

GOVERNMENT HOUSING BANK

No. 215/2022
25 November 2022

FINANCIAL INSTITUTIONS

| | |
|------------------------|--------|
| Company Rating: | AAA |
| Issue Ratings: | |
| Senior unsecured | AAA |
| Outlook: | Stable |

Last Review Date: 12/11/21

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 24/11/20 | AAA | Stable |

Contacts:

Jantana Taveeratanasilp

jantana@trisrating.com

Pawin Thachasongtham

pawin@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Narumol Chamchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Government Housing Bank (GHB) at “AAA” with a “stable” outlook and affirms the ratings on the senior unsecured debentures of the Secondary Mortgage Corporation (SMC) at “AAA”. The ratings reflect GHB’s legal status as a state-owned enterprise (SOE) and a specialized financial institution (SFI) integrally linked with the Thai government and undertaking the critical public policy role of increasing home ownership among low-income earners. The ratings also consider the government’s explicit guarantees on GHB’s obligations, which are in line with other SFIs. In our opinion, it is almost certain that GHB will receive timely and sufficient extraordinary support from the government in the event of financial distress.

The affirmation of the ratings on SMC’s debentures follows the merging of SMC into GHB, pursuant to the Act for the Dissolution of the Secondary Mortgage Corporation B.E. 2563 (2020) announced in the Royal Gazette on 23 September 2020, by which all of SMC’s assets and liabilities have been transferred to GHB.

KEY RATING CONSIDERATIONS

Integrally linked with government

GHB is an SFI established under the Government Housing Bank Act B.E. 2496 (1953). We assess GHB’s linkage with the government as “integral”, the highest level of government linkage, due to its status as an SOE given the government’s full ownership through the Ministry of Finance (MOF). The linkage is also underpinned by GHB’s past track record of financial support from the government in the forms of capital injections, debt guarantees, and reimbursements for losses from policy lending. The government also has a full control over GHB’s operations through the appointment of the bank’s senior management and board of directors.

As an SOE, GHB is evaluated by the State Enterprise Policy Office (SEPO), under the MOF, for its operational management and performance on an annual basis. As an SFI, GHB is supervised by the Fiscal Policy Office (FPO) and the Bank of Thailand (BOT) on aspects involving risk management, capital adequacy, and consumer protection.

Critical public policy role

We assess GHB’s degree of importance in performing its public policy role as “critical”, which is the highest level based on our “Government-related Entity (GRE) Rating Methodology”. This is due to its unique public policy role to promote home ownership for the low- and middle-income segments by providing affordable home loans at subsidized rates.

GHB implements the government’s policies via “Public Service Account” (PSA) lending. The government provides support to GHB to perform such function by reimbursing interest costs and losses arising from the policy lending. At the end of June 2022, PSA loans accounted for 9.91% of the bank’s total loans. Of the THB246.9 billion new housing loans extended by GHB in 2021, 78% was granted to the low- and middle-income segments.

Largest mortgage lender, third largest SFI in Thailand

GHB is the largest mortgage lender in Thailand with a 34.1% market share at the end of June 2022. GHB’s new housing lending of THB246.9 billion at the end of 2021 accounted for 40.3% of countrywide new housing loans, including

those extended by the commercial banks. Among the SFIs, GHB is the third largest in terms of total asset size. At the end of June 2022, the bank's total assets were worth THB1.6 trillion.

GHB's solid market position is anchored by the large customer base, comprising mainly low- and medium-income borrowers as well as government and state enterprise employees. More than 80% of GHB's customers are in the low- and medium-income groups. Government employees represent about 60% of its customer base. GHB has also started diversifying into middle- to high-income groups as part of the bank's 2021-2025 strategic objectives. The exposure currently remains small but will likely increase gradually given its partnership with major and mid-sized property developers. The bank's digital banking initiatives also support continuous growth by reducing the lending process turnaround time.

RATING OUTLOOK

The "stable" outlook is based on our expectation that GHB's integral linkage with the government and its critical public policy role as an SFI and a state-owned enterprise will remain unchanged in the foreseeable future.

RATING SENSITIVITIES

The ratings or outlook could be revised downward if there is any significant change in government policy that affects GHB's policy role or linkage with the government.

ORGANIZATION OVERVIEW

GHB is an SFI founded on 9 January 1953 under the Government Housing Bank Act B.E. 2496 (1953). GHB is wholly owned by the government through the MOF with an initial capital of THB20 million. The main policy role of GHB is to promote home ownership by providing accessible and affordable housing finance, particularly for low- and medium-income borrowers. In the beginning phase, GHB not only acted as a residential mortgage lender but also developed housing projects and sold houses via hire purchase contracts. However, all GHB's assets, liabilities, and rights associated with the housing business under the Government Housing Bank Act B.E. 2496, Section 27(1) and 27(3), were transferred to the National Housing Authority (NHA) in 1973 in accordance with announcement No. 316 of the Revolution Group.

During the Asian economic crisis in 1997-1999, GHB, in cooperation with the Government Savings Bank (GSB), played an important role in reviving the housing and real estate sectors by offering 30-year fixed low-interest loans and debt restructuring.

Previously, GHB operated under the supervision of the MOF. On 2 April 2015, the MOF appointed the BOT to supervise and examine all SFIs, including GHB.

In 2016, GHB announced its new mission of "Enabling more Thai people to have their own homes" and a new vision of "The Best Housing Solution Bank". During the past few years, GHB has applied new digital technology and implemented projects to increase its internal management efficiency and transform itself into a modern and sustainable housing bank.

