



**บริษัท บัตรกรุงไทย จำกัด (มหาชน)**

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**Krungthai Card Public Company Limited**

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KTC 562 / 2020

August 14, 2020

To: The President of the Stock Exchange of Thailand  
The Stock Exchange of Thailand

Subject: Operating result notification of the quarter ended June 30, 2020

Enclosure: Management Discussion and Analysis for the quarter ended June 30, 2020

KTC's Board of Directors has approved the Company's Financial Statement and the Report of certified public accountant for the quarter ended June 30, 2020, which were reviewed by Deloitte Touche Tohmatsu Jaiyos Company Limited, details enclosed. We would like to submit the corresponding Management Discussion and Analysis to the Stock Exchange of Thailand for the purpose of distributing to investors.

Please be informed accordingly

Respectfully yours

Krungthai Card Public Company Limited

(Mr. Chutidej Chayuti)

Chief Financial Officer

## Executive Summary

KTC's net profit for the first half of 2020 was 2,790 MB. The Company continued to expand its total receivable portfolio at 8.3% (yoy). KTC also sustained its capabilities in generating revenue and profit as well as simultaneously maintained financial expense at an appropriate level. In addition, it satisfactorily gained income from bad debt recovery with NPL under the TFRS 9 standard reported at 6.6%. Furthermore, total operating cost to income ratio had declined as a result of substantial decrease in marketing expense during the period that the government had declared the Emergency Decree. In the meantime, the Company continues to adjust its business model to cope with changing circumstance by aiming to expand "KTC P Berm" for loans with collateral, along with broadening Pico Finance businesses to create long-term business growth.

## Overall Performance for the Second Quarter and the First Half of 2020

The COVID-19 pandemic gave clearer impacts when the government has announced to enforce the Emergency Decree on Public Administration in Emergency Situations since March 26, 2020, in which the Company's credit card spending had been significantly lower during the declaration of emergency situation. However, after the situation appeared to ease, the Company's credit card spending began to improve accordingly. Meanwhile, the Company's total receivable portfolio remained expanding at 8.3% (yoy). The Company also continued its capabilities to generate revenue and profit, as well as simultaneously maintained financial expense at an appropriate level and gained income from bad debt recovery at a satisfactory level. In addition, the Company has sustained its effort to further improve work process within its organization to be more efficient by giving its priority to analyze and enhance the entire work procedures to achieve effective End-to-End process. Although the Company's credit card spending had decreased, such decline was yet at a slower pace than that of the industry. Besides, KTC had made its best effort to maintain high quality of its receivable portfolio so that its operating performance would be least affected. Furthermore, its debt collection continued to be handled effectively. The Company's performance overview can be summarized as follows.

- Under the TFRS 9 standard, net profits for the second quarter and for the first half of 2020 totaled to 1,149 MB and 2,790 MB, respectively.
- Total interest income (including credit usage fee) for the second quarter and for the first half of 2020 grew at 9.3% (yoy) and 10.0% (yoy) or amounted to 3,632 MB and 7,247 MB, respectively whereas fee income (excluding credit usage fee) was at -20.4% (yoy) and -12.3% (yoy) or equaled to 969 MB and 2,152 MB, respectively.
- For the second quarter and for the first half of 2020, KTC's credit card spending rate was -21.0% and -9.6% or amounted to 40,446 MB and 90,613 MB whereas that of the industry was -25.8% and -13.4%, respectively. The Company's member base expanded at 2.6% (yoy) or accounted for total members of 3.5 million accounts, comprising of 2,605,461 credit

cards (up 8.3% yoy) and 891,875 personal loan accounts (down -9.5% yoy from non-active accounts closing during the end of last year).

- Total loans to customers and total accrued interest receivables for Q2, 2020 valued 83,486 MB, an 8.3% (yoy) growth, consisting of those from credit card business and those from personal loan business of 53,242 MB and 30,244 MB, respectively.

(Unit : Million Baht)	Consolidated Financial Statements		
	As at 30 June 2020		
	Credit Card	Personal Loan	Total
Stage 1	42,572	21,737	64,309
Stage 2	7,481	5,655	13,136
Stage 3	2,960	2,554	5,515
Total loans to customers	53,013	29,947	82,960
<u>Add</u> Accrued interest receivables	229	297	527
and undue interest receivables, net			
Total loan to customers and accrued interest receivables	53,242	30,244	83,486
<u>Less</u> Allowance for expected credit loss	4,929	3,757	8,686
Total loans to customers and accrued interest receivables, net	48,314	26,486	74,800

- Total NPL for Q2 under the TFRS 9 standard was at 6.6%. The Company has continued to give its priority to maintain high quality of its receivable portfolio.
- Expected credit loss (bad debts and doubtful accounts) for Q2 and for the first half of 2020 totaled 2,084 MB and 3,392 MB, respectively. Due to the slower pace in bad debts write-offs process under the TFRS 9 standard and the larger of doubtful accounts from impairment setup of credit loss in each business and from provisions setup for accrued interest receivables, the ratio of the allowance for expected credit loss to NPL (NPL Coverage Ratio) stood at 158%.

Impacts from Implementing TFRS9	Consolidated 2Q2020 (TFRS9)	Consolidated 1Q2020 (TFRS9)
Total NPL(%)	6.6%	4.0%
-NPL Credit Card (%)	5.6%	3.4%
-NPL Personal Loan (%)	8.5%	5.0%
Allowance for Expected Credit Loss to Total Receivables (%)	10.4%	8.1%
NPL Coverage Ratio (%)	158%	203%

- Net interest margin for the first half of 2020 was 15.82% from the average interest received at 18.64% and cost of fund at 2.81%.

(Unit : Million Baht)	Consolidated 1H2020 (TFRS9)	Proportion (%)	Consolidated 1H2019 (Previous Standard)	Proportion (%)
Total Revenues	11,078	100%	11,102	100%
- Bad Debt Recovered	1,513	14%	1,766	16%
Administrative expenses	3,430	31%	3,753	34%
Finance Costs	773	7%	771	7%
Pre-Provision Profit	6,875	62%	6,578	59%
Expected Credit Loss	3,392	31%	2,937	26%
(Bad Debts and Doubtful Accounts)				
- Bad Debt	376	3%	3,008	27%
- Doubtful Accounts (Reversal)	3,016	27%	(71)	(1%)
Profit before Income Tax	3,483	31%	3,640	33%
Income Tax Expense	693	6%	728	7%
Net Profit for the Period	2,790	25%	2,913	26%

- For the second quarter and for the first half of 2020, the Company's total administrative expense amounted to 1,501 MB and 3,430 MB, changed by -22% (yoy) and -9% (yoy), respectively. The decline was from every activity including personnel expense, marketing expense, fee expense and other administrative expenses. Nevertheless, expected credit loss (bad debts and doubtful accounts) for Q2 and for the first half increased by 33% (yoy) and 15% (yoy), respectively or totaled to 2,084 MB and 3,392 MB, respectively.
- The Company's pre-provision profit for the first half of 2020 was 6,875 MB, increasing from the same period of last year at 5%.
- Net operating cost to income ratio for the first half of 2020 stood at 23.4%, down from the same period of last year at 25.5%.

## Business overview in the second quarter and in the first half of 2020

In the second quarter of 2020, overall Thai economy had considerably contracted in almost every aspect except for the government spending. As the impact from the COVID-19 pandemic has been more severe than previously expected and the concern for the second round of the outbreak continues to linger, Thailand's tourism and merchandise export sectors are prone to significantly contract. The Bank of Thailand has forecasted the Thai economy for 2020 to contract by 8.1%. The BOT has also forecasted that the Thai economy has already passed the bottom in this second quarter and will gradually recover from the third quarter onwards following the relaxation of pandemic control measures in various countries, which in turn will

accommodate the recovery in merchandise exports, tourism and domestic demand. Hence, the Thai economy is expected to expand again in 2021 at 5.0%.

During this strenuous period, overall consumer finance industry had expanded at a decreasing pace. The industry's credit card receivables as of June 2020 was 393,506 MB and its personal loan receivables for the second quarter of this year was 564,461 MB. Meanwhile, the industry's credit card spending for the first half of 2020 valued 768,992 MB in total.

For the second quarter of 2020, KTC's market share of credit card receivables to the industry was at 13.5% while its market share of personal loan receivables to the industry was at 5.4%.

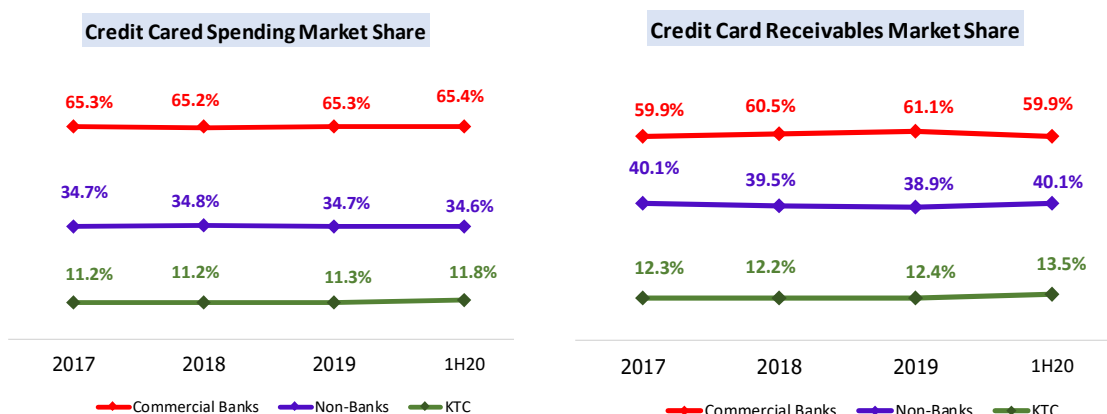
Industry Comparison	1H2020	2019
Credit Card Receivable (Million Baht)	393,506	457,090
Growth (%)	-0.7%	9.2%
KTC Credit Card Receivables to Industry (%)	13.5%	12.4%
Number of Credit Cards (Cards)	23,918,075	23,620,374
Growth (%)	3.6%	6.9%
Credit Card Spending (Million Baht)	768,992	1,885,725
Growth (%)	-13.4%	9.0%
KTC Credit Card Spending to Industry (%)	11.8%	11.3%
Personal Loan Receivables (Million Baht) <sup>(1)</sup>	564,461	579,911
Growth (%)	4.8%	51.3%
KTC Personal Loan Receivables to Industry (%)	5.4%	5.0%

Source : The Bank of Thailand

Remark : <sup>(1)</sup> Information of Personal Loan incorporated Car Title Loan since February 2019

## KTC credit card spending compared to the industry

- KTC's credit card spending growth for the first half of this year was -9.6% (yoy), outperforming the growth rate of the industry that stood at -13.4% (yoy). The Company's market share for credit card spending was 11.8%, increasing from 11.3% at the end of 2019.



## Revenue and Expense

- Total revenue for the first half of 2020 remained approximately at the same level as the same period of last year, consisting of interest income from both credit card receivables and personal loan receivables that increased by 11% (yoy) and 9% (yoy) respectively. In the meantime, fee income (excluding credit usage fee) changed by -12% (yoy), from the decline in interchange fee, cash advance fee, and fee income from Merchant Acquiring business.

(Unit: Million Baht)	2Q20	% of Revenue	2Q19	% of Revenue	Growth
Total interest income including credit usage fee	3,632	67%	3,323	60%	9%
- Credit Card Receivables	1,688	31%	1,529	28%	10%
- Personal Loan Receivables	1,944	36%	1,795	32%	8%
Fee Income (excluding credit usage fee)	969	18%	1,218	22%	-20%
Financial cost	379	7%	391	7%	-3%
Net Interest Margin	15.92%		15.51%		
- Average Interest Received (%)	18.68%		18.41%		
- Cost of Fund (%)	2.76%		2.91%		

- Total expense for the first half of this year equaled to 7,595 MB, comprising of 3,430 MB from administrative expense, 3,392 MB from expected credit loss (bad debts and doubtful accounts), and 773 MB from funding cost.
- Administrative expense for the first half of 2020 was -9% (yoy).

(Unit: Million Baht)	2Q20	% of Revenue	2Q19	% of Revenue	Growth
Personal Expense	413	8%	626	11%	-34%
Marketing Expense	143	3%	242	4%	-41%
Fees	481	9%	579	10%	-17%
Other Administrative Expense	464	9%	467	8%	0%
Total Administrative Expense	1,501	28%	1,913	35%	-22%

- Expected credit loss (bad debts and doubtful accounts) for the first half of this year valued 3,392 MB in total, consisting of 376 MB from bad debts and 3,016 MB from doubtful accounts.

(Unit: Million Baht)	2Q20	% of Revenue	2Q19	% of Revenue	Growth
Expected Credit Loss	2,084	39%	1,567	28%	33%
- Expected Credit Loss: Credit Card	1,072	20%	787	14%	36%
- Expected Credit Loss: Personal Loan	1,012	19%	780	14%	30%

- Change in allowance for expected credit loss as of June 30, 2020.

(Unit : Million Baht)	Allowance for Expected Credit Loss			Allowance for doubtful accounts	Total
	12-month ECL (Stage 1)	Lifetime ECL-not credit impaired (Stage 2)	Lifetime ECL- credit impaired (Stage 3)		
Balance as at 31 December 2019	-	-	-	5,670	5,670
Impact of adoption of TFRS 9	2,419	1,998	1,252	(5,670)	-
Balance as at January 1, 2020	2,419	1,998	1,252	-	5,670
Changes in staging	167	(724)	557	-	-
Changes in risk parameters	122	1,028	2,348	-	3,498
New financial assets originated or purchased	236	-	-	-	236
Financial assets derecognized	(48)	(62)	(232)	-	(342)
Written-off	-	-	(376)	-	(376)
Balance as at 30 June 2020	2,897	2,241	3,549	-	8,686

- In the second quarter of 2020, the Company increased Management Overlay to 1,000 MB from the previous of 450 MB as of January 1, 2020 to prepare to mitigate economic risk in the future.

