

GOVERNMENT SAVINGS BANK

No. 223/2024
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FINANCIAL INSTITUTIONS

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 27/11/23

Issuer Rating History:

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

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RATIONALE

TRIS Rating affirms the issuer rating on Government Savings Bank (GSB) at “AAA” with a “stable” outlook. The rating is based on GSB’s legal status as a state-owned enterprise (SOE) and a specialized financial institution (SFI). It also reflects GSB “integral” linkage with the Thai government and its “critical” role in supporting the government’s public policy. The rating further reflects the government’s explicit guarantee on all GSB’s obligations as outlined in the Government Savings Bank Act B.E. 2489 (1946). Also, the rating incorporates our expectation that GSB would highly likely receive timely and sufficient extraordinary support from the government if needed.

KEY RATING CONSIDERATIONS

Integral linkage with government

We assess GSB’s linkage with the government as “integral”. This is based on GSB’s legal status as an SFI whose role is to provide government policy-related services. The Bank of Thailand (BOT) oversee GSB’s financial stability and adherence to regulations, while the Fiscal Policy Office (FPO) oversees GSB’s policy mandates and strategic directions. The government exercises full ownership and control in GSB through the Cabinet-approved board and senior management.

Additionally, GSB is the sole SFI that benefits from an explicit government guarantee on all its obligations, according to the Government Savings Bank Act of 1946. This guarantee includes principal amounts, interest on deposits, and other financial commitments.

Critical government’s public policy role

GSB plays a critical role by facilitating government policies to develop sustainable economic growth for Thailand and aligns its operations with Thailand’s national strategic framework, particularly in areas where commercial banks may not operate. This includes elevating the grassroots economy, supporting investment and development through soft loans, and providing financial services to low-income customers. Also, GSB supports financing for small and medium enterprises (SME) as well as fostering savings and financial discipline in the country.

GSB has maintained its strategic positioning as a “Social Bank” since 2020. In 2024, the bank has prioritized social impacts over profit maximization by aiming to achieve THB15 billion in positive social impacts. GSB’s social banking operations focus on four key areas: 1) promoting financial inclusion 2) addressing debt problems, 3) fostering community and social development, and 4) supporting government’s public policy role and economic stimulus measures.

To promote financial inclusion, GSB aims to provide a fair cost financial service to the low-income segment. To achieve this, GSB operates as a business group, through investment in subsidiaries according to the bank’s policy (Holding Company) and joint ventures (JV) to offer secured and unsecured loans at below-market rates (3%-5%). The GSB business group comprises: 1) Mee Tee Mee Ngern Co.,Ltd., to provide land loans and consignment sales, 2) Ngern Dee Dee Co.,Ltd., to offer personal and nano-finance loans via the Good Money application, 3) GSB IT Management Co.,Ltd to provide digital technology support, and 4) ARI Asset Management Co.,Ltd (ARI-AMC) to manage non-

performing loans (NPL) and assets. ARI-AMC further addresses debt problems by helping NPL customers rehabilitate their creditworthiness to allow future credit access.

GSB aims to primarily utilize profits generated from its commercial activities to fund these social missions. This lowers GSB's reliance on government budgets, as evident in the decline of Public Service Accounts (PSA) loans. The figure stood at THB63 billion (2.7% of total loans) as of June 2024, down from 3.7% compared to the same period in the previous year. PSA loans are lending programs based on cabinet-approved government policies. Some PSA programs also provide reimbursement of losses from the policy lending.

GSB plays another crucial role in providing loans for public and state-owned enterprises. At the end of June 2024, loans to public and state-owned enterprises accounted for 37.8% of GSB's total loans.

High likelihood of extraordinary government support

We believe that it is almost certain that GSB will receive timely and sufficient extraordinary support from the government when needed. This is based on GSB's integral linkage with the government and its critical public policy role. This support could take various forms, such as capital injections from the Specialized Financial Institutions Development Fund, the annual government budget, or other government-approved sources. However, considering GSB's robust capital position and strong financial performance, we do not anticipate any immediate need for support. As of June 2024, GSB's capital adequacy ratio under Basel II stood at a strong 17.95%, significantly exceeding the regulatory requirement of 8.5%.

Thailand's largest SFI with largest retail customer base

GSB stood as Thailand's largest SFI by asset size as of June 2024, with total assets of THB 3.3 trillion. Its assets represent 10.0% of banking system assets, including commercial banks and SFIs. Furthermore, GSB is the highest profit-generating SFIs in 2023, contributing a significant 55.9% of the total net profits across all SFIs.

