

RATINGS (JUNE 2011)

FIRST WOMEN'S BANK LIMITED (FWBL)

	NEW	PREVIOUS
Entity		
Long Term	BBB+	BBB+
Short Term	A2	A2
Outlook	Positive	Positive

HISTORY – LT ENTITY RATING

A							A
A-							A-
BBB+							BBB+
BBB							BBB
BBB-							BBB-
	Jun 2006	Jun 2007	Jun 2008	Jun 2009	Jun 2010	Jun 2011	

FINANCIAL DATA (Amounts in PKR mn)

	Mar 11*	Dec-10	Dec-09
Total Assets	13,473	12,703	10,258
Equity	1,118	1,085	1,058
Net Income	33	24	(80)
Equity/ Total Assets (%)	8.3	8.5	10.3
Net NPLs / Equity (%)	21.9	16.7	11.7
Capital Adequacy Ratio	27.5	27.2	32.4

*Based on unaudited accounts for 3-months ended March 31, 2011

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the bank's relatively constrained profile mainly due to limited outreach, weak franchise, and lack of strategic direction at the level of existing shareholders and the board (mainly dominated by big-5 banks). Although the profitability is adequate, asset quality has emerged as a concern lately. Nevertheless, FWBL's capital adequacy and liquidity remain strong, though its nominal capital is well short of the statutory requirement.
- The ratings continue to carry a positive outlook as the government plans to keep the bank in public sector by significantly increasing its stake in the bank (above 50%), in which regard material progress has been achieved lately. Timely execution of the acquisition process would be critical for the bank's prospects as currently it lacks a clear business strategy. At the same time, capacity building, in terms of inducting experienced human resource and augmenting technological infrastructure, would be crucial. Meanwhile, any material deterioration in asset quality would negatively impact the ratings.

ASSESSMENT

- The macroeconomic landscape of Pakistan remains uncertain. Although a few indicators have improved as reflected in current account surplus of the country, prolonged energy crisis, stubborn inflationary pressure and burgeoning fiscal imbalance continue to pose major challenges to economic growth. This is also reflected in continuing weakening in the asset quality of the banks. The pace of accumulation of NPLs has stalled lately, but it would be challenging for the banks – particularly for small and medium sized banks - to maintain asset quality amidst subdued business sentiments.
- During 2010, bank's loan book grew rapidly (growth in finances: CY10:86%; CY09:2%), mainly on account of participation in seasonal commodity financing to provincial governments. This volume driven deployment resulted in a 25% increase in net interest revenue. The bank largely maintained its spreads. However, provisioning expense as percentage of pre-provisioning profit (58% at end Dec-10, 193% at end Dec-09) remained high due to continuous increase in NPLs. Nevertheless, the bank registered positive bottom-line. The bank's performance in 1Q2011 remained strong mainly on account of high income generated from fee based and treasury activities. Going forward, sustainability in performance would remain important.
- The asset quality of FWBL continues to weaken during the year (growth in impaired lending: 30% at end Dec-10) as the bank faced higher delinquencies in its loan book, though the impairment (NPLs as percentage of gross finances: 11% at end Mar-11) still remains relatively lower than peers. In 2010, FWBL's advances portfolio remained concentrated in public sector (45% of advances), while the rest was deployed in SME (34%) followed by corporate (13%). Concentration of key large exposures net of government lending (30%) has reduced during 2010. Further comfort can be drawn from the fact that a major portion of these exposures is either backed by liquid securities or strong collateral.
- FWBL's deposit base depicted a moderate growth (16%). The top 20 deposits contribute around 25% of total deposits, with a significant portion of these deposits (mainly high volume term deposits) being interest rate sensitive. The deposits are primarily mobilized from government and semi-government institutions, signifying relative stability.
- The investment portfolio of the bank, with deployment of funds from retirement of commodity financing, grew significantly (100%) in 1Q2011. Government securities (99%) – MTBs (83%) and PIBs – comprise the portfolio implying low market risk and strong liquidity.
- The management is in the process of hiring senior personnel to fill certain executive positions. In this regard, limited franchise value of the bank remains an impediment. Timely upgradation of technological infrastructure, and designing and implementing a strong framework to streamline the risk management function remains imperative for prospects of the bank.
- FWBL has a limited equity base. However, with a relatively small loan book, the bank's Capital Adequacy Ratio remains strong. The bank remains non-compliant with regulatory capital requirements and has been granted extension by the SBP to meet minimum capital requirement till 31st December 2011. Going forward, with GoP's decision¹ to keep the bank in public sector, strong support from the sponsor in form of sizable capitalization would be required. This will allow the bank to expand its operations. However, pace and materialization of these initiatives remain to be seen.

PROFILE

- Formed in 1989, FWBL's mandate was to cater to the special banking needs of women in Pakistan. FWBL continues to operate through a network of 38 branches spread over 23 cities nationwide and has 585 employees as at end-Mar 11.
- Ownership of FWBL lies with five banks (HBL, MCB, UBL, ABL and NBP – 81%) and the Ministry of Women's Development (19%), while the President of the bank is appointed by the Federal Government. Each shareholder has one nominee on the BoD. While the board continues to review the operational performance, they have shown limited willingness to address the strategic issue of the bank.
- Ms. Shafqat Sultana, who took over as President of FWBL in 2009 has been with the bank since inception and has received various awards for her contributions to the bank. She is supported by the Executive Committee of the management, which oversees the day to day operations of the bank.

¹ As per the latest plan, the GoP is in the process of allocating PKR 800mln for subscribing towards a right issue in the bank, wherein with limited interest from existing shareholders (big 5 banks), GoP's shareholding is expected to increase significantly. This is likely to make GoP the single largest shareholder (above 50%). This development would significantly boost the financial profile of the bank