



บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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KTC 724 / 2020

November 13, 2020

To: The President of the Stock Exchange of Thailand

The Stock Exchange of Thailand

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

Enclosure: Management Discussion and Analysis for the quarter ended September 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 September 30, 2020, which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Co., Ltd., 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 third quarter was 1,221 MB, a growth of 6% (QoQ) and a contraction of -6% (YoY), as a result its net profit for the first nine months of 2020 totaled 4,011 MB. The Company continued to expand its total receivable portfolio at 5.9% (yoY). Even with the pressure to reduce its interest rate ceiling, the Company was able to increase its total interest income (including credit usage fee) with a growth of 7.3% (yoY) for the first nine months. Meanwhile, total credit card spending was less due to the impact from the COVID-19 pandemic, thus leading to the decline in fee income. Nonetheless, the Company continued to maintain appropriate financial expense. As the value of bad debts write-off was higher following the change to shorten the period for bad debts written off, the Company's NPL under the TFRS 9 standard was down to 1.9%. Its total operating cost to income ratio was also lower as a result of less marketing expense. In the meantime, in order to expand its business scope towards its latest target clients in 'KTC P Berm' business, the Company has aimed to develop new distinctive financial products particularly loans with collateral so that they could become the cornerstone to promote other new businesses as well as create additional income and support the Company's long-term business growth.

Overall performance for the third quarter and for the first nine months of 2020

The COVID-19 pandemic seemed to hit the economy hardest in the second quarter. However, as time progressed, the situation became less severe. Still, some impacts continued into the third quarter. Since the Emergency Decree kept providing more relaxation measures, the situation started easing further. The Company's credit card spending which contracted at -21.0% (yoY) in Q2 began to gradually improve and merely contracted at -5.8% (yoY) in Q3. The Company's total receivable portfolio for the third quarter also expanded at 5.9% (yoY). Nonetheless, as the Company needed to reduce its interest rate ceiling for both credit card business by 2% and for personal loan business by 3% since August 1, 2020, its capabilities in generating revenue had inevitably been impacted. Therefore, the Company urgently had to adjust its strategies and acquire new business models. The Company had also improved its entire work process to be more efficient in order to lower its operating costs, including bad debts write-off process to truly reflect the reality of its receivable portfolio. Meanwhile, the Company continued to maintain appropriate financial expense and gained income from bad debt recovery at a satisfactory level. In summary, the Company's overall performance can be outlined as follows.

- Under the TFRS 9 standard, net profits for the third quarter totaled 1,221 MB, a growth of 6% (qoq) and a contraction of -6% (yoY) whereas net profits for the first nine months of 2020 totaled 4,011 MB, a contraction of -5% (yoY).

- Total interest income (including credit usage fee) for the third quarter and for the first nine months of 2020 grew at 2.1% (yoY) and 7.3% (yoY) or amounted to 3,498 MB and 10,745 MB, respectively; whereas fee income (excluding credit usage fee) contracted at -10.3% (yoY) and -11.6% (yoY) or equaled to 1,093 MB and 3,245 MB, respectively.
- For the third quarter and for the first nine months of 2020, KTC's credit card spending contracted at -5.8% and -8.3% or amounted to 49,380 MB and 139,993 MB whereas that of the industry contracted at -12.5% and -13.1%, respectively. The Company's member base expanded at 1.3% (yoY) or accounted for total members of 3.5 million accounts, comprising of 2,583,462 credit cards (up 5.0% yoY) and 895,878 personal loan accounts (down -8.0% yoY from non-active accounts closing during the past period).
- Total loans to customers and total accrued interest receivables for Q3, 2020 valued 84,347 MB, a 5.9% (yoY) growth, consisting of those from credit card business and those from personal loan business of 54,684 MB and 29,663 MB, respectively.

(Unit : Million Baht)	Consolidated Financial Statement		
	As at September 30, 2020		
	Credit Card	Personal Loan	Total
Stage 1	47,748	23,632	71,380
Stage 2	5,939	4,975	10,914
Stage 3	778	778	1,555
Total loans to customers	54,464	29,385	83,849
<u>Add</u> Accrued interest receivables and undue interest receivables	220	278	497
Total loan to customers and accrued interest receivables	54,684	29,663	84,347
<u>Less</u> Allowance for expected credit loss	4,051	2,979	7,031
Total loans to customers and accrued interest receivables, net	50,632	26,683	77,316

- Total NPL for the nine-month period of 2020 was down to 1.9%, from that of 6.6% in Q2. This was due to the Company's shorter period of bad debts write-off. The Company had also been in full support of the government policy to assist debtors not to be too quickly classified as NPL during this abnormal economic situation by following the Bank of Thailand's relaxation guidelines to postpone debt classification for NPL receivables who still can make predetermined repayment. Consequently, the value of receivables in Stage 3 (NPL) in Q3 was reduced to just 1,555 MB, from 5,515 MB in Q2.

Impacts from Implementing TFRS9	Consolidated 3Q2020 (TFRS9)	Consolidated 2Q2020 (TFRS9)
Total NPL(%)	1.9%	6.6%
-NPL Credit Card (%)	1.4%	5.6%
-NPL Personal Loan (%)	2.6%	8.5%
Allowance for Expected Credit Loss to Total Receivables (%)	8.3%	10.4%
NPL Coverage Ratio (%)	452.0%	157.5%

- As the value of receivables in Stage 3 declined, allowance for expected credit loss to total loans in Q3 was lower to 8.3%, from that of 10.4% in Q2 and NPL Coverage Ratio was higher to 452.0% in this quarter from that of 157.5% in the last quarter.
- Net interest margin for the first nine months of 2020 was 15.40% from the average interest received at 18.13% and cost of funds at 2.72%.

(Unit : Million Baht)	Consolidated 9M2020 (TFRS9)	Proportion (%)	Consolidated 9M2019 (Previous Standard)	Proportion (%)
Total Revenues	16,490	100%	16,699	100%
- Bad Debt Recovered	2,283	14%	2,598	16%
Administrative Expense	5,223	32%	5,685	34%
Finance Costs	1,159	7%	1,167	7%
Pre-Provision Profit	10,109	61%	9,847	59%
Expected Credit Loss	5,095	31%	4,592	28%
(Bad Debts and Doubtful Accounts)				
- Bad Debt	3,734	23%	4,642	28%
- Doubtful Accounts (Reversal)	1,361	8%	(50)	(0.3%)
Profit before Income Tax	5,014	30%	5,255	31%
Income Tax Expense	1,003	6%	1,050	6%
Net Profit for the Period	4,011	24%	4,205	25%

- For the third quarter and for the nine-month period of 2020, the Company's total administrative expense amounted to 1,793 MB and 5,223 MB, down by -7% (yoY) and -8% (yoY), respectively. Such decline was from every aspect whether it's personnel expense, marketing expense, fee expense or other administrative expenses. Meanwhile, expected credit loss (bad debts and doubtful accounts) for Q3 and for the nine-month period of 2020 increased by 3% (yoY) and 11% (yoY), respectively or totaled 1,703 MB and 5,095 MB, respectively.
- The Company's profits before expected credit loss for the first nine months of 2020 totaled 10,109 MB, a 3% increase from the same period of last year.
- Net operating cost to income ratio for the nine-month period stood at 24.3%, down from the same period of last year at 25.6%.

Business overview in the third quarter and in the first nine months of 2020

In the third quarter of 2020, the Thai economy was inclined to gradually recover following the easing of the COVID-19 control measures. Both public and private investment including private consumption had slowly somewhat adapted. Nonetheless, tourism and merchandise export sectors continued to considerably contract. The Bank of Thailand has revised its GDP growth forecast of the Thai economy for 2020 to contract by -7.8% (from the previous estimate in June 2020 of -8.1%). The BOT has also predicted that the Thai economy in 2021 would return to expand at 3.6% (from the previous forecast in June 2020 of 5.0%) due to continuous improvement in merchandise export sector. Meanwhile, service sector would be prone to slowly recover as the country will begin to open for foreign tourists with a limited number of arrivals. Domestic demand would depend on government spending which is this year key driving force to overall Thai economy.

As the economic situation had gradually improved, overall consumer finance industry expanded at a slower pace. As of September 2020, the industry's credit card receivables totaled 406,264 MB and its personal loan receivables totaled 566,500 MB. Meanwhile, the industry's credit card spending for the first nine months of 2020 valued 1,177,294 MB in total.

For the third 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 5.2%.

