

GOVERNMENT SAVINGS BANK

No. 177/2018
8 November 2018

FINANCIAL INSTITUTIONS

Company Rating: AAA

Outlook: Stable

Last Review Date :

Date	Rating	Outlook/Alert
17/11/17	AAA	Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/11/16	AAA	Stable

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RATIONALE

TRIS Rating affirms the company rating on Government Savings Bank (GSB) at “AAA”. The rating reflects GSB’s status as a specialised financial institution (SFI) providing policy-related services, and the strong likelihood of receiving extraordinary support from the government in the event of financial distress. As prescribed in the Government Savings Bank Act, B.E. 2489 (1946), the government guarantees GSB’s obligation to repay the principal of all its outstanding loans, interest on deposits, and all other payment obligations.

KEY RATING CONSIDERATIONS

Strong government support

GSB’s company rating reflects TRIS Rating’s view that there is a strong likelihood the government will provide timely financial support to GSB when needed. This reflects supportive legal framework and strategic importance of the bank in serving government policy.

The Government Savings Bank Act, B.E. 2489 (1946) stipulates explicit guarantees of GSB’s obligations by the government. Accordingly, the government guarantees GSB’s obligation to repay the principal of all its outstanding loans, interest on deposits, and all other payment obligations. Further, GSB can raise capital from the SFIs System Development Fund, annual government budget, or other government agencies, subject to the Cabinet’s approval.

State-backed policy role

In TRIS Rating’s opinion, it is unlikely that other private entities can perform GSB’s public service roles. GSB serves a mandate in providing policy-related services and supportive measures. These activities usually generate low or no profit. One of GSB’s principal missions is to provide access to financial services to segments not covered by commercial banks. Another key mission is to encourage savings and improve financial literacy to its customers.

The government provides support to GSB in carrying out this mandate. GSB provides soft loans under the Public Service Account (PSA) programme to target low-income groups and small-and-medium enterprises (SMEs). The government generally helps GSB, for example, by compensating for interest subsidies and for additional operating expenses.

Dominant player in retail banking

We expect GSB to maintain its dominant position in retail banking with extensive nationwide coverage. GSB is a large bank by Thai commercial bank standards. The total asset size was Bt2.6 trillion at the end of the first half of 2018 (H1/2018), ranked fourth among commercial banks and SFIs in Thailand. The bank had a 9.6% market share in loans (ranked fifth in the industry) and a 12.3% market share in deposits (ranked third) at the end of H1/2018. The majority of GSB’s lending was in the retail segment, contributing around 64% of total lending. The large market share in deposits reflects GSB’s position as a leading savings institution. GSB also operated 1,060 branches as of September 2018.

Earnings mix of GSB will continue to rely primarily on lending. In 2017, net interest income made up 85% of total revenue, above the Thai commercial

bank average of 65%. Net fee and service income to total revenue was 8.8% in 2017 compared with an average of around 22% at other commercial banks. Debit-card and automatic teller machine (ATM) fees plus commissions make up the majority of fee-based income of GSB.

Improved profitability supports adequate capital

TRIS Rating forecasts that GSB's Basel-II compliant total capital ratio could be within a range of 12%-13% over the next few years. We think this level is sufficient to support GSB's expansion plans over the next three years. Tier-1 to total capital was 91% at the end of H1/2018, indicating a very high quality of capital. It is likely that the government, through the Ministry of Finance (MOF), will maintain the bank's current dividend payout policy around 55%.

We expect profitability of GSB to be comparable with other Thai commercial banks over the next three years, supported by the bank's low credit costs and improved efficiency. Return on average assets (ROAA) rose to 1.21% in 2017, from 1.06% a year earlier. GSB earned risk-adjusted NIM¹ of 1.98% in 2017, comparable to other Thai banks. Engaging in low-yield social lending programmes partly explains GSB's moderate interest margin of 2.14% in 2017, below Thai commercial bank average of 3.06%. We also expect cost-to-income to be in a range of 42%-43% between 2019 and 2021.

