

Press Release

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TRIS Rating Affirms Company & Senior Unsecured Debt Ratings and Outlook of "SMC" at "AA-/Stable"

TRIS Rating has affirmed the company and senior unsecured debenture ratings of Secondary Mortgage Corporation (SMC) at "AA-" with "stable" outlook. The ratings reflect our view of SMC's business profile and its status as a special-purpose financial institution owned by the government. SMC's business profile has been constrained by the recent rapid deterioration of its asset quality which is expected to put tremendous pressure on its profitability for 2016. SMC is also expected to face the challenge of managing its non-performing loans (NPL), improving its operating efficiency, and steadying its financial performance over the next few years. Nevertheless, we do not see any change with respect to government policies to promote a domestic secondary mortgage market for which SMC will continue to play a vital role with strong support from the government.

The "stable" outlook reflects TRIS Rating's expectation that SMC's management team will shift its focus from asset growth to stabilizing its asset quality at a sustainable level to enable future growth. The outlook is also based on the expectation that SMC's relations with the government and related state entities, and the business and financial support it receives from the government, will remain unchanged.

The ratings and/or outlook for SMC could be revised upward if SMC can demonstrate consistent improvements on its financial performance and asset quality, and maintain an adequate capital base. In contrast, the case for a downward revision could be considered should there be further drastic deterioration in SMC's financial profile.

SMC was established in 1997 under the Emergency Decree on the Secondary Mortgage Finance Corporation Act B.E. 2540 (the SMC Act), with a mission to promote the Thai secondary mortgage market. SMC, a specialized financial institution (SFI), is wholly owned by the Ministry of Finance (MOF). Under the SMC Act, SMC has the competitive advantage by virtue of the SMC Act, plus the granted tax privileges.

SMC was set up to develop a secondary mortgage market and to an extent possibly collaborate with primary mortgage financiers to make long-term fixed rate mortgage loans available to home owners. SMC's existing loan portfolio comprises mortgage loans acquired from primary mortgage lenders. SMC packages the mortgage loans and sells mortgage-backed securities (MBS) to investors through Special Purpose Vehicles (SPVs). All of the outstanding MBS are guaranteed by SMC. From 2002 until the end of 2015, SMC has issued eight tranches of MBS and asset-backed securities (ABS), worth in total of approximately Bt11.6 billion.

SMC's loan portfolio has expanded substantially over the past few years. SMC has collaborated with many financial institutions such as Kasikorn Bank PLC (KBANK), Siam Commercial Bank PLC (SCB), Tisco Bank PLC (TISCO), and Kiatnakin Bank PLC (KK) to originate new mortgage loans. At the end of 2015, SMC's

loans and receivables totaled Bt24.2 billion, a 50% increase from the prior year. However, as of 30 June 2016, its loans and receivables slightly decreased to Bt23.9 billion as a result of loan repayments and prepayments and no new loans being acquired during this period.

Like other financial institutions, SMC's asset quality has deteriorated rapidly since 2015 due to the prolonged unfavorable economic environment, as reflected by the increase of its NPLs. At the end of 2015, NPLs rose to Bt724 million, compared with Bt387 million as of December 2014. NPL ratio (NPLs as a percentage of total loans) increased to 2.99% as of December 2015. The ratio further increased to 4.91% as of 30 June 2016. The deterioration of asset quality needs to be closely monitored.

SMC reported a net profit of Bt67 million in 2015, down by 5% year-on-year (y-o-y). In the first half of 2016, net profit was at Bt32 million, down 26% from the same period last year. Profitability is expected to further decline in the second half of 2016. The drop in profitability was caused mainly by the large provisions made for bad debts.

SMC is now more reliant on long-term funding since it recently issued new senior unsecured debentures and MBS. Both of these securities carry long maturities which will help reduce the duration mismatch between its assets and liabilities.

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SMC is required by the Bank of Thailand (BOT) to maintain a minimum capital adequacy ratio of 8.5%. The ratio stood at 10.61% at the end of the first half of 2016. Unless there is a capital increase, SMC will be constrained by its limited capital base if it tries to attain significant expansion in the near term.

Secondary Mortgage Corporation (SMC)

Company Rating:

AA-

Issue Ratings:

SMCT176A: Bt800 million senior unsecured debentures due 2017 AA-

SMCT179A: Bt1,000 million senior unsecured debentures due 2017 AA-

SMCT17NA: Bt1,200 million senior unsecured debentures due 2017 AA-

SMCT186A: Bt700 million senior unsecured debentures due 2018 AA-

SMCT190A: Bt500 million senior unsecured debentures due 2019 AA-

SMCT216A: Bt1,250 million senior unsecured debentures due 2021 AA-

SMCT210A: Bt700 million senior unsecured debentures due 2021 AA-

SMCT236A: Bt750 million senior unsecured debentures due 2023 AA-

SMCT238A: Bt700 million senior unsecured debentures due 2023 AA-

SMCT230A: Bt500 million senior unsecured debentures due 2023 AA-

Up to Bt1,300 million senior unsecured debentures due within 2023 AA-

Rating Outlook:

Stable

TRIS Rating Co., Ltd./www.trisrating.com

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

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