



# House Building Finance Company Limited

*Teaser Document*

October 2022



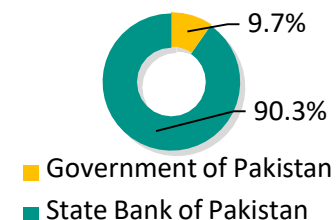
# House Building Finance Company Limited (“HBCL”)



## Company Overview

- ▶ House Building Finance Corporation was established in 1952 pursuant to legislation as the only housing finance institution in Pakistan by GoP. In 2006, HBFCL was established as a public unlisted company and, on January 01, 2007, it took over assets and liabilities of House Building Finance Corporation. State Bank of Pakistan (“SBP”) and Govt. of Pakistan (“GoP”) owns 90.31% and 9.69% shareholding, respectively, in HBFCL. HBFCL is notified as a Development Finance Institution (“DFI”) and is regulated by the State Bank of Pakistan (SBP).

### Shareholding Pattern:



## Transaction Overview

The Transaction Structure approved by the GoP is as follows:

- Divestment of Equity Stake of up to 100% along with Management Control in HBFCL;
- HBFCL to continue to operate as a Development Finance Institution (DFI) regulated by SBP;
- HBFCL to be allowed to diversify its product portfolio to include other products such as SME Financing, Consumer Financing, Leasing and Asset-based Financing up to 30% of the Funds Available for Deployment.

## Financial Snapshot

	Dec-19	Dec-20	Dec-21	Jun-22
<b>Balance Sheet</b>				
Investments	10,284	10,414	8,820	7,292
Advances	11,707	11,177	13,449	15,305
Total Assets	25,202	26,802	26,285	25,923
Borrowings	2,000	2,959	2,676	2,401
Total Liabilities	5,093	5,904	3,835	3,447
Net Assets	20,108	20,897	22,449	22,477

	Dec-19	Dec-20	Dec-21	Jun-22
<b>Income Statement</b>				
Net Mark-up Income	2,850	3,249	2,348	1,445
Operating Expenses	(1,618)	(1,657)	(1,492)	(734)
HR Cost	(1,293)	(1,329)	(1,105)	(537)
Profit Before Tax	954	1,389	1,328	804
Profit After Tax	2,762	1,029	986	753

## Source of Funding

- ✓ Refinance of Advance Portfolio from **Pakistan Mortgage Refinance Company** at a discount of PKRV – 2%
- ✓ **Bond/Sukuk** from Capital Market
- ✓ **SBP Refinance Facility** for Special persons at 5% (SBP Spread 1%). SBP to issue revised policy on same, that is awaited.
- ✓ Existing **T-Bills/PIBs** available to HBFCL
- ✓ **Debt** from multilateral and local Financial institutions

## Product Offerings

Product	Limit (PKR mn)	Rate
<b>Ghar Pakistan</b>	Up to PKR 4.5	1Y-KIBOR+2%
<b>Ghar Pakistan Plus</b>	Up to PKR 8.8	1Y-KIBOR+2.5%
<b>HBFCL Khaas (SBP Refinance)</b>	Up to PKR 2.7	Fixed: 4%
<b>Ghar Sahulat</b>	Up to PKR 25	K+3.00% -3.5%

## Points to Note

**Related Party Limit:** Single party 7% & Group 15% of the DFI Equity

**Defaulter Reporting:** Reporting allowed on eCIB by DFI

**No. of Employees:**

Total: 606 Permanent: 451 Contract: 155

**Branches:** 51

**Regional office:** 3

## Corporate Governance & Compliance

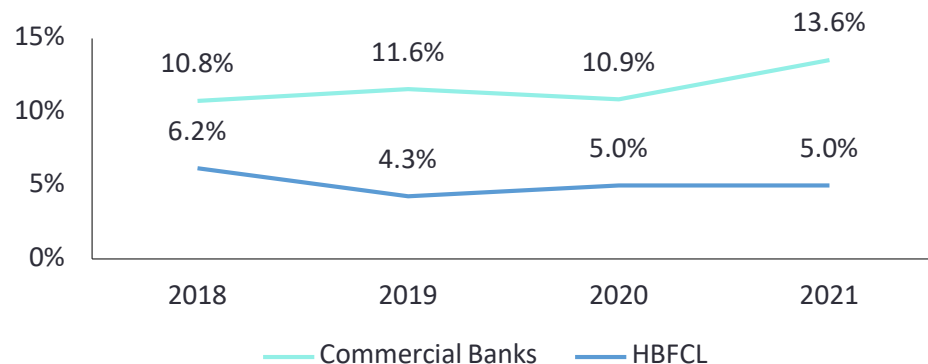
#	Capital Requirements	FY-21	Compliant
1	Minimum Capital Requirement (MCR) of PKR 6 billion	PKR 22.4bn	✓
2	Capital Adequacy Ratio (CAR) of 10%	153.14%	✓
3	Independent directors meet criteria of independence as defined under the Corporate Governance Rules.		✓

