

CardX Strategy Day

25 October 2022, 16:00-17:00

[Video presentation, 13 minutes, not transcribed]

MC: Good afternoon, directors, and distinguished guests. Welcome to CardX Strategy Day 2022. And this is our first portfolio company session following the SCBX Strategy Day, which happened last Friday. And the video that you have just watched was the story of CardX — very exciting.

Today, we are going to have a lot of questions on CardX. Let me introduce the four executives from CardX who are here with us today. The first person is Khun Sarut Ruttanaporn, Chief Executive Officer, CardX. The second person is Khun Narong Srichukrin, Chief Business Officer, CardX. The third person is Sirote Vichayabhai, Chief Financial and Strategy Officer, CardX. And the fourth person, last executive for today, Khun Pornsit Kridsadapradit, Chief Data Officer, CardX. These are the four executives here today to answer all the questions that you may have.

But before that, may I kindly inform you of the details of our conference? First, during the meeting, participants are not required to use a camera; you will be allowed to do so only when your request to ask a question to our directors is granted. May I ask everyone to please change your names into English, followed by your affiliation or company in English as well?

Second, our conference aims to answer questions and give some clarification on certain related issues from the participants. Should you have any question, please inform us so that you can ask the directors via two channels. The first channel — Live — when you want to ask a question on the video, when you want to directly ask a question, you may press the raise hand button below. Once my team calls your name, you can then turn on the microphone and ask accordingly. Second option is to ask via the chat box. If it is not convenient for you to turn on a microphone, just type in your question into the chat box and we will have a team read out the question for you. So given that, let's start with the Q&A session.

Let me read the first question for the executives.

MC: The first question is:

“What will CardX do differently versus when it was under the SCB Bank?”

Sarut: Good afternoon and let me give you a warm welcome to the CardX Strategy Day today. And thank you for the first question.

I think the objective of spinning off our unsecured business to CardX is mainly to improve profitability and to create value for our shareholders. As you can see from the video presentation, we plan to achieve ROA ranging around 6-7% by 2025. As of now, we plan the business transfer on December 10, subject to the BOT approval. In fact, we have not operated 100% under the CardX environment.

However, after the business transfer towards next year, we believe that we will fully benefit from the spin-off. We believe that the unsecured business is high return, but also high risk, which means that, to be successful in this business we need to have a monoline structure, where we have an operating system which is suitable to manage the unsecured business, in such a way that it is very robust and very focused. And that's not subject to what I call a one-size-fits-all type of operating model within the Bank.

I think the biggest area where there is low hanging fruit for us in terms of improving profitability, once we spin off and become monoline, would be around risk management. And this would be very end-to-end where we can improve the risk modeling, to monitoring, prevention and recovery.

We believe that, having a monoline structure outside the Bank, we can deploy the risk modeling much more quickly than staying within the Bank and also be able to test and retool and refine the model in a very effective manner. And I think the same things apply to the underwriting where we can adjust and refine the underwriting [that is] appropriate for each segment and any particular event.

Also, for prevention and collection, I think we can have a very focused and robust collection operating model. With that, we will look to see a major improvement and create a lot of value when we spin off the business to CardX.

With that, I would also like to have Khun Pornsit, who is our Chief Data and Chief AI to share what we can do differently on the AI aspect when we become a monoline CardX.

Pornsit: Let me emphasize a little bit further on what Khun Sarut just mentioned, that under CardX, we believe that AI will be the key driver to drive the business differently from the one that we are doing at SCB Bank. This is because for SCB Bank itself, we already use AI in several areas, but for the low hanging fruit, there are so many other areas where we have not used AI effectively.

So, for the new spin-off, CardX, I believe that we will have good opportunities to be able to drive AI into more areas compared to what we did in the past.

Let me explain a little bit more about AI. Normally, you can think of AI as something that helps you to predict something, but foundationally there are three main components that I would say are necessary to enable AI to drive the business properly. The first one is going to be the infrastructure. The second is the data itself. And the third one would be related to the skill set of the people in the company.

