RATING REPORT

House Building Finance Company Limited (HBFC)

REPORT DATE:
June 27, 2025

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A1+	AAA	A1+
Outlook/Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Upgrade*	
Rating Date	*June 27, 2025*		*June 04, 2024*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** Grant Thornton Anjum Rahman
Unlisted Public Limited Company	**Chairman:** Mr. Qasim Nawaz
Key Shareholders (with stake 5% or more):	**Managing Director/CEO**: Mr. Imran Ahad
State Bank of Pakistan – 90.31%	
Government of Pakistan – 9.69%	

APPLICABLE METHODOLOGY(IES)

Rating Criteria: Government Supported Entities
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

Financial Institution
https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

House Building Finance Company Limited (HBFC)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

HBFC was incorporated in 2006 as an unlisted public limited company with a mandate to provide financing for housing purposes.

Profile of Managing Director & CEO
Mr. Imran Ahad is a seasoned banker with vast experience of working in senior leadership roles in many countries across the Middle East as well as in Pakistan. He has been associated with some of the leading international banks throughout the span of his career, including BCCI, Standard Chartered Bank and NIB Bank where he held various senior level positions.

House Building Finance Company Limited ('HBFC' or 'the DFI') is owned by the Government of Pakistan (GoP) directly and indirectly through State Bank of Pakistan (SBP). The sovereign ownership of HBFC, along with historically demonstrated track record of financial support to the entity, translates in strong sponsor profile, which has been incorporated in to the assigned rating.

The DFI's capital adequacy remains strong, well above regulatory thresholds, supported by healthy internal capital generation. Liquidity indicators also exhibit strength, driven by a highly secure investment portfolio predominantly comprising floating government securities, ensuring minimal credit and market risk. The asset mix has shifted further towards liquid investments, enhancing the institution's ability to meet its short-term obligations comfortably.

Despite a contraction in the financing portfolio amid a cautious lending approach during the ongoing privatization process, overall asset quality has remained stable, with no material deterioration in the non-performing indicators. Profitability has moderated due to narrowing interest spreads; however, net interest income has grown on the back of a larger earning asset base, and operating efficiency has improved owing to disciplined cost controls. These dynamics have kept the overall financial profile sound.

Strategic initiatives, including human resource expansion, IT upgrades, and product development, are expected to support future growth, particularly as operational constraints are lifted post-privatization.

<u>Company Profile</u>

House Building Finance Company Limited ('HBFC' or 'the DFI') is a Development Finance Institution (DFI) engaged in financing for construction and purchase of houses. The DFI was established in 1952 by the Government of Pakistan (GoP). It was corporatized in 2006 and is now an unlisted public limited company. The DFI is operating with a network of 51 branches, 3 Regional offices and a Head-office based in Karachi.

HBFC is currently listed for active privatization under the GoP's ongoing program. The Privatization Commission published the invitation for expression of interest on December 26, 2021. A Triple-A rated institution has expressed interest, due diligence has been completed, and the share purchase agreement is in its finalization stage. In a decision finalized in August 2024 regarding SOEs privatization, HBFC was placed in phase 1, with the transaction expected to conclude in the current year. Final approvals are awaited.

<u>DFI Sector:</u>

Development Finance Institutions (DFIs) in Pakistan play a critical role in supporting long-term investments in key sectors such as housing, SMEs, infrastructure, and agriculture. However, their performance has remained under pressure due to structural limitations, risk-averse operating models despite having been set up with core development mandates, and the crowding out effects of fiscal requirements affecting the entire financial sector. During the last quarter of 2024, a new DFI was added to the sector - EXIM Bank. By Dec'24, the industry witnessed a 15.3% (Dec'23: 63.3%↑) contraction in its asset base, primarily manifested in 18.6% (Dec'23: 73.3%↑) drop in investments, mainly in government securities, which still made up 83.2% (Dec'23: 86.6%) of total assets.

Although advances grew modestly by 1.5% (Dec'23: 0.1%), they remained a small part of the overall asset book, at only 9.7% (Dec'23: 8.0%) of assets. Public sector lending, especially housing finance by a single DFI, supported this limited growth, while private sector advances declined by 0.7%. Investment composition shifted toward longer-tenor Pakistan Investment Bonds (PIBs), as institutions sought to mitigate the impact of declining yields. Simultaneously, short-term Market Treasury Bills (MTBs) dropped by 79.4%.

