

THE FEDERATION OF SAVINGS AND CREDIT COOPERATIVES OF THAILAND LTD.

No. 135/2017

1 November 2017

Company Rating: A-
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
29/07/14	A-	Stable

Rationale

TRIS Rating affirms a company rating of “A-” to The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT). The rating reflects FSCT’s important role in promoting and supporting the savings cooperatives development in Thailand. The rating is also supported by FSCT’s status as the largest savings cooperative federation in terms of both asset size and number of members, its long track record, experienced and proficient management team and staff in savings cooperative operation, good financial performance, and the good quality loans FSCT has made to its members. The rating takes into consideration the legal privileges extended to primary savings cooperatives. The privileges buttress the quality of the loans made by savings cooperatives and enhance the competitive edge of savings cooperatives, including FSCT, over traditional financial institutions. However, the strengths are partially mitigated by FSCT’s relatively high leverage, a mismatch in maturity of assets and liabilities, higher concentration risk of loans made to its members and a possibility of regulatory changes which may reduce the privileges currently enjoyed by savings cooperatives.

FSCT was established in 1972 at the initiative of the Cooperative League of Thailand (CLT) and 81 savings cooperatives. According to the Cooperatives Act, FSCT is a secondary savings cooperative. Primary savings cooperatives are members of FSCT. Currently, in terms of both asset size and number of members, FSCT is the largest of savings cooperative federations in Thailand. FSCT receives all the tax exemption privileges that all primary savings cooperatives enjoy. FSCT provides financial services for its members, including taking deposits and providing loans. In addition, FSCT plays an important role in the savings cooperatives movement at the national level. FSCT is involved in numerous activities to support, promote, plan for, and develop savings cooperatives in Thailand.

Loans made to cooperative members were the largest portion (72%) of FSCT’s total assets at the end of fiscal year (FY) 2016 (ending March 2017). Loans to cooperative members ranged between 60%-72% of total assets during the past five years. About 26% of FSCT’s total assets were investments and the remainder (2%) were cash and other assets. FSCT has a policy to provide loans for its members and non-members, but loans will be provided to members first if there is a greater demand. At the end of FY2016, loans made to cooperative members amounted to Bt79,707 million. At the end of FY2016, FSCT provided loans to only 252 cooperative members, out of a total of 1,079 members. FSCT is exposed to concentration risk from the loans to cooperative members. The 20 largest loans made to cooperative members comprised 50% of total loans at the end of FY2009, but reduced to 37% at the end of FY2015. The ratio jumped again to 50% at the end of FY2016. However, FSCT’s loan concentration risk is mitigated by the high quality of its loan portfolio.

At the end of FY2016, FSCT had only Bt6.8 million of non-performing loans (NPLs), accounting for only 0.01% of outstanding loans. FSCT’s good loan quality stems from the automatic repayment mechanism applied to each loan and the legal privileges provided to primary savings cooperatives. FSCT also has strict underwriting criteria and guidelines for the loans it grants.

During FY2011-FY2013, FSCT faced difficulties in raising funds through its members, both in terms of deposits and promissory note (P/N). Deposits and P/N rose by only 1.6% in FY2011, 5.6% in FY2012, and 1.9% in FY2013, compared with annual rises of over 10% during FY2008-FY2010. FSCT has raised a substantial amount of funds through borrowings from commercial banks during FY2011-FY2013. Borrowings climbed from Bt7,825 million at the end of FY2008 to Bt15,665 million at the end of

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FY2013, accounting for 32% of total liabilities or 25% of total assets. All commercial bank borrowings were short-term borrowings. In TRIS Rating's view, wholesale funding through financial institutions carries a higher rollover risk for FSCT than using deposits and borrowings from cooperative members as its sources of funding. A higher proportion of external short-term funding brings refinancing risks and liquidity risks for FSCT. The risks are especially high during times of adverse changes in the savings cooperatives system or the economy. In addition, more short-term funding means FSCT has a wider negative maturity gap between its assets and liabilities. FSCT thus carries interest rate risk to a certain extent. After the difficulties in raising funds through members were unraveled in 2014, FSCT reduced the borrowings from commercial banks to 23% of total liabilities at the end of FY2014 and continuously dropped to 13% and 11% at the end of FY2015 and FY2016, respectively.

Net profit rapidly rose from Bt543 million in FY2010 to Bt1,193 million in FY2014. In FY2015, net profit slightly decreased to Bt1,117 million due to a narrower loan spread. Net profit improved again to Bt1,356 million in FY2016. The improvement in FSCT's net profit during the past four years were partly due to the supports from gains on divestments. However, in terms of profitability, the ratio of return on average assets (ROAA) dropped from 1.8% in FY2014 to 1.3% in FY2015, while the ratio of return on average cooperative's equity (ROAE) dropped from 8.6% in FY2014 to 6.6% in FY2015. The ROAA maintained at 1.3% in FY2016 while the ROAE dropped to 6.2% in FY2016, partly due to higher paid-up shares. The dividend yield for its cooperative members was 5.8% in FY2016, unchanged from FY2015.

