

GOVERNMENT SAVINGS BANK

No. 210/2021
25 November 2021

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 06/11/20

Company Rating History:

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

Contacts:

Pawin Thachasongtham

pawin@trisrating.com

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

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 specialized financial institution (SFI) which is “integrally” linked with the Thai government and plays a “critical” public policy role. The rating also takes into account the government guarantee on all of GSB’s obligations according to the Government Savings Bank Act B.E. 2489 (1946), and our expectation of the almost certain likelihood that GSB will receive timely and sufficient extraordinary support from the government, if needed.

KEY RATING CONSIDERATIONS

Integrally linked with the government

Our assessment of GSB’s integral linkage with the government is based on the government’s full ownership, tight control via board and senior management appointments by the Cabinet, and the continuous track record of financial support from the government. GSB’s legal status is an SFI whose role is to provide the government policy-related services. GSB is currently under the supervision of the Bank of Thailand (BOT) and the Fiscal Policy Office (FPO).

Additionally, the Government Savings Bank Act, B.E. 2489 stipulates that the government explicitly guarantees all of GSB’s obligations including the principals, the interest on deposits, and other forms of payment obligations. GSB is the only SFI for which the government explicitly guarantees all of its obligations.

Critical public policy role

We expect GSB will continue playing its critical public policy role in serving as a “Social Bank”, promoting savings habits and financial discipline among the Thai people, and supporting the government’s policies and the country’s development. The bank focuses on helping low-income and grassroots people to gain access to financial services at fair costs. The government’s programs, implemented by GSB and approved by the Cabinet, have been funded annually by the government in separate accounts called “Public Service Accounts” (PSA). At the end of June 2021, GSB’s loans in PSA amounted to THB280 billion, the highest among SFI in Thailand. PSA accounted for 12.77% of the bank’s total loans.

In our view, GSB’s role in serving the government’s policies has become even more crucial following the Coronavirus Disease 2019 (COVID-19) pandemic. In response to the economic impact from COVID-19, GSB has been instrumental in channeling government financial assistance to small and medium enterprises (SMEs) and key affected industries. The bank has also introduced various relief measures for retail customers to help alleviate the impacts of COVID-19.

Under GSB’s five-year business strategy covering 2022-2026, GSB will remain strongly committed to its mission of serving as a “Social Bank” to reduce inequality and create the opportunity to access to fair finance. Unlike private commercial banks, GSB does not make profit maximization as its primary policy objective.

Extraordinary support from the government if needed

The rating continues to reflect our assessment of the almost certain likelihood that GSB will receive timely and sufficient extraordinary support from the government if needed. Our assessment is based on our view of GSB's integral linkage with the government and its critical policy role. Capital injections to GSB can be made by allocation from the Specialized Financial Institutions Development Fund, the annual government budget, or other government sources approved by the Cabinet. However, we do not see a potential need for extraordinary support from the government in the near future given the bank's adequate capital position. At the end of June 2021, GSB's capital adequacy ratio was 15.3%, well above the regulatory requirement. We expect GSB's integral linkage with the government and its critical policy role to remain unchanged in the foreseeable future.

Being Thailand's largest SFI with a strong retail banking franchise

GSB is the largest SFI in Thailand in terms of asset size. GSB's total assets of THB2.9 trillion at the end of June 2021 are comparable to those of Thai commercial banks designated by BOT as systemically important banks (D-SIB) and represent 9.8% of total commercial bank and SFI loans in Thailand. Public and state-owned enterprises accounted for 33.9% and 36.5% of GSB's total loans at the end of December 2020 and at the end of June 2021, respectively.

We expect GSB to maintain its strong market position in retail banking, especially in rural areas. GSB has built up a strong customer base, comprising 23 million customers at the end of September 2021, through its extensive upcountry branch network. At the end of September 2021, GSB had 1,054 branches nationwide. More than 60% of its customers were in the low-income segment.

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 down GSB's rating and/or outlook if there is any significant change in government policies that affects GSB's policy role or integral linkage with the government.

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 THB100,000, bestowed by His Majesty King Vajiravudh (Rama VI). The main objective of the Savings Office was 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. The main objective of the establishment is to provide the source of funds to grassroots people or low-income workers at a fair cost.

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 segment. 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 to strengthen an 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 2021 ³	Year Ended 31 December			
		2020	2019	2018	2017
Total assets	2,859,606	2,889,202	2,797,624	2,704,967	2,664,411
Average assets	2,874,404	2,843,413	2,751,295	2,684,689	2,587,222
Investment in securities	415,779	439,843	311,876	256,157	237,321
Loans and receivables	2,205,037	2,136,543	2,076,170	2,066,981	1,952,521
Allowance for doubtful accounts	86,429	78,629	69,977	67,790	57,475
Deposits	2,358,382	2,401,543	2,309,489	2,232,431	2,185,122
Borrowings ⁴	166,952	157,610	151,976	119,659	161,206
Shareholders' equities	200,275	199,832	203,032	202,566	202,471
Average equities	200,054	201,432	202,799	202,518	186,662
Net interest income	27,135	52,586	55,986	61,179	55,916
Non-interest income ⁵	9,305	14,860	16,823	23,320	15,527
Total revenue ⁵	36,440	67,446	72,809	84,499	71,444
Operating expenses ⁶	16,214	34,311	36,455	36,498	35,983
Pre-provision operating profit (PPOP)	20,226	33,136	36,354	48,000	35,461
Impairment losses on loans and securities	9,513	14,598	12,306	17,018	4,184
Net income	10,713	18,538	24,048	30,983	31,276
Net fee and service income	1,769	4,108	4,806	6,073	5,766
Gains (loss) on investments	299	(1,073)	2,144	7,635	257

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 fees and service income

6 Excluding fees and service expense

Unit: %

	Jan-Jun 2021 ⁷	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Earnings					
Return on average assets	0.75	0.65	0.87	1.15	1.21
Interest spread	1.73	1.66	1.80	2.08	1.91
Net interest margins	1.88	1.83	2.03	2.27	2.14
Net interest income/average assets	1.90	1.85	2.03	2.28	2.16
Non-interest income/average assets	0.65	0.52	0.61	0.87	0.60
Net fee and service income/total revenue	4.85	6.09	6.60	7.19	8.07
Cost-to-income	44.50	50.87	50.07	43.19	50.37
Capitalization					
Tier-1 ratio	13.10	12.85	13.97	13.56	11.85
BIS ratio	15.27	14.98	15.52	14.72	12.47
Tier-1/BIS ratio	85.79	85.78	90.01	92.12	95.03
Asset Quality					
Credit costs	0.90	0.70	0.60	0.85	0.23
Non-performing loans/total loans ⁸	1.76	1.91	2.31	2.47	1.71
Allowance for loan losses/non-performing loans	204.94	170.75	122.63	114.07	134.04
Funding & Liquidity					
CASA ratio	33.29	28.56	24.34	23.78	22.62
Loan-to-deposit ratio	91.47	87.10	89.61	92.29	89.05
Deposits/total liabilities	88.68	89.30	89.01	89.21	88.76
Liquid assets/total deposits ⁹	27.85	31.54	31.23	27.28	31.71
Liquid assets/short-term liabilities ¹⁰	40.75	52.68	52.98	42.68	48.26

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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

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