

GOVERNMENT HOUSING BANK

No. 198/2020
24 November 2020

FINANCIAL INSTITUTIONS

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

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RATIONALE

TRIS Rating assigns the company rating on Government Housing Bank (GHB) at “AAA” with a “stable” outlook and, at the same time, assigns the issue ratings on Secondary Mortgage Corporation (SMC)’s senior unsecured debentures at “AAA”.

The ratings reflect GHB’s legal status as a state-owned enterprise (SOE) and a specialized financial institution (SFI) which has an “integral” linkage with the Thai government and a “critical” public policy role to promote home ownership for the lower- and middle-income groups. The ratings also take into account the likelihood of the government providing explicit guarantees on GHB’s obligations in line with other SFIs, if needed. In our opinion, there is an almost certain likelihood that GHB will receive timely and sufficient extraordinary support from the government in the event of financial distress, subject to the Cabinet approval.

The “stable” outlook is based on our expectation that GHB’s integral linkage with the government and its critical public policy role will remain unchanged in the foreseeable future.

The assignment of the issue ratings on SMC’s debentures reflects 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

Integral linkage with the 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 the past track record of financial support from the government in the forms of capital injections and debt guarantee. The government also has a tight control over GHB 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. As an SFI, GHB is supervised by the Bank of Thailand (BOT) on aspects involving risk management, capital adequacy, and consumer protection.

Critical policy role

We assess GHB’s public policy role as “critical”, which is the highest level, given its distinct policy role to promote home ownership for the low- and middle-income groups by providing affordable home loans. The government provides ongoing support to GHB enabling it to carry out its mandate under the “Public Service Account” (PSA) via subsidies for interest costs and losses arising from the implementation of the government’s policies.

Thailand’s largest residential mortgage lender

GHB stands out as the largest residential mortgage provider with a market share of 31.15% at the end of December 2019. Among the SFIs, GHB is the third largest in terms of total asset size. At the end of December 2019, the bank’s total assets amounted to THB1.2 trillion, with a market share of 6.5%

in loans and 5.1% in deposits among the Thai commercial banks and the SFIs. GHB's well-established market position is underpinned by its important and unique mandate to serve low- and medium-income borrowers at affordable costs. More than 90% of GHB's customers are in the low- and medium-income groups. Government employees represent about 60% of its customer base. At the end of June 2020, GHB's capital adequacy ratio stood at 15.26%, well-above the regulatory requirement.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GHB will maintain its "integral" linkage with the government, its legal status as an SFI and a state-owned enterprise, and its "critical" public policy role.

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.

COMPANY OVERVIEW

GHB is an SFI founded on 9 January 1953 under the Government Housing Bank Act B.E.2496 announced in the Royal Thai Government Gazette on 20 January 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 (1953) Section 27(1) and Section 27(3) were transferred to the National Housing Authority (NHA) in 1973 in accordance with announcement No. 316 of the Revolution Group.

During severe economic slowdown 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 the 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 2020 ³	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total assets	1,300,891	1,244,640	1,163,882	1,062,458	977,971
Average assets	1,272,765	1,204,261	1,113,170	1,020,214	939,097
Investment in securities	43,557	27,184	31,143	50,461	41,930
Loans and receivables	1,261,621	1,213,350	1,120,164	1,027,619	940,730
Allowance for doubtful accounts	91,974	86,760	79,356	68,445	60,014
Deposits	1,060,970	993,769	943,382	858,074	780,787
Borrowings ⁴	133,940	143,898	125,600	117,017	119,057
Shareholders' equities	91,148	89,823	81,876	74,606	67,590
Average equities	90,485	85,849	78,241	71,098	64,794
Net interest income	13,157	29,748	30,996	29,708	27,074
Non-interest income ⁵	949	2,163	1,798	2,423	2,193
Total revenue ⁵	14,107	31,911	32,795	32,132	29,267
Operating expenses ⁶	3,881	9,466	8,282	7,638	6,953
Pre-provision operating profit (PPOP)	10,226	22,445	24,512	24,494	22,314
Impairment losses on loans and securities	5,395	9,093	11,902	12,681	12,496
Net income	4,831	13,352	12,611	11,813	9,818
Net fee and service income	556	1,283	1,140	1,103	1,101

1 Consolidated financial statements

2 Including public service accounts since 2015

3 Non-annualized

4 Including interbank and money market

5 Including net of fees and service income

6 Excluding fees and service expense, including impairment of asset

Unit: %

	----- Year Ended 31 December -----				
	Jan-Jun 2020 ⁷	2019	2018	2017	2016
Earnings					
Return on average assets	0.76	1.11	1.13	1.16	1.05
Interest spread	1.77	2.12	2.42	2.55	2.52
Net interest margins	1.99	2.37	2.67	2.80	2.78
Net interest income/average assets	2.08	2.47	2.78	2.91	2.88
Non-interest income/average assets	0.15	0.18	0.16	0.24	0.23
Net fee and service income/total revenue	3.94	4.02	3.48	3.43	3.76
Cost-to-income	27.51	29.67	25.26	23.77	23.76
Capitalization					
Tier-1 ratio	14.01	13.80	14.02	13.33	13.49
BIS ratio	15.26	15.05	15.27	14.58	14.74
Tier-1/BIS ratio	91.81	91.70	91.81	91.42	91.52
Asset Quality					
Credit costs	0.88	0.78	1.11	1.29	1.39
Non-performing loans/total loans ⁸	4.32	3.89	3.93	4.09	4.85
Allowance for loan losses/non-performing loans	161.85	175.22	170.67	158.79	126.70
Funding & Liquidity					
CASA ratio	25.69	24.82	24.12	23.64	22.84
Loan-to-deposit ratio	118.41	121.68	118.29	119.27	119.99
Deposits/total liabilities	87.70	86.05	87.19	86.86	85.76
Liquid assets/total deposits ⁹	10.21	9.67	11.03	10.14	10.86
Liquid assets/short-term liabilities ¹⁰	11.38	11.20	12.05	11.25	12.78

⁷ Annualized

⁸ Including interbank; excluding accrued interests

⁹ Including interbank borrowing

¹⁰ Financial liabilities with maturity less than one year

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

Government Housing Bank (GHB)

Company Rating:	AAA
Issue Ratings:	
SMCT20NA: THB1,000 million senior unsecured debentures due 2020	AAA
SMCT216A: THB1,250 million senior unsecured debentures due 2021	AAA
SMCT210A: THB700 million senior unsecured debentures due 2021	AAA
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

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