

## SAVING AND CREDIT OF VAJIRA COOPERATIVE LTD.

No. 142/2018

27 September 2018

### FINANCIAL INSTITUTIONS

Company Rating: BBB+

Outlook: Stable

#### Company Rating History:

Date	Rating	Outlook/Alert
25/08/17	BBB+	Stable

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### RATIONALE

TRIS Rating affirms the company rating on Saving and Credit of Vajira Cooperative Ltd. (VJRC) at “BBB+”. The rating reflects the status of VJRC as a captive provider of financial services available to its members. The rating takes into account the strong credit profiles of the Faculty of Medicine Vajira Hospital, Kuakarun Faculty of Nursing, and the government hospitals under the vision of the Medical Service Department (MSD) of the Bangkok Metropolitan Administration (BMA), where VJRC’s ordinary members work for. The rating also reflects the good quality of the outstanding loans made to members, the continuity and ability of VJRC’s board of directors and management team to deliver satisfactory financial performance.

In addition, the regulatory privileges help enhance VJRC’s competitive edge over traditional financial institutions. However, the credit profile of VJRC is pressured by a concentration risk of loans made to other savings cooperatives, a mismatch in assets and liabilities, and the possibility of regulatory changes, which may reduce the privileges currently enjoyed by savings cooperatives. The recent and planned regulatory changes will constrain the operating and financial performance of VJRC but in turn will strengthen the operations and control the risk exposure for the cooperative in the long term.

### KEY RATING CONSIDERATIONS

#### Regulatory privileges enhance competitive edges

TRIS Rating expects the regulatory privileges will continue amidst the current changing legal framework of savings cooperatives. Special legal privileges give savings cooperatives some advantages over traditional financial institutions. VJRC and its members are exempt from all major taxes. The high credit quality of loans granted to VJRC’s ordinary members, as is the traditional practice of savings cooperatives, is due to VJRC’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, VJRC has the first-priority claim over any other creditors, except for circumstances under specific legal obligations. This legal support reduces the credit risk of VJRC’s loans to its members and sustains the cash inflows from loan repayments to the cooperative.

TRIS Rating holds the view that the recent and planned regulatory changes are positive factors for the overall industry. For example, regulatory changes will mandate better risk control 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. However, rapid growth and high profits are not the main objectives of the savings cooperatives. 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 VJRC.

#### Strong employment entity

The strong credit profile of the employment’s entity, together with the job security of its members as employees of a government entity, have ensured the stability of the number of ordinary members and monthly income which consequently secure the ability of debt repayment. This stability continuously

increases VJRC's capital base through the monthly obligation of ordinary members to purchase VJRC's shares.

VJRC has the stable growth in its deposit base, portfolio of outstanding loans, and paid-up share capital. As is the nature of a savings cooperative, VJRC provides a limited range of financial services for its members, such as taking deposits and making loans. VJRC also provides basic welfare benefits, like other large and long-established savings cooperatives do, to encourage its members to maintain their memberships. VJRC also has affiliate members. Qualified affiliate members are people who have a relationship with an ordinary member or have ever worked for the Faculty of Medicine Vajira Hospital or one of its affiliates. Currently, the amounts of deposits and the outstanding loans from affiliate members are still small.

#### **Good quality loans**

Although loans made to members have low risk, but due to risk management and internal control, VJRC has limited its exposure for loans made to each member. As a result, VJRC has an excess of deposits, and the excess funds have been lent to other cooperatives. According to the current repayment mechanism, VJRC has a relatively low level of non-performing loans (NPLs, or loans more than 90 days overdue). VJRC's NPLs stood at 0.15% of total loans at the end of fiscal year 2017 (FY2017).

#### **Loan concentration**

VJRC has loan concentration risk due to sizable loans lent to other savings cooperatives, which accounted for 83.1% of total loans at the end of June 2018. At the end of June 2018, the loans made to the 10 largest cooperatives which have borrowed from VJRC comprised 36.3% of the total amount lent to other cooperatives. VJRC expects that loans made to other cooperatives would yield returns higher than the returns from the investment portfolio. However, the concentration risk has been mitigated by the conservative underwriting criteria VJRC uses.

#### **Duration mismatch in asset and liability structures**

VJRC has liquidity risk from a mismatch in asset and liability structures. VJRC draws funds within the realm of savings cooperative societies, both from its own members and other cooperatives. VJRC also draws funds from commercial banks in the form of short-term borrowings, and pledges its investment securities as collateral. At the end of June 2018, short-term borrowings from commercial banks comprised 20.5% of VJRC's sum of total liabilities and equity but only 9.5% of the total assets were short-term assets. TRIS Rating holds the view that wholesale funding from external lenders is a less stable source of funding than funding through members' deposits or equity, or deposits from other savings cooperatives. VJRC does have an investment portfolio large enough to cover all of the external short-term borrowings. However, a large or rapid liquidation of the investment portfolio may cause VJRC to incur losses in liquidation.

#### **RATING OUTLOOK**

The "stable" outlook reflects the expectation that VJRC will be able to maintain its member and deposit bases, as well as deliver satisfactory returns and benefits to all its stakeholders.

#### **RATING SENSITIVITIES**

The upside possibilities for the rating on VJRC are limited, based on the existing institutional framework for savings cooperatives. However, the conservative asset and liability managements on a consistent basis may enhance the rating. In contrast, more aggressive operating or financial policies, or any regulatory changes that reduce privileges for savings cooperatives, might impact the rating on VJRC.

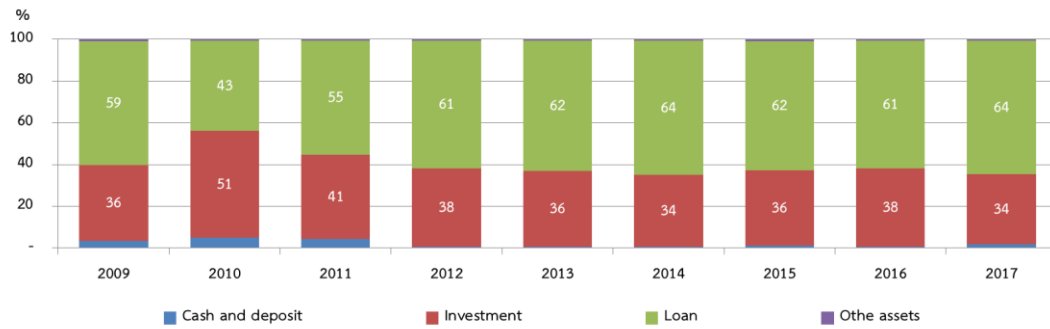
#### **COMPANY OVERVIEW**

VJRC was established in 1975 as a savings cooperative for the BMA Medical College and Vajira Hospital, currently known as the Faculty of Medicine Vajira Hospital. VJRC also accepts the personnel who work at Kuakarun Faculty of Nursing, the MSD of the BMA, and nine other government hospitals under the vision of the MSD as ordinary members.

VJRC has strong business and organizational foundations, with a sizable assets, stable deposit base, and satisfactory financial performance. VJRC is a relatively large savings cooperative. As of December 2017, in terms of total assets, VJRC was ranked 33rd among 1,353 savings cooperatives in Thailand. Its total assets were Bt17,122 million as of June 2018, almost double the Bt9,560 million reported in FY2013.

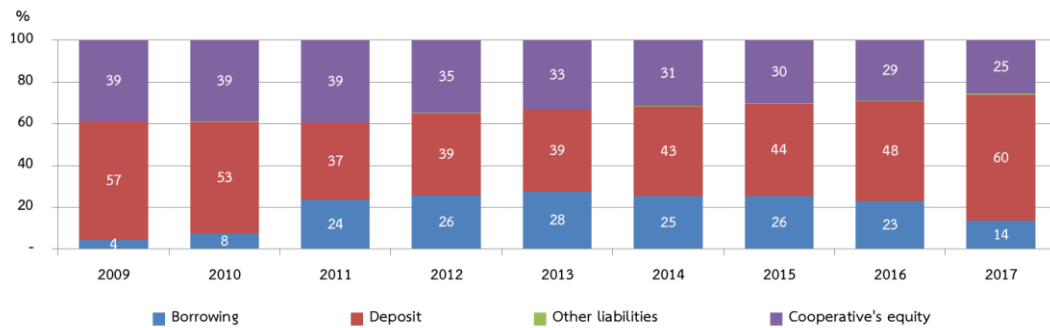
**KEY OPERATING PERFORMANCE**

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



Source: VJRC

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



Source: VJRC

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

	----- Year Ended 30 September -----				
	2017	2016	2015	2014	2013
Total assets	18,378	15,145	12,949	11,160	9,560
Total loans	11,756	9,233	8,021	7,193	5,965
Total investment in securities	6,176	5,714	4,680	3,815	3,471
Allowance for doubtful accounts	15	13	13	3	1
Deposits	11,090	7,237	5,707	4,800	3,720
Borrowings	2,492	3,498	3,302	2,824	2,650
Cooperative's equity	4,667	4,354	3,913	3,512	3,165
Net interest and dividend income	341	344	358	294	247
Bad debts and doubtful accounts	2	0	10	2	1
Non-interest income	8	20	0	2	3
Operating expenses	33	31	30	19	16
Net income	315	333	328	277	234

*Unit: %*

	----- Year Ended 30 September -----				
	2017	2016	2015	2014	2013
<b>Profitability</b>					
Net-interest and dividend income/average assets	2.03	2.45	2.97	2.84	2.75
Non-interest income/average assets	0.05	0.14	0.00	0.02	0.03
Operating expenses/total income	4.44	4.73	4.79	3.67	3.66
Return on average assets	1.88	2.37	2.72	2.67	2.60
Return on average equity	6.99	8.06	8.83	8.30	7.67
<b>Asset Quality</b>					
Non-performing loans/total loans	0.15	0.17	0.21	0.12	0.07
Bad-dents and doubtful accounts/average loans	0.14	0.15	0.17	0.05	0.02
Allowance for doubtful accounts/total loans	0.13	0.14	0.16	0.04	0.02
Allowance for doubtful accounts/non-performing loans	83.82	84.68	76.49	34.78	26.23
<b>Capitalization</b>					
Cooperative's equity/total assets	25.39	28.75	30.21	31.47	33.10
Cooperative's equity/total loans	39.69	47.16	48.77	48.82	53.05
<b>Liquidity</b>					
Total loans/total adjusted deposits	70.47	67.65	68.34	70.60	67.85
Total loans/total assets	63.97	60.96	61.94	64.45	62.40
Liquid assets/total adjusted deposits	38.94	42.50	41.06	38.26	40.22
Liquid assets/total assets	35.35	38.30	37.22	34.93	37.00

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**Saving and Credit of Vajira Cooperative Ltd. (VJRC)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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