RATING REPORT

Pakistan Mortgage Refinance Company Limited

REPORT DATE:
April 05, 2021

RATING ANALYSTS:
Narendar Shankar Lal
narendar.shankar@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AAA	A-1+
Rating Date			*April 06, 2020*	
Rating Outlook	Stable		Stable	
Outlook Date			*April 06, 2020*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** KPMG Taseer Hadi & Co Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Rehmat Ali Hasnie
Shareholders:	**Chief Executive Officer/Managing Director:** Mudassir H. Khan
Private & Public Sector Institutions – 71.14%	
Government of Pakistan – 28.86%	
Aggregate Public Sector Shareholding – 43.45%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Government Supported Entities (July 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-GSEs202007.pdf

Pakistan Mortgage Refinance Company Limited

OVERVIEW OF THE INSTITUTION

Pakistan Mortgage Refinance Company Limited (PMRC) operates as a Development Finance Institution under State Bank of Pakistan (SBP) regulations. Additionally, Securities & Exchange Commission of Pakistan (SECP) oversees PMRC's capital market operations.

Profile of Chairman

Mr. Hasnie has been a member of the Board of PMRC since May 2016 and the Chairman of the Board of Directors since April 2017. He is a financial markets professional with a MA Degree in Development Banking from The American University (USA) and a nominee Director on PMRC of National Bank of Pakistan (NBP), where he is presently the SEVP & Group Chief of the Inclusive Development Group (IDG). IDG is NBP's most recent and ambitious initiative to position the Bank as not only a commercial bank but also as an institution focused on the priority financing sectors of Pakistan's economy. In this regard, not only is the focus of IDG the SME and Agriculture lending but also mortgage lending (especially promotion of home ownership for low-income households). Earlier, Mr. Hasnie was heading investment banking at NBP. His over 26 years of work experience includes economics research, capital markets, investment banking, treasury and credit markets at various institutions in Pakistan. He has also served on the Boards of Pakistan Mercantile Exchange Limited, Fauji Akbar Portia Marine Terminals Limited, Agritech Limited, First Credit Investment Bank Limited and First National Bank Modaraba as a nominee director of NBP.

Profile of CEO/Managing Director

Mr. Mudassir H. Khan is the MD/CEO of Pakistan Mortgage Refinance Company. Mr. Khan holds an Executive Masters in Business

RATING RATIONALE

Pakistan Mortgage Refinance Company Limited (PMRC) was established by the State Bank of Pakistan (SBP) in 2015 as Pakistan's first national mortgage refinance institution for provision of long-term funding to both conventional and Islamic Partner Financial Institutions (PFIs). The Business Commencement Certificate was granted by SBP to PMRC on June 12, 2018. Shareholding structure of the company illustrates that approximately 71.14% shareholding of the company is vested with 10 Financial Institutions including private & public sector institutions while remaining stake is held by the Government of Pakistan (GoP) through Ministry of Finance (MoF). Aggregate public sector shareholding is 43.45%.

Key Rating Drivers

Assigned ratings continue to remain underpinned by strong Government and Regulatory support

The assigned ratings continue to remain underpinned by PMRC's special policy role in promoting and facilitating home ownership & housing finance in the country and close linkages with SBP and GoP. Strong government and regulatory support is evident from relaxation granted to the organization in meeting minimum equity requirement during first five years of operations, GoP bearing the foreign currency risk on the loan provided by World Bank, low risk charge of 10% for PMRC on exposure to PFIs and inclusion of PMRC bonds in level 2A high quality liquid assets and exemption from maintenance of general reserve against portfolio refinanced by PMRC.

Demand for house finance is expected to remain sound given the deficit of housing units in the country vis-à-vis demand and low mortgage finance penetration. Furthermore, GoP's initiatives such as Construction Package and Naya Pakistan Housing Scheme are also expected to provide positive impetus to house loan demand going forward

Estimated housing shortage in Pakistan is 12 million units with the same increasing on a timeline basis by 0.4 million units every year. Total outstanding housing finance loans from banks and the HBFCL stood at Rs. 103b (2018: Rs. 92.4b, 2017: Rs. 82.6b) at end-Dec'19 growing at a rate of 12% over the last two years. However, mortgage finance loans as a percentage of GDP stood at only 0.27%, which is well below the regional average in South Asia, thereby indicating considerable room for growth. SBP has set targets for the banks as per which the banks are required disburse at least 5% (Rs. 330 billion) of their private sector credit portfolio to the housing and construction sector by end-December 2021. Moreover, the Construction sector stimulus package announced by the GoP in 2020, which provides several tax and regulatory incentives specific to affordable housing, and the Naya Pakistan Housing Scheme, which aims tackle housing shortage in the country by provide access to affordable housing for the population, are also expected to facilitate demand for house loans going forward. Given the aforementioned factors, VIS expects sound demand growth in the house loans over the rating horizon.

