



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pakistan Mortgage Refinance Company Limited | PP Sukuk

#### Report Contents

1. Rating Analysis
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Apr-21	AAA	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan Mortgage Refinance Company – PMRC, commenced business in 2018 as Pakistan's first mortgage refinance institution to provide lending to both; Islamic and Conventional Financial Institutions. The purpose of the institution is to increase the availability of affordable mortgages, consequently reducing the shortage of housing in Pakistan. The regulatory structure is supportive to the initiative. The rating incorporate the robust shareholding of Ministry of Finance, National Bank of Pakistan, Habib Bank, United Bank, International Finance Corporation, Allied Bank, Bank AL Habib, Bank Al Falah and Askari Bank in PMRC. Initial financing has been under World Bank's Housing Project, on-lent by the Government of Pakistan. The Company's primary source of finance will emanate from the bond/sukuk issue, hence targeting the development of bond/sukuk market in Pakistan. Over the years, PMRC's financing portfolio increased manifolds. Investment book comprising of government securities, increased further. The business risk profile is strong evidenced by healthy asset yield and lower cost of funds. During CY20, Company's net markup income grew significantly when compared with the same period last year. PMRC's financial risk profile is also considered favorable where equity base has witnessed organic growth as International Finance Corporation (IFC) subscribed to PMRC's ~12% capital in Jan-2021. PMRC is planning series of bonds/sukuk, in upcoming years, which will provide with ample liquidity in years to come for further development of mortgage housing finance industry in the country.

PMRC has issued Privately Placed Sukuks as instrument of redeemable capital of amount PKR 3.1bln. The proceeds of the Issue will be utilized to refinance the residential mortgages/housing portfolio of eligible financial institutions. Security is based on hypothecation charge over specific receivables of PMRC with 25% margin (primary security) and lien over Term Deposit of PKR 1,600mln held with a high-rated bank.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Mortgage Refinance Company Limited   PP Sukuk
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Sukuk(Jun-20),Methodology   FI (Jun-20)
<b>Related Research</b>	Sector Study   DFIs(Jun-20)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

**The Pakistan Credit Rating Agency Limited**

PMRC   PP SUKUK   TERM SHEET		ABOUT THE ENTITY
<b>Tenor</b>	Up to three (03) years from the Issue Date	Pakistan Mortgage Refinance Company Limited (PMRC) has been set up as mortgage lending facility through a Public Private Partnership. Pakistan Mortgage Refinance Company - PMRC (or the Company) is a public unlisted company. PMRC commenced business in 2018. It was established as Pakistan's first mortgage refinance institution to to promote mortgage financing in Pakistan. The Company has grown significantly over a short tenure where the regulatory structure is supporting this initiative. The Company has a very strong ownership structure.
<b>Profit Rate</b>	8.25%	
<b>Profit Payments</b>	Semi Annual (06 Months)	
<b>Principal Redemption</b>	Bullet payment at Maturity	
<b>Mandated Lead Advisor &amp; Arranger</b>		
Pak Oman Investment Company Limited		

