



The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Mortgage Refinance Company Limited | PP Sukuk

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Oct-2023	AAA	-	Stable	Maintain	-
14-Apr-2023	AAA	-	Stable	Maintain	-
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”) addresses the long-term funding constraint in the banking sector, which was hindering the growth of primary mortgage market in Pakistan. The assigned rating finds comfort in robust shareholding structure of PMRC, primarily sponsored by Ministry of Finance and National Bank of Pakistan. The assigned rating also takes into account the Company's experienced and professional management team and sound risk management controls. The Company's one of the major sources of finance emanates from the Bond/Sukuk market in Pakistan. Over the years, PMRC's financing portfolio increased manifolds and the assets of the Company showed significant increase, supporting the underlying instrument's rating. Further, the rating also incorporates very low exposure to operational & market risks. During 6MFY23, profit after tax has increased by 64.6% to stand at PKR 1.07bln (SPLY: PKR 0.6bln) majorly on the back of significant increase in net interest income. PMRC has issued a series of bonds/sukuk, providing ample liquidity in years to come for further development of the mortgage housing finance industry in the country. The proceeds of the PP sukuk issued are 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.

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 Financial Institution Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Aug-23)
Related Research	Sector Study DFIs(Jun-23)
Rating Analysts	Wajeeha Asghar wajeeha.asghar@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 ten members, which include seven non-executive directors and three independent directors. Mr. Rehmat Ali Hasnie is the president of National Bank of Pakistan and the Chairman of the Board. Seven major financial institutions out of the ten shareholders are represented on the board encompassing Ministry of Finance, NBP, UBL, HBL, BAFL, AKBL and IFC. The Company's external auditors are A.F. Ferguson & Co. and have reviewed the financial statements for the half year ended Jun-23.

Management The management team is led by the MD/CEO; Mr. Mudassir H. Khan; who possesses an executive Masters in Business Administration (update) from Stern School of Business, New York and a Masters in Finance from St. John's University, New York. He is also an electrical engineer from University of Oklahoma, USA. He has 30 years of diversified banking experience encompassing areas such as retail banking, corporate & investment banking, commercial banking, operations, risk and development banking. Before joining PMRC, Mr. Khan worked with National Bank of Pakistan for four years and with HBL for nine years. He also worked with the World Bank for more than fourteen years in the area of Financial Sector. The management team of the Company consists of qualified and experienced individuals adding efficiency to company's performance.

Business Risk PMRC's advances portfolio increased from PKR 27,704mln in Jun'22 to PKR 35,094mln in Jun'23 showing their commitment to growth and to support housing finance market. The Interest/Mark up earned of the PMRC increased by 54.3% to PKR 3,342mln during 6MCY23 from PKR 2,165mln during 6MCY22. However, the interest expense has also been increased by 52% due to increase in repo borrowings and interest rate. Currently, the interest expense is standing at PKR 1,935mln for 6MCY23 (SPLY: PKR 1,275mln). Net mark-up income of PKR 1,407mln constitutes 99.7% of the total income. The increase in total markup income led to an increase in profit after tax to PKR 1,075mln for the Company during 6MCY23 (SPLY: PKR 653mln).

Financial Risk As of Jun'23, the Capital Adequacy Ratio (CAR) of the Company stood at 72.1% (SPLY: 56.4%). Total equity increased to PKR 9,231mln (SPLY: PKR 7,910mln) and also the Total Eligible Capital (Tier I & Tier II) also increased to PKR 9,313mln (SPLY: PKR 7,908mln). As of Jun'23 total equity forms 16% of the total assets of the Company (SPLY: 14.6%). PMRC also has mitigated its credit & market risk by investing in government securities.

