RATING REPORT

Pakistan Mortgage Refinance Company Limited

REPORT DATE:
April 14, 2023

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 14, 2023*		*April 12, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

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

Chief Executive Officer & President (Acting) – 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 (update) from Stern School of Business, New York, USA and a Masters in Finance from St. John's University, New York, USA. He is also an Electrical Engineer from University of

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 Primary Mortgage Lenders. 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. However, demand is likely remain low in the short to medium term horizon, in view of halt in Government's mortgage financing schemes and the monetary tightening stance of SBP

- According to SBP, there is an estimated shortage of 12 million residential units, most of it is in low and middle income group. Housing and construction financing grew to Rs. 1.1tr by Jun'22 (Dec'21: Rs. 897b; Dec'20: Rs. 455b). However, Pakistan's mortgage finance to GDP ratio stands at 0.6%, which trails South Asian average of 3.1%, thereby indicating considerable room for growth.

- Schemes such as Naya Pakistan Housing Scheme and Mera Pakistan Mera Ghar (MPMG) Scheme, feature provision of housing loans to retail, subsidized by GoP. However, since the new government took over, these schemes have been temporarily halted and no fresh disbursements under the MPMG scheme is being undertaken, which is limiting growth in housing and construction sector.

- Government has undertaken tightening measures in the wake of the deteriorating macroeconomic indicators, which includes increasing the policy rate, imposition of additional taxes, temporarily suspending schemes, which is likely to slow the momentum of economic activity. Such measures are expected to adversely affect demand in the short to medium term.

Oklahoma, USA. With over 30 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.

Increasing trend in advances continued, with portfolio depicting growth in 2022. Credit risk is considered minimal on the back of sound credit risk management practices in place

- Total advances portfolio of the Company amounted to Rs.33.7b as of Dec'22 (Dec'21: Rs23.7b), constituting disbursements to 21 Islamic and conventional Partner Financial Institutions (PFIs). The loan is disbursed to different segments which comprises low and middle income, Business As Usual, Pensioner's Scheme, Government Markup Subsidy Scheme, and Developer Finance.

- PMRC has managed to increase percentage share in Islamic advances portfolio, with percentage share of Islamic finances in total portfolio of around 42.2% (2021: 22.5%).

- On the backdrop of prevailing challenges, such as high interest rates, banks have slashed mortgage finance targets by around 40%. Thereby, management envisages moderate growth in advances, going forward.

- 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).

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

Market risk is maintained on the lower side as investment portfolio is concentrated in Government Securities

- PMRC has augmented their investment portfolio, amidst high interest rates, with the portfolio increasing to Rs.20.6b by end-Dec'22 (Dec'21: Rs.10.3b). Investment portfolio comprises largely of investments in Market Treasury Bills and Pakistan Investment Bonds, thereby exposure to credit risk is considered low.

- Given that the portfolio largely comprises instruments with maturities of less than 1 year constituting 83% of the portfolio, exposure to market risk is considered manageable. However, exposure has relatively increased YoY, as securities with maturities in the range of 3-10 years have been to the portfolio comprising 15% of the portfolio.

- Overall liability maturity in each tenure bucket matches with the maturing assets over the short term horizon, except for a slight mismatch in the 1 month bucket.

Liquidity profile is viewed to be adequate. PMRC follows a conservative funding strategy, which entails close matching of the duration and maturity of assets and liabilities

- Liquid asset coverage of borrowings has trended down in 2022 and was reported at 45.2% as of end-Dec'22 (Dec'21: 60.9%). The drop in the same is mainly attributable to higher financing disbursements during the period. Nevertheless, overall liquidity coverage of borrowings is viewed to be adequately high.

- The quantum of total borrowings availed by PMRC surged to Rs.46b (2021: Rs.42.2). Total borrowings include subordinated loan of Rs.7.05b as of Dec'22 (Dec'21: Rs.7.05b), which has been taken from the GoP under

World Bank (WB) Housing Program at a fixed rate. The loan has a 30-year term with 5-year grace on principal repayment.

