

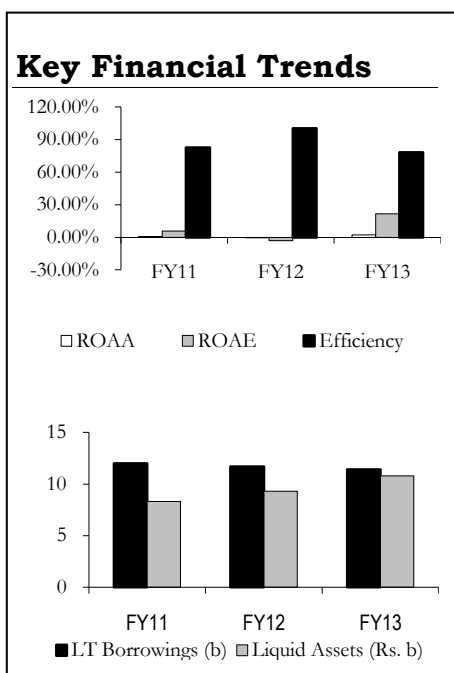
House Building Finance Company Limited

Managing Director: Mr. Pervez Said

June 12, 2014

Analysts: Amir Shafique
Faiq Sattar

Category	Latest	Previous
Entity	A/A-2 June 12, '14	A/A-2 June 30, '12
Outlook*	N/A	N/A
*On Rating Watch- Developing since assigning of initial rating in July 2010.		



(Rs. in b)	2011	2012	2013
Net Advances	10.4	9.9	9.7
Borrowings	12.0	11.7	11.4
Borrowing Cost (%)	9.1%	9.6%	9.6%
Profit/ (Loss) (Rs.in m)	120.5	(57.9)	472.4
Tier-1 Equity	2.4	2.0	2.8
CAR (%)	25.9	29.2	26.9
Liquid Assets % Total Liabilities	49%	51%	57%
Net Infection (%)	45%	46%	37%

Rating Rationale

House Building Finance Company Limited (HBFC) is the premier specialized house financing institution in the country. It has the largest market share providing house financing services to lower income groups. The company's shares are jointly held by the Ministry of Finance (MoF) and the State Bank of Pakistan (SBP). SBP is also the major lender to the institution, with credit lines made available by SBP having been guaranteed by the Government of Pakistan (GoP).

The ratings assigned to HBFC take into account its unique positioning whereby the shareholder/creditor/guarantor to credit lines are various arms of the GoP or itself; notwithstanding the weak risk absorption capacity of the institution with non-performing loans being 1.3x the company's equity base.

Borrowings at year-end included Sukuk certificates with an outstanding balance of Rs. 150m at end Dec'13, which were fully redeemed in May'14. The remaining are credit lines from SBP, proceeds of which continue to be retained by the company despite lapse of maturity date. The company has accumulated a sizeable portfolio of marketable securities in recent periods. Liquid assets in relation to borrowings, including payables to SBP, stood at 70% at end FY13. Given the strategic nature of the institution, it may reasonably be expected that mechanism for pay back of these credit lines will take into account the financial viability of the institution itself as these credit lines are the primary source of funding for the institution.

HBFC is currently not in compliance with the regulatory Minimum Capital Requirement (MCR) of Rs. 6b. In this regard, it is negotiating on various options including direct equity injection by the GoP and/or conversion of SBP credit lines into capital. However, any decision in this regard is awaiting approval from relevant authorities. Meanwhile, SBP has granted exemption from MCR till end-Dec'13 or completion of privatization/financial restructuring process, whichever is later.

With restricted lending activities whereby only partial recovery proceeds in any given year have been utilized for fresh disbursements, gross loan portfolio has depicted a declining trend over the last 5 years, standing at Rs. 12.6b at end Dec'13. Portfolio quality remains considerably weak, due in part to the weak underwriting norms in the past.

The institution is currently undergoing a restructuring process by virtue of which the Board of Directors is being reconstituted by the MoF. Mr. Pervez Said has recently assumed charge as the Managing Director of HBFC; Mr. Said is an experienced banker, also having worked in regulatory capacity.

Financial statements of the company for FY11 have been initialed by the previous auditors M/s Deloitte M. Yousuf Adil Saleem & Co. Chartered Accountants. In the absence of BoD M/s Riaz Ahmed & Co. were appointed as external auditors of the company for FY12 & FY13 by the Securities & Exchange Commission of Pakistan. Audit for FY12 has almost been completed, following which FY13 audit will commence.

Overview of the Institution

Incorporated in 2007, HBFC is recognized as a Development Financial Institution (DFI), with an objective to provide financial assistance in the construction and purchase of houses to the people living in rural and urban areas of Pakistan JCR-VIS