

# THE FEDERATION OF SAVINGS AND CREDIT COOPERATIVES OF THAILAND LTD.

No. 140/2018

27 September 2018

## FINANCIAL INSTITUTIONS

**Company Rating:** A-  
**Outlook:** Stable

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms a company rating on The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT) at “A-”. 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.

The rating takes into consideration the regulatory 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, concentration risk of loans made to its members, and a possibility of regulatory changes which may reduce the privileges currently enjoyed by savings cooperatives.

## KEY RATING CONSIDERATIONS

### Regulatory privileges enhance competitive edges

TRIS Rating expects the regulatory privileges will continue amidst the current changing legal framework of savings cooperative. Special legal privileges give savings cooperatives some advantages over traditional financial institutions. Savings cooperative and its members are exempt from all major taxes. The high credit quality of loans granted to primary savings cooperative’s members is due to the practice of providing loans to ordinary members through agreements with members’ employer. Loan repayments can be deducted from ordinary members’ monthly payrolls. According to cooperative laws, savings cooperative has the first-priority claim over any other creditors, except for circumstances under specific legal obligations. This legal support reduces the credit risk of loans to its members and sustains the cash inflows from loan repayments to the cooperative which consequently support the loan quality of secondary savings cooperative as FSCT.

TRIS Rating holds the view that the recent and planned regulatory changes are positive factors for the overall savings cooperative 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 on FSCT.

### Important role as a financial intermediary

FSCT serves as a financial intermediary for its cooperative members by taking deposits and making loans. FSCT also plays a key role in the promotion and development of the savings cooperative movement in Thailand. FSCT plays an

important role in two ways: by its responsibility according to the cooperatives laws, and by serving as a representative of its cooperative members. FSCT has participated in a number of national committees and in the activities of the savings cooperative movement in order to support, promote, plan for, and develop the savings cooperative industry in Thailand. Primary saving cooperatives provide loans and welfare benefits for their members. In the same way, FSCT lends fund to its cooperative members and also provides benefits in the form of consulting services and seminars. The main objective of the consulting services and seminars is to enhance the operations and financial strength of its cooperative members.

### **Good quality loans**

TRIS Rating expects FSCT will have good quality loans based on the current repayment mechanism of primary cooperatives' borrowers. At the end of fiscal year 2017 (FY2017 -- ending March 2018), 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.

### **Concentration of loans**

FSCT has exposed to a loan concentration risk. Loans made to cooperative members were the largest portion (71%) of FSCT's total assets at the end of FY2017. Loans to cooperative members have ranged between 60% of total assets during FY2011-FY2014. About 27% of FSCT's total assets were investments and the remainders (2%) were cash and other assets. At the end of FY2017, FSCT provided loans to only 269 cooperative members, out of a total of 1,093 members. FSCT is exposed to concentration risk from the loans to cooperative members. The 20 largest loans made to cooperative members comprised 45.4% of total loans at the end of FY2017. However, FSCT's loan concentration risk is mitigated by the high quality of its loan portfolio.

### **Exposure to refinancing risk**

FSCT has raised a substantial amount of funds through borrowings from commercial banks. Borrowings from commercial banks were Bt17,528 million at the end of FY2017, accounting for 19% of total liabilities or 14% of total assets. All commercial bank borrowings were short-term. 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.

### **Capital improved but leverage is still relatively high**

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. 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. However, 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 to 24.3% in FY2017 from 19.4% in FY2015, the ratio was considered low. Other large, long-established savings cooperatives have an average ratio of around 40%.

### **RATING OUTLOOK**

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

### **RATING SENSITIVITIES**

The credit upside possibilities 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 on FSCT.

### **COMPANY OVERVIEW**

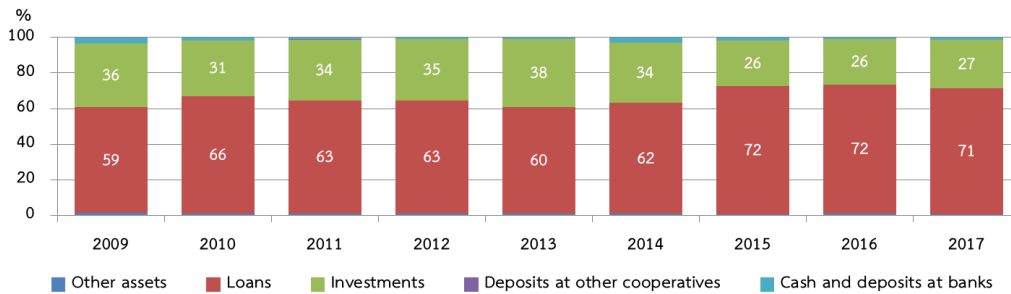
FSCT is the first savings cooperative federation in Thailand. The Cooperative League of Thailand (CLT) and 81 savings cooperatives established FSCT as a national savings cooperative federation in 1972. FSCT started operations in 1973. According to the Cooperatives Act, FSCT is a savings cooperative which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

Over 40 years, the number of members has increased steadily. FSCT had 81 cooperative members when it was founded and increased to 1,046 members at the end of FY2017. More than two-thirds of all primary savings cooperatives in Thailand are members of FSCT.

Currently, in terms of both asset size and the number of members, FSCT is the largest entity of savings cooperative federations in Thailand. FSCT serves as a financial center for its cooperative members by taking deposits and making loans. FSCT also provides additional benefits for its members, mostly in the forms of consulting services and seminars.

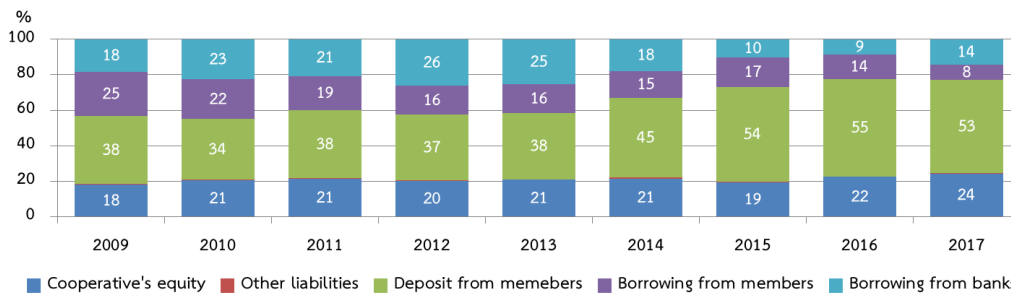
**KEY OPERATING PERFORMANCE**

**Chart 1: FSCT's Asset Structure**



Source: FSCT

**Chart 2: FSCT's Funding Structure**



Source: FSCT

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	-----Year Ended 31 March -----				
	2018	2017	2016	2015	2014
Total assets	122,032	110,018	97,993	69,557	61,611
Total loans	86,306	79,707	70,402	43,355	36,850
Total investment in securities	33,105	28,268	25,313	23,608	23,663
Allowance for doubtful accounts	6	7	8	9	9
Deposits	64,264	60,546	52,491	31,352	23,113
Borrowings	27,874	24,551	26,254	22,924	25,538
Cooperative's equity	29,688	24,640	18,977	14,893	12,805
Net interest and dividend income	1,481	1,332	1,216	1,161	1,010
Bad debts and doubtful accounts	(1)	0	2	2	0
Non-interest income	5	8	5	15	3
Operating expenses	164	165	141	134	133
Net income	1,612	1,356	1,117	1,193	913

*Unit: %*

	-----Year Ended 31 March -----				
	2018	2017	2016	2015	2014
<b>Profitability</b>					
Net-interest and dividend income/average assets	1.28	1.28	1.45	1.77	1.65
Non-interest income/average assets	0.25	0.18	0.05	0.26	0.06
Operating expenses/total income	3.53	3.52	3.69	3.89	4.51
Return on average assets	1.39	1.30	1.33	1.82	1.49
Return on average equity	5.94	6.22	6.60	8.62	7.29
<b>Asset Quality</b>					
Non-performing loans/total loans	0.01	0.01	0.01	0.02	0.02
Bad-dents 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	0.01	0.02	0.02
Allowance for doubtful accounts/non-performing loans	99.34	99.42	99.48	99.52	99.53
<b>Capitalization</b>					
Cooperative's equity/total assets	24.33	22.40	19.37	21.41	20.78
Cooperative's equity/total loans	34.39	30.91	26.95	34.35	34.74
<b>Liquidity</b>					
Total loans/total adjusted deposits	74.32	75.73	75.89	66.37	62.54
Total loans/total assets	70.72	72.45	71.84	62.33	59.81
Liquid assets/total adjusted deposits	29.96	27.59	28.98	39.18	40.93
Liquid assets/total assets	28.52	26.40	27.44	36.81	39.15

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

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<b>Company Rating:</b>	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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