



House Building Finance Company Limited

Teaser Document

September 2022



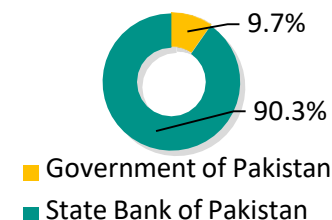
House Building Finance Company Limited (“HBCL”)



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 Restated	Dec-21 Restated	Jun-22		Dec-19	Dec-20	Dec-21	Jun-22	
Balance Sheet	Investments	10,284	10,414	8,820	7,292					
	Advances	11,707	11,177	13,449	15,305					
	Total Assets	25,202	26,186	25,622	25,923					
	Borrowings	2,000	2,959	2,676	2,401					
	Liabilities	5,093	5,904	3,836	3,447					
	Capital	20,108	20,281	21,787	22,477					
Income Statement						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.
- ✓ **Debt** from multilateral and local Financial institutions

Points to Note

Defaulter Reporting: Reporting on eCIB of SBP

No. of Employees:

Total: 501; Permanent: 451 Contract: 50

Branches: 51 branches in 48 cities

Regional office: 3

Product Offerings

Product	Limit (PKR mn)	Rate
Ghar Pakistan	Up to PKR 4.5	1Y-KIBOR+2%
Ghar Pakistan Plus	Up to PKR 8.8	1Y-KIBOR+2.5%
HBFCL Khaas (SBP Refinance)	Up to PKR 2.7	Fixed: 4%
Ghar Sahulat	Up to PKR 30	K+3.00% -3.5%

Corporate Governance & Compliance

#	Capital Requirements	HY-22	Compliant
1	Minimum Capital Requirement (MCR) of PKR 6 billion	PKR 22.4bn	✓
2	Capital Adequacy Ratio (CAR) of 10%	155.91%	✓
3	Independent directors meet criteria of independence as defined under the Corporate Governance Rules.		✓

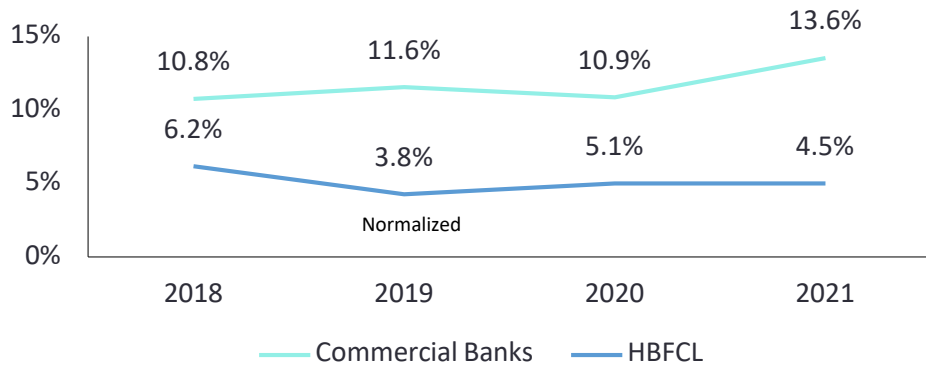
Mortgage and Housing Finance sector at a glance

- ✓ Mortgage financing is still at a developing stage in the country at about 0.5% of GDP. The ratio of housing debt to GDP is low in South Asia compared to the developed nations it ranges from 0.5% to 7.7%.
- ✓ Pakistan has one of the highest people-per-room ratios of 3.5 in the world with about 12% of the population in the country owning 56% of the housing stock, leaving only 44% for the remaining 88%.
- ✓ It is expected that by the end of 2025, Pakistan will be facing a housing shortfall of 20 million residential units and that at the present rate, it needs to build 1 million new residential units annually to keep up with the fast increasing population growth.

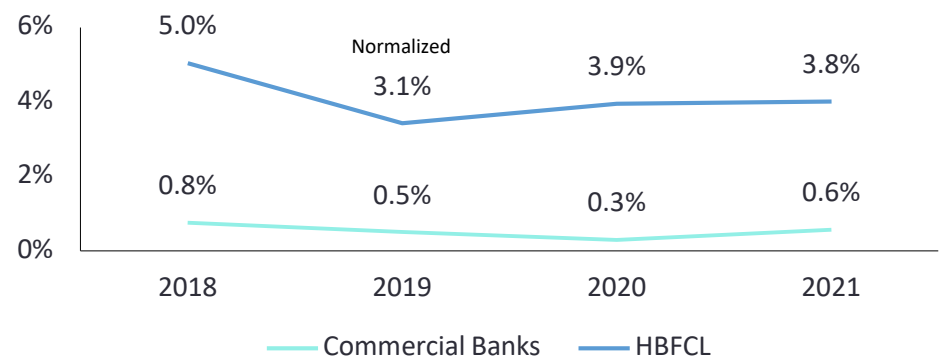
Historical Performance & Considerations for Commercial Banks



ROE



ROA



Key Considerations for Commercial Banks

- CAR compliance:** For CAR compliance, commercial bank(s) consolidating HBFCL will not be subject to a deduction for investment in HBFCL 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 outside the intervention of courts, 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 enable reduction in infection ratio and provide more control to financiers.

SBP Strategic Proposal to Incentivize Banks' Participation

SBP has approved some special benefits to banks participating in Transaction, either singly or as a consortium. The proposed benefits are:

- ✔ Post acquisition of HBFCL, 100% allocation of its incremental mortgage advance portfolio will be counted toward housing mortgage targets of investing bank(s);
- ✔ Pro-rated allocation based on shareholding will be allowed in case of consortium investing in HBFCL; Minimum Equity Investment of 20% no longer a requirement to avail above advantages;
- ✔ Lending made by Banks to HBFC (for onward Lending to Mortgage Sector) to be counted towards housing mortgage targets of the Banks (prorate basis), however, it will be netted-off with the pro-rate allocation of the incremental portfolio to avoid double counting; and
- ✔ Outstanding portfolio as of date of acquisition shall act as base figure for the purpose of determination of incremental portfolio.

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 outside the intervention of courts.**

Refinance of Portfolio

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

Provisioning of NPLs

HBFC has provisioned **~PKR 3.2 bn** of non-performing loan which accounts for **~92%** of the NPLs. HBFC's prudent risk management policies have allowed it to reduce infection ratio to **~20%** in FY21 from **44%** in FY17.

NPLs for recent disbursements

HBFC 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

HBFC has made significant investments in PIBs and T-Bills amounting to **PKR 8.8bn in FY21.** 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.

Revaluation of Land & Building

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

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. It is to be noted that SBP converted its debt of **PKR 16bn** in to equity on January 2017.

CAR compliance

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

Key Transaction Steps along with Tentative Timelines

Phase – 1	Phase – 2	Phase – 3
5 Weeks	8 - 10 Weeks	
<ul style="list-style-type: none">• Publication of Expression of Interest by Privatization Commission (PC)• Submission of interest by Interested Parties• Deliverance of Statement of Qualification by PC to interested Parties• Submission of Statement of Qualification by Interested Parties	<ul style="list-style-type: none">• Evaluation of Interested Parties by PC and other stakeholders including Fit & Proper test by State Bank of Pakistan• Qualified Interested Parties to be invited for Due Diligence• Pre-Bid meeting between the Interested Parties and PC & Financial Advisor to discuss the Agreements and other Transaction issues	<ul style="list-style-type: none">• On the Bidding date, Interested Parties to submit their respective Bids• Transaction to be awarded to the highest Bidder

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