

**บริษัท บัตรกรุงไทย จำกัด (มหาชน)**

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**Krunghai Card Public Company Limited**

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KTC 859 / 2562

November 14, 2019

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

Subject: Operating result notification of the quarter ended September 30, 2019

Enclosure: Management Discussion and Analysis for the quarter ended September 30, 2019

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the quarter ended September 30, 2019, 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,

Krunghai Card Public Company Limited

(Mr. Chutidej Chayuti)

Chief Financial Officer

## Executive Summary

KTC's net profit for the first nine months of 2019 amounted to 4,205 MB, an 8% growth compared to that of 3,911 MB for the same period of last year. Total revenue in Q3 equaled to 5,597 MB, up 4% due to member base expansion at 6% (yoy) and the highest growth in 2 years period of total receivables at 9% (yoy). The company's credit card spending had also outgrown that of the industry. Moreover, due to the company's ability in managing its funding cost, its financial expense remained unchanged. Meanwhile, the company increased marketing expense in new card acquisition and promotion campaigns in order to encourage spending. Nonetheless, the company continued to preserve its portfolio quality, and hence the lowering level of its NPL. Furthermore, the company continued to efficiently managed debt collection. Despite higher bad debt and doubtful accounts from write off and higher provision from portfolio expansion, the quality of the portfolio was represented by the decline of the NPL. The company's recovery income also stayed closed to previous level and improved from the prior quarter. Nevertheless, total expense was higher not only from the increase in marketing expense but also from higher provisions set up and bad debts write-offs. In the meantime, as revenue from new member base would be recognized gradually in the future following new card spending, income growth for the third quarter increased slightly compared to that of last year. Regardless, the company had accomplished its Q3 profit of 1,292 MB.

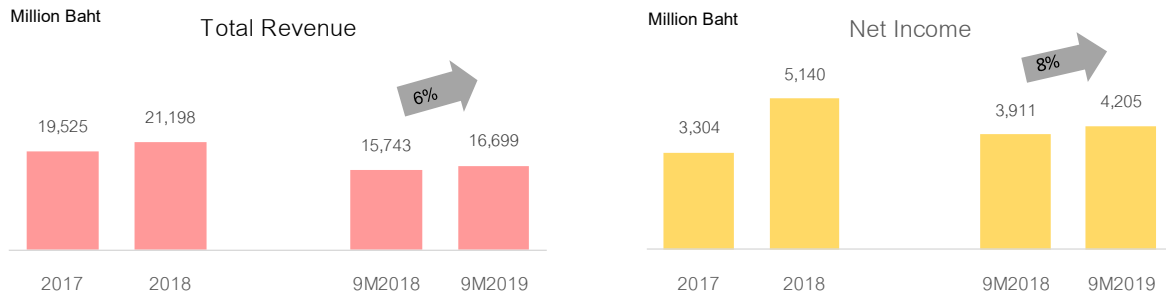
Financial commentary for the nine months and expectation for 2019 as well as challenges in 2020 are included at the end of this report.

## Overall performance analysis for Q3 and for the first nine months of 2019

- The company had attained a 6% rise in its total revenue for the first nine months. Its net profit for Q3 was 1,292 MB and for the first 9 months was 4,205 MB or accounted for an 8% growth from last year. The company had persistently achieved revenue growth from ongoing expansion in its credit card spending and continuous increase in its credit card and personal loan receivables. Due to challenging competition in consumer finance business from consumer behavioral change and effects of rapid technology development, the company had continuously adapted its business plans to promptly response to those challenges. As a result, KTC had still accomplished its credit card spending growth for the first nine months better than that of the industry. In addition, as the company had constantly applied strict card approval under approval suitable criteria to each customer risk profile, as well as adopted efficient debt collection guidelines, the company's NPL continued to stay lower than that of the industry. KTC's performance overview can be summarized as the followings



- Total receivables in Q3, 2019 grew 9% yoy to 79,618 MB; an increase of 6,748 MB, the highest growth in two years. Credit card receivables increased from 46,616 MB to 51,137 MB and personal loan receivables increased from 25,917 MB to 28,219 MB.



