

GOVERNMENT SAVINGS BANK

No. 143/2017

7 November 2017

Company Rating: AAA

Outlook: Stable

Company Rating History:

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

Rating Rationale

TRIS Rating affirms the company rating of the Government Savings Bank (GSB) at “AAA”. GSB’s rating reflects TRIS Rating’s view that the bank has a strong business position, sound financial performance, 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), GSB’s obligation to repay the principal of all its outstanding loans, interest on deposits, and make all other payment obligations are guaranteed by the government.

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 are aligned with and support the government’s economic and social development policies. Like other special-purpose financial institutions (SFIs), GSB is currently supervised by the Bank of Thailand (BOT) based on guidelines that follow the Basel-II framework. 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 some economic sectors, though these activities usually do not generate any profit.

GSB is a large bank by Thai commercial bank standards. Its total asset size was Bt2,579 billion, ranking it fourth in asset size among commercial banks and SFIs in Thailand at the end of the first half of 2017 (H1/2017). The bank has large market shares in both loans and deposits. For example, GSB had a 10.6% market share in loans (ranked fourth in the industry), and a 12.7% market share in deposits (ranked second) at the end of H1/2017. Its solid market position in deposits reflects its status as a leading savings institution. The bank is also a key provider of mortgage loans. Based on the database at TRIS Rating, GSB was the fourth-largest mortgage lender with a 10.2% market share at the end of H1/2017. In addition, GSB operates an extensive nationwide branch network.

GSB’s strength lies in its retail client base. However, compared with its commercial bank peers, GSB has a higher reliance on the lending segment. GSB’s net interest income as a percentage of total revenue was above the average of 17 Thai commercial bank peers*. In 2016, this made up over 80%, compared with commercial bank peers’ average of 62% for other banks. Fee-based income comprises a small portion of revenue at GSB. Net fee and service income was 6.6% in 2016 compared with an average of around 20% at other commercial banks. Debit-card and automatic teller machine (ATM) fees plus commissions make up most fee-based income.

TRIS Rating forecasts that GSB’s Basel-II compliant total capital ratio will be within 12%-13% over the next few years. This level is sufficient to support GSB’s near-term expansion plans. Tier-1 to total capital was 93.8% at the end of H1/2017. This level meets the guidelines set by the BOT. However, it remains below the levels of other commercial banks, which are subject to the Basel-III framework. It is likely that the government through the Ministry of Finance (MOF) will maintain the bank’s current dividend payout policy. Reflecting its status as an SFI that does not hold achieving returns as its primary objective, GSB’s profitability is moderate when compared with its commercial bank peers. In 2016, GSB’s return on average assets (ROAA) was 1.06%, lower than the commercial bank average of around

Contacts:

Annop Supachayanont, CFA
annop@trising.com

Siriporn Krairos
siriporn@trising.com

Sakda Pongcharoenyong
sakda@trising.com

Nopalak Rakthum
nopalak@trising.com

WWW.TRISING.COM

1.3%.

We forecast GSB will add to its provisions and reduce its exposure to certain weak segments over the coming years. The non-performing loan (NPL) ratio rose to 2.44% at the end of H1/2017, from 1.74% at the end of 2015. The ratio rose because of rises in the delinquency rates of mortgage loans and personal loans. The ratio remained below the average of commercial banks of 3.7% at the end of H1/2017. Special-mentioned loans as a percentage of total loans also rose in H1/2017 to 4.53%. We assess GSB's loan loss reserve position as moderate when compared with its commercial bank peers. The bank's over-reserve position at around 111% at the end of H1/2017 reflects its policy to make an amount of provisions adequate to cover expected loan losses**.

GSB has strong funding capability, thanks to a broad-based retail funding base and its unique status as a government-owned bank. The bank offers deposit products with yields that are more attractive than the yields at other commercial banks. As a result, GSB has a deposit base that is "sticky", meaning depositors are less likely to switch deposits to a competing bank. All obligations are fully backed by the government. Deposits made up over 86% of total funding including shareholders' equity at the end of H1/2017. This is the highest of all Thai commercial banks. The loan-to-deposits ratio has been consistently lower than other Thai commercial banks. The ratio was 89.4% at the end of H1/2017.

GSB has consistently been a net lender in the interbank market. It also serves as a liquidity provider to other SFIs and other government agencies. Liquidity ratios are in line with other Thai commercial banks. Liquid assets as a percentage of total assets and as a percentage of deposits including bills of exchange (B/Es) were 27.2% and 31.5%, respectively, as of H1/2017. The majority of the liquid assets were interbank loans with short durations.

Rating Outlook

The "stable" rating outlook reflects the expectation that GSB will maintain its status as an SFI, under the relevant laws, with the full support of the government.

The credit rating and/or outlook of GSB could change if the legal status of GSB changes, or if, in our view, the importance of GSB's role in relation to government's policies changes.