So, as mentioned in the presentation, CardX invested a lot of money in technology stacks. So, for the new one which is cloud native, it is going to help us to scale easily. And because of the infrastructure itself, I would say that data that we have, even in the Bank today, and even when we move to CardX, the data is at the granular level, but in the past, we had limited access to all the data that we could use.

When we have the proper infrastructure, we will be able to drive the infrastructure to use all the data at the transactional level. And because of the infrastructure, because of the data itself, we also have experienced data scientists within DataX and CardX working together, and this will help CardX to drive the business using AI.

I would say that we are very confident that, based on the direction that we are going to do in the next few months, we should be able to see change of the growth for CardX compared to SCB Bank very soon.

MC: Thank you. And that is the first question. The second question is again from the chat box. The question is:

"What is your plan to achieve a customer base of 10 million customers in 2025?"

Sarut: Currently, after the spin-off, we will start with around 2 million customers. And next year, we will build the new capabilities and foundation around risk management and collection. So, we are not aggressively going after customer base expansion, but we will be patient and make sure that we are confident in our risk management capability. Once we are confident with this new capability, we will start expanding our customer base to lower mass, which I think still has a lot of underserved. Also, we plan to offer products such as 'Buy Now, Pay Later', where we can acquire the underserved. We are also planning to provide a payment solution. With all these key initiatives in terms of penetrating the underserved, we think we will be able to achieve close to 10 million [customers] by 2025.

MC: All right, thank you. The third question is about AI capabilities and the question is:

"How does CardX plan to build its AI capabilities?"

Pornsit: Let me take this one. I mentioned earlier that AI is going to be one of the key components that we are going to use at CardX. For AI itself, normally, we must start from the foundation and the infrastructure. And then after we have the infrastructure under CardX, then we can use the data that we already have.

I would say that both in-house and external are needed to be able to run AI in a real-time fashion. We believe that because of the proper infrastructure, because of the expansion of the data itself, and combining these with the skill set that we have, we should be able to drive the proper expansion of AI usage for the business much,

much easier. And not just only for the current processes we are doing now, I would say that we have a long roadmap on what we are trying to do. The new infrastructure is going to help us to learn a lot of new things. And after we find something, we will be able to adjust and redeploy much, much faster compared to the current process that we have at the Bank.

MC: And next question, number four.

"Can you provide us with CardX's key financials?"

Sirote: Thank you. If you look at the long-term aspirations and the indications we gave in the presentation, by 2025 we are looking at a portfolio of around 140 billion, net profit of around 9 billion and ROA of 6-7%. But if we look at the shorter term over the next one to two years, I think the guidance I would give would be a portfolio size of around 120-130 billion baht, split roughly 55-60% personal loans and the remainder in the credit card business.

We are targeting a yield of around 15-16% with a mix of NII and non-NII of around 60:40. So, we would come to a top line, total revenue, in this case, including recovery, of around 25-30 billion baht, and with our targeted cost-to-income ratio of around 33-37%. And then, we would be looking at gross credit cost of around 6-8%, and net credit cost of around 3-5%. So, that would be our guidelines for near-term financials over the next one to two years. Thank you.

MC: Thank you. The next question is going to be a live question from a participant, Khun Weerapat from CLSA.

Weerapat: **"I have a question about the credit cost. You just mentioned the credit cost would be around 6-8%. I recalled this level of credit cost is higher than a traditional credit card business. Do you think that credit cost can be lower than the numbers when using of AI with debt collection? My second question is about customer acquisition. You mentioned that about 30% of customers acquisition will be made through the partner ecosystem. Can you give examples of the partners that you have?"**

Sirote: Let me take the first question first. In terms of our gross credit costs, we are looking at 6-8%. So, it's like a range, and 8% would be the top end of what we would expect our credit cost to be. Obviously, we believe that, with the implementation of AI across our business, from prevention to collection to recovery, we can lower our credit costs to a much lower level — 6% or lower — but we want to keep a little bit of a conservatism in this, so we have our aspirations, we know what we want to do, but at the same time, we do not want to over promise and under deliver.

