



The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Mortgage Refinance Company Limited | PP Sukuk

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Apr-2022	AAA	-	Stable	Maintain	-
16-Apr-2021	AAA	-	Stable	Initial	-
26-Oct-2020	AAA	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Pakistan Mortgage Refinance Company (“PMRC” or the “Company”) , commenced business in 2018 as Pakistan’s first mortgage refinance institution. The objective of the Company is to provide lending to both; Islamic and Conventional Financial Institutions and to address the long-term funding constraint in the banking sector, which was hindering the growth of the primary mortgage market in Pakistan. The assigned rating depicts a strong shareholding structure of PMRC. PMRC is sponsored primarily by Ministry of Finance (29%), National Bank of Pakistan, Habib Bank, United Bank, International Finance Corporation, Allied Bank, Bank AL Habib, Bank Al Falah, and Askari Bank. The assigned rating takes into account an experienced and professional management team and sound risk management controls. 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. The assets side of the Company showed a significant increase, which supports this rating. Further, the rating also incorporates very low exposure to operational & market risk. During CY21, profit after tax has been declined by 25% majorly on the back of significant increase in interest expense as compared to last year. PMRC is planning a series of bonds/sukuk, in upcoming years, which will provide ample liquidity in years to come for further development of the mortgage housing finance industry in the country. The proceeds of the sukuk issued utilized in refinancing the residential mortgage/housing of the eligible financial institutions.

Strong capitalization indicators and a highly liquid profile would remain key rating drivers of the assigned rating. Furthermore, the funding profile of the Company draws comfort from the availability of long-term funding from the world bank (WB).

Disclosure

Name of Rated Entity	Pakistan Mortgage Refinance Company Limited PP Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Financial Institution Rating(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study DFIs(Jun-21)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504

Issuer Profile

Profile Pakistan Mortgage Refinance Company ("PMRC" or the "Company"), 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 has provided 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.

Ownership The Company's shareholders consist of Ministry of Finance (~29%), 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%).

Governance The board of directors comprises nine members, which include Six 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. The Company's external auditors are A.F. Ferguson & Co. and have expressed unqualified opinion on the financial statements for the year ending December, 2021.

Management The management team is led by the CEO; Mr. Mudassir 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. He also possesses Bachelors of Science in Electrical Engineering from Oklahoma University, USA. He has 29 years of diversified banking experience encompassing areas such as retail banking, corporate & investment banking, commercial banking, operations, risk and development banking. The management team consists of qualified and experienced individuals adding efficiency to company's performance.

Business Risk The Government of Pakistan envisions to increase the number of housing units manifold in coming years and has taken several measures in this regard. To support this vision SBP has also taken several measures to support the provision of financing for the housing and construction sector. To increase funding for housing and construction through capital markets and microfinance banks (MFBs), SBP has decided to allow the counting of investments in REITs and PMRC bonds or sukuk, equity investment in REITs and financing to MFBs for housing finance by banks or DFIs towards the achievement of their housing and construction finance. A network of banks' focal persons has also been set up to facilitate builders/developers' finance under NAPHDA negotiated procurement process. In such a growing sector, PMRC's advances portfolio increased from PKR 1,200mln to PKR 23,715mln in the last three years showing their commitment to growth and to support housing finance market. Given the aforementioned factors, PACRA is foreseeing growth in house loans in the coming years. The Interest/Mark up earned of the PMRC increased by 13% to PKR 2,843mln during CY21 (CY20: PKR 2,508mln). While the interest expense has been increased by 96% on account of new TFC/Sukuk issuance (PKR ~15.8bln) during CY21. Currently, the expense is standing at PKR 1,405mln for the period ending on Dec'21 (CY20: PKR 715mln). Net mark-up income in PKR 1,438mln constitutes 99.8% of the total income. The decrease in total markup income on account of increased interest expense led to a slight decline in profit after tax for the Company CY21: PKR 1,066mln (CY20: PKR 1,436mln; CY19: PKR 902mln).

Financial Risk As at Dec'21, the Capital Adequacy Ratio (CAR) of the Company stood at 53.10 % (CY20: 143.6 %). Total equity increased to PKR 7,367mln (CY20: PKR 6,138mln) and also the Total Eligible Capital (Tier I & Tier II) also increased to PKR 7,343mln (CY20:6,131mln). As at Dec'21 total equity forms ~15% of the total assets of the Company (CY20: ~21%). Leverage ratio of company during CY21: 15.93% (CY20: 22.73%). PMRC also has mitigated its credit & market risk by investing in government securities.

Instrument Rating Considerations

About The Instrument 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 fell 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.

Relative Seniority/Subordination Of Instrument The instrument is not subordinated.

Credit Enhancement Hypothecation charge over specific receivables of PMRC with 25% margin (primary security). In case, if the receivables falls short at any time, additional / adequate security will be provided to cover such short fall.