## Financial status and sources of fund raising

- Increase in the Company's assets.** The Company's assets at the end of second quarter, 2020 totaled 79,285 MB. The main income generating assets were loans to customers and net accrued interest receivables of 74,800 MB which accounted for 94% of total assets whereas the rest of 6% comprised of cash, other receivables, deferred tax assets and other assets.
- Effective fund raising.** The Company's total borrowings amounted to 52,405 MB, a decline of 2% (yoy). Fund raising structure was both from short-term and long-term borrowings. Short term borrowings were loans from related financial institutions of 2,700 MB and from other financial institutions of 2,540 MB. Long term borrowings were from debentures issuances of 47,165 MB to various sources, i.e. Thai commercial banks, securities companies, insurance companies and other asset managements. At the end of second quarter, 2020, the Company's total credit lines amounted to 30,140 MB, consisting of 18,030 MB from Krungh Thai Bank and 12,110 MB from other commercial banks. As the Company has utilized some of those credit lines, its available credit lines at the end of June 2020 equaled to 24,899 MB. The Company's cost of funds stood at 2.81% and its debt to equity ratio was at 2.91 times, very well below the bond covenant limited at 10 times.

KTC Financial Highlights (Unit: Million Baht)	2Q20	2Q19	Growth (Y-Y%)
Total Revenue	5,409	5,528	-2%
Total Expense (excluding Financial Cost)	3,585	3,480	3%
Total Expense (including Financial Cost)	3,964	3,871	2%
Net Profit	1,149	1,323	-13%
Loans to Credit Card Customer and Accrued Interest Receivables, net	48,314	46,576	4%
Loans to Personal Loans Customers and Accrued Interest Receivables, net	26,486	24,979	6%
Total Assets	79,285	78,356	1%
Total Borrowings	52,405	53,479	-2%
Total Liabilities	59,029	61,189	-4%
Total Shareholders' Equity	20,256	17,168	18%

## Impacts from the COVID-19 Outbreak

The COVID-19 pandemic had inevitably impacted the growth of KTC's credit card spending and its receivable portfolio. The Ministry of Finance and the Bank of Thailand had announced forbearance measures to assist clients affected by the COVID-19 outbreak, which the Company has proceeded according to the program since March 26, 2020. Later on, the Bank of Thailand has announced the second phase of forbearance measures dated June 19, 2020 to further aid retail clients during the COVID-19 pandemic. The Company, therefore, has resolved to implement additional policies following the Bank of Thailand's guidelines by reducing its interest rate ceiling as well as increasing its credit limits for credit card and personal loan clients, which will be effective on August 1, 2020. The Company has also carried out its second phase of debt relief measures for its retail clients affected by the COVID-19 by providing alternatives such as restructuring debt to long term loan, postponing payment or principle, and installment payment reduction, in which the ending of relief period had extended to December 31, 2020 as announced by the Bank of Thailand.

By assessing the impact of the situation in this second quarter, unless the outbreak has reached a level that the government needs to consider more drastic measures, the second quarter is believed to be the hardest-hit period for asset quality. Nonetheless, the management is positively confident that high quality of the Company's receivable portfolio will be maintained at best. However, in the second half of this year, the Company's business operations will also face with risks from economic slowdown and the risk may increase if the COVID-19 pandemic start to spread again – which may affect employment, ability to pay back debt, or an increase in non-performing loan. In addition, the announcement of Bank of Thailand's forbearance measures in the second phase to reduce the interest ceiling for credit card business by 2% and personal loan business by 3% will also have a direct impact on the Company's performance. Hence, investors should not take the Company's performance in the first half as a base to estimate that in the second half. However, the management will adjust business model to cope with the changing conditions in both economy and the decline in interest rates received by



focusing on expanding “KTC P Berm” for loans with collateral such as title loans for both auto and motorcycle, together with broadening Pico Finance and Nano Finance businesses that are expected to have good potential for long-term growth.

Key Financial Ratio (Unit : Million Baht)	2Q20	2Q19	Growth (Y-Y%)
Gross Profit Margin (%)	88.9%	87.7%	1%
Net Profit Margin (%)	21.2%	23.9%	-11%
Interest Coverage Ratio (Times)	4.8	5.2	-8%
Debt to Equity Ratio (Times)	2.9	3.6	-18%
Return on Equity (%)	23.0%	31.6%	-27%
Return on Asset (%)	5.6%	6.7%	-17%
Allowance for Expected Credit Loss/Total Receivables (%)	10.4%	7.1%	48%
NPL Coverage Ratio (%)	158%	622%	-75%
Cost to Income Ratio (%)	27.8%	34.6%	-20%
Operating Cost to Income Ratio (%)	21.6%	26.1%	-17%
Book Value per Share (Baht)	7.9	6.7	18%
Earning per Share (Baht)	0.45	0.51	-13%