RATING REPORT

House Building Finance Company Limited (HBFCL)

REPORT DATE:
June 30, 2015

RATING ANALYSTS:
Sobia Maqbool, CFA
sobia@jcrvis.com.pk

Hasan Farooq Baddi
hasan.farooq@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Outlook	Positive		N/A*	
Date	*June 30, '15*		*June 12, '14*	

Was on Rating Watch- Developing since assigning of initial ratings in July 2010

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** M/s Riaz Ahmed & Co
Unlisted PublicLimited Company	**Chairman of the Board**: Mr. Saeed Ahmed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Pervez Said
Government of Pakistan – 62.5%	
State Bank of Pakistan – 37.5%	

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

HBFCL was incorporated in 2006 as an unlisted public limited company with a mandate to provide financing to middle and lower income groups for construction, reconstruction, renovation and purchase of properties.

RATING RATIONALE

Following the restructuring exercise recently approved for House Building Finance Company Limited (HBFCL) entailing conversion of all outstanding debt of Rs. 11.2b and mark-up to the extent of Rs. 2.4b payable to the State Bank of Pakistan (SBP), into equity, the stand-alone risk profile of the institution will stand enhanced. The transaction reinforces the support of Government of Pakistan (GoP) built into the previously assigned ratings, which is the shareholder of the institution, having holding directly and through SBP. Following the conversion, SBP's stake in the company will stand enhanced at 89%, as per management.

This transaction will bridge the shortfall in equity, which stood at Rs. 2b at year-end. While currently, net NPLs to tier-1 equity ratio is significantly high at 57.5% (FY13: 1.3x), this is expected to be diluted to under 15%. Moreover, the demand on liquidity will also be eliminated to a large extent, with total liabilities, adjusted for conversion, to reduce to Rs. 3.7b from Rs. 17.4b at year-end 2014, notwithstanding the changes that will happen in normal course of business.

After a substantial time gap, the Board of Directors was reconstituted in May 2014. Moreover, the current CEO, Mr. Pervez Said, also assumed office in 2014. The company is working to fill gaps in the senior management team. With significant unmet housing demand in Pakistan and improved financial risk profile, the new team will have the necessary platform to pursue growth under a functional Board of Directors. 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. With the separation of role of creditor and shareholder, commercial viability of business decisions will assume greater significance as the institution may have to access market based funding for future growth. 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.

For the first time in six years, gross advances registered a marginal increase in FY14 and stood at Rs. 13.1b at year end (FY13: Rs. 12.6b). Gross infection remains high at 36.8%, albeit lower than FY13's level of 51.3% with net infection of 22.1% (FY13: 37.9%). Bottom-line improved during 2014 on the back of lower interest expense. Following the approval of restructuring plan, the company has stopped accruing mark-up expense on SBP debt. While declining on a timeline basis, major portion of mark-up income continued to be derived from advances. With planned growth in lending activities, income from this source is projected to rise. Barring the long term government paper held by the company, return on advances and investments is expected to decline in line with the decline in interest rates. With salary increments sanctioned in the latest Board and HR committee meetings and hiring underway for key management positions which have been vacant, employee related costs are expected to rise.Future direction of earnings will be a function of asset mix and quality. The company has about Rs. 2.2b in un-provided NPLs, which could affect earnings. Return on equity is likely to dilute with increase in equity base.

The Board has yet to approve the company's financial statements; last approved financial statements are for the year ended December 2011. Meanwhile, in the absence of a Board previously, the Securities & Exchange Commission of Pakistan appointed M/s Riaz Ahmed & Co as external auditors for FY12, FY13 and FY14.

House Building Finance Company Limited (HBFCL) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	7.1	8.0	8.9
Net Advances	10.5	9.7	9.9
Total Assets	21.6	21.8	20.1
Borrowings	11.2	11.4	11.7
Deposits & other accounts	-	-	-
Subordinated Loans	-	-	-
Tier-1 Equity	4.0	2.8	2.2
Net Worth	4.1	2.8	2.2
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	2.2	1.7	1.3
Net Provisioning / (Reversal)	(0.2)	(0.5)	(0.1)
Non-Markup Income	0.05	0.05	0.03
Operating Expenses	1.4	1.3	1.4
Profit (Loss) Before Tax	0.9	0.5	(0.2)
Profit (Loss) After Tax	0.9	0.5	(0.2)
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Gross Infection (%)	36.8%	51.3%	46.3%
Provisioning Coverage (%)	52.1%	42.8%	40.7%
Net Infection (%)	22.1%	37.9%	46.3%
Cost of funds (%)	4.7%	9.6%	9.6%
Net NPLs to Tier-1 Capital (%)	57.5%	129.7%	210.0%
Capital Adequacy Ratio (C.A.R (%))	26.3%	26.9%	25.8%
Markup Spreads (%)	8.6%	4.5%	3.5%
Efficiency (%)	66.3%	78.8%	106.1%
ROAA (%)	4.2%	2.2%	-0.9%
ROAE (%)	26.6%	18.5%	-8.4%
Liquid Assets to Liabilities (%)	54.3%	56.6%	51.9%

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 Corporation 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				
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