

# POLICE GENERAL HOSPITAL SAVING AND CREDIT COOPERATIVE LTD.

No. 136/2017

1 November 2017

**Company Rating:** BBB+

**Outlook:** Stable

## Company Rating History:

Date	Company	Outlook/Alert
27/07/12	BBB+	Stable

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## Rating Rationale

TRIS Rating affirms the company rating of Police General Hospital Saving and Credit Cooperative Ltd. (PHSC) at “BBB+”. The rating reflects the status of PHSC as a captive financial service provider for PHSC’s members who work at the Police General Hospital (PGH) and related entities. The rating is also supported by the strong credit profile of PGH as a government entity, its good quality outstanding loans, and the capability of its management team to deliver satisfactory financial performances. The legal privileges extended to savings cooperatives also secure loan quality and enhance the competitive edge of PHSC over traditional financial institutions. However, PHSC’s credit strengths are partially offset by its aggressive funding policy which relies heavily on deposits from affiliate members and other savings cooperatives. The key-person dependency risk has improved but still exists with the development and implementation of standard operating policies and procedures. The weak capitalization compared with other long-established savings cooperatives has pressures on the rating. The recent and planned regulatory changes will affect the operating and financial performance of PHSC but in turn will strengthen the operations and control the risk exposure for the cooperative in the long term. However, the regulatory change which reduces the privileges currently enjoyed by savings cooperatives will also put a pressure on the rating.

PHSC was set up in 2002 as a savings cooperative for PGH’s personnel. It provides limited financial services for its members, mainly taking deposits and providing loans. Special legal privileges give savings cooperatives some advantages over traditional financial institutions. PHSC and its members are exempt from all major taxes. The high credit quality of loans granted to PHSC’s ordinary members, as is the traditional practice of savings cooperatives, is due to PHSC’s practice of providing loans to ordinary members through agreements with their employers. Loan repayments can be deducted from ordinary members’ monthly payrolls. According to cooperative laws, PHSC has the first-priority claim over any other creditors, except for circumstances under specific legal obligations. This legal support reduces the credit risk of PHSC’s loans to its members and sustains the cash inflows from loan repayments to the cooperative. In addition, the strong credit profile of PGH, together with the job security of its members as employees of a government entity, has ensured the stability of the number of ordinary members. This stability continuously increases PHSC’s capital base through the monthly obligation of ordinary members to purchase PHSC’s shares.

PHSC’s total assets have grown continuously, rising from Bt3,635 million at the end of fiscal year (FY) 2011 (ending 30 September 2011) to Bt9,265 million in FY2015. Total assets grew substantially to Bt16,761 million and Bt18,840 million at the end FY2016 and FY2017, respectively. PHSC is classified as a relatively large savings cooperative among the approximately 1,400 savings cooperatives, and is ranked the top 50 of all savings cooperatives.

The employees of the PGH and its related entities are the only people who are qualified to be ordinary members of PHSC. This type of membership criterion is a normal requirement of traditional savings cooperatives. PHSC also has affiliate members, as other savings cooperatives do. By offering all members attractive interest rates and tax-exempt interest income, PHSC has been able to raise a substantial amount of funds through savings deposits made by affiliate members.

Of the total of members' deposits of Bt10,490 million as of September 2017, approximately 80% were from affiliate members and 20% were from ordinary members. Of the total of deposits of Bt17,173 million, approximately 60% were from members and 40% were from other savings cooperatives. PHSC's liquidity risk depends on the roll-over rate of the deposit base, especially from affiliate members and other savings cooperatives that have no relationship with either PHSC or PGH and have no other benefits besides attractive interest rates on deposits. Thus, PHSC remained exposed to liquidity risk to a certain extent. PHSC has mitigated this risk by maintaining an adequate portion of liquid assets and unused credit facilities with traditional financial institutions. TRIS Rating expects that as long as PHSC is able to gain tax privileges to offer attractive interest rates, coupled with a conservative investment policy to maintain a relatively high portion of liquid assets, the level of liquidity risks is acceptable.

PHSC has expanded the amount of loans made to other savings cooperatives since FY2010. These loans are expected to yield returns higher than the returns from the investment portfolio. As of late, demand for loans from ordinary members remained quite small, due to the relatively high profiles of its ordinary members and PHSC's underwriting criteria to control the risk exposure to each member. PHSC's loan portfolio accounted for 52%-57% of total assets during FY2013-FY2017, increasing from 44% during FY2010-FY2012. At the end of September 2017, 95% of the loan portfolio were loans made to other savings cooperatives while the remainders were loans made to ordinary members. PHSC has been able to mitigate its loan concentration risk involving lending to other cooperatives by expanding its borrower base. PHSC has had no non-performing loans (NPLs) (overdue more than 90 days) since FY2007, whether it was lending to other savings cooperatives or to ordinary members.