In terms of our partnership and ecosystem, the way we are looking at it is that we want to be as near to our customers as we can to our target segments — the mass, lower mass, and the underserved — and we want to be part of their everyday lives. So, wherever that is, where they wake up, how they travel to work, where they have lunch breaks, where they spend their free time, where they eat, where they sleep, how they spend their holidays, etc. All the partners that fit within those categories would be our target partners.

MC: All right. Next question is again, a live question by Khun Peach from UBS. Please ask your question.

Peach: Just couple of questions from me.

“First is about the collection team. Do you use an in-house team or an off-balance sheet company? And, is it going to use a joint-venture AMC as another channel to do the debt collection?” Thank you.

Sarut: I think that is a very good question. Collection will be a strategic area and a focus area for us. We plan to use an in-house collection team, pretty much end-to-end, from front-end to back-end at the maturity stage. Given that, we believe that this is a key to our success in terms of the unsecured business. So, yes, we will be building our own team and our own operating model, which will be the key difference from what we have done at the Bank, when we managed the unsecured at the Bank. For the AMC, I believe that benefit can also be derived if you are looking to manage NPLs. However, the unsecured nature of the products is written off after 180 days. So, for us, we do not see much of a benefit at the moment.

Peach: If so, **“this means that you are quite confident running the model for unsecured personal loans of low-income groups differently from under the Bank in terms of regulation constraints?”**

Sarut: Correct.

Peach: **“Is this because you see that Krung Thai Bank (KTB) can also consolidate Krung Thai Card (KTC) and run it as a different model, like non-banks?”**

Sarut: Can you please repeat the question?

Peach: **“If I compare with Krung Thai Bank which has Krung Thai Card (KTC) as a subsidiary, and KTC is also run on a model that is different from the bank?”**

Sarut: Correct.

Peach: **“Is your model is going to be the same on the collection?”**

Sarut: I cannot compare to KTC, but I know that the collection strategy and operating model will be very different from the Bank. And we will be very focused, as I mentioned, we will be robust in terms of managing our charged-off accounts and unlike the Bank where they outsource a lot of back-end collections to a third party, because we think it's critical for us to have control of the procedure, the entire end-to-end procedure of the collection.

Peach: Got it. Thank you very much. Second question:

“Are the funding costs going to come directly from the Bank, at a one percentage funding cost?”

Sarut: Obviously, that is the benefit that we will no longer enjoy once we spin off and then try to raise funding by ourselves. Obviously, I think the funding costs will cost us more when we become independent. And whereby we will probably need

to get access to funding through capital markets, and I believe that with the size and credit quality of CardX, we should be able to raise competitive funding through the capital markets.

Despite that, obviously, it will be more expensive than deposit costs, which hopefully, even though we have high higher funding costs, we hope to get the benefit and realize value through better efficiency around credit costs and around OPEX in the future. So, hopefully, that will outweigh the increase in funding costs.

Peach: “If we raise funds through debenture, will SCBX guarantee the bond?”

Sarut: I think there could be both structures. It really depends on the market timing. And we will see how competitive of both options.

Peach: Thank you, the last question from me.

“From your five-year targets, the ROA target, does it really reflect superior top-line return, like asset yields or a fee portion, or does it reflect that your model will have superior cost efficiency than key players in the market now? Because the major players now may have an ROE below 20% already, with intensifying regulations and competition.”

Sarut: I think we need it from both lines, and probably we need to be very lean. In terms of C to I (cost to income), we need to also manage the credit cost effectively and efficiently and try to increase yield and top-line, through going down to a lower mass segment or underserved. But as I said, to go down to that segment, we need to make sure that we are confident in terms of how we manage our risks and the collection. But also, I think one thing which we can create value from, in terms of top-line, is also non-NII, both from insurance fees and other fees which we have explored when we were at the Bank through the unsecured business.

MC: Thank you. And next question is also a live question from Khun Worawat, Credit Suisse. Please ask your question.

Worawat: Thank you very much. Number one.

“I want to talk about the debt collection a little bit more. So, can you elaborate how big is the business operation? Is it labor intensive? How automated, so that if you're looking at other non-bank companies, some may have so many branches, touch points, and you let people on the ground collect the money. How would you do it?”