Following announcement of the Act for the Dissolution of the Secondary Mortgage Corporation B.E. 2563 (2020) in the Royal Gazette on 23 September 2020, SMC's assets and liabilities were transferred to GHB on 24 September 2020 after the dissolution of SMC. Since then, GHB has assumed the roles and responsibilities of SMC. The key rationale for the merger was to enhance efficiency.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS^{1,2}

Unit: Mil. THB

| | Jan-Jun 2022 ³ | ----- Year Ended 31 December ----- | | | |
|---|------------------------------|------------------------------------|-----------|-----------|-----------|
| | | 2021 | 2020 | 2019 | 2018 |
| Total assets | 1,581,659 | 1,506,337 | 1,407,251 | 1,259,170 | 1,163,882 |
| Average assets | 1,543,998 | 1,456,794 | 1,333,211 | 1,211,526 | 1,113,170 |
| Investment in securities | 52,771 | 62,088 | 76,714 | 27,574 | 31,143 |
| Loans and receivables | 1,537,747 | 1,469,629 | 1,341,807 | 1,228,035 | 1,120,164 |
| Allowance for doubtful accounts | 121,066 | 111,827 | 97,301 | 87,559 | 79,356 |
| Deposits | 1,345,830 | 1,274,849 | 1,161,658 | 993,269 | 943,382 |
| Borrowings ⁴ | 112,150 | 111,150 | 136,047 | 158,464 | 125,600 |
| Shareholders' equities | 107,494 | 101,425 | 95,164 | 104,353 | 81,876 |
| Average equities | 104,460 | 98,295 | 92,694 | 86,050 | 78,241 |
| Net interest income | 18,925 | 34,602 | 27,652 | 29,970 | 30,996 |
| Non-interest income ⁵ | 942 | 1,989 | 2,322 | 2,188 | 1,798 |
| Total revenue ⁵ | 19,868 | 36,590 | 29,974 | 32,158 | 32,795 |
| Operating expenses ⁶ | 4,401 | 9,066 | 8,769 | 9,628 | 8,282 |
| Pre-provision operating profit (PPOP) | 15,466 | 27,524 | 21,205 | 22,530 | 24,512 |
| Impairment losses on loans and securities | 9,630 | 15,595 | 10,771 | 9,093 | 11,902 |
| Net income | 6,069 | 12,351 | 10,434 | 13,501 | 12,611 |
| Net fee and service income | 553 | 1,144 | 1,257 | 1,283 | 1,140 |

1 Consolidated financial statements

2 Including public service accounts since 2015

3 Non-annualized

4 Including interbank and money market

5 Including net of fee and service income

6 Excluding fee and service expense; including impairment of asset

Unit: %

| | Jan-Jun 2022 ⁷ | ----- Year Ended 31 December ----- | | | |
|--|------------------------------|------------------------------------|--------|--------|--------|
| | | 2021 | 2020 | 2019 | 2018 |
| Earnings | | | | | |
| Return on average assets | 0.79 | 0.85 | 0.78 | 1.11 | 1.13 |
| Interest spread | 2.22 | 2.13 | 1.79 | 2.11 | 2.42 |
| Net interest margins | 2.36 | 2.27 | 1.99 | 2.37 | 2.67 |
| Net interest income/average assets | 2.47 | 2.38 | 2.07 | 2.47 | 2.78 |
| Non-interest income/average assets | 0.12 | 0.14 | 0.17 | 0.18 | 0.16 |
| Net fee and service income/total revenue | 2.78 | 3.13 | 4.19 | 3.99 | 3.48 |
| Cost-to-income | 22.15 | 24.78 | 29.26 | 29.94 | 25.26 |
| Capitalization | | | | | |
| Tier-1 ratio | 13.47 | 14.05 | 13.92 | 13.86 | 14.02 |
| BIS ratio | 14.72 | 15.30 | 15.17 | 14.11 | 15.27 |
| Tier-1/BIS ratio | 91.51 | 91.83 | 91.76 | 91.14 | 91.81 |
| Asset Quality | | | | | |
| Credit costs | 1.30 | 1.12 | 0.84 | 0.77 | 1.11 |
| Non-performing loans/total loans ⁸ | 4.41 | 4.00 | 3.75 | 4.09 | 4.17 |
| Allowance for loan losses/non-performing loans | 180.02 | 191.55 | 194.39 | 168.70 | 170.67 |
| Funding & Liquidity | | | | | |
| CASA ratio | 24.08 | 24.60 | 23.68 | 24.83 | 24.12 |
| Loan-to-deposit ratio | 113.46 | 114.44 | 114.78 | 123.22 | 118.29 |
| Deposits/total liabilities | 91.29 | 90.74 | 88.54 | 86.01 | 87.19 |
| Liquid assets/total deposits ⁹ | 10.31 | 9.70 | 11.89 | 9.74 | 11.03 |
| Liquid assets/short-term liabilities ¹⁰ | 11.65 | 10.93 | 13.21 | 11.19 | 12.05 |

⁷ Annualized

⁸ Including interbank; excluding accrued interests

⁹ Including interbank borrowing

¹⁰ Financial liabilities with maturity of less than one year

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

Government Housing Bank (GHB)

| | |
|---|--------|
| Company Rating: | AAA |
| Issue Ratings: | |
| SMCT236A: THB750 million senior unsecured debentures due 2023 | AAA |
| SMCT238A: THB700 million senior unsecured debentures due 2023 | AAA |
| SMCT230A: THB500 million senior unsecured debentures due 2023 | AAA |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria