

THE FEDERATION OF SAVINGS AND CREDIT COOPERATIVES OF THAILAND LTD.

No. 178/2024
10 October 2024

FINANCIAL INSTITUTIONS

Issuer Rating: A-
Outlook: Stable

Last Review Date: 29/08/23

Issuer Rating History:

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

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RATIONALE

TRIS Rating affirms the issuer rating on The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT) at “A-” with a “stable” outlook. The rating reflects FSCT’s important role in the Thai savings cooperative system, strong business position and capital, as well as its adequate funding and liquidity position. However, the rating is constrained by an aggressive investment policy, which is reflected by a moderate risk position.

KEY RATING CONSIDERATIONS

Important role as financial intermediary

We expect FSCT will continue to serve as a financial intermediary by taking deposits from and making loans to member cooperatives. FSCT also plays a key role in the promotion and development of the savings cooperatives’ operations in Thailand. FSCT does so through its responsibility according to the cooperative laws and by serving as a representative of its member cooperatives.

FSCT has participated in several national committees and in the activities of the savings cooperatives to support, promote, plan for, and develop the savings cooperative sector in Thailand. FSCT lends to its member cooperatives and provides benefits in the forms of consulting services, training, and seminars with the main objective to enhance the operations and financial strength of its cooperative members.

Tax and priority claim privileges

The legal privileges, including tax exemptions and priority claim over any other creditors, that FSCT and other savings cooperatives are entitled remain unchanged. Specifically, savings cooperatives and their members are exempt from major taxes such as savings interest tax, value-added tax, and investment income tax.

Also, the Cooperative Act stipulates that primary savings cooperatives have priority rights over other creditors in receiving interest and loan repayments from debtors. These priority rights give savings cooperatives an advantage in lending to members over other financial institutions.

Most loans provided to ordinary members of primary savings cooperatives are conducted under agreements with employers or affiliated entities, allowing for the deduction of interest or principal payments from members’ salaries. This arrangement results in most primary savings cooperatives having good credit quality and low credit costs. Ultimately, this helps support the quality of loans to member cooperatives of secondary cooperatives like FSCT.

Strong business position

TRIS Rating assesses FSCT’s business position as “strong”, underpinned mainly by scale and scope as well as membership stability. In terms of scale and scope, FSCT is the largest savings cooperative federation in Thailand in terms of asset size, with total assets of THB144 billion as of the end of fiscal year 2023 (FY2023) (year ended 31 March 2024). FSCT’s extensive operational history has also fostered a large network of member cooperatives, bolstering its assets, deposits, and capital base. Currently, FSCT has over 1,000 member cooperatives.

The strong member network has enabled FSCT to continually strengthen its capital base due to regulations requiring member cooperatives to purchase additional shares proportional to their subscribed paid-up shares. As a result,

FSCT's paid-up capital will grow steadily, enhancing its ability to manage financial challenges arising from adverse changes in the domestic savings cooperative sector or financial markets.

Adequate capital and earnings position

FSCT's capital, measured by risk-adjusted capital (RAC) ratio, is assessed as "strong". Its RAC ratio stood at 15.7% at the end of FY2023. Over the past few years, FSCT's RAC ratio has declined from 17.0% at the end of FY2021, despite the continuous growth in equity base, due to significant unrealized losses from investments in equities. At the end of March 2024, its paid-up share capital totaled THB34.9 billion. FSCT's capital to assets as of March 2024 was 29.4%, well above the regulatory requirement of 15%.

We project FSCT's RAC ratio to remain strong, in the range of 15%-16% in FY2024-FY2026, assuming a modest paid-up share growth of 0.5% per year, plus loan decline by 1% in FY2024 and grow by 2% per annum on average in FY2025-FY2026. We also expect its investment portfolio to remain unchanged in FY2024-FY2026, based on its investment policy to limit exposure to risky assets.

