RATING REPORT

House Building Finance Company Limited (HBFCL)

REPORT DATE:
June 29, 2017

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A-	A-2
Rating Outlook	Stable		Negative	
Rating Date	*June 23, '17*		*June 28, '16*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** Deloitte M. Yousaf Adil Saleem & Co. Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board**: Mr. Mian Asif Said
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Saeed Khan
Government of Pakistan – 90.3%	
State Bank of Pakistan – 9.7%	

APPLICABLE METHODOLOGY(IES)

Rating Criteria: Government Supported Entities *http://jcrvis.com.pk/images/gse.pdf*

House Building Finance Company Limited (HBFCL)

OVERVIEW OF THE INSTITUTION

Incorporated in 2006 as an unlisted public limited company, House Building Finance Company Limited (HBFCL) provisions finances to the lower income group. Financial Statements of the company for 2016 were audited by Riaz Ahmed & Co., Chartered Accountants.

RATING RATIONALE

House Building Finance Company Limited (HBFCL) is owned by the Government of Pakistan (GoP) directly and through State Bank of Pakistan (SBP). HBFCL provides financing for construction, renovation and purchase of residential properties especially to the lower income strata. The company operates through 50 branches spread throughout Pakistan.

Sponsor Support: Assigned ratings incorporate demonstrated support of Government of Pakistan (GoP). Given recent capital restructuring, all outstanding debt and markup accrued payable to SBP has been converted into equity. This conversion aggregated to a total of Rs. 16.4b and was completed in April 2017. As a result, SBP's stake in the company increased from 37.5% to 90.3%.

Capitalization & Liquidity: With total equity of Rs. 14.3b, the company is now compliant with the regulatory Minimum Capital Requirement (MCR) of Rs. 6.0b at end-May 2017. As a result, risk absorption capacity and operational efficiency of the company has improved significantly. With growth in equity base, capitalization and liquidity indicators of HBFCL have strengthened. With a large chunk of liabilities converted into equity, outstanding liabilities primarily pertain to pension/post retirement funds.

Advances: Gross advances of HBFCL increased to Rs. 15.9b (2015: Rs. 14.8b) exhibiting a growth rate of 8.0%, by end-2016 while reducing to Rs. 15.4b, at end-1Q17. According to management, pace of lending was subdued on account of turnover at operational level. In line with approved plans to rationalize workforce, voluntary separation schemes were announced in November 2016. Subsequently, headcount of employees reduced in the company. With significant unmet demand for housing and HBFCL's financial risk profile having received impetus from recent debt-equity swap, the institution is geared to enhance its lending activities, going forward. The company also plans to cater to supply side of the market; developments in this regard are yet to be seen. Portfolio growth would need to be matched with sound risk management policies and long term policies for professional management retention.

Asset Quality: During 2016, Non-Performing Loans (NPLs) of the company depicted a significant increase which was attributable to a change in the classification methodology, according to SBP's guidelines. Consequently, asset quality indicators weakened with gross and net infection increasing to 42.3% (2015: 33.3%) and 23.2% (2015: 15.6%), respectively, at end-2016.

Profitability: In 2016, HBFCL posted loss after tax of Rs. 866.0m (2015: Rs. 852.0m). With a larger revenue base and stagnant growth in costs, efficiency ratio depicted slight improvement. With approved plans to rationalize workforce, employee costs are expected to reduce. Moreover, un-provided NPLs may adversely impact future earnings.

Governance & Internal Controls: Development of a coherent business strategy and its implementation mechanism and ensuring the adoption of sound underwriting guidelines are considered important for the future risk profile of the institution. Moreover, the control infrastructure, including support required from IT, will also need to be strengthened to manage risks in line with the institution's loss absorption capacity.

House Building Finance Company Limited (HBFCL) — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	6,841.0	7,730.0	7,145.6
Net Advances	11,816.9	11,512.9	10,205.6
Total Assets	20,906.5	20,682.5	20,583.5
Borrowings	-	11,242.3	11,242.3
Deposits & other accounts	6,587.4	21,437.2	19,406.1
Subordinated Loans	14,320.7	(1,075.0)	833.3
Tier-1 Equity	14,319.0	(754.8)	1,177.4
Net Worth	6,841.0	7,730.0	7,145.6
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	1,538.8	1,441.8	1,571.3
Net Provisioning / (Reversal)	687.4	950.2	1,773.3
Non-Markup Income	281.2	61.6	53.5
Operating Expenses	1,758.1	1,703.5	1,643.1
Profit (Loss) Before Tax	(835.9)	(728.7)	156.0
Profit (Loss) After Tax	(866.0)	(852.0)	3.3
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Infection (%)	42.3%	33.3%	36.8%
Provisioning Coverage (%)	61.0%	66.0%	52.1%
Net Infection (%)	23.2%	15.6%	22.1%
Cost of borrowings (%)	9.5%	9.5%	4.7%
Net NPLs to Tier-1 Capital (%)	19.4%	-169.4%	57.5%
Capital Adequacy Ratio (C.A.R (%))	-18.9%	-6.4%	26.3%
Markup Spreads (%)	5.5%	4.7%	8.6%
Efficiency (%)	97.0%	113.7%	101.1%
ROAA (%)	-4.2%	-4.1%	4.2%
ROAE (%)	-12.8%	-403.1%	26.6%
Liquid Assets to Liabilities (%)	127.4%	36.5%	54.3%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	House Building Finance Company Limited (HBFCL)
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
23-Jun-17	A	A-1	Stable	Upgraded
28-Jun-16	A-	A-2	Negative	Downgraded
30-Jun-15	A	A-2	Positive	Maintained
12-Jun-14	A	A-2	Rating Watch - Developing	Reaffirmed on Rating Watch
06-Jul-12	A	A-2	Rating Watch - Developing	Reaffirmed on Rating Watch
14-Jun-11	A	A-2	Rating Watch - Developing	Reaffirmed
21-Jul-10	A	A-2	Rating Watch - Developing	Initial