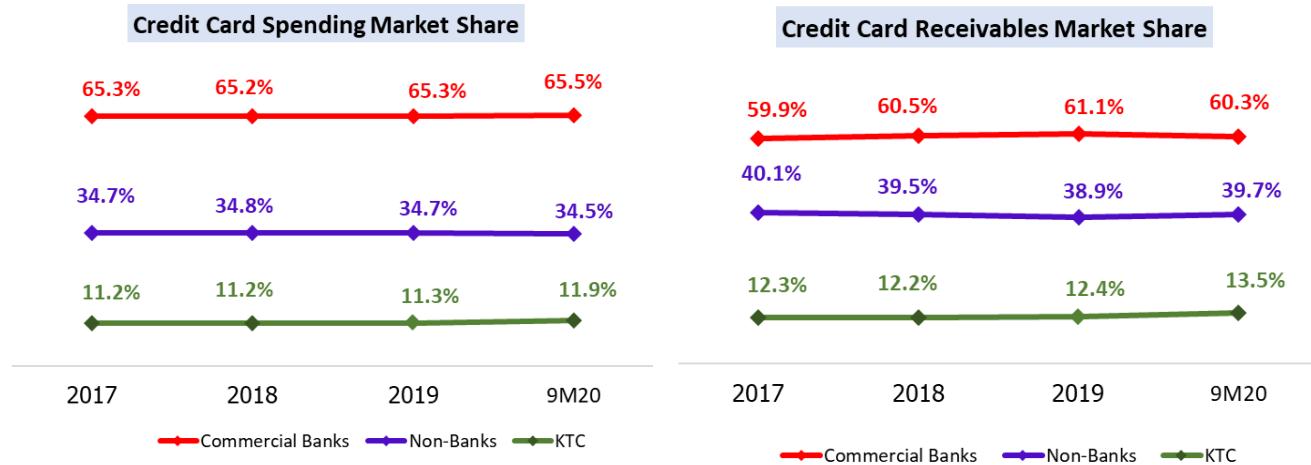
Industry Comparison	9M2020	2019
Credit Card Receivable (Million Baht)	406,264	457,090
Growth (%)	0.5%	9.2%
KTC Credit Card Receivables to Industry (%)	13.5%	12.4%
Number of Credit Cards (Cards)	24,050,562	23,620,374
Growth (%)	3.9%	6.9%
Credit Card Spending (Million Baht)	1,177,294	1,885,725
Growth (%)	-13.1%	9.0%
KTC Credit Card Spending to Industry (%)	11.9%	11.3%
Personal Loan Receivables (Million Baht) ⁽¹⁾	566,500	579,911
Growth (%)	0.7%	51.3%
KTC Personal Loan Receivables to Industry (%)	5.2%	5.0%

Source : The Bank of Thailand

Remark : ⁽¹⁾ Information of Personal Loan incorporated Car Title Loan since February 2019

KTC credit card spending compared to the industry

- KTC's credit card spending for the first nine months of this year contracted at -8.3% (yoY), yet better than that of the industry which contracted at -13.1% (yoY). The Company's market share for credit card spending stood at 11.9%, higher from 11.3% at the end of 2019.



Revenue and Expense

- Total revenue for the first nine months of 2020 was 16,490 MB, slightly down at -1% (yoY), consisting of interest income from credit card receivables and personal loan receivables which increased by 9% (yoY) and 6% (yoY) respectively. The increase in interest income was at a decreasing pace due to both the impact from the Covid-19 pandemic and the reduction in interest rate ceiling following the Bank of Thailand's measures. In the meantime, fee income (excluding credit usage fee) contracted at -12% (yoY) from the decline in fee income from interchange fee, cash withdrawal, merchant acquiring business, as well as debt collection.
- For the third quarter of 2020, total interest income (including credit usage fee), fee income, cost of funds and net interest margin can be detailed as follows.