FSCT's paid-up share capital has increased continuously. As required by FSCT's by-laws, cooperative members need to purchase additional shares in proportion to the paid-up share capital they already own. In a normal situation, FSCT's paid-up share capital is expected to increase continuously as the paid-up share capital of each cooperative member will increase automatically, thanks to the traditional mechanism of monthly share purchased by members. FSCT's paid-up share capital rose substantially from Bt6,257 million in FY2009 to Bt9,211 million in FY2010, due to an extra share purchase made by one cooperative member in FY2010. After the extra share purchase, FSCT's paid-up share capital increased by 2%-8% per year during FY2011-FY2013. In FY2015, there were extra share purchases again done by some members. As a result, the paid-up share capital increased to Bt14,037 million at the end of FY2015, up 27% from FY2014. Paid-up share increased significantly to Bt20,174 million in FY2016, up 44% from the level in FY2015. Cooperative's equity, including paid-up share capital, legal reserves, reserves mandated by its by-laws, unrealized gains or losses from its investments, and net profit, has also increased steadily. Cooperative's equity rose from Bt7,708 million at the end of FY2009 to Bt18,977 million at the end of FY2015 and Bt24,640 million in FY2016. FSCT's ratio of cooperative's equity to total assets has held at around 20% during the past decade. Despite the improvement of the ratio from 19.4% in FY2015 to 22.4% in FY2016, the ratio was considered low. Other large, long-established savings cooperatives have an average ratio of around 40%.

TRIS rating holds the view that the recent and planned regulatory changes are positive factors for the overall industry. Regulatory changes will mandate better risk monitoring and controlling measures, which will in turn strengthen the operations and financial profiles of the saving cooperatives.

Rating Outlook

The "stable" outlook reflects the expectation that FSCT will be able to maintain its important role in the savings cooperatives movement in Thailand. In addition, FSCT's internal funding base, provided by its members, is expected to be maintained. FSCT is expected to deliver a solid operating performance, leading to appropriate returns for its members.

Possibilities of the credit upsides are limited based on the existing institutional framework of savings cooperatives. On the contrary, more aggressive operating and financial policies or any regulatory changes that reduce privileges for savings cooperatives might impact the rating of FSCT.

The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT)

Company Rating:

Rating Outlook:

A-

Stable

Financial Statistics

Unit: Bt million

	Year Ended 31 March				
	2017	2016	2015	2014	2013
Total assets	110,018	97,993	69,557	61,611	60,678
Total loans	79,707	70,402	43,355	36,850	38,438
Total investment in securities	28,268	25,313	23,608	23,663	21,088
Allowance for doubtful accounts	7	8	9	9	6
Deposits	60,546	52,491	31,352	23,113	22,522
Borrowings	24,551	26,254	22,924	25,538	25,774
Cooperative's equity	24,640	18,977	14,893	12,805	12,252
Net interest and dividend income	1,332	1,216	1,161	1,010	872
Bad debts and doubtful accounts	0	2	2	0	0
Non-interest income	8	5	15	3	3
Operating expenses	165	141	134	133	127
Net income	1,356	1,117	1,193	913	748

Key Financial Ratios

Unit: %

	Year Ended 31 March				
	2017	2016	2015	2014	2013
Profitability					
Net-interest and dividend income/average assets	1.28	1.45	1.77	1.65	1.53
Non-interest income/average assets	0.18	0.05	0.26	0.06	0.01
Operating expenses/total income	3.52	3.69	3.89	4.51	4.87
Return on average assets	1.30	1.33	1.82	1.49	1.32
Return on average equity	6.22	6.60	8.62	7.29	6.35
Asset Quality					
Non-performing loans/total loans	0.01	0.01	0.02	0.02	0.02
Bad debts and doubtful accounts/average loans	0.00	0.00	0.00	0.00	0.00
Allowance for doubtful accounts/total loans	0.01	0.01	0.02	0.02	0.02
Allowance for doubtful accounts/non-performing loans	99.42	99.48	99.52	99.53	99.66
Capitalization					
Cooperative's equity/total assets	22.40	19.37	21.41	20.78	20.19
Cooperative's equity/total loans	30.91	26.95	34.35	34.74	31.86
Liquidity					
Total loans/total adjusted deposits*	75.73	75.89	66.37	62.54	65.99
Total loans/total assets	72.45	71.84	62.33	59.81	63.35
Liquid assets**/total adjusted deposits	27.59	28.98	39.18	40.93	36.95
Liquid assets**/total assets	26.40	27.44	36.81	39.15	35.48

* Total adjusted deposit = deposits from members + deposits from other cooperatives + borrowings + paid-up share capital

** Liquid assets = cash + deposits at banks + deposits at other cooperatives + investments in securities

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