## Mortgage and Housing Finance sector at a glance

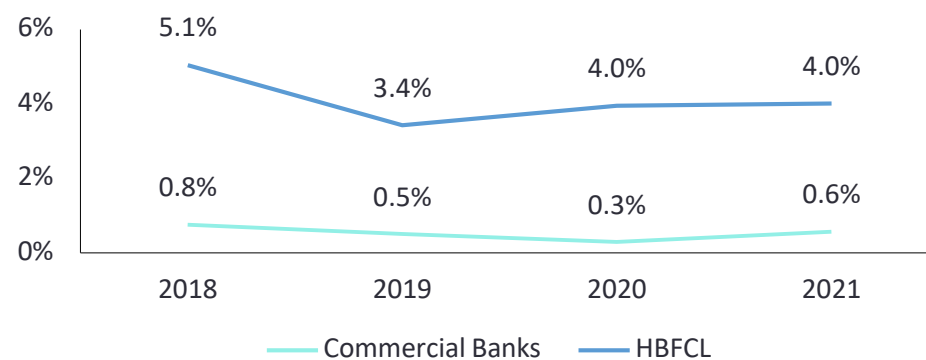
- ✓ Pakistan has a housing shortage and requires an ~10 million new homes, a number expected to grow by 400,000 units per year.
- ✓ Continued rise in the cost of land, construction material along-with weak laws and negligible public-private partnership is the primary reason behind the Pakistani housing gap.
- ✓ As per the study conducted by IFC, some 35 million urban residents live in substandard housing and they are of the view that the lower end of mortgage market can grow rapidly with right support.

# Historical Performance & Considerations for Commercial Banks

### ROE



### ROA



## Key Considerations for Commercial Banks

- CAR compliance:** For CAR compliance, commercial bank(s) consolidating HBFC will not be subject to a deduction for investment in HBFC in calculating CET1.
- Foreclosure Laws:** With superior court upholding the recent amendment in Section 15 of THE FINANCIAL INSTITUTIONS (RECOVERY OF FINANCES) ORDINANCE, lenders are now permitted to enforce mortgage securities without having to obtain decree to that effect from the banking court, subject to the terms specified therein. This development has resulted in substantially improving lenders recourse in respect of securities created through mortgage over immovable properties which enables reduction in infection ratio and provide more control to financiers.

## Positives for Participation

- ✓ **Growth in Advances Portfolio:** Participation of Banks / FIs in the privatization of HBFC will lead to the growth in the overall advances portfolio of the prospective Banks / FIs.
- ✓ **Quality Asset:** Investment in HBFC will raise the overall asset quality of the Participating Banks / FIs as infection ratio of HBFC witnessed a downward trend in the last few years.
- ✓ **Strong Liquidity Position:** Largely equity-funded asset base, wherein borrowings comprise merely a tenth of the asset base. HBFC's liquidity profile is considered sound, in view of considerable liquid assets in relation to borrowings and total liabilities. This can be considered positive for a participating banks as in case of any adverse situation, liquid assets and equity may be used as a fall back plan to counter any adverse situation.

# Why House Building Finance Company Limited?



## Foreclosure Laws

With superior court upholding recent amendment in Section 15 of THE FINANCIAL INSTITUTIONS (RECOVERY OF FINANCES) ORDINANCE, 2001, lenders are now permitted to **enforce mortgage securities without the intervention of courts.**

## Refinance of Portfolio

Considering the international mortgage structure, the GoP along with private institutions has setup a refinance company (i.e. **Pakistan Mortgage Refinance Company**) to **facilitate the growth of primary mortgage market.**

## Provisioning of NPLs

HBFCL has provisioned **~PKR 3.06 Bn (as per unaudited financials of Jun 30, 2022)** of non-performing loan which accounts for **~89%** of the NPLs. HBFCL's prudent risk management policies have allowed it to reduce infection ratio to **~18% (as per unaudited financials of Jun 30, 2022)** from **~28%** in FY19.

## NPLs for recent disbursements

HBFCL disbursed **PKR 2.9bn in FY19, PKR 1.8bn in FY20 and PKR 4.3bn in FY21.** For all loans disbursed during the last 3 years, **infection ratio is less than 1%** displaying a healthy portfolio on back of prudent measures taken by the Company.

## Investments Portfolio

HBFCL has made significant investments in PIBs and T-Bills amounting to **~ PKR 7.3 bn (as per unaudited financials of Jun 30, 2022).** It provides another source of funds for Company to increase its income.

## Land records

GoP has initiated the process for **computerization** of the land records. Furthermore, GoP is considering the removal of duplicate administrative procedures to promote construction and housing.

## Subsidized financing and Low cost Housing

In order to promote the housing finance, GoP has launched **several initiatives** for promotion of mortgage financing in the Country which includes Government Markup Support Subsidy Scheme and Naya Pakistan Housing Scheme. SBP to issue revised policy on same, which is awaited.

## Leveraging Capacity

The Company has an option to leverage its high equity base and low debt to equity ratio to raise additional debt for growth of its business.

## Revaluation of Land & Building

HBFCL records fixed assets at cost in its financial statements. A significant revaluation upside in the value of land and building exists on this account.

## CAR compliance

For CAR compliance, commercial bank(s) consolidating HBFCL will not be subject to a deduction for investment in HBFCL for calculating CET1.

## Key Transaction Steps along with Tentative Timelines

Phase – 1	Phase – 2	Phase – 3
4-6 Weeks	12-16 Weeks	
<ul style="list-style-type: none"><li>• Publication of Expression of Interest by Privatization Commission (PC)</li><li>• Submission of interest by Interested Parties</li><li>• Deliverance of Statement of Qualification by PC to interested Parties</li><li>• Submission of Statement of Qualification by Interested Parties</li></ul>	<ul style="list-style-type: none"><li>• Evaluation of Interested Parties by PC and other stakeholders</li><li>• Qualified Interested Parties to be invited for Due Diligence</li><li>• Pre-Bid meeting between the Interested Parties and PC &amp; Financial Advisor to discuss the Agreements and other Transaction issues</li></ul>	<ul style="list-style-type: none"><li>• Interested parties to submit Earnest money</li><li>• On the Bidding date, Interested Parties to submit their respective Bids</li><li>• Transaction to be awarded to the highest Bidder</li></ul>

## Key Contacts

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