

GOVERNMENT SAVINGS BANK

No. 233/2023
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FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 25/11/22

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” with a “stable” outlook. The rating reflects 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 serving the government’s public policy. The rating further reflects the government’s explicit guarantee on all of GSB’s obligations according to the Government Savings Bank Act B.E. 2489 (1946). Also, the rating considers our expectation of the near certain likelihood that GSB would 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 the government policy-related services. GSB is under the supervision of the Bank of Thailand (BOT) and the Fiscal Policy Office (FPO). The government has full ownership and control at the bank via the Cabinet-approved board and senior management.

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

Critical public policy role

GSB plays a critical role by facilitating the government’s policies to develop sustainable economy for Thailand. This includes providing financial services for low-income customers and support financing for small and medium enterprises (SME), as well as promoting savings and financial discipline in the country.

GSB has maintained its strategic positioning as a “Social Bank” since 2020. GSB aims to be a “Social Bank” with positive impact at scale by 2027. The bank is committed to reducing social inequalities by providing accessible financial services to low-income and grassroots segments. The strategy is to use the profit generated from its commercial-based operation to subsidize its social banking operation.

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 2023, GSB’s PSA loans amounted to THB85 billion and accounted for 3.7% of the bank’s total loans. GSB also plays a crucial role in providing loans for public and state-owned enterprises. At the end of June 2023, loans to public and state-owned enterprises accounted for 39.5% of GSB’s total loans.

Aiming to provide financial service at fair costs to help the low-income segment, GSB provides secured and unsecured loans at 3%-5% below-market rates. After achieving its target in lowering market rates for motorcycle and car-backed title loans, GSB sold its 49% shares in Fast Money Co., Ltd. (FM) back to Sri Sawad Corporation PLC (SAWAD, rated “BBB+/stable”). Nevertheless, GSB still provides soft loans to SAWAD to support FM’s loan expansion that are extended at lower rates.

For land-title loans, GSB has partnered with Dhiphya Group Holdings PLC (TIPH, rated “AA/stable”) and Bangchak Corporation PLC (BCP, rated “A/stable”) to form the joint venture (JV), “Mee Tee, Mee Ngern”. GSB hold 49% shares in Mee Tee, Mee Ngern while TIPH and BCP hold 31% and 20% shares respectively. GSB targets new loans of THB10 billion for the land-title loan business in 2023. Also, GSB joined Mee Tee, Mee Ngern to create the non-bank JV, “Good Money” or “Ngern Dee Dee” to provide unsecured personal loans and digital loans with the goal of lowering the market interest rates of these products. Operation is expected to commence in the first quarter of 2024.

High likelihood of extraordinary government support

In our view, we believe that it is almost certain that GSB will receive timely and sufficient extraordinary support from the government when needed based on GSB’s integral linkage with the government and its critical public policy role. Support from the government can 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. Nonetheless, we do not see the need for extraordinary support from the government in the near future given the bank’s adequate capital position and strong financial performance. At the end of June 2023, GSB’s capital adequacy ratio under Basel II was 18.0%, well above the regulatory requirement of 8.5%.

Thailand’s largest SFI with largest network in provinces

GSB is the largest SFI in terms of asset size with total assets of THB3.2 trillion at the end of June 2023. Its assets represent 9.8% of banking system assets, including commercial banks and SFIs. The bank is also the highest profit generating SFIs. In 2022, GSB’s net profits accounted for 52.1% of all SFIs’ net profits.

We expect GSB to continue its strong market position in retail banking, especially in rural areas. At the end of September 2023, GSB had the largest retail customer base of 23.4 million customers, of which 62% represents the low-income and grassroots segments. GSB also has the largest branch network in the provinces among banks in Thailand, with 1,044 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. GSB later sold its 49% shares back to SAWAD in 2023. 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. 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.

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 2023 ³	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	3,153,430	3,104,705	3,045,049	2,889,202	2,797,624
Average assets	3,129,067	3,074,877	2,967,126	2,843,413	2,751,295
Investment in securities	513,624	478,945	476,198	439,843	311,876
Loans and receivables	2,352,152	2,315,865	2,290,766	2,136,543	2,076,170
Allowance for doubtful accounts	106,342	101,611	93,129	78,629	69,977
Deposits	2,633,642	2,587,828	2,479,233	2,401,543	2,309,489
Borrowings ⁴	169,856	181,701	221,276	157,610	151,976
Shareholders' equities	235,303	227,644	215,355	199,832	203,032
Average equities	231,474	221,500	207,594	201,432	202,799
Net interest income	35,539	58,220	54,660	52,586	55,986
Non-interest income ⁵	7,152	18,561	20,230	14,860	16,823
Total revenue ⁵	42,691	76,781	74,891	67,446	72,809
Operating expenses ⁶	16,932	32,692	31,897	34,311	36,455
Pre-provision operating profit (PPOP)	25,759	44,089	42,994	33,136	36,354
Impairment losses on loans and securities	8,529	16,739	17,615	14,598	12,306
Net income	17,230	27,350	25,379	18,538	24,048
Net fee and service income	2,483	3,824	3,401	4,108	4,806
Gains (loss) on investments	24	58	2,286	(1,073)	2,144

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 2023 ⁷	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Earnings					
Return on average assets	1.11	0.89	0.86	0.65	0.87
Interest spread	2.13	1.78	1.70	1.66	1.80
Net interest margins	2.25	1.86	1.82	1.83	2.03
Net interest income/average assets	2.29	1.89	1.84	1.85	2.03
Non-interest income/average assets	0.46	0.60	0.68	0.52	0.61
Net fee and service income/total revenue	5.82	4.98	4.54	6.09	6.60
Cost-to-income	39.66	42.58	42.59	50.87	50.07
Capitalization					
Tier-1 ratio	15.90	15.32	13.66	12.85	13.97
BIS ratio	18.01	17.59	16.06	14.98	15.52
Tier-1/BIS ratio	88.28	87.09	85.06	85.78	90.01
Asset Quality					
Credit costs	0.75	0.74	0.81	0.70	0.60
Non-performing loans/total loans ⁸	2.37	2.25	2.23	1.91	2.31
Allowance for loan losses/non-performing loans	171.65	173.78	164.79	170.75	122.63
Funding & Liquidity					
CASA ratio	29.71	32.11	31.45	28.56	24.34
Loan-to-deposit ratio	87.44	87.57	90.35	87.10	89.61
Deposits/total liabilities	90.25	89.95	87.61	89.30	89.01
Liquid assets/total deposits ⁹	30.54	30.47	30.19	31.54	31.23
Liquid assets/short-term liabilities ¹⁰	46.83	43.96	41.45	52.68	52.98

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)

Company Rating:	AAA
Rating Outlook:	Stable

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