(Unit: Million Baht)	3Q20	% of Revenue	3Q19	% of Revenue	Growth
Total interest income including credit usage fee	3,498	65%	3,424	61%	2%
- Credit Card Receivables	1,634	30%	1,566	28%	4%
- Personal Loan Receivables	1,864	34%	1,859	33%	0.3%
Fee Income (excluding credit usage fee)	1,093	20%	1,218	22%	-10%
Financial Cost	386	7%	396	7%	-3%
Net Interest Margin	15.40%			15.30%	
- Average Interest Received (%)	18.13%			18.18%	
- Cost of Fund (%)	2.72%			2.88%	

- Total expense for the nine-month period of this year equaled to 11,476 MB, comprising of 5,223 MB from administrative expense, 5,095 MB from expected credit loss (bad debts and doubtful accounts), and 1,159 MB from funding cost.
- Administrative expense for the first nine months of 2020 was down by -8% (yoY) as a result of the decline in both transaction volumes and marketing activities.
- For the third quarter of 2020, total administrative expense can be shown as following details.

(Unit: Million Baht)	3Q20	% of Revenue	3Q19	% of Revenue	Growth
Personal Expense	608	11%	607	11%	0.2%
Marketing Expense	181	3%	255	5%	-29%
Fees	533	10%	575	10%	-7%
Other Adminisnistrative Expense	471	9%	495	9%	-5%
Total Administrative Expense	1,793	33%	1,932	35%	-7%

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

(Unit : Million Baht)	Allowance for Expected Credit Loss			Allowance for Doubtful Account	Total
	12-month ECL (Stage 1)	Lifetime ECL - not Credit Impaired (Stage 2)	Lifetime ECL - Credit Impaired (Stage 3)		
Blance as to December 31, 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	800	(502)	(298)	-	-
Changes in risk parameters	36	1,282	4,488	-	5,806
New financial assets purchased/acquisition	489	-	-	-	489
New financial assets derecognized	(101)	(411)	(687)	-	(1,199)
Written-off	-	-	(3,734)	-	(3,734)
Balance as at September 30, 2020	3,643	2,367	1,021	-	7,031

- In the third quarter of 2020, the Company's Management Overlay was 800 MB to prepare to mitigate economic risk in the future.
- Expected credit loss (bad debts and doubtful accounts) for the first nine months of this year valued 5,095 MB in total, consisting of 3,734 MB from bad debts and 1,361 MB from doubtful accounts. The increase was due to the Company's shorter period of bad debts write-off.

- For the third quarter of 2020, expected credit loss (bad debts and doubtful accounts) can be displayed as following details.

(Unit: Million Baht)	3Q20	% of Revenue	3Q19	% of Revenue	Growth
Expected Credit Loss	1,703	31%	1,655	30%	3%
- Expected Credit Loss: Credit Card	955	18%	857	15%	11%
- Expected Credit Loss: Personal Loan	748	14%	798	14%	-6%

Financial status and sources of fund raising

- Increase in the Company's assets.** The Company's assets at the end of third quarter, 2020 totaled 83,687 MB. The main income generating assets were loans to customers and net accrued interest receivables of 77,316 MB which accounted for 92% of total assets whereas the rest of 8% comprised of cash, other receivables, deferred tax assets and other assets.
- Effective fund raising.** The Company's total borrowings amounted to 55,908 MB, an increase of 4% (yoY). Fund raising structure was both from short-term and long-term borrowings. Short term borrowings were loans from related financial institutions of 4,680 MB and from other financial institutions of 5,749 MB. Long term borrowings were from debentures issuances of 45,480 MB to various sources, i.e. Thai commercial banks, securities companies, insurance companies and other asset managements. At the end of the third quarter, 2020, the Company's total credit lines amounted to 30,140 MB, consisting of 18,030 MB from Krung 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 September 2020 equaled to 22,059 MB. The Company's cost of funds stood at 2.72% and its debt to equity ratio was at 2.90 times, very well below the bond covenant limited at 10 times.

KTC Financial Highlights (Unit : Million Baht)	3Q2020	3Q2019	Growth (YoY%)	9M2020	9M2019	Growth (YoY%)
Total Revenue	5,412	5,597	-3%	16,490	16,699	-1%
Total Expense (excluding Financial Cost)	3,496	3,587	-3%	10,318	10,277	0%
Total Expense (including Financial Cost)	3,882	3,982	-3%	11,476	11,444	0%
Net Profit	1,221	1,292	-6%	4,011	4,205	-5%
Loans to Credit Card Customer and Accrued Interest Receiv	50,632	48,052	5%	50,632	48,052	5%
Loans to Personal Loans Customers and Accrued Interest R	26,683	26,107	2%	26,683	26,107	2%
Total Assets	83,687	79,028	6%	83,687	79,028	6%
Total Borrowings	55,908	53,849	4%	55,908	53,849	4%
Total Liabilities	62,210	60,558	3%	62,210	60,558	3%
Total Shareholders' Equity	21,477	18,470	16%	21,477	18,470	16%