THE INSTRUMENT
<p><b>ABOUT THE SUKUK:</b> Pakistan Mortgage Refinance Company Limited (PMRC) has issued Privately Placed Sukuks as instrument of redeemable capital under Section 66 of the Companies Act, 2017 and Private Placement of Securities Rules, 2017. Issue amount is PKR 3,100mln. Profit is payable semiannually on the principal amount. The first profit payment is falling due on Sep 18, 2021 and subsequently every six (06) months thereafter. The proceeds of the Issue will be utilized to refinance the residential mortgages/housing portfolio of eligible financial institutions.</p> <p><b>SECURITY:</b> Security is based on hypothecation charge over specific receivables of PMRC (PKR 2.6bln) (primary security) and lien over Term Deposit held with a high-rated bank (PKR 1.6bln) (25% margin). Book value of security amounts to PKR 4.2bln.</p>
THE ISSUER
<p><b>PROFILE:</b> Pakistan Mortgage Refinance Company – PMRC, commenced business in 2018 as Pakistan's first mortgage refinance institution to provide lending to both; Islamic and Conventional Financial Institutions. The purpose of the institution is to increase the availability of affordable mortgages, consequently reducing the shortage of housing in Pakistan. The Company will provide innovative, viable and market based financial products. PMRC is passing on the benefit by issuing subsidized medium to long term fixed rate loans to PFIs and providing risk management tools to promote sound mortgage lending practices.</p> <p><b>OWNERSHIP:</b> The Company's shareholders consist of Ministry of Finance (~29%) and ten financial institutions comprising National Bank of Pakistan (NBP) (~14%), Habib Bank Limited (HBL) (~12%), United Bank Limited (UBL) (~12%), International Finance Corporation (IFC) (12%) Bank Alfalah (BAFL)(~7%), Askari Bank Limited (AKBL) (~7%), Allied Bank Limited (ABL) (~5%), Bank Al Habib (BAHL) (~1%), House Building Finance Company Limited (HBFC)(~0.2%) and Summit Bank Limited (SMBL) (~0.04%).</p> <p><b>BOARD STRUCTURE:</b> The board of directors comprises ten members, which include seven non-executive directors; one executive director and two independent directors. Mr. Rehmat Ali Hasnie is the Chairman of the Board. Six major financial institutions out of the ten shareholders are represented on the board encompassing NBP, UBL, HBL, BAFL, AKBL and ABL. One member represents Ministry of Finance.</p> <p><b>MANAGEMENT:</b> The management team is led by the CEO; Mr. Mudassar H. Khan; who possess executive MBA from NYU Stern School of Business, USA and a Masters in Finance from St. John's University, New York, USA. He has 28 years of diversified banking experience encompassing areas such as retail banking, corporate &amp; investment banking, commercial banking, operations, risk and development banking. The management team consists of qualified and experienced individuals adding efficiency to company's performance.</p> <p><b>FINANCIAL TRANSPARENCY:</b> The Company's external auditors are M/s KPMG Taseer Hadi &amp; Co., and have expressed unqualified opinion on the financial statements for the year ending December, 2020. PMRC has appointed A.F. Ferguson as external auditors for CY21.</p>
RISK PROFILE
<p><b>ADVANCES:</b> As per the nature of transactions with partner financial institutions, there were zero non-performing loans during the CY20 as well as the previous comparative years. The credit risk on the advance book is mitigated as PMRC has the mortgage book of the bank as collateral against the refinancing with a margin. The advances' book currently stands at PKR 14,967mln in CY20 (CY19: PKR 7,729mln). In CY20, the investment book constituted ~35% (CY19: ~45%) of the total assets; all of which consisted of investments in government securities. Out of these, 29% (CY19: 61%) was related to T-bills; whereas the rest comprised of PIBs. Moreover, the investments sored up to ~166% of the total equity in CY20 (CY19: ~188%).</p> <p><b>PERFORMANCE:</b> Net markup income of the Company experienced admirable growth during CY20, ending up at PKR 1,794mln (CY19: PKR 1,193mln) majorly due to increase in investments in government securities (CY20: PKR 10,203mln; CY19: PKR 8,822mln) that catapulted the mark-up earned (CY20: PKR 2,509mln; CY19: PKR 1,529mln). Net mark-up income (CY20: PKR 1,794mln) constitutes 99.8% of the total income (CY20: PKR 1,797mln); which was also the case in the comparative year. The increase in total markup income led to a favorable growth in profits after tax for the Company (CY20: PKR 1,436mln; CY19: PKR 902mln). This further translated in to expansion in ROE (CY20: ~27%; CY19: ~21%).</p> <p><b>CAPITAL AND LIQUIDITY:</b> On Feb, 2019, the Government of Pakistan lent PKR 7bln to PMRC, under World Bank's housing finance project for 30 years at a fixed rate of 3% per annum. This was disbursed in one tranche, as a sub-ordinated loan with the option of converting it in to non-participatory Additional Tier 1 capital. As at Dec'20, the CAR of the Company stood at 143.6 % (CY19: 206.9%). Total equity increased to PKR 6,138mln (CY19: PKR 4,696mln). As at Dec'20 total equity forms ~21% of the total assets of the Company. During CY20, liquidity cushion decreased as the liquid asset to borrowing decreased to ~51% (CY19: ~74%).</p>



PKR mln

Pakistan Mortgage Refinance Company  
Unlisted Public Company

Dec-20	Dec-19	Dec-18	Dec-17
12M	12M	12M	12M

### A BALANCE SHEET

1 Total Finances - net	14,967	7,729	1,200	-
2 Investments	10,203	8,822	1,010	-
3 Other Earning Assets	3,112	2,383	1,417	1,241
4 Non-Earning Assets	554	643	123	80
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>28,835</b>	<b>19,577</b>	<b>3,750</b>	<b>1,321</b>
6 Deposits	-	-	-	-
7 Borrowings	22,299	14,617	-	-
8 Other Liabilities (Non-Interest Bearing)	398	264	37	1,170
<b>Total Liabilities</b>	<b>22,697</b>	<b>14,880</b>	<b>37</b>	<b>1,170</b>
<b>Equity</b>	<b>6,138</b>	<b>4,696</b>	<b>3,713</b>	<b>150</b>