In FY2023, FSCT's earnings capacity, measured by net profit to average risk-weighted assets (NP/ARWA), was 0.8%, a marginal drop from 1.1% in FY2022. We anticipate FSCT will maintain NP/ARWA at 0.8% over the next few years, assuming a 0.5% spread and investment return of around 3.8%, while operating expenses and credit costs should be under control.

Moderate risk position

The risk position assessment of savings cooperatives mainly relates to credit risk, market risk, and concentration risk. We assess FSCT's risk position as "moderate". This is primarily due to our concern over FSCT's exposure to market risk from investment activities, particularly equity investments, and concentration risk. The total investments of FSCT reached THB71.9 billion, or 46% of total assets at the end of FY2023. Its investment portfolio comprised 9% government bonds, 40% corporate bonds, and 51% equities (of which 14% were equity investments through asset management companies). Unrealized losses from these investments were about 10%.

Within the corporate bond portfolio of THB28.7 billion as of March 2024, THB1.9 billion comprised senior unsecured debentures of Thai Airways International PLC (THAI), accounting for around 1% of total assets and 6% of total equity. FSCT has already accounted for the effect of allowance for probable losses from the investment in THAI's debentures according to the Cooperative Auditing Department's announcement. THAI is currently submitting its restructuring plan to the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) and in the process of exiting its rehabilitation plan.

As FSCT's borrowers are member savings cooperatives, it is naturally exposed to significant loan concentration risk. The 20 largest loans made to cooperative members accounted for 52% of FSCT's total loans at the end of FY2023. Nonetheless, the risk is mitigated by its high-quality loan portfolio. In terms of credit risk, we expect FSCT's asset quality to remain healthy. At the end of FY2023, FSCT had THB14 million of non-performing loans (NPLs), accounting for only 0.02% of its outstanding loans. FSCT's high asset quality reflects the low credit risk in lending to the primary savings cooperatives members whose lending practices are supported by the priority claim privilege and salary deduction arrangements with the borrowers' employers. We also expect FSCT will continue to maintain its strict lending criteria to sustain loan quality.

Sufficient funding and liquidity

We assess FSCT's funding profile as "adequate" due to stable funding sources, which mainly consist of member deposits, accounting for 91% of total funding. As of March 2024, FSCT had short-term credit facilities from several financial institutions, totaling THB19 billion, representing 9% of its total funding. Of this amount, 70% were undrawn. However, a higher proportion of short-term borrowings could lead to a weaker funding profile given that it could expose FSCT to a roll-over risk.

We expect FSCT's liquidity position to remain sufficient as it has a large investment portfolio that can be readily divested, even though a portion of corporate bonds and government bonds are being pledged as collaterals for the borrowings. As of March 2024, FSCT's liquidity ratio was at 2.8% of deposits, above the current regulatory requirement of 1% for savings cooperatives.

Coping and complying effectively with new regulations

In 2019, Thailand introduced a new law designed to ensure tighter controls over the deposit-taking, lending, and investment activities of savings cooperatives. This legislation is viewed as an important step in alleviating concerns over the long-term stability of these cooperatives, which form a crucial part of Thailand's financial system.

FSCT, a savings cooperative, is expected to cope and comply effectively with these new regulations. However, the new law will likely constrain growth opportunities and somewhat weaken FSCT's financial performance. For example, more stringent investment criteria and reserve requirements for liquidity and loan losses will result in less flexibility in FSCT's investment

activities and lower returns on assets. Despite this, the potential impact on profitability is not expected to materially affect FSCT's overall financial profile.

While the new law represents progress, it's important to note that savings cooperatives in Thailand are still not subject to the same degree of close supervision and rigorous examinations as banking institutions. This remains a major weakness constraining the credit standings of savings cooperatives in the country. Although the law has been continuously developed to be stricter and provides a framework for tighter controls, effective enforcement based on periodic rigorous examinations is unlikely to be implemented in the near future.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the performance of FSCT during FY2024-FY2026 are as follows:

- Loans to decline by 1% in FY2024 and to grow by 2% per annum on average in FY2025-FY2026.
- Investments to remain flat in FY2024-FY2026.
- Paid-up shares to grow by 0.5% per annum on average.
- Spread of around 0.5% per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FSCT will maintain its important role in the savings cooperative system. The outlook also reflects its steady operating performance, high loan quality, and core funding base from its members. We also expect FSCT will be able to comply with the regulatory changes.