Growth trend in the advances persisted during 2020 as the portfolio depicted sizeable growth. Credit risk on the portfolio is considered minimal given the sound credit risk management practices in place

Total advances portfolio increased to Rs. 15.0b (2019: Rs. 7.7b) at end-2020. The portfolio constitutes conventional and Islamic refinance loans and pre-finance loans for middle, low and business as usual income groups disbursed to twelve (2019: six) Islamic and conventional PFIs. Impact of COVID-19 was minimal on the company's books as only Rs. 200m principal payments have been deferred for a period of 1 year

Administration from Stern School of Business, New York, USA and a Masters in Finance from St. John's University, New York, USA. With over 28 years of diversified banking experience primarily covering Retail, Corporate & Investment Banking, Operations, Risk and Development Banking. Before joining PMRC, Mr. Khan worked with National Bank of Pakistan for four years as SEVP/Group Chief Retail & Commercial Banking and as Group Chief Payments & Digital Banking. Prior to that, he was with HBL for nine years, holding different portfolios as SEVP Group Head Global Operations, CIO, CCO and Head of Basel and Operational Risk. He also worked with the World Bank for more than fourteen years in the area of Financial Sector and Private Sector Development, South Asia Region, based in Pakistan and also worked in Afghanistan, Bangladesh, Nepal, Maldives; as well as in the Africa Region in Ghana, Uganda, Kenya and Sierra Leone. Before joining the World Bank, he worked in the field of Corporate and Investment Banking with Citibank, N.A and Bear Stearns in Pakistan and in USA.

Mr. Khan has been the Chairman of NBP Fullerton Asset Management (NAFA) and of First Women Bank Limited (FWBL). He was also on the Board of Directors for National Institute of Financial Transactions (NIFT); ISM and FWBL and was the Chairman Audit Committee & Risk Management Committee for FWBL and member HR and Compensation Committees for NIFT.

under the SBP's Debt Relief Scheme. Going forward, the focus would be on increasing the disbursements to existing PFIs in order to increase the portfolio size. Management is targeting to increase the size of the advances portfolio to around Rs. 25b by end-Dec'21.

Credit risk emanating from the refinancing portfolio is considered minimal on account of financing with recourse to PFIs and 25% overcollateralization on Mortgage Loan Portfolio (MLP). Moreover, quarterly and monthly monitoring of the loan portfolio is undertaken by the operations department whereby defective loans including prepaid and non-performing loans are replaced with fresh loans.

Credit and Market risk emanating from the investment portfolio is considered low

Total investment portfolio was reported higher at Rs. 10.2b (2019: Rs. 8.8b) at end-Dec'20. Credit risk emanating from the portfolio is considered low as the exposure is undertaken in only sovereign instruments (T-bills & PIBs). Exposure to market risk is also considered manageable. Sensitivity of ratings to credit and market risk while being present is considered low.

Liquidity profile remains strong given the presence of sizeable liquid buffer in the form of liquid assets. Funding strategy is conservative entailing close matching of the duration and maturity of assets and liabilities

The quantum of total borrowing availed by PMRC increased to Rs. 22.3b (2019: Rs. 14.6b) at end-Dec 2020. Total borrowings include subordinated loan amounting to Rs. 7.05b (2019: Rs. 7.05b), which has been acquired from the World Bank (WB) via GoP at a fixed rate of 3% per annum. The loan has a 30-year term with 5 years grace on Principal repayment. The foreign exchange risk on this loan is carried by GoP. In case required, this subordinated loan can be converted into non-participatory Additional Tier I Capital. During 2020, total borrowings increased primarily on account of disbursement of Rs. 4.64b loan from the Government of Pakistan under the World Bank – Housing Finance Project for 30 years at a fixed rate of 3% per annum. Going forward, total borrowings are expected to increase further as the organization has issued Sukuk of Rs. 3.1b in March 2021. Nevertheless, liquidity buffer of PMRC, in terms of liquid assets available to meet unexpected shortfalls in cash flows, remains satisfactory at present. Going forward, despite increase in projected borrowings and the refinancing portfolio, the liquidity profile is expected to remain comfortable over the rating horizon. Moreover, in order to the manage liquidity risk, maturity gaps are monitored at periodic basis and close matching of the duration and maturity of assets and liabilities is ensured by the management.

