RATING REPORT

Pakistan Mortgage Refinance Company Limited

REPORT DATE:
April 12, 2022

RATING ANALYSTS:

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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 12, 2022*		*April 05, 2021*	
Rating Outlook	Stable		Stable	
Outlook Date	*April 12, 2022*		*April 05, 2021*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** A. F. Ferguson & 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://docs.vis.com.pk/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.

Profile of Chairman

SEVP & Group Chief-Inclusive Development Group (NBP)

Mr. Hasnie has been a member of the Board of PMRC since May 2015 and the Chairman of the Board of Directors since April 2017. He is a financial market professional with a MA in Development Banking from The American University (USA) and presently serving at National Bank of Pakistan (NBP) in the capacity of SEVP & Group Chief (Acting) of the Corporate & Investment Banking Group. He is also the Group Chief of the Inclusive Development Group (IDG) at NBP. IDG is NBP's most recent and ambitious initiative to position the Bank as an institution focused on the priority financing sectors of Pakistan's economy (i.e. SME and Agriculture lending). Mr. Hasnie has also headed investment banking at NBP for many years. His has over 26 years of work experience in the financial sector including stints in economics research, capital markets, investment banking, treasury and credit markets at various institutions in Pakistan. He has served on numerous Boards as a nominee Director of NBP including of Pakistan Mercantile Exchange Limited, Fauji Akbar Portia Marine Terminals Limited, Agritech Limited, First Credit Investment Bank Limited and First National Bank Modaraba.

Profile of CEO/Managing Director

Mr. Mudassir H. Khan is the Managing Director/CEO of Pakistan Mortgage Refinance Company. Mr. Khan holds an Executive Masters in Business Administration from Stern School of Business, New York, USA, a Masters in Finance from St. John's University, New York, USA and Bachelors

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%.

<u>Key Rating Drivers</u>

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 GoP bearing the foreign currency risk on the loan provided by World Bank, inclusion of PMRC bonds in level 2A high quality liquid assets and exemption from maintenance of general reserve against portfolio refinanced by PMRC and relaxation granted to the organization in meeting minimum equity requirement during first five years of operations, however, the Company has already achieved this threshold before the lapse of relaxation period granted by GoP.

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 Naya Pakistan Housing Scheme and newly launched Mera Pakistan Mera Ghar scheme is providing growth to house loan demand

- Research estimates states that the current housing shortage in Pakistan is 10 million units which is expected to grow to 13 million by 2025 out of which nearly half is in the urban areas.

- During FY21, housing and construction financing reached at Rs. 259b by Jun'21, witnessing an increase of Rs. 111bn (75%) compared to Jun'20. However, Pakistan's mortgage finance to GDP ratio stands at 0.23%, which trails South Asian average of 3.4%, thereby indicating considerable room for growth.

- Further, SBP in line with the Government's vision mandated banks to increase their housing and construction finance portfolio to at least 5% of their private sector advances by December 2021.

- Schemes such as Naya Pakistan Housing Scheme and recently launched Mera Pakistan Mera Ghar (MPMG) Scheme, feature provision of housing loans to retail, subsidized by GoP. This aims to provide affordable housing and tackle housing shortage in the country. Recently, MPMG Mela organized by SBP was held on March 19-20, 2022, wherein Banks granted on spot conditional approval of Rs. 7.4b subsidized housing loans.

of Science in Electrical Engineering from Oklahoma University, USA. With over 29 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, 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 had been a speaker at many conferences locally and internationally related to housing finance, banking & digital transformation, banking operations and reforms and risk management. He had also served in many Boards as Director and was the Chairman of NBP Fullerton Asset Management (NAFA) and of First Women Bank Limited (FWBL). He is currently MD/CEO PMRC and member of the Board of Pakistan Microfinance Network as Independent, Non-Executive Director.

Advances continued to register notable growth in 2021. Credit risk is considered minimal given the sound credit risk management practices in place

- Total advances portfolio of the company grew by Rs. 8.7b during 2021 to Rs. 23.7b as at Dec'21 compared to a growth of Rs. 7.2b in 2020.

- The portfolio constitutes conventional and Islamic refinance loans and pre-finance loans in different segments including low and middle income, Business As Usual, Pensioner's Scheme, Government Employees Housing Scheme, Government Markup Subsidy Scheme, and Developer Finance Scheme. The loan is disbursed to 17 (2020: 12) conventional and Islamic PFIs in accordance with institution-wise limits set by PMRC.

- The percentage of Islamic advances in the total portfolio is around 22.5% as at Dec'21 with the remaining being conventional.

- PMRC will continue to focus on further growth of advances through new disbursements and targeting to increase the size of the advances portfolio to around Rs. 33.5b as at Dec'22.

- 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).

- Also, operations department conducts monthly and quarterly monitoring of portfolio wherein defective loans and non-performing loans are replaced with fresh loans.

Market risk is considered low as investment strategy remains focused on sovereign debt securities

- Investment portfolio stood at Rs. 10.24b as at Dec'21, remaining at same level on YoY basis. Sovereign debt securities comprise 97% of the total investments while the remaining is vested in A+ rated private debt securities.

- Given that the entire portfolio comprises instruments with maturities of less than 1 year and in the range of 1-2 year constituting 45% and 48% of the portfolio respectively, exposure to market risk is considered manageable. Furthermore, with the entire portfolio largely comprising sovereign issuances, exposure to credit risk is low.

Sound liquidity profile with sizeable liquid assets available on balance sheet. Moreover, conservative funding strategy entailing close matching of the duration and maturity of assets and liabilities.