* The average of commercial banks means the weighted average of 17 Thai commercial banks as follows:

- | | |
|--------------------------------------|--|
| 1. Bangkok Bank PLC (BBL) | 10. CIMB Thai Bank PLC (CIMBT) |
| 2. Siam Commercial Bank PLC (SCB) | 11. LH Financial Group PLC (LHFG) |
| 3. Krung Thai Bank PLC (KTB) | 12. United Overseas Bank (Thai) PLC (UOBT) |
| 4. Kasikorn Bank PLC (KBANK) | 13. Standard Chartered Bank (Thai) PLC (SBCT) |
| 5. Bank of Ayudhya PLC (BAY) | 14. Industrial and Commercial Bank of China (Thai) PLC (ICBCT) |
| 6. Thannachart Capital PLC (TCAP) | 15. Mega International Commercial Bank PLC (MEGA ICBC) |
| 7. TMB Bank PLC (TMB) | 16. Thai Credit Retail Bank PLC (TCRB) |
| 8. Tisco Financial Group PLC (TISCO) | 17. Bank of China (Thai) PLC (BOC) |
| 9. Kiatnakin Bank PLC (KKP) | |

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

Government Savings Bank (GSB)

Company Rating:

AAA

Rating Outlook:

Stable

Financial Statistics^{1, 2}

Unit: Bt million

	Jan-Jun 2017 ³	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	2,579,014	2,510,033	2,400,716	2,259,197	2,174,666
Average assets	2,544,524	2,455,375	2,329,957	2,216,932	2,068,904
Investment in securities	263,211	283,914	246,246	268,627	247,846
Loans and receivables	1,896,665	1,755,545	1,777,433	1,611,924	1,546,775
Allowance for doubtful accounts	57,672	52,615	43,790	36,232	32,114
Deposits	2,122,116	2,137,341	2,058,139	1,952,504	1,879,425
Borrowings ⁴	157,531	101,313	79,745	50,884	68,963
Shareholders' equities	184,889	170,853	152,003	147,280	134,625
Average equities	177,871	161,428	149,641	140,952	134,466
Total revenue	35,956	72,765	67,331	63,825	57,841
Net interest income	27,924	58,547	57,587	55,654	53,907
Allowance for impairment losses on loans	5,511	9,548	8,043	4,688	4,467
Net fee and service income	2,673	4,816	4,603	4,008	3,741
Gains on investments	118	22	515	445	1,205
Non-interest income	8,032	14,218	9,743	8,171	3,934
Operating expenses	17,735	37,113	36,524	34,506	34,291
Net income	12,710	26,104	22,764	24,632	19,083

1 Consolidated financial statements

2 Including public service accounts since 2015

3 Non-annualised

4 Including interbank and money market

Key Financial Ratios^{1,2}

Unit: %

	Jan-Jun 2017 ³	Year Ended 31 December			
		2016	2015	2014	2013
Earnings					
Return on average assets	0.50	1.06	0.98	1.11	0.92
Return on average equities	7.15	16.17	15.21	17.48	14.19
Net interest income/average assets	1.10	2.38	2.47	2.51	2.61
Non-interest income/average assets	0.32	0.58	0.42	0.37	0.19
Net fee and service income/total revenue	7.43	6.62	6.84	6.28	6.47
Gains on investments/total revenue	0.33	0.03	0.76	0.70	2.08
Operating expenses/total revenue	49.32	51.00	54.25	54.06	59.29
Cost-to-income	48.90	50.65	53.96	53.74	59.01
Capitalisation					
Tier-1 ratio ⁴	11.41	10.86	10.24	10.21	9.88
BIS ratio ⁴	12.16	11.54	10.80	11.11	10.56
Tier-1/BIS ratio ⁴	93.83	94.11	94.81	91.90	93.56
Asset Quality					
Credit costs	0.30	0.54	0.46	0.30	0.29
Non-performing loans/total loans ⁵	2.44	2.21	1.74	1.53	1.24
Allowance for loan losses/non-performing loans	124.74	135.89	141.84	147.06	167.33
Allowance for loan losses/required allowance	110.50	110.45	116.51	134.77	141.06
Funding & Liquidity					
CASA ratio ⁶	22.50	22.67	20.90	20.27	39.81
Loan-to-deposit ratio ⁶	89.38	82.14	86.36	82.56	82.30
Deposits/total liabilities ⁶	88.64	91.37	91.53	92.45	92.13
Liquid assets/total deposits ⁷	31.50	35.41	30.31	33.05	32.94
Total loans/total assets	73.54	69.94	74.04	71.35	71.13

- 1 Consolidated financial statements
- 2 Including public service accounts since 2015
- 3 Non-annualised
- 4 Stand-alone basis
- 5 Excluding bills of exchange and interbank borrowing
- 6 Including bills of exchange
- 7 Including bills of exchange and interbank borrowing

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2017, 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 http://www.trisrating.com/en/rating_information/rating_criteria.html.