Financial Risk Profile remains on the lower side, Given Adequate Capitalization

- Net equity (equity excluding revaluation surplus) grew to Rs.9.2b as at end-Dec'22 (Dec'21: Rs.7.6b) on the back 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.

- PMRC maintains a sizeable cushion over the regulatory requirement. CAR has improved from 53.10% (as at Dec'21) to 64.10% (as at Dec'22) and is expected to remain comfortable through the rating horizon.

Profitability profile depicted improvement on account of volumetric growth in investment and advances portfolio

Table 1: P&L (Extract)

Rs. Mn.	2020	2021	2022*
Markup interest earned	2,509	2,844	5,015
Markup interest expensed	(715)	(1,406)	(2,899)
Provision and write-offs net	(16)	-	-
Net Markup interest income	**1,778**	**1,439**	**2,117**
Other Income	3	3	1
Operating expenses	(315)	(353)	(417)
Other expenses	(30)	(21)	(32)
Profit before tax (PBT)	**1,436**	**1,066**	**1,579**
Taxation	-	-	-
Profit after tax (PAT)	**1,436**	**1,066**	**1579**
Efficiency (%)	***17.6%***	***24.5%***	***19.7%***

**unaudited*

- PMRC's net markup income in 2022 was up 47% owing to a volumetric growth in investment and refinancing portfolio.

- PMRC's spread has reduced in 2022, on account of higher rates on borrowings of 11.6% (2021: 7.6%) and relatively fixed yield on portfolio.

- In tandem with the growth in operations, operating expense noted an uptick of 18%. Albeit the increase in operating expense, efficiency depicted an improvement on account of a sizeable increase in recurring income.

Pakistan Mortgage Refinance Company Limited — Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions) – Annexure I*				
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**	**2022***
Investments	1,010	8,822	10,203	10,239	20,565
Net Advances	1,200	7,729	14,967	23,715	33,662
Total Assets	**3,750**	**19,577**	**28,835**	**50,211**	**55,554**
Borrowings	-	7,566	15,249	35,187	38,940
Deposits & other accounts	-	-	-	-	-
Subordinated Loans	-	7,051	7,051	7,051	7,051
Paid Up Capital	3,659	3,659	3,659	6,238	6,238
Tier-1 Equity	**3,713**	**4,616**	**6,055**	**7,615**	**9,194**
Net Worth	**3,713**	**4,696**	**6,138**	**7,367**	**8,745**
INCOME STATEMENT					
Mark-up/return/profit/interest earned	224	1,529	2,509	2,844	5,016
Mark-up/return/profit/interest expensed	-	(337)	(715)	(1,406)	(2,899)
Net Spread Earned	224	1,193	1,794	1,438	2,117
Provisions and write-offs net	-	-	-	-	-
Non-Markup Income	0	1	3	3	6
Administrative expenses	(167)	(272)	(315)	(353)	(417)
Profit/ (Loss) Before Tax	57	902	1,436	1,066	1,579
Profit / (Loss) After Tax	55	902	1,436	1,066	1,579
RATIO ANALYSIS					
Capital Adequacy Ratio (CAR)	542%	207%	203%	53%	65%
Liquidity Coverage Ratio (LCR)	141%	382601%	137429%	10544%	28091%
Net Stable Funding Ratio (NSFR)	219%	307%	151%	134%	151%
Leverage Ratio	99%	24%	23%	16%	15%
Efficiency	75%	23%	18%	24%	20%
Cash flow from operations	(2,058)	2,666.0	1,211.7	(3,475.0)	(10,684.4)
ROAA	2.2%	7.7%	5.9%	2.7%	3.0%
ROAE	2.8%	21.4%	26.5%	15.8%	19.6%
Liquid Assets to Deposits & Borrowings	NA	77.0%	59.8%	60.9%	45.2%

**unaudited*

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 14, 2023	AAA	A-1+	Stable	Reaffirmed	
	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.					
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**		
	1	Mr. Muhammad Shahzad Khan	Head of Business	27th February, 2023		
	2	Ms. Farheen Amjad	Head of Finance	27th February, 2023		