Earnings remained healthy despite a shrinking asset base. Net interest income remained relatively stable at PKR 25 billion, while non-interest income rose sharply, driven by a 79.8% increase in dividend earnings—largely attributed to one DFI's stake in a major Islamic bank. This contributed to a 34.7% rise in after-tax profits, pushing ROA to 1.2% and ROE to 17.1%. However, net interest margins were squeezed due to relatively sticky funding costs amid falling returns on earning assets. Asset quality showed some deterioration, with the NPL ratio rising to 8.0% (Dec'23: 7.4%) and provisioning coverage falling to 78.6% (Dec'23: 114.8%).

The sector remains well-capitalized, with a capital adequacy ratio (CAR) of 52.5% (Dec'23: 43.3%), well above the 11.5% minimum requirement. DFIs in Pakistan continue to face structural challenges, including limited access to deep capital markets for long-term funding, a low national savings rate, and the absence of concessional funding mechanisms that are available to their counterparts in other jurisdictions. In the medium term, declining yields on government securities, may exert pressure on future earnings. In response, DFIs are investing in areas such as digital banking, venture capital, and Islamic finance to align more closely with evolving market needs. Despite ongoing macroeconomic uncertainty, there are emerging investment opportunities in green finance, infrastructure development, and public-private partnership (PPP) models. Realizing this potential will require a supportive regulatory environment and a strategic repositioning of DFIs to more effectively fulfill their original mandate of promoting long-term, inclusive development.

House Building Finance Company Limited (HBFC)

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Dec'22**	**Dec'23**	**Dec'24**	**Mar'25**
Total Investments	18,008.7	34,176.9	53,389.5	49,643.2
Net Advances	16,106.4	14,277.1	12,650.9	12,464.1
Total Assets	37,306.1	55,234.0	73,619.9	70,457.0
Borrowings	12,833.9	26,278.2	40,853.7	37,031.2
Total Liabilities	14,201.2	28,594.1	43,438.9	39,780.9
Paid Up Capital	19,365.0	19,365.0	19,365.0	19,365.0
Net Worth	23,104.9	26,639.9	30,181.0	30,676.1
Tier 1 Equity	22,192.0	25,971.8	27,586.2	28,026.5
INCOME STATEMENT	**CY22**	**CY23**	**CY24**	**Q1'25**
Net Mark-up Income	3,193.3	4,775.5	5,301	1,190
Net (Provisioning) / Reversal	276.7	326.8	34	100
Non-Markup Income	88.6	116.0	139	32
Operating Expenses	1,593.9	1,815.3	1,610	393
Profit (Loss) Before Tax	1,908.4	3,331.2	3,799	930
Profit (Loss) After Tax	1,478.3	2,261.8	2,253	537
RATIO ANALYSIS	**CY22**	**CY23**	**CY24**	**Q1'25**
Gross Infection (%)	16.0%	16.1%	16.98%	17.0%
Provisioning Coverage (%) - specific	92.9%	93.9%	99.2%	100.0%
Net Infection (%)	1.3%	1.2%	0.2%	0.0%
Net NPLs to Tier-1 Capital (%)	0.9%	0.6%	0.1%	0.0%
Capital Adequacy Ratio (%)	137.0%	120.6%	114.9%	117.6%
Markup Spread	5.0%	3.6%	3.0%	3.4%
Efficiency (%)	49.9%	38.0%	30.4%	31.4%
ROAA (%)	4.7%	4.9%	3.5%	3.0%
ROAE (%)	6.5%	9.0%	7.9%	7.1%
Liquid Asset to Borrowing (%)	140.0%	130.1%	130.8%	134.6%
**Annualized*				

REGULATORY DISCLOSURES — Appendix II

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	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	Outlook/ Rating Watch	Rating Action
RATING TYPE: ENTITY				
27-June-25	AAA	A1+	Stable	Reaffirmed
04-June-24	AAA	A1+	Stable	Upgrade
07-June-23	AA-	A1+	Stable	Upgrade
30-June-22	A	A1	Positive	Maintained
28-Jun-21	A	A1	Stable	Reaffirmed
12-Jun-20	A	A1	Stable	Maintained
13-May-19	A	A1	Positive	Maintained
14-May-18	A	A1	Stable	Reaffirmed
23-Jun-17	A	A1	Stable	Upgraded
28-Jun-16	A-	A2	Negative	Downgraded
30-Jun-15	A	A2	Positive	Maintained

Due Diligence Meetings Conducted

	Name	Designation	Meeting Date
1	Mr. Imran Ahad	Chief Executive Officer	**04-June-2025**
2	Mr. Kazim Raza Bhayani	Chief Financial Officer	