

GOVERNMENT SAVINGS BANK

No. 214/2022

25 November 2022

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 25/11/21

Company Rating History:		
Date	Rating	Outlook/Alert
21/11/16	AAA	Stable

RATIONALE

TRIS Rating affirms the company rating on Government Savings Bank (GSB) at “AAA” with a “stable” outlook. The rating reflects GSB’s legal status as a state-owned bank and a specialized financial institution (SFI) that has “integral” linkage with the Thai government and plays a “critical” role in serving the government’s public policy. The rating also reflects the government guarantee on all of GSB’s obligations according to the Government Savings Bank Act B.E. 2489 (1946). Moreover, the rating takes into account our expectation the almost certain likelihood that GSB would receive timely and sufficient extraordinary support from the government when needed.

KEY RATING CONSIDERATIONS

Integrally linked with government

Our assessment of GSB’s integral linkage with the government is based on GSB’s legal status as an SFI whose role is to provide the government policy-related services. GSB currently falls under supervision of the Bank of Thailand (BOT) and the Fiscal Policy Office (FPO). The government has full ownership and control via the board and senior management appointed by the Cabinet.

More specifically, GSB is the only SFI of which the government explicitly guarantees all its obligations, according to The Government Savings Bank Act, B.E. 2489 (1946), including the principals, interest on deposits, and other payment obligations.

Critical public policy role

We expect GSB will continue to play its critical public policy role in facilitating the government’s policies to develop sustainable economy for Thailand by providing financing for low-income group and small and medium enterprises (SME), as well as promoting savings and financial discipline.

Under GSB’s 2023-2027 business strategy, as a “Social Bank”, GSB is committed to reducing social inequality by helping the low-income and grassroots segments gain access to financial services at fair costs. This can be achieved by using the profit generated from commercial-based operation to subsidize its social banking operation. Thus, profit maximizing is not GSB’s primary objective.

There has been a continuous track record of financial support from the government in the form of reimbursements for losses from some of the Public Service Accounts (PSA) loans. PSA loans are lending programs based on cabinet-approved government policies. At the end of June 2022, GSB’s PSA loans amounted to THB180 billion, the highest among SFIs in Thailand. PSA loans accounted for 8.11% of the bank’s total loans. Exposure to public and state-owned enterprises accounted for 38.8% and 38.9% of GSB’s total loans at the end of December 2021 and at the end of June 2022, respectively.

GSB’s role in serving the government policies has become increasingly crucial following the Coronavirus Disease 2019 (COVID-19) pandemic. In response to the pandemic’s economic impact, GSB has been instrumental in channeling government financial assistance to SMEs and key affected industries via soft loan and rehabilitation loan programs at subsidized rates. The bank has also introduced various relief measures for retail customers to help alleviate the impacts of COVID-19, such as debt relief programs and loan restructuring.

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Aiming to help the low-income population by providing secured loans at below-market rates, GSB entered into the title loan business, which has become a major source of financing for the underbanked group. In the auto-title lending business, GSB joined Sri Sawad Corporation PLC (SAWAD, rated “BBB+/Stable”) to create the joint venture (JV), “Fast Money”. For land-title loans, GSB also partners with Dhiphya Group Holdings PLC (TIPH, rated “AA/Stable”) and Bangchak Corporation PLC (BCP, rated “A/Stable”) to form JV, “Mee Tee, Mee Ngern”. In the future, GSB will provide unsecured personal loans and digital loans under a JV (non-bank), also with the goal of lowering the market interest rates of these products.

High likelihood of extraordinary government support

The rating on GSB is based on our view that GSB’s integral linkage with the government and its critical policy role will remain unchanged in the foreseeable future. We therefore believe that it is almost certain that GSB will receive timely and sufficient extraordinary support from the government if needed. Support may take the form of capital injections made through allocation from the “Specialized Financial Institutions Development Fund”, the annual government budget, or other Cabinet-approved government sources. However, we do not see the need for extraordinary support from the government in the near future given the bank’s adequate capital position. At the end of June 2022, GSB’s capital adequacy ratio under Basel II was 17.1%, well above the regulatory requirement of 8.5%.

Thailand’s largest SFI with strong retail banking franchise

GSB is important to the government as it is the largest SFI in terms of asset size. GSB’s total assets of THB2.9 trillion at the end of June 2022 are comparable to those of Thai commercial banks designated by BOT as systemically important banks (D-SIB). Its assets represent 9.4% of banking system loans, including commercial banks and SFIs. The bank is also the highest profit contributor to the government among SFIs. GSB’s net profits in 2021 accounted for 52.2% of all SFIs’ net profits.

We expect GSB to maintain its strong market position in retail banking, especially in rural areas. At the end of September 2022, GSB had the largest retail customer base of 23 million customers with 60% representing the low-income and grassroots segments. GSB also has the largest branch network in upcountry among banks in Thailand, with 1,052 branches nationwide.