Sound Capitalization Indicators

Net equity (equity excluding revaluation surplus) increased to approximately Rs. 6.1b (2019: Rs. 4.7b) at end-2020. Growth in equity base was a function of internal capital generation. As per regulatory requirement, PMRC is allowed to operate with a Minimum Capital Requirement (MCR) of Rs. 3.5b for the first 5 year of operations subject to restriction on dividend payout. After the initial five years, the MCR for PMRC will be Rs. 6b; however, the company has already achieved this threshold during 2020. Given the healthy projected growth and profitability, equity base is projected to grow over the next three years. With increase in refinancing portfolio, risk weighted assets are projected to grow but only at a limited pace given the low-risk weight on financing extended to PFIs. Capital adequacy ratio of PMRC was healthy at 143.62% (2019: 206.93%) at end-Dec 2020 and is expected to remain comfortably above statutory requirement over the rating horizon.

Sizeable growth in the markup income on account of increase in advances and investment portfolio remains the key profitability driver. Efficiency (cost to income) is expected to remain strong despite projected increase in operating expenses given projected improvement in core revenue

Although yields on advances and investments decreased in 2020 due to decline in benchmark rates, net mark-up income increased significantly to Rs. 2.5b (2019: Rs. 1.5b) owing to volumetric growth in advances and investment portfolio during 2020. With increase in scale of operations, operating expenses also increased to Rs. 315.2m (2019: Rs. 272.1m). However, sizeable increase in income outweighed the increase in expense base, thereby leading to higher net profit after tax of Rs. 1.4b (2019: Rs. 901.8m). Going forward, profitability is expected to be driven by the volumetric growth in the earning assets. While remaining within manageable levels, operating expenses will increase as the company scales up its operations. Nevertheless, efficiency (cost to income) ratio of the institution is expected to remain strong given projected improvement in core revenue

Pakistan Mortgage Refinance Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*		*Annexure I*	
BALANCE SHEET	**2018**	**2019**	**2020**
Investments	1,010	8,822	10,203
Net Advances	1,200	7,729	14,967
Total Assets	3,750	19,577	28,835
Borrowings	-	7,566	15,249
Deposits & other accounts	-	-	-
Subordinated Loans	-	7,051	7,051
Paid Up Capital	3,659	3,659	3,659
Tier-1 Equity	3,702	4,607	6,048
Net Worth	3,713	4,696	6,138
INCOME STATEMENT			
Mark-up/return/profit/interest earned	224	1,529	2,509
Mark-up/return/profit/interest expensed	-	(337)	(715)
Net Spread Earned	224	1,193	1,794
Provisions and write-offs net	-	-	-
Non-Markup Income	0	1	3
Administrative expenses	(167)	(272)	(315)
Profit/ (Loss) Before Tax	57	902	1,436
Profit / (Loss) After Tax	55	902	1,436
RATIO ANALYSIS			
Capital Adequacy Ratio (CAR)	542%	207%	144%
Liquidity Coverage Ratio (LCR)	141%	382601%	137429%
Net Stable Funding Ratio (NSFR)	219%	307%	151%
Leverage Ratio	99%	24%	23%
Efficiency	75%	23%	18%
Current Ratio	NA	NA	NA
Cash flow from operations	(2,058)	2,666	2,193
ROAA	2.2%	7.7%	5.9%
ROAE	2.8%	21.4%	26.5%
Liquid Assets to Deposits & Borrowings	NA	77.0%	59.8%

RATING SCALE & DEFINITION — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Pakistan Mortgage Refinance Company Limited				
Sector	Development Finance Institution (DFI)				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	April 02, 2021	AAA	A-1+	Stable	Reaffirmed
	April 06, 2020	AAA	A-1+	Stable	Reaffirmed
	May 07, 2019	AAA	A-1+	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Zulfiqar Alam	Group Head Business and Operations	22nd March 2021	
	2	Ms. Farheen Amjad	Head of Finance	22nd March 2021	