RATING SENSITIVITIES

The prospect of a credit upgrade is constrained by the lack of close supervision and rigorous examination of savings cooperatives in general, as well as the uncertainty of regulatory change.

In contrast, a downgrade scenario could arise should there be indications of FSCT's more aggressive investment policies, especially with respect to excessive equity investment over paid-up capital and legal reserve. A substantial unrealized loss from investment that significantly affects the capital base would also negatively impact the rating. Any regulatory changes that erode the tax and priority claim privileges currently enjoyed by savings cooperatives could also negatively affect ratings.

ORGANIZATION OVERVIEW

FSCT is the first savings cooperative federation in Thailand. The Cooperative League of Thailand (CLT) and 81 savings cooperatives established FSCT as a national savings cooperative federation in 1972. FSCT started operations in 1973. According to the Cooperatives Act, FSCT is a secondary savings cooperative, or a savings cooperative which has primary savings cooperatives as its members.

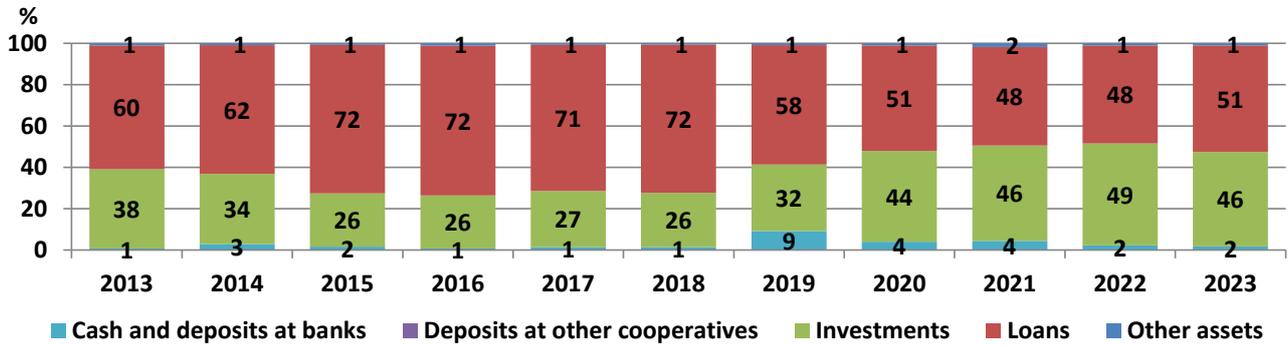
Over 50 years, the number of members has increased steadily, from the initial 81 cooperatives upon its founding to 1,103 cooperatives by the end of March 2024. More than 80% primary savings cooperatives in Thailand are members of FSCT.

FSCT is the largest savings cooperative federation in Thailand, in terms of both asset size and member numbers. FSCT serves as a funding intermediary for its cooperative members by taking deposits from and making loans to its members. FSCT also provides additional benefits for its members, mostly through consulting and training services.

FSCT plays an important role in the promotion and development of savings cooperatives in Thailand. In addition to striving to fulfill its responsibility in accordance with the cooperative laws, FSCT serves as a representative of its savings cooperative members.