RATING OUTLOOK

The “stable” outlook reflects our expectation that GSB will maintain its integral linkage with the government, its legal status as an SFI, and its critical public policy role.

RATING SENSITIVITIES

We could revise GSB’s rating and/or outlook downwards if any government policies significantly change and affect GSB’s policy role or integral linkage with the government.

COMPANY OVERVIEW

GSB was established under the “Klung Omsin Act” on 1 April 1913, under the name “Savings Office” and placed under the Royal Treasury. The initial capital of THB100,000 was bestowed by H.M. King Vajiravudh (Rama VI). The main objective of the Savings Office is to promote savings habits among people nationwide. On 18 December 1946, the Government Savings Bank Act B.E. 2489 was enacted. The Savings Office was transferred to the Ministry of Finance (MOF) and renamed “Government Savings Bank”.

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

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

In 2020, GSB established a joint venture with Srisawad Corporation PLC (SAWAD) to expand into the vehicle title loan business. In 2022, GSB joined with Dhipaya Group Holdings (TIPH) and Bangchak Corporation (BCP) to set up “Mee Tee, Mee Ngern” to enter the land title loan business. GSB is also in the process of setting up a JV (non-bank) expected to commence operations in 2023 by providing personal loans and digital lending. The main objectives of the establishment of these initiatives are to provide a source of funds to the grassroots and low-income population at a fair cost through GSB’s attempt to lower market interest rates.

GSB plays a critical role in serving as the people’s bank and supporting 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 segment. The bank's efforts and support 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 to strengthen SFI's risk management and enhance its 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: Mil. THB

	Jan-Jun 2022 ³	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	2,945,178	3,045,049	2,889,202	2,797,624	2,704,967
Average assets	2,995,114	2,967,126	2,843,413	2,751,295	2,684,689
Investment in securities	457,266	476,198	439,843	311,876	256,157
Loans and receivables	2,268,443	2,290,766	2,136,543	2,076,170	2,066,981
Allowance for doubtful accounts	95,820	93,129	78,629	69,977	67,790
Deposits	2,460,867	2,479,233	2,401,543	2,309,489	2,232,431
Borrowings ⁴	152,409	221,276	157,610	151,976	119,659
Shareholders' equities	219,330	215,355	199,832	203,032	202,566
Average equities	217,342	207,594	201,432	202,799	202,518
Net interest income	31,292	54,660	52,586	55,986	61,179
Non-interest income ⁵	8,030	20,230	14,860	16,823	23,320
Total revenue ⁵	39,322	74,891	67,446	72,809	84,499
Operating expenses ⁶	16,391	31,897	34,311	36,455	36,498
Pre-provision operating profit (PPOP)	22,931	42,994	33,136	36,354	48,000
Impairment losses on loans and securities	6,368	17,615	14,598	12,306	17,018
Net income	16,562	25,379	18,538	24,048	30,983
Net fee and service income	1,856	3,401	4,108	4,806	6,073
Gains (loss) on investments	4	2,286	(1,073)	2,144	7,635

1 Consolidated financial statements

2 Including public service accounts since 2015

3 Non-annualized and unaudited

4 Including interbank and money market

5 Including net of fee and service income

6 Excluding fee and service expense

Unit: %

	Jan-Jun 2022 ⁷	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Earnings					
Return on average assets	1.12	0.86	0.65	0.87	1.15
Interest spread	2.01	1.70	1.66	1.80	2.08
Net interest margins	2.08	1.82	1.83	2.03	2.27
Net interest income/average assets	2.11	1.84	1.85	2.03	2.28
Non-interest income/average assets	0.54	0.68	0.52	0.61	0.87
Net fee and service income/total revenue	4.72	4.54	6.09	6.60	7.19
Cost-to-income	41.68	42.59	50.87	50.07	43.19
Capitalization					
Tier-1 ratio	14.77	13.66	12.85	13.97	13.56
BIS ratio	17.05	16.06	14.98	15.52	14.72
Tier-1/BIS ratio	86.63	85.06	85.78	90.01	92.12
Asset Quality					
Credit costs	0.58	0.81	0.70	0.60	0.85
Non-performing loans/total loans ⁸	2.44	2.23	1.91	2.31	2.47
Allowance for loan losses/non-performing loans	160.16	164.79	170.75	122.63	114.07
Funding & Liquidity					
CASA ratio	33.81	31.45	28.56	24.34	23.78
Loan-to-deposit ratio	90.22	90.35	87.10	89.61	92.29
Deposits/total liabilities	90.28	87.61	89.30	89.01	89.21
Liquid assets/total deposits ⁹	27.69	30.19	31.54	31.23	27.28
Liquid assets/short-term liabilities ¹⁰	37.55	41.45	52.68	52.98	42.68

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 Savings Bank (GSB)

Company Rating:	AAA
Rating Outlook:	Stable

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