House Building Finance Company Limited

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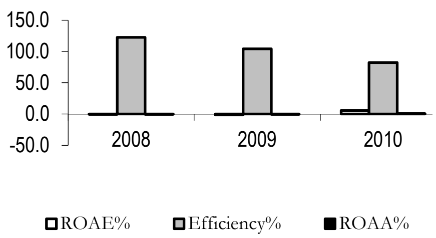
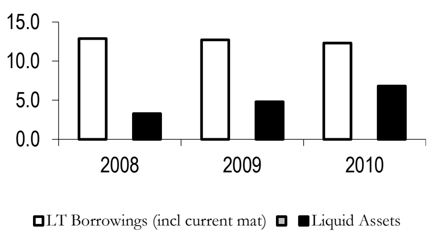
Category	Latest	Previous
Entity*	A/A-2 *June 14, '11*	A/A-2 *July 21, '10*
Outlook	***N/A***	***N/A***

**Rating Watch- Developing*

Key Financial Trends



* *Based on recurring profit before provision and taxation*



	2008	2009	2010
Net Advances (Rs. in b)	13.0	12.0	10.7
Borrowings (Rs.in b)	12.9	12.7	12.3
Borrowing Cost (%)	8.4%	7.4%	7.3%
Profit / (Loss) (Rs.in m)	(385.6)	(108.7)	112.5
Equity (Rs. in b)	2.4	1.9	2
CAR (%)	22.9%	24.6%	24.1%
Liquid Assets % Deposits & Borrowings	25.6%	38%	55%
Net Infection (%)	16.9%	20.8%	32.1%

Chairman & CEO: Mr. Azhar A. Jaffri

Rating Rationale

The shareholding of House Building Finance Company Limited (HBFCL) is jointly held by the Ministry of Finance (MoF) and State Bank of Pakistan (SBP). In addition to being the shareholder, SBP is also the major lender to the institution. Credit lines from SBP of Rs. 11.2b represent 92% of total borrowings; these are secured against guarantee issued by the Government of Pakistan. The resolution of re-payment schedule of these credit lines and/or conversion and fresh injection of equity into the institution has yet to be achieved.

At year-end 2010, HBFCL had equity of Rs. 2b, which is well short of the Minimum Capital Requirement (MCR) of Rs. 7b stipulated for 2010. GoP had allocated Rs. 3.2b for equity injection in HBFCL in FY10, but deferred payment of this amount due to financial constraints. The release of this amount is dependent on future budgetary resources.

The net advances portfolio stands reduced at Rs. 10.7b at year-end 2010 (FY09: Rs. 12b), representing 56% (FY09: 67%) of the total resource base. Disbursements had been curtailed over the last two years, in the backdrop of the prevailing economic crunch and high interest rates, while the management was also focused towards strengthening policies. Furthermore, the volume of disbursements is now managed in context of the cash generated by the organization, as part of the overall focus towards improving liquidity management. This has allowed the institution to build sizeable liquid reserves. Liquid assets amounted to Rs. 6.8b at year-end 2010 (FY09: Rs. 4.8b). The company's investment portfolio has almost entirely been placed in short term government paper, representing minimal credit and interest rate risks.

Portfolio seasoning over time of lending undertaken in the last two years will help quantify the results of the changes in underwriting guidelines. So far, fresh accretion of NPLs on a year-on-year basis is substantial. The current level of infection in the portfolio is almost 50%. Net infection is also very high at 32% (FY09: 21%), with provisioning coverage of 54% (FY09: 62%). CAR was reported at 24.1% at year-end 2010, though taking into account net-NPLs, the company lacks adequate cushion against potential losses.

During the last year, 417 employees opted for Voluntary Separation Scheme (VSS) which was partially funded by a Federal Government grant of Rs. 1b against a total cost of about Rs. 2.1b and remaining balance through staff retirement benefits already held against these employees. This is expected to result in cost savings for the company in FY11 and onwards to the tune of Rs. 250m, in addition to creating space to induct professionals. Given the modern ERP requirements, work on an integrated business application is in process, which is expected to improve data handling and MIS reporting capabilities. The current system limits management's monitoring and tracking capabilities.

Overview of the Institution

HBFCL was established in 1952 as a Statutory Federal Body with the object of providing financial assistance for construction and purchase of houses to the people of Pakistan in urban and rural areas. In July 2007, the body was incorporated under Companies' Ordinance 1984. Latest accounts have been audited by M/s M. Yousuf Adil Saleem & Co. JCR-VIS