2%	29.1%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	60.7%	62.9%	62.7%	49.1%
Advances / Deposits	64.5%	59.9%	52.6%	62.5%
CASA deposits / Total Customer Deposits	91.4%	85.5%	88.6%	77.6%
Intermediation Efficiency				
Asset Yield	6.6%	7.1%	8.9%	10.6%
Cost of Funds	3.2%	3.4%	4.8%	6.5%
Spread	3.4%	3.7%	4.0%	4.1%
Outreach				
Branches	42	42	42	41

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.

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
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Regulatory and Supplementary Disclosure

Name of Rated Entity First Women Bank Limited
Sector Banking
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
-	A-	A2	Stable	Maintain
23-Jun-17	A-	A2	Stable	Maintain
7-Apr-16	A-	A2	Stable	Upgrade
29-Jun-15	BBB+	A2	Positive	Maintain
30-Jun-14	BBB+	A2	Stable	Downgrade

Related Criteria and Research Banking Sector - Viewpoint | Jun-17
Rating Methodology Bank Rating Methodology

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Rating Team Statement

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