- Liquid assets available in order to meet unexpected shortfalls in cash flows remain satisfactory as liquid assets to deposits and borrowings stood at at 60.9% as at Dec'21. (Dec'20: 59.8%).

- The quantum of total borrowings availed by PMRC witnessed a notable increase to Rs. 42.2b as at Dec'21 (Dec'20: Rs. 22.3b).

- During 2021, borrowings increase was accounted by issuance of TFCs and Sukuks of Rs. 11.7b and Rs. 4.1b respectively. TFC's carry maturity of 3-5 years, while sukuk has a maturity of 3 years. PMRC has also increased its debt by Rs. 4.1b in 2021 by way of increase in repo borrowing.

- Total borrowings include subordinated loan amounting to Rs. 7.05b as of Dec'21 (Dec'20: Rs. 7.05b), which has been taken from the World Bank (WB) via GoP at a fixed rate. The loan has a 30-year term with 5-year grace on principal repayment.

- Management is planning to take new line of borrowings from World Bank, which is expected to be approved during the rating horizon while also planning to issue new bonds of Rs. 2b in CY22.

- Going forward, despite increase in projected borrowings and the refinancing portfolio, PMRC's liquidity profile is expected to remain comfortable over the rating horizon.

- In order to manage the 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.

Low Financial Risk Profile, Given Adequate Capitalization

- Net equity (equity excluding revaluation surplus) increased to approximately Rs. 7.6b as at Dec'21 (Dec'20: Rs. 6.1b). Growth in equity base was a function of profit retention.

- 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 steadily grow over the rating horizon.

- Capital Adequacy Ratio (CAR) was healthy at 53.10% as at Dec'21 (Dec'20: 143.62%). CAR is expected to remain comfortably above statutory requirement over the rating horizon.

Profitability indicators came under stress, given contraction in spread and lack of material volumetric growth

Table 1: P&L (Extract)

Rs. Mn.	2019	2020	2021
Markup interest earned	1,529	2,509	2,844
Markup interest expensed	(337)	(715)	(1,406)
Provision and write-offs net	-	(16)	-
Net Markup interest income	**1,193**	**1,778**	**1,439**
Other Income	1	3	3
Operating expenses	(272)	(315)	(353)
Other expenses	(20)	(30)	(21)
Profit before tax (PBT)	**902**	**1,436**	**1,066**
Taxation	-	-	-
Profit after tax (PAT)	**902**	**1,436**	**1,066**
Efficiency (%)	***22.8%***	***17.6%***	***24.5%***

- PMRC's net markup income was 20% lower YoY, which was mainly a result of a contraction in spread.

- PMRC's spread contracted as yield on advances fell from 8.9% to 7.75%, and investments from 11.4% to 9.8%. In relative terms the cost of funding was only lower by 100 bpts, translating in an 80 bpts contraction of spread.

- Given the drop in recurring income and 12% uptick in operational overheads, being roughly in line with operational growth of PMRC and prevailing inflation, the efficiency ratio was slightly adverse YoY, albeit is considered to be adequately low.

- Going forward, profitability is expected to improve mainly driven by the forecasted volumetric growth in advances & investments and increase in interest rates. Accordingly, efficiency ratio (cost to income) ratio is expected to remain strong.

Pakistan Mortgage Refinance Company Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*					
BALANCE SHEET	**2017**	**2018**	**2019**	**2020**	**2021**
Investments	-	1,010	8,822	10,203	10,239
Net Advances	-	1,200	7,729	14,967	23,715
Total Assets	**1,321**	**3,750**	**19,577**	**28,835**	**50,211**
Borrowings	-	-	7,566	15,249	35,187
Deposits & other accounts	-	-	-	-	-
Subordinated Loans	-	-	7,051	7,051	7,051
Paid Up Capital	150	3,659	3,659	3,659	6,238
Tier-1 Equity	**150**	**3,713**	**4,616**	**6,055**	**7,614**
Net Worth	**150**	**3,713**	**4,696**	**6,138**	**7,367**
INCOME STATEMENT					
Mark-up/return/profit/interest earned	73	224	1,529	2,509	2,844
Mark-up/return/profit/interest expensed	-	-	(337)	(715)	(1,406)
Net Spread Earned	**73**	**224**	**1,193**	**1,794**	**1,438**
Provisions and write-offs net	-	-	-	-	-
Non-Markup Income	2	0	1	3	3
Administrative expenses	(80)	(167)	(272)	(315)	(353)
Profit/ (Loss) Before Tax	(6)	57	902	1,436	1,066
Profit / (Loss) After Tax	**(4)**	**55**	**902**	**1,436**	**1,066**
RATIO ANALYSIS					
Capital Adequacy Ratio (CAR)	35.8%	542.0%	206.9%	143.62%	53.1%
Liquidity Coverage Ratio (LCR)	NA	141.0%	382601.0%	137429.0%	10544.0%
Net Stable Funding Ratio (NSFR)	NA	219.1%	306.5%	150.7%	134.0%
Leverage Ratio	11.2%	99.3%	23.8%	22.7%	15.9%
Efficiency	110.7%	74.6%	22.8%	17.6%	24.5%
Cash flow from operations	22	(2,058)	2,666	1,212	(3,475)
ROAA	NA	2.2%	7.7%	5.9%	2.7%
ROAE	NA	2.8%	21.4%	26.5%	15.8%
Liquid Assets to Deposits & Borrowings	NA	NA	77.0%	59.8%	60.9%

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	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
April 12, 2022	AAA	A-1+	Stable	Reaffirmed
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. 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 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see table below

	Name	Designation	Date
1	Mr. Muhammad Shahzad Khan	Head of Business	17th March 2022
2	Ms. Farheen Amjad	Head of Finance	17th March 2022