Good asset quality under some pressure

We expect GSB's good asset quality to remain somewhat under pressure from exposure to lower-income retail and smaller SME segments. The overall non-performing loan (NPL) ratio slightly fell to 2.39% at the end of June 2018 from 2.44% a year earlier. Nonetheless, this was well below the Thai commercial bank average of 3.71% at the end of June 2018. The rise in NPLs of GSB was driven by housing and personal loans. We also estimate GSB's credit cost to be in a range of 0.35% to 0.45% between 2018 and 2021. The credit cost in 2017 was 0.23%, well below the Thai commercial bank average of 1.59% in 2017. We also expect GSB to continue to strengthen its loan loss provisions over the next 3 years, due in part to its preparation for IFRS9. GSB's provision is moderate when compared with its commercial bank peers. The bank's over-reserve position², at around 106% at the end of H1/2017, was below the Thai commercial bank average of 189%. NPL coverage ratio was 130% at the end of June 2018, comparable with other Thai banks.

Solid broad-based retail funding

We expect GSB to maintain its strong funding capability. The bank has broad-based sticky retail funding as a leading savings institution. Deposits made up over 88% of total funding at the end of H1/2018, above that of other Thai commercial banks. GSB's unique lottery-linked fixed deposit products, which offer attractive yields relative to other Thai commercial banks, is the drive behind its high deposit funding. The loan-to-deposit ratio has consistently been below the average of Thai commercial banks; that ratio was 94% at the end of H1/2018.

Liquidity is strong

GSB has been a net lender in the interbank market. The bank provides liquidity to other SFIs and government agencies. Liquidity ratios are in line with Thai commercial banks. At the end of H1/2018, liquid assets made up 23% of total assets and 29% of deposits including bills of exchange (B/Es). Liquid assets to short-term liabilities were 44% in the same period, consistent with large Thai commercial banks. The majority of liquid assets were interbank loans with short durations.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that GSB will continue to receive strong support from the government, given its status as an SFI with an important mandate.

RATING SENSITIVITIES

The credit rating and/or outlook of GSB could change if the legal status of GSB and the explicit guarantee of all obligations, and/or the importance of GSB's role in relation to government's policies change.

COMPANY OVERVIEW

GSB was established under the "Klung Omsin Act" on 1 April 1913, named the Savings Office and placed under the Royal Treasury. Initial capital was Bt100,000, bestowed by His Majesty the King Vajiravuth (Rama VI). The main objective of the Savings Office was to promote savings habits among the people nationwide. On 18 December 1946, the Government Savings Bank Act B.E. 2489 (1946) was enacted. The Savings Office was transferred to the Ministry of Finance (MOF) and renamed "Government Savings Bank".

¹ Risk-adjusted NIM is net interest income less credit cost divided by average earnings assets.

² The bank's over-reserve position is total actual provisioning divided by regulatory requirement.

On 2 April 2015, the MOF officially mandated that all SFIs, including GSB, be supervised and examined by the Bank of Thailand (BOT). In the second half of 2015, all SFIs, including GSB, were obliged to contribute 0.18% of deposits to the SFIs System Development Fund. The current contribution rate of 0.25% was set in 2017. However, GSB benefits from an exemption from the corporate income tax. Saving and special saving deposits at GSB are also non-taxed. GSB also distributes 50%-55% of its net profit to the MOF.

As of June 2018, the bank has investments larger than 10% shareholding in four financial institutions: Islamic Bank (39.81% shareholding), Thanachart Asset Management Co., Ltd. (25%), MFC Asset Management Co., Ltd. (24.96%), and Dhipaya Life Assurance PLC (25%).

GSB plays a critical role in serving as the people's bank and supporting the government's policies. For more than a century since its establishment in 1913, GSB has consistently delivered solid performance, focusing on banking services for the retail banking segments. The bank's efforts support and are aligned with the government's economic and social development policies.

Like other SFIs, GSB is currently supervised by the BOT based on guidelines that follow the Basel-II framework. The guidelines aim at strengthening SFI's risk management and enhancing their operating efficiency, corporate governance, and transparency. These should help GSB develop long-term sustainability.