### B INCOME STATEMENT

1 Mark Up Earned	2,509	1,529	224	73
2 Mark Up Expensed	(715)	(337)	-	-
3 Non Mark Up Income	3	1	0	2
<b>Total Income</b>	<b>1,797</b>	<b>1,193</b>	<b>224</b>	<b>75</b>
4 Non-Mark Up Expenses	(345)	(292)	(167)	(80)
5 Provisions/Write offs/Reversals	(16)	-	-	-
<b>Pre-Tax Profit</b>	<b>1,436</b>	<b>902</b>	<b>57</b>	<b>(6)</b>
6 Taxes	-	-	(2)	2
<b>Profit After Tax</b>	<b>1,436</b>	<b>902</b>	<b>55</b>	<b>(4)</b>

### C RATIO ANALYSIS

#### 1 Cost Structure

Net Mark Up Income / Avg. Assets	7.4%	10.2%	8.8%	5.5%
Non-Mark Up Expenses / Total Income	19.2%	24.4%	74.6%	107.6%
ROE	26.5%	21.4%	2.8%	-2.6%

#### 2 Capital Adequacy

Equity / Total Assets (D+E+F)	21.3%	24.0%	99.0%	11.4%
Capital Adequacy Ratio	143.6%	206.9%	542.0%	N/A

#### 3 Funding & Liquidity

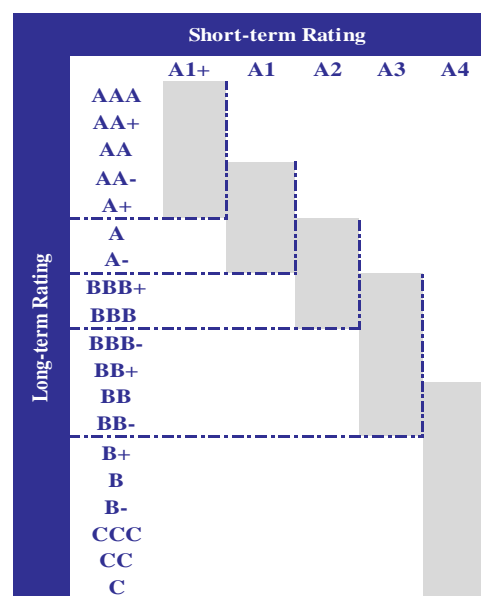
Liquid Assets / (Deposits + Borrowings Net of Repo)	51.2%	73.5%	N/A	N/A
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**Credit Rating**

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	<b>Very high credit quality.</b> 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.
AA	
AA-	
A+	<b>High credit quality.</b> 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.
A	
A-	
BBB+	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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+	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

**Surveillance.** Surveillance on a publicly disseminated rating opinion on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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(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

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- (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)

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- (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 principal 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)

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- (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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**Regulatory and Supplementary Disclosure**

Nature of Instrument	Size of issue	Years	Security	Quantum of security	Nature of Assets	Book value of Assets (PKR mln)	Trustee
Privately Placed	PKR 3.1 Billion	3	First/Exclusive Hypothecation charge over specific receivables of PMRC with 25% margin (primary security).  In case of any shortfall in receivables, PMRC shall provide charge on Islamic Deposit/Islamic Term Deposit/ GoP Sukuk etc. ("Cash Equivalents") till such time receivables to be provided as primary security.	2,587,900,000  1,600,000,000	Hypothecation of Specific Receivables & Lien over TDR	4,187,900,000	Pak Oman Investment Company

Disbursement Date: 18-Mar-21

**Pakistan Mortgage Refinance Company Limited | Sukuk**

Installement No.	Due Date Installement	Opening Principal	Principal Repayment	Markup/Profit Rate	Markup Rate	Markup/Profit Payment	Installement Payable	Principal Outstanding
		PKR in mln				PKR in mln		
1	18-Sep-21	3,100,000,000.00	-	8.25%	128,926,027	128,926,027	128,926,027	3,100,000,000
2	18-Mar-22	3,100,000,000.00	-	8.25%	126,823,973	126,823,973	126,823,973	3,100,000,000
3	18-Sep-22	3,100,000,000.00	-	8.25%	128,926,027	128,926,027	128,926,027	3,100,000,000
4	18-Mar-23	3,100,000,000.00	-	8.25%	126,823,973	126,823,973	126,823,973	3,100,000,000
5	18-Sep-23	3,100,000,000.00	-	8.25%	128,926,027	128,926,027	128,926,027	3,100,000,000
6	18-Mar-24	3,100,000,000.00	3,100,000,000	8.25%	127,524,658	127,524,658	3,227,524,658	-
			<b>3,100,000,000</b>		<b>767,950,685</b>	<b>767,950,685</b>	<b>3,867,950,685</b>	