Instrument Rating Considerations

About The Instrument PMRC has issued Privately Placed Sukuk as instrument of redeemable capital. Issue amount is PKR 3,100mln and profit of 8.25% per annum is payable semiannually on the principal amount. Total profit payments of PKR 640.3mln has been made of which the latest payment of PKR 128.9mln was made on 18th Sep'23. Principal amount will be redeemed in bullet at maturity. The proceeds of the PP sukuk issued are utilized in refinancing the residential mortgage/housing of the 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

Jun-23	Dec-22	Jun-22	Dec-21	Dec-20
6M	12M	6M	12M	12M

A BALANCE SHEET

1 Total Finances - net	35,094	33,757	27,704	23,715	14,967
2 Investments	17,604	20,565	13,944	10,239	10,203
3 Other Earning Assets	3,864	221	11,416	15,486	3,112
4 Non-Earning Assets	1,262	1,106	1,010	772	554
5 Non-Performing Finances-net	(168)	(95)	(32)	-	-
Total Assets	57,656	55,554	54,041	50,211	28,835
6 Deposits	-	-	-	-	-
7 Borrowings	47,163	45,991	45,445	42,238	22,299
8 Other Liabilities (Non-Interest Bearing)	1,262	818	685	606	398
Total Liabilities	48,425	46,809	46,131	42,844	22,697
Equity	9,231	8,745	7,910	7,367	6,138

B INCOME STATEMENT

1 Mark Up Earned	3,342	5,016	2,165	2,844	2,509
2 Mark Up Expensed	(1,935)	(2,899)	(1,275)	(1,406)	(715)
3 Non Mark Up Income	3	6	5	3	3
Total Income	1,410	2,123	895	1,441	1,797
4 Non-Mark Up Expenses	(261)	(450)	(210)	(374)	(345)
5 Provisions/Write offs/Reversals	(74)	(95)	(32)	-	(16)
Pre-Tax Profit	1,075	1,579	653	1,066	1,436
6 Taxes	-	-	-	-	-
Profit After Tax	1,075	1,579	653	1,066	1,436

C RATIO ANALYSIS

1 Cost Structure

Net Mark Up Income / Avg. Assets	5.0%	4.0%	3.4%	3.6%	7.4%
Non-Mark Up Expenses / Total Income	18.5%	21.2%	23.4%	26.0%	19.2%
ROE	23.9%	19.6%	17.1%	15.8%	26.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	16.0%	15.7%	14.6%	14.7%	21.3%
Capital Adequacy Ratio	72.1%	64.4%	56.4%	53.1%	143.6%

3 Funding & Liquidity

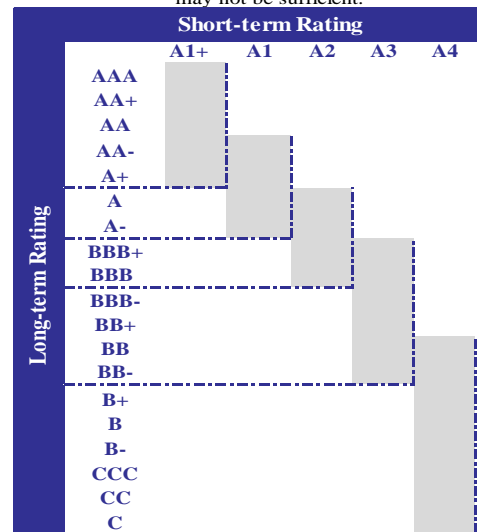
Liquid Assets / (Deposits + Borrowings Net of Repo)	35.5%	36.5%	47.5%	51.6%	48.4%
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Credit Rating

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+	
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-	
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	
CC	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.
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 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

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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 | Clause 11-(A)(p).

(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)

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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		
18-09-21	3,100,000,000.0	-	8.25%	128,926,027	128,926,027	3,100,000,000.0
18-03-22	3,100,000,000.0	-	8.25%	126,823,973	126,823,973	3,100,000,000.0
18-09-22	3,100,000,000.0	-	8.25%	128,926,027	128,926,027	3,100,000,000.0
18-03-23	3,100,000,000.0	-	8.25%	126,823,973	126,823,973	3,100,000,000.0
18-09-23	3,100,000,000.0	-	8.25%	128,926,027	128,926,027	3,100,000,000.0
18-03-24	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		