Sarut: I'm not sure whether I hear your question clearly, but I will try to answer and, if it's not addressing your question, I may ask you to repeat.

But obviously, with our model, we will not have branches. So, I think we will rely on the technology and an automated solution, whether it's a voice bot. And we will continue to have agents who will handle the difficult accounts, and some of the field collectors who go to visit the big tickets.

However, using AI capabilities, I think we will be able to customize and offer different treatments for different customers. I guess it's going to be a very different model than having the physical branches for origination and collection. But we are quite confident that if we were to compare this to what we had at the Bank previously, we should be able to create a big impact in terms of managing the credit costs for the unsecured portfolio.

Worawat: **“Can you give an idea of how big the team is?”**

Sarut: Right now, if you talk about the back-end collection, we probably have almost close to 300 agents at the maturity stage, who will do the account handling on the charged-off accounts.

Worawat: **“You mean maturity stage by 2025? You only need 300 agents?”**

Sarut: For the back-end collection. For the front-end collection, we continue to outsource back to SCB Plus, which is a subsidiary of the Bank. But eventually, we also plan to grow this front-end collection by ourselves as well. Right now, on the

front-end collection, we plan to outsource to two to three companies and have a model where we do champion and challenger to make sure that it's all competitive in terms of managing the front-end collection, the bounce rate, and the flow rates.

Worawat: I see. May be one more question.

“Can you talk about non-interest income? You said you want to grow this portion to 40% of revenue. Where is it from? How will you drive it differently?”

Sarut: I think non-NII will be one of the big sources of revenue which we have not explored before. Insurance is obviously one of our top priorities. When we were at the Bank, our leadership team was also able to deliver great success. I would like to ask Khun Narong, who is our Chief Business Officer, to also share his plan on providing insurance products to our unsecured customers.

Narong: Thank you. Regarding the insurance business. In fact, it is not new for us. Maybe in the past, we did not really come up with a package specifically for this group of customers. But we already have a footstep in this one and we also have a sales team. We have the digital to provide the right insurance package, using AI to match with what the customer wants. So that will be the first step. Now we are working with our partner, an insurance company, to come up with the right package, the best one for the customer to choose [from]. And we believe that we can roll this new business out within the second quarter of next year. Thank you.

MC: All right. The next question is from the chat box from Khun Napassorn, KKP Securities.

“Could you provide an example of the alternative data you are going to use as an input for the model? This is because the untapped group would not have bank’s statement, pay slips; therefore, would there be any data that is the best proxy to gauge a borrower's income, ability to pay and willingness to pay? What is the data source?”

Pornsit: Let me answer you in general first because I may not be able to tell you specifically what we are doing now. But I would say that in general, there are so many customer data sets that we can learn from the customers. And ideally the one that we would need the most would be the data that is related to customer behavior, including cash inflow and outflow.

I may give you some broad ideas [of the data] that we can [use to] understand the way our customers behave each day and each month; for example, how much do they spend on utilities each month? What kind of the payment do they make for their mobile phone? What kind of shopping do they do, which channel, either online or even offline?

So, when we look at it overall, we just try to understand what kind of behavior the customer shows each day and what overall lifestyle, income and expenses the customer has. So, when we combine all these together, we would be able to predict many things. As I mentioned, when we have the proper data, the proper infrastructure, and the experienced data scientists who will be able to crunch all the data, [we will be able] to provide or offer suitable products to the customer at the right time.

MC: The next question is from Khun Tanadech, Pi Securities.

“Given the higher funding costs from the interest rate upcycle, what is the strategic plan to manage your funding costs after you did not get full support from SCB Bank? And can you share your views on how to grow your business given stricter regulations to cap customer debt?”

Sarut: But this is a similar question. Do you want me to repeat it?

MC: But on the second question, which is about the regulatory environment, given the tighter regulations?