PKR mln

Pakistan Mortgage Refinance Company
Unlisted Public Company

Dec-21	Dec-20	Dec-19	Dec-18
12M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	23,715	14,967	7,729	1,200
2 Investments	10,238	10,203	8,822	1,010
3 Other Earning Assets	15,486	3,112	2,383	1,417
4 Non-Earning Assets	772	554	643	123
5 Non-Performing Finances-net	-	-	-	-
Total Assets	50,211	28,835	19,577	3,750
6 Deposits	-	-	-	-
7 Borrowings	42,238	22,299	14,617	-
8 Other Liabilities (Non-Interest Bearing)	606	398	264	37
Total Liabilities	42,844	22,697	14,880	37
Equity	7,367	6,138	4,696	3,713

B INCOME STATEMENT

1 Mark Up Earned	2,844	2,509	1,529	224
2 Mark Up Expensed	(1,406)	(715)	(337)	-
3 Non Mark Up Income	3	3	1	-
Total Income	1,441	1,797	1,193	224
4 Non-Mark Up Expenses	(374)	(345)	(292)	(167)
5 Provisions/Write offs/Reversals	-	(16)	-	-
Pre-Tax Profit	1,066	1,436	901	57
6 Taxes	-	-	-	(2)
Profit After Tax	1,066	1,436	901	55

C RATIO ANALYSIS

1 Cost Structure

Net Mark Up Income / Avg. Assets	3.6%	7.4%	10.2%	8.8%
Non-Mark Up Expenses / Total Income	26.0%	19.2%	24.5%	74.5%
ROE	15.8%	26.5%	21.4%	2.9%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	14.7%	21.3%	24.0%	99.0%
Capital Adequacy Ratio	53.10%	143.6%	206.9%	542.0%

3 Funding & Liquidity

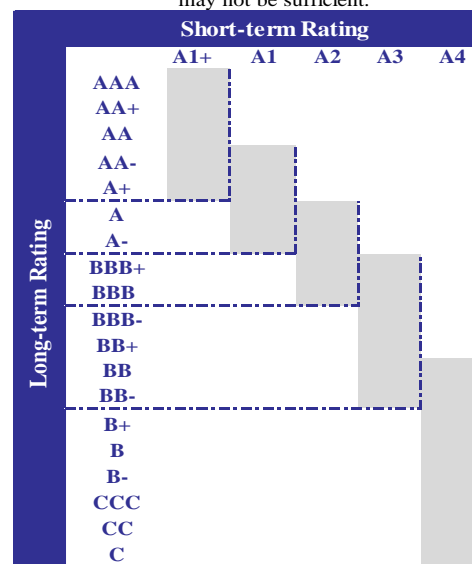
Liquid Assets / (Deposits + Borrowings Net of Repo)	51.6%	51.2%	73.5%	N/A
---	-------	-------	-------	-----

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
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
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 surveil 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 is carried out on an ongoing basis till it is formally suspended or withdrawn. 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.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (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)

Conduct of Business

- (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)

Independence & Conflict of interest

- (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)

Monitoring and review

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent



Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Privately Placed	PKR 3.1bln	3 years	Hypothecation charge over specific receivables of PMRC with 25% margin (primary security). In case, if the receivables falls short at any time, additional / adequate security will be provided to cover such short fall.	2,587,900,000 1,600,000,000	Hypothecation of Specific Receivables & Lien over TDR	Pak Oman Investment Company Limited	4,187,900,000

Pakistan Mortgage Refinance Company Limited PP Sukuk	
Name of Issuer	Pakistan Mortgage Refinance Company
Issue size	3.1bln
Issue Date	Mar 18, 2021
Tenor	3 Years
Maturity	Mar 18, 2024
Profit Rate	8.25%
Principal Repayment	Bullet at maturity

Pakistan Mortgage Refinance Company Limited | PP Sukuk

Due Date Principal	Opening Principal	Principal Repayment	Markup/Profit Rate	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln			PKR in mln		
18-Sep-21	3,100,000,000.0	-	8.25%	128,926,027	128,926,027	3,100,000,000.0
18-Mar-22	3,100,000,000.0	-	8.25%	126,823,973	126,823,973	3,100,000,000.0
18-Sep-22	3,100,000,000.0	-	8.25%	128,926,027	128,926,027	3,100,000,000.0
18-Mar-23	3,100,000,000.0	-	8.25%	126,823,973	126,823,973	3,100,000,000.0
18-Sep-23	3,100,000,000.0	-	8.25%	128,926,027	128,926,027	3,100,000,000.0
18-Mar-24	3,100,000,000.0	3,100,000,000	8.25%	127,524,658	3,227,524,658	-
		3,100,000,000		767,950,685		