As of September 2024, GSB had the largest retail customer base across all SFIs and commercial bank of 24.1 million customers. Low-income and grassroots segments comprise around 61% of GSB's customer base. GSB also has the largest branch network in the provinces among banks in Thailand, with 1,028 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.

ORGANIZATION 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 JV with Srisawad Corporation PLC (SAWAD) to expand into the vehicle title loan business. GSB later sold its 49% shares back to SAWAD in 2023. In 2022, GSB joined with Dhipaya Group Holdings PLC (TIPIH) and Bangchak Corporation PLC (BCP) to set up "Mee Tee, Mee Ngern" to enter the land title loan business. In 2023, GSB set up "Good Money" or "Ngern Dee Dee" a JV (non-bank) providing personal loans and digital lending with Mee Tee, Mee Ngern. GSB holds 49% shares and Mee Tee, Mee Ngern holds 51% in the JV. 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.

In 2024, GSB partnered with Bangkok Commercial Asset Management PLC (BAM) to establish a JV, ARI-AMC. ARI-AMC focuses on purchasing and transferring debts from GSB, covering both secured and unsecured general credit debtors, including SMEs and credit card debt.

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 government's 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

	----- Year Ended 31 December -----				
	Jan-Jun 2024 ³	2023	2022	2021	2020
Total assets	3,269,875	3,238,880	3,104,705	3,045,049	2,889,202
Average assets	3,254,378	3,171,792	3,074,877	2,967,126	2,843,413
Investment in securities	544,299	470,247	478,945	476,198	439,843
Loans and receivables	2,369,144	2,331,823	2,315,865	2,290,766	2,136,543
Allowance for doubtful accounts	125,597	114,650	101,611	93,129	78,629
Deposits	2,705,884	2,678,458	2,587,828	2,479,233	2,401,543
Borrowings ⁴	204,936	201,016	181,701	221,276	157,610
Shareholders' equities	244,710	237,455	227,644	215,355	199,832
Average equities	241,082	232,550	221,500	207,594	201,432
Net interest income	44,978	73,183	58,220	54,660	52,586
Non-interest income ⁵	6,916	14,343	18,561	20,230	14,860
Total revenue ⁵	51,895	87,526	76,781	74,891	67,446
Operating expenses ⁶	17,223	33,143	32,692	31,897	34,311
Pre-provision operating profit (PPOP)	34,672	54,383	44,089	42,994	33,136
Impairment losses on loans and securities	16,209	20,632	16,739	17,615	14,598
Net income	18,444	33,744	27,350	25,379	18,538
Net fee and service income	1,932	4,203	3,824	3,401	4,108
Gains (loss) on investments	8	28	58	2,286	(1,073)

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

Unit: %

	Jan-Jun 2024 ⁷	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Earnings					
Return on average assets	1.14	1.06	0.89	0.86	0.65
Interest spread	2.61	2.15	1.78	1.70	1.66
Net interest margins	2.73	2.27	1.86	1.82	1.83
Net interest income/average assets	2.78	2.31	1.89	1.84	1.85
Non-interest income/average assets	0.43	0.45	0.60	0.68	0.52
Net fee and service income/total revenue	3.72	4.80	4.98	4.54	6.09
Cost-to-income	33.19	37.87	42.58	42.59	50.87
Capitalization					
Tier-1 ratio	16.26	15.82	15.32	13.66	12.85
BIS ratio	17.95	17.71	17.59	16.06	14.98
Tier-1/BIS ratio	90.58	89.33	87.09	85.06	85.78
Asset Quality					
Credit costs	1.42	0.91	0.74	0.81	0.70
Non-performing loans/total loans ⁸	2.80	2.44	2.25	2.23	1.91
Allowance for loan losses/non-performing loans	164.68	171.36	173.78	164.79	170.75
Funding & Liquidity					
CASA ratio	27.25	29.35	32.11	31.45	28.56
Loan-to-deposit ratio	85.77	85.19	87.57	90.35	87.10
Deposits/total liabilities	89.45	89.24	89.95	87.61	89.30
Liquid assets/total deposits ⁹	33.49	33.50	30.47	30.19	31.54
Liquid assets/short-term liabilities ¹⁰	44.52	50.72	43.96	41.45	52.68

⁷ Annualized

⁸ Including interbank; excluding accrued interests

⁹ Including interbank borrowing

¹⁰ Financial liabilities with maturity less than one year

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023

Government Savings Bank (GSB)

Issuer Rating:	AAA
Rating Outlook:	Stable

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