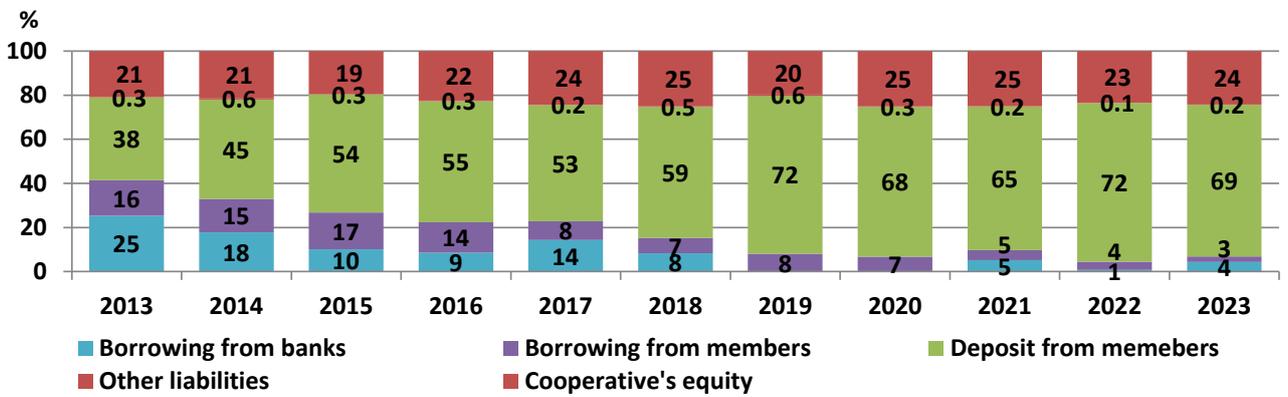
KEY OPERATING PERFORMANCE

Chart 1: FSCT's Asset Structure



Source: FSCT

Chart 2: FSCT's Funding Structure



Source: FSCT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	-----Year Ended 31 March -----				
	2024	2023	2022	2021	2020
Total assets	143,631	131,095	138,103	141,218	153,781
Total loans	73,946	62,296	65,882	72,085	88,788
Total investment in securities	65,621	64,636	63,678	62,164	49,671
Allowance for doubtful accounts	11	12	13	14	16
Deposits	98,751	94,417	89,867	95,822	110,240
Borrowings	9,940	5,866	13,516	9,639	12,429
Equity	34,713	30,637	34,394	35,336	30,228
Net interest and dividend income	1,770	1,816	1,482	1,212	1,791
Bad debts and doubtful accounts	0	0	0	0	0
Non-interest income	301	649	847	963	351
Operating expenses*	295	172	152	149	165
Net income	1,682	2,199	2,082	2,024	1,966

* Operating expenses excluding THB96 million in provision to cover losses from investing in the senior unsecured debentures of THAI.

Unit: %

	-----Year Ended 31 March -----				
	2024	2023	2022	2021	2020
Profitability					
Net-interest and dividend income/average assets	1.29	1.35	1.06	0.82	1.25
Non-interest income/average assets	0.22	0.48	0.61	0.65	0.24
Operating expenses*/total income	5.60	3.34	2.83	2.45	2.67
Return on average assets	1.22	1.63	1.49	1.37	1.37
Return on average equity	5.15	6.76	5.97	6.18	6.21
Net profit/average risk-weighted assets	0.80	1.10	1.02	1.07	1.36
Asset Quality					
Non-performing loans/total loans	0.02	0.02	0.02	0.02	0.02
Bad-debts and doubtful accounts/average loans	(0.00)	(0.00)	(0.00)	0.00	0.01
Allowance for doubtful accounts/total loans	0.01	0.02	0.02	0.02	0.02
Allowance for doubtful accounts/non-performing loans	78.09	79.69	81.12	79.95	86.79
Capitalization					
Risk-adjusted capital ratio	15.74	15.37	16.99	17.06	17.38
Debt/equity (times)	3.14	3.28	3.02	3.00	4.09
Funding and Liquidity					
Stable funding ratio	133.67	119.72	120.70	148.84	155.60
Liquidity coverage measure (times)	1.49	2.42	1.42	4.83	3.55

* Operating expenses excluding THB96 million in provision to cover losses from investing in the senior unsecured debentures of THAI

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024

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

Issuer Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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