As an SFI, GSB's challenge is to strike a balance between meeting its institutional mission to support public policies and maintaining sound financial performance. The bank is obliged to provide policy-related services and supportive measures towards certain economic sectors, though these activities usually do not generate any profit.

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

Unit: Bt million

	Jan-Jun 2018 ³	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	2,612,765	2,664,411	2,510,033	2,400,716	2,259,197
Average assets	2,638,588	2,587,222	2,455,375	2,329,957	2,216,932
Investment in securities	250,492	237,321	283,914	246,246	268,627
Loans and receivables	1,996,411	1,954,893	1,755,545	1,777,433	1,611,924
Allowance for doubtful accounts	61,860	55,239	52,626	43,801	36,246
Deposits	2,125,343	2,185,122	2,137,341	2,058,139	1,952,504
Borrowings ⁴	139,235	161,206	101,313	79,745	50,884
Shareholders' equities	202,080	202,471	170,853	152,003	147,280
Average equities	202,275	186,662	161,428	149,641	140,952
Net interest income	32,267	55,916	58,547	57,587	55,654
Non-interest income ⁵	15,581	15,527	13,690	9,324	7,727
Total revenue ⁵	47,848	71,443	72,237	66,911	63,381
Operating expenses ⁶	18,823	35,984	36,585	36,104	34,062
Pre-provision operating profit (PPOP)	29,025	35,460	35,652	30,807	29,319
Impairment losses on loans and securities	7,408	4,184	9,548	8,043	4,688
Net income	21,617	31,276	26,104	22,764	24,632
Net fee and service income	2,997	5,766	4,816	4,603	4,008
Gains on investments	7,565	257	22	515	445

1 Consolidated financial statements

2 Including public service accounts since 2015

3 Non-annualised and unaudited

4 Including interbank and money market

5 Net of fees and service expense

6 Excluding fees and service expense

RELATED CRITERIA

- Commercial Banks, 30 March 2017
- Rating Methodology – Government-Related-Entity, 6 June 2017

Unit: %

	Jan-Jun 2018 ⁷	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Earnings					
Return on average assets	1.64 ⁷	1.21	1.06	0.98	1.11
Interest spread	2.25 ⁷	1.91	2.13	2.19	2.19
Net interest margins	2.44 ⁷	2.14	2.35	2.45	2.49
Net interest income/average assets	2.45 ⁷	2.16	2.38	2.47	2.51
Non-interest income/average assets	1.18 ⁷	0.60	0.56	0.40	0.35
Net fee and service income/total revenue	6.26	8.07	6.67	6.88	6.32
Cost-to-income	39.34	50.37	50.65	53.96	53.74
Capitalisation					
Tier-1 ratio	12.52	11.85	10.86	10.24	10.21
BIS ratio	13.75	12.47	11.54	10.80	11.11
Tier-1/BIS ratio	91.05	95.03	94.11	94.81	91.90
Asset Quality					
Credit costs	0.75 ⁷	0.23	0.54	0.46	0.30
Non-performing loans/total loans ⁸	2.22	1.86	1.90	1.54	1.25
Allowance for loan losses/non-performing loans	129.87	134.06	135.91	141.88	147.12
Funding & Liquidity					
CASA ratio ⁹	24.44	22.62	22.67	20.90	20.27
Loan-to-deposit ratio ⁹	93.93	89.46	82.14	86.36	82.56
Deposits ⁹ /total liabilities	88.16	88.76	91.37	91.53	92.45
Liquid assets/total deposits ¹⁰	27.70	31.79	35.41	30.31	33.05
Liquid assets/short-term liabilities ¹¹	43.64	48.39	54.22		

7 Annualised

8 Including interbank; excluding accrued interests

9 Including bills of exchange

10 Including bills of exchange and interbank borrowing

11 Financial liabilities with maturity less than one year

Government Savings Bank (GSB)

Company Rating:	AAA
Rating Outlook:	Stable

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