Impacts from the COVID-19 Pandemic

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 program to assist clients affected by the COVID-19 outbreak, which the Company had proceeded according to such programs since March 26, 2020. Later on, the Bank of Thailand had announced the second phase of relief measures dated June 19, 2020 to further aid retail clients during the COVID-19 pandemic in which interest rate ceiling would be reduced and credit limits would be increased for both credit card and personal loan clients according to the rates specified by the Bank of Thailand and would be effective since August 1, 2020. The Company, therefore, had proceeded following the Bank of Thailand's guidelines for the second phase of forbearance program by expanding not only relief criteria but also relief period for retail clients affected by the COVID-19, such as restructuring debt to long term loan, postponing payment or principle, and reducing installment payment etc., in which the ending of relief period had extended to December 31, 2020. As of September 30, 2020, there were approximately 7,800 clients participating in debt restructuring under the Company's debt relief program, totaling in an estimate debt value of 600 MB.

Key Financial Ratio (Unit : Million Baht)	3Q20	3Q19	9M20	9M19
Gross Profit Margin (%)	88.2%	87.7%	88.3%	87.6%
Net Profit Margin (%)	22.6%	23.1%	24.3%	25.2%
Interest Coverage Ratio (Times)	5.0	5.1	5.3	5.5
Debt to Equity (Times)	2.9	3.3	2.9	3.3
Return to Equity (%)	23.7%	29.7%	26.0%	32.2%
Return on Asset (%)	5.8%	6.5%	6.3%	7.1%
Allowance for Expected Credit Loss/ Total Receivables (%)	8.3%	6.9%	8.3%	6.9%
NPL Coverage Ratio (%)	452.0%	640.7%	452.0%	640.7%
Cost to Income Ratio (%)	33.1%	34.5%	31.7%	34.0%
Operating Cost to Income Ratio (%)	26.0%	25.8%	24.3%	25.6%
Book Value per Share (Baht)	8.3	7.2	8.3	7.2
Earning per Share (Baht)	0.47	0.50	1.56	1.63

KTC's business direction for future growth

Sudden and severe change caused by the COVID-19 crisis, uncertainty in political situation together with continued regulations adjustment from regulatory bodies had prompted the Company to vastly adapt itself with the concept of Creative Disruption. The Company currently operates 2 key businesses, credit card and personal loan. However, the Company had considered new business model to supplement its core businesses. For the past year, the Company had studied to launch new form of financial products which are Pico Finance - retail lending at provincial level for personal expense, Nano Finance – retail lending for the purpose of business undertaking, and auto title loan, all of which had already for a while been conducted for market testing.

As future business direction became more visible, the Company decided to launch new diversified loan product under the brand 'KTC P Berm' covering loans with collateral which include auto title loan and motorcycle title loan. Such loan provides low risk but yields swift return, coinciding with current economic situation. Marketing strategies will be focused on adopting online system, assigning specialized team to directly contact with target clients, along with adding client's comfort and satisfaction by applying client centric approach. It is believed that loans under the brand 'KTC P Berm' would be rooted as one of KTC's key new businesses.

In addition, on October 28, 2020 the Company and Krung Thai Bank Public Company Limited have jointly established KTC Prepaid Company Limited to obtain a BOT business license for electronic money services. The Company then will carry out its ongoing project plan related to Payment System. Moreover, on November 6, 2020, the Company has purchased new ordinary shares with 24% stake in Krungthai Advisory Company Limited ("KTBA"), resulted in KTBA to become an associated company of KTC and a subsidiary of Krung Thai Bank Public Company Limited. KTBA operates as holding company and acquires stakes in Infinitas by Krungthai Company Limited, which will be a key power in being a leading digital platform business in conjunction with Krung Thai Bank to drive technology business which is in line with KTC's strategy. The management is convinced that this could become another new business which would help strengthening the Company's core businesses as well as provide opportunity for the Company to achieve sustainable and steady growth in the long run.