- Total revenue was up 6% compared to the same period of the prior year or amounted to 16,699 MB. This was resulted from the increase in interest income (including credit usage fee) of 7%, in fee income of 4%, and in income from bad debt recovery of 2%.
- The company had consistently maintained high quality of its portfolio. Total NPL this year was down to 1.1% from previously 1.2% (yoy). The company anticipated that it can continue to keep its NPL at low level.
- Bad debt and doubtful accounts amounted to 4,592 MB, up 9% from the same period of the prior year. This was due to the increase of bad debts resulting from write-offs as a consequence of the expanding portfolio of both businesses. However, with quality portfolio, the company's NPL coverage ratio remained high at 641%.
- Operating cost to income ratio for the first nine months of 2019 stood at 25.6%, down from that of 26.4% for the same period of the previous year. This reflected the company's continued ability to efficiently manage expenses.

Operating Result (unit: Million Baht)	3Q19	3Q18	YoY (%)	QoQ %	9M19	9M18	YoY (%)
Total Revenue	5,597	5,376	4%	1%	16,699	15,743	6%
- Bad debt recovery	832	841	-1%	2%	2,598	2,550	2%
Administrative Expense	1,932	1,825	6%	1%	5,685	5,472	4%
Financial Expenses	396	387	2%	1%	1,167	1,168	0%
Bad debt and Dobutful Accounts	1,655	1,421	16%	6%	4,592	4,222	9%
Profit before tax	1,614	1,743	-7%	-3%	5,255	4,882	8%
Income tax expense	322	347	-7%	-3%	1,050	971	8%
Net Profit	1,306	787	66%	8%	2,515	1,519	66%

- For the first 9 months of 2019, credit card spending of the industry grew at 9.1% whereas that of KTC grew at 10.4% or amounted to 152,715 MB.

- In term of merchant business, the company's income from merchant discount fee in the third quarter was higher by 4% qoq but lower by 2% yoy. This was resulted from the increase in merchant volume in Q3, 2019 to 19,068 MB from that of 18,507 MB in the second quarter yet declined from that of 20,253 MB in the same period prior year. For the first 9 months of 2019, merchant volume amounted to 59,856 MB, down 4% while merchant outlets increased from 35,311 to 39,595, up 12% from the same period of the prior year.
- KTC obtained the license to conduct Pico finance business through KTC Pico (Bangkok) Co., Ltd. since the end of August 2019, and is in the process of getting approval for 4 additional licenses of KTC Pico (Chonburi) Co., Ltd, KTC Pico (Pathum Thani) Co., Ltd., KTC Pico (Samut Prakan) Co., Ltd., and KTC Pico (Samut Sakhon) Co., Ltd. The company has also obtained the license to conduct Nano finance business through KTC Nano Co., Ltd. in September. Meanwhile, the company is currently in the process of testing the system for both businesses ahead of its actual launch. This testing is expected to consume a period of time and will be initially focused on small groups of customers so that the company could adjust its strategies in accordance with its long-term growth plan.

### Thai Economic outlook and consumer finance business overview in Q3, 2019

Industry Comparison	2016	2017	2018	1Q19
Credit Card Receivable (MB)	360,096	394,123	418,747	404,185
Growth (%)	8.0%	9.4%	6.2%	9.1%
KTC credit card receivables to industry	12.8%	12.3%	12.2%	12.7%
Number of cards (cards)	20,136,341	20,334,780	22,105,554	13,146,377
Growth (%)	6.1%	1.0%	8.7%	7.3%
KTC cards to industry	10.4%	10.7%	10.8%	10.6%
Credit card spending (MB)	1,488,273	1,572,599	1,730,488	1,354,581
Growth (%)	6.9%	5.7%	10.0%	9.1%
KTC credit card spending to industry	11.1%	11.2%	11.2%	11.3%
Personal loan receivables (MB)	332,996	354,243	383,278	561,680
Growth (%)	4.6%	6.4%	8.2%	50.5% <sup>(1)</sup>
KTC Personal loan receivables to industry	6.6%	7.0%	7.0%	5% <sup>(1)</sup>