The portion of PHSC's loans has risen continuously since FY2010 but PHSC still maintained high portion of investments. Therefore, the ratio of loans to adjusted deposits remained relatively low at 59.6% in FY2017, up slightly from 55.5% in FY2016. PHSC reported a net income of Bt227 million in FY2017, up from Bt174 million in FY2016. The return on average assets (ROAA) stood at 1.3% in FY2016 and FY2017, dropping from 1.7% in FY2015. The weaker profitability was mainly due to the narrower spreads of both loan and investment portfolios. PHSC's interest spread dropped from 1.1% in FY2015 to 0.7% and 0.6% in FY2016 and FY2017, respectively. The return on average cooperative's equity (ROAE) was up from 15.6% in FY2015 to 17.3% in FY2016. The ratio slightly increased to 17.7% in FY2017.

PHSC has been able to pay dividends to shareholders at the maximum level allowed by law at 10% of paid-up shares, since FY2009. PHSC's financial position and performance are dependent on a key member of the management team. PHSC has been developing and implementing standard operating policies and procedures, as well as obtaining various support tools to cover all of its main business activities. This will help mitigate the risk of an over reliance on one person.

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 savings cooperatives. The regulatory changes may also constrain the opportunities for growth and result in weaker financial performance in the near term. Rapid growth and high profits are not the main objectives of the savings cooperatives. However, any regulatory changes that reduce the privileges that the savings cooperatives currently enjoy, such as tax benefits and priorities of claims on member's monthly income, will negatively impact the rating of PHSC.

#### **Rating Outlook**

The "stable" outlook reflects the expectation that PHSC will be able to maintain its deposit base and deliver a performance which will deliver satisfactory returns to its ordinary members.

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

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#### **Police General Hospital Saving and Credit Cooperative Ltd. (PHSC)**

**Company Rating:**

BBB+

**Rating Outlook:**

Stable

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## Financial Statistics

Unit: Bt million

	Year Ended 30 September				
	2017	2016	2015	2014	2013
Total assets	18,840	16,761	9,265	6,126	5,277
Total loans	10,714	8,993	4,903	3,279	2,756
Total investment in securities	4,127	3,194	2,060	1,540	1,389
Allowance for doubtful accounts	0	0	0	0	0
Deposits	17,713	15,555	8,222	5,381	4,647
Borrowings	0	0	100	0	114
Cooperative's equity	1,449	1,111	908	731	508
Net interest and dividend income	155	129	109	108	61
Bad debts and doubtful accounts	0	0	0	0	0
Non-interest income	81	55	28	50	25
Operating expenses	9	10	9	11	13
Net income	227	174	128	148	73

## Key Financial Ratios

Unit: %

	Year Ended 30 September				
	2017	2016	2015	2014	2013
<b>Profitability</b>					
Net-interest and dividend income/average assets	0.87	0.99	1.42	1.90	1.22
Non-interest income/average assets	0.45	0.42	0.36	0.88	0.51
Operating expenses/total income	1.25	1.98	2.69	3.55	5.31
Return on average assets	1.28	1.34	1.66	2.59	1.48
Return on average equity	17.74	17.25	15.60	23.82	16.26
<b>Asset Quality</b>					
Non-performing loans/total loans	0.00	0.00	0.00	0.00	0.00
Bad debts and doubtful accounts/average loans	0.00	0.00	0.00	0.00	0.00
Allowance for doubtful accounts/total loans	0.00	0.00	0.00	0.00	0.00
Allowance for doubtful accounts/non-performing loans	0.00	0.00	0.00	0.00	0.00
<b>Capitalization</b>					
Cooperative's equity/total assets	7.69	6.63	9.80	11.93	9.63
Cooperative's equity/total loans	13.52	12.35	18.52	22.28	18.43
<b>Liquidity</b>					
Total loans/total adjusted deposits*	59.57	55.49	55.37	56.39	53.95
Total loans/total assets	44.87	47.68	48.91	48.57	48.88
Liquid assets**/total adjusted deposits	56.87	53.66	52.92	53.52	52.22
Liquid assets**/total assets	42.83	46.11	46.75	46.11	47.31

\* 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

## TRIS Rating Co., Ltd.

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