Sarut: I think it's quite consistent with what I mentioned before. We know that the interest rate cap is challenging for us, and especially with the rising costs of funds, meaning that we must be lean in terms of OPEX through digitization, and using all

the technologies. And also on credit costs, as I mentioned, we are not a newcomer, we already have a very good and solid top line business of around 20 billion a year. Our challenge comes when, as in the past, we were not able to manage the credit costs in such a way that was efficient and effective. Even with higher costs of funds and interest rate cap, we hope to be able to create value and improve profitability through better risk and credit cost management.

MC: Next question. Live from Khun Rawisara, FSSIA

Rawisara: I have a couple of questions.

“The first one is about your target loan yield, as I heard that your target loan yield for the next one to two years is around 15-16% and that your personal loan portfolio would contribute around 60%. I wonder why your loan yield target is quite low compared to other competitors because you can charge a loan yield for a personal loan at 25%.” That's my first question.

Sarote: Yes, so the 15–16% is a mix of our blended yield of our portfolio, and because we have personal loans of around 55–60%, and then the rest, 40–45% in credit card with a cap of 16%. And then you add into that mix the revolvers and transactors in that credit card portfolio, our credit card average use is probably around 10-11%. On a blended basis, our portfolio is around 15–16%. Obviously, again, we would like to penetrate new segments and uplift our yield as mentioned earlier, but that is going to take time, and for that new group of customers, who will be on a higher yield, to come in and contribute significantly to our portfolio in such a way that it shifts, would take a little bit more time.

Sarut: Just to add to that, I think one of the key factors would be the current portfolio, which is quite sizable. I think that's probably [because] the current portfolio, given the past direction and strategy, can achieve relatively lower yield compared to what we try to focus in the next 2-3 years. So even though we try to change the mix, I think we still get the impact of the low yield from the current portfolio or the legacy portfolio.

Rawisara: **“Are you going to use pricing strategy to gain more clients?”**

Sarote: Of course not.

Rawisara: **“My second question is about the 10 million client base in 2025. Are these new clients that banks and non-banks cannot tap right now? How much do you need to steal from current competitors?”**

Sarut: I think, it will be mixed. Obviously, you know, one of the major ones will be the new segment, which is the lower mass. As I mentioned, we will not aggressively go after a lower mass segment before we are confident in our capability around risk management and the way we can do collection for the lower mass segment. We will also be offering new products like ‘Buy Now, Pay Later’ through joint ventures with international partners where we actually offer ‘Buy Now, Pay Later’ products on an e-commerce platform to the underserved customers.

I think it will be a mix of both — the existing customers who already have a bank, but we try to offer some product differentiation as well as the underserved. This will be the second phase, as you see in our vision statement, for which we plan to be a regional financial platform. So hopefully, after we have completed our foundation phase or the first phase, we will also try to expand internationally and that will also contribute into the customer base expansion of 10 million.

MC: Thank you. The next question is from Khun Nathapol, CGS-CIMB Securities

Nathapol: **“Could you please share the marketing plan and budget for CardX in the next three years? And what market share is CardX aiming for?”**

Narong: Thank you. For the marketing plan and budget for CardX, we must start with the business that we do. As you may be aware, our focus is still on personal loan and credit card. How we do the marketing will change from the traditional to the so-called digital marketing program.

In this way, we believe that we can bring down the marketing costs more effectively in terms of the outcome. Also on marketing side, we plan to penetrate to the lower mass segment. At CardX, when we are talking about the lower mass, we are talking about the customer who earns a monthly income of 8,000 to 15,000 baht — there are 12 million of them. This is a big number, and we cannot penetrate them using traditional channels like sales[person] or a branch. We have to use the digital, and that will lead to the marketing strategy and the marketing plan. We also must change our operating model or business model on this segment.

MC: All right, thank you. Next question from Khun Sarachada, Thanachart Securities.

"We have heard a lot about AI capabilities. Can you give us an example of what CardX can achieve differently, compared to when the business was operating under the Bank?"

MC: I think this one was already answered. Do we have the next question please? Again, this one was already answered. Are there any more questions?

Because we have less than two minutes left, if any other analysts or investors have any further questions, please kindly reach out to our Investor Relations team for further clarification.

We are very honored to have the four executives here and hope everyone enjoyed the session. Thank you very much.