Source: The Bank of Thailand

<sup>(1)</sup> starting in February 2019 BOT includes Car Title Loan into the Personal loan amount

The Thai economy was expected to expand at a decelerating rate due to the contraction in merchandise exports as well as the slowdown of global trade volume from trade tensions which in turn would affect domestic demand. Tourism also grew at a lower rate. Even though private consumption was stimulated by government's economic measures for the second half of 2019, pressure from household debts and impacts from natural disaster remained. Private investment expanded at a lower rate than previously

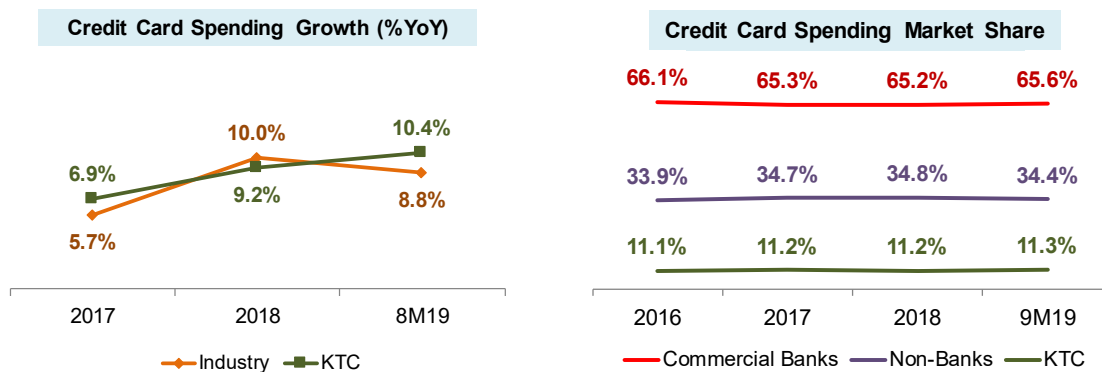
assessed despite supports from fiscal stimulus measures. Nonetheless, the relocation of production base to Thailand to avoid impacts from ongoing trade tensions, and public-private partnership projects for infrastructure investment would support investment in the period ahead. Public expenditure grew at a slower pace than previously estimated owing to delay in state-owned enterprise investment projects. Hence, the Bank of Thailand had adjusted its GDP forecast for 2019 to 2.8% from last year GDP of 4.1%

Overall consumer finance industry continued to expand with the industry’s credit card receivables as of September 2019 equaled to 404,185 MB, a 9.1% growth which was higher than that of 8.1% or amounted to 370,576 MB for the same period of 2018. Meanwhile, the industry’s credit card spending for the first nine months of 2019 was 1,354,581 MB, a 9.1% growth which was less than that of 10.5% for the same period of last year. The industry’s personal loan receivables for the first nine months of this year equaled to 561,680 MB, a 50.5% increase which was higher than that of 7.4% or amounted to 373,184 MB for the same period of the prior year (the 2018 figure does not included car title deed loans)

For the first nine months of 2019, in term of credit card receivables, KTC’s market share was 12.7%, almost unchanged from last year of 12.6% while the company’s market share for credit card spending stood at 11.3%, up from last year of 11.1%. In term of personal loan receivables, KTC’s market share was 5.0%.

### KTC credit card spending and Receivables

KTC credit card spending for the first 9 months of 2019. KTC’s credit card spending growth for this first 9 months was at 10.4%, compared to that of the industry at 9.1%. The company’s market share for credit card spending increased from 11.1% to 11.3%. The company also adjust its strategy to adapt with the changing consumer preference.



- Portfolio of both businesses grew at an increasing rate. In the nine months of 2019 credit card and personal loan receivables grew 9.7% (yoy) and 8.9% (YOY) growth accelerated from that of year end at 5.6% and 8.3% respectively.



Company Data	2016	2017	2018	9M2019
Credit Card Receivables	46,195	48,338	51,062	51,137
Growth %	11.50%	4.60%	5.60%	9.70%
Personal Loans Receivables	21,959	24,757	26,821	28,219
Growth %	18.20%	12.70%	8.30%	8.90%
Credit Card spending	165,404	176,777	193,101	152,715
Growth %	13.40%	6.90%	9.20%	10.40%

### Increase in interest income from both businesses

- Increase in total revenue** Total revenue for Q3, 2019 was 5,597 MB, a 4% (yoy) increase. Interest income (including credit usage fee), fee income and other incomes amounted to 3,424 MB, 1,218 MB and 955 MB respectively and were accounted for 60%, 22% and 18% of total revenue accordingly. In term of other revenues, 87% of those were from bad debt recovery.
- Higher interest income from both main businesses.** For the third quarter, total credit card receivable portfolio and total personal loan receivable portfolio expanded at 10% (yoy) and 9% (yoy) respectively whereas interest income (including credit usage fee) from credit card business and personal loan business grew at 6% (yoy) and 7% (yoy) respectively. This was owed to the increase in member base volume of 6% (yoy), total receivables grew 9% (yoy) the highest in two years, and credit card spending growth of 10% (yoy). The company had still continuously extended its new member base by enhancing KTC card usage with worthwhile and loyalty marketing campaigns, designing different kinds of credit card products with its business partners to encourage more card spending, as well as promoting convenient and safe way of spending through technology of 'KTC Mobile' Application. The company also provided special campaigns for personal loan to help lightening members' financial burdens and to ensure more cash withdrawal.

Unit: Million Baht	3Q19	% of total revenue	3Q18	% of total revenue	Growth
Total interest income including credit usage fee	3,423	61%	3,226	60%	6%
- Credit card receivables	1,566	28%	1,483	28%	6%
- Personal loan receivables	1,852	33%	1,735	32%	7%
- Other receivables (Circle loans / self-employment)	6	0.1%	7	0.1%	-14%
Fee income (excluding credit usage fee)	1,218	22%	1,182	22%	3%
Financial cost	396	7%	387	7%	2%
Net Interest Margin	15.72		16.13		

- **Net interest margin.** For Q3 and for the first 9 months of 2019, net interest margin stood at 15.72% and 15.30% respectively, compared to last year of 16.13% and 15.46% respectively and average interest rate received was at 18.65% and 18.18%, slightly down from the same period of last year. Meanwhile, financing cost was at 2.93% and 2.88% respectively. Despite its continued low cost of funds, but due to lower average interest rate received, the company's net interest margin declined slightly.
- **Higher fee income from cash withdrawal fee.** Fee income (excluding credit usage fee) amounted to 1,218 MB, a 3% growth compared to the same period of last year. This was chiefly due to the increase in cash withdrawal fee of 19% (yoy). In the meantime, merchant discounts fee which is the fee charged to KTC merchants for providing services was down 2% (yoy). Interchange fee which is the fee charged between issuing banks or issuing credit card companies and banks or intermediary payment companies, and income from debt collection fee were also lower by 2% (yoy) and 5% (yoy) respectively.

### Company's expense

- **Increase in total expense following total portfolio expansion.** For the third quarter of 2019, the company's total expense (excluding income tax) amounted to 3,982 MB, up 10% from 3,632 MB for the same period of last year. Total administrative expense was up 6% (yoy) due to new member base expansion, together with more budget spending in marketing campaigns to maintain existing members. In addition, to continue with high quality of receivables portfolio at acceptable risk level, more provisions for doubtful accounts were set up and more bad debts were written off. Hence, bad debts and doubtful accounts increased by 16% (yoy). Meanwhile, funding cost was only up 2% (yoy). With three main factors previously stated, the company's total expense was higher.

Unit: Million Baht	3Q19	% of total revenue	3Q18	% of total revenue	Growth
Personal Expense	607	11%	585	11%	4%
Marketing Expense	255	5%	209	4%	22%
Fees	575	10%	572	11%	0%
Other Administrative Expense	495	9%	459	9%	8%
<b>Total Administrative Expense</b>	<b>1,932</b>	<b>35%</b>	<b>1,825</b>	<b>34%</b>	<b>6%</b>

- **Increase in marketing budget.** Total administrative expense rose from the increase in marketing expense of 22% (yoy) due to new member base expansion and higher marketing expenditure to promote card spending. Other administrative expenses also rose 8% (yoy) from higher computer expense as well as the increase in personnel expense of 4% (yoy). In the meantime, fee expense hardly changed.



- Operating Cost to Income.** Cost to income ratio was at 34.5%, compared to the previous year of 33.9%. When operating expense excluding marketing expense and interchange fee expense are considered, operating cost to income ratio was 25.8%, compared to 25.6% for the same period of last year. Since revenue growth in the third quarter was slower than expenditure growth, total operating cost to income was higher.

### Constantly maintained high portfolio quality

- Total receivables grew at the historical high in the past 2 years.** For the third quarter of 2019, total receivables amounted to 79,618 MB, a 9% growth from the same period of last year. Total credit card receivables amounted to 51,137 MB (up 10% yoy) and total personal loan receivables amounted to 28,219 MB (up 9% yoy). When deducting the allowance for doubtful accounts of 5,459 MB, the company's net receivables was at 74,159 MB, with the amount of 48,052 MB, which was 65% of total net receivables, accounted for net credit card receivables, and with the amount of 25,982 MB accounted for net personal loan receivables. Continuing expansion of total receivables portfolio had resulted in the increase in credit card spending and higher cash withdrawal from KTC PROUD usage.
- Member base expansion from both businesses.** At the end of September 2019, the company had total members of 3.4 million accounts, up by 6.3% compared to the same period of last year, with current membership consisting of total number of 2,460,595 credit cards (grew at 6.9%) and total number of 973,356 personal loan accounts (grew at 4.7%).
- NPL continued to improve in both businesses.** Thanks to the company's emphasis on portfolio's quality, its NPL of total portfolio for Q3, 2019 stood at 1.1%, dropped from that of 1.2% for the same period of the previous year with NPL for credit card down to 1.0% from 1.1% whereas NPL for personal loan stayed at same level of 0.8%. With high quality of new receivables, despite applying the same write off method, the company's NPL was still lower. Hence, the ratio of the allowance for doubtful accounts to NPL continued to stay at high level of 641%, compared to that of 615% for the same period of last year.

Unit: Million Baht	3Q19	% of total revenue	3Q18	% of total revenue	Growth
- Credit card's bad debts and doubtful accounts	857	15%	725	13%	18%
- Personal loan's bad debts and doubtful accounts	796	14%	693	13%	15%
- Other bad debts and doubtful accounts	2	0.03%	3	0.1%	-51%
<b>Total bad debts and doubtful accounts</b>	<b>1,655</b>	<b>30%</b>	<b>1,421</b>	<b>26%</b>	<b>16%</b>

\* Other loans include circle loan, self employed loan, etc.



- **Increase provisions in line with the growing portfolio.** Bad debts and doubtful accounts equaled to 1,655 MB, a 16% increase from that of 1,421 MB for the same period of the prior year. Owing to the company's ongoing portfolio expansion, more provisions were set up. Bad debts write-offs were also higher by 15% (yoy) with the rise in bad debts for credit card receivables and personal loan receivables of 18% and 12% respectively.

## Financial position and sources of funding

- **Higher asset as a result of increased portfolio.** The company's assets at the end of third quarter, 2019 were at 79,028 MB, increased from 73,319 MB by 8% compared to the same period of last year. The main income generating assets were net receivables of 74,159 MB, accounted for 94% of total assets whereas the rest of 6% comprised of cash, other receivables, deferred tax assets and other assets.
- **Investment in subsidiaries.** KTC has established KTC Nano Co., Ltd. and KTC Pico (Bangkok) Co., Ltd. in which the company and Krung Thai Bank PCL. have jointly invested and hold shares in each subsidiary for 75.05% and 24.95% respectively. KTC Pico (Bangkok) Co., Ltd. has also increased its capital to own 100% shares of 4 companies, i.e. KTC Pico (Chonburi) Co., Ltd, KTC Pico (Pathum Thani) Co., Ltd., KTC Pico (Samut Prakan) Co., Ltd., and KTC Pico (Samut Sakhon) Co., Ltd.

KTC Financial Highlight (Unit: Million Baht)	3Q19	3Q18	Growth (Y-Y%)	9M19	9M18	Growth (Y-Y%)
Total Revenue	5,597	5,376	4%	16,699	15,743	6%
Total Expense (Excluding Financial Cost)	3,587	3,245	11%	10,277	9,693	6%
Total Expense (Including Financial Cost)	3,982	3,632	10%	11,444	10,861	5%
Net Profit	1,292	1,396	-7%	4,205	3,911	8%
Credit card net receivables	48,052	43,476	11%	48,052	43,476	11%
Personal loan net receivables	25,978	23,743	9%	25,978	23,743	9%
Other net receivables	129	136	-5%	129	136	-5%
Total Assets	79,028	73,319	8%	79,028	73,319	8%
Total Borrowing	53,849	50,974	6%	53,849	50,974	6%
Total Liabilities	60,558	58,198	4%	60,558	58,198	4%
Total Shareholders' Equity	18,470	15,122	22%	18,470	15,122	22%

\* Other loans include circle loan, self employed loan, etc.

- **Efficient funding.** The company's total borrowing amounted to 53,849 MB, up 6% from the same period of the previous year. Fund raising structure was both from short-term and long-term borrowings. Short term borrowings were loans from related financial institutions of 2,180 MB and from other financial institutions of 7,620 MB. Long term borrowings were from debentures issuances of 44,050 MB to various sources, i.e.



Thai commercial banks, securities companies, insurance companies and other asset managements. At the end of third quarter, 2019, the company's total credit lines amounted to 29,540 MB provided by Krung Thai Bank and other commercial banks. For Q3, 2019, the company's available credit lines equaled to 26,430 MB. Cost of funds at the end of Q3 and for the first nine months of 2019 stood at 2.93% and 2.88% respectively, down from that of 2.97% and 2.98% respectively for the same period of the prior year. The company's debt to equity ratio was at 3.28 times, very well below the bond covenant limited that limits debt to equity ratio at 10 times.

## 2019 Expectation

For 2019, KTC has aimed to achieve its credit card spending growth of no less than 15%, yet for the first nine months, it only expanded at 10%. The company has also targeted its receivables portfolio expansion at 10%, yet at the end of third quarter, the growth was at 9% (YoY). Meanwhile, the company's NPL at the end of third quarter stood at 1.1%, same level as previously planned. The company anticipated that the credit card spending growth 15% will not be achieved. And despite the slowdown in the Thai economy, receivable growth should be around 10% resulting in net profit at similar level as targeted.

KTC Financial Highlight (Unit: Million Baht)	3Q19	3Q18	Growth (Y-Y%)	9M19	9M18	Growth (Y-Y%)
Gross profit margin	87.7%	87.2%	1%	87.6%	86.8%	1%
Net profit margin	23.1%	26.0%	-11%	25.2%	24.8%	1%
Interest coverage ratio (times)	5.1	5.5	-8%	5.5	5.2	6%
Debt to equity ratio (times)	3.3	3.8	-15%	3.3	3.8	-15%
Return on equity	29.7%	40.3%	-26%	32.2%	37.7%	-14%
Return on asset	6.5%	7.6%	-14%	7.1%	7.1%	0%
Allowance/ Total receivables	6.9%	7.6%	-9%	6.9%	7.6%	-9%
Allowance / NPL	641%	615%	4%	641%	615%	4%
Book Value	7.2	5.9	22%	7.2	5.9	22%
Earning per shares (Baht)	0.5	0.5	-7%	1.6	1.5	7%