

Executive Summary

Net profit for the second quarter and first half of 2021 equaled 1,703 million baht and 3,352 million baht, respectively. The third wave of COVID-19 since April 2021 has affected the purchasing power of customers. In addition, the acquisition of new customers has also become more challenging. These factors lead to the slowdown in the acquisition for new card members. As a result, the overall growth of the portfolio and the spending volume increased only slightly. Therefore, to create an opportunity to become a leader in the consumer finance business, the Company's business model will expand towards more secured loans.

In addition to "KTC P Berm", which concentrates on car and motorcycle title loan, the Company diversify the scope of secured loan business by acquiring 75,050,000 ordinary shares of KTB Leasing Co., Ltd. ("KTBL") at the end of May 2021, representing 75.05% of the total shares of Ktbl, from Krung Thai Bank Public Company Limited ("KTB"). In addition, the transaction has been made with the first 50% payment at the agreed purchase price of 297.2 million baht. The Company will pay the remaining amount to KTB, in which could be lower or higher after the conditions are completely reviewed within November 2021. Consequently, Ktbl is now considered as a subsidiary of KTC. Therefore, operating results from the second quarter of 2021 onwards will be analyzed from the consolidated financial statements that takes subsidiaries into account.

Although the consolidated financial statements of 2020 that we used for comparing with the current one are presented as restated financial statements as if the business consolidation has been made since the beginning of the previous year - in accordance with the accounting practices for business consolidation under the common controlling standard of Thailand Federation of Accounting Professions. However, in this Management Discussion and Analysis, we will compare the second quarter 2021 performance with the original second quarter of 2020 performance (before restatement) so that the business performance results is comparable with the actual situation.

For the first half of 2021, KTC had total loans to customers and accrued interest receivable of 89,444 million baht, an increase of 7.1% (yoY). Although KTC's total revenue decreased by -2.5% (yoY), the Company managed to reduce the total expenses by -12.9% (yoY) by controlling on the finance costs and expected credit losses at the rates of -6.1% and -31.3%, respectively. In addition, bad debt recovery was also improving, while maintain the similar level of NPL even under the challenging situations.

As a result, the Company's ratio of total operating expenses to revenue in this quarter increased slightly and earnings before expected credit losses declined by -5.1% (yoY). Nevertheless, the better portfolio quality lowers the necessity to set high level of allowance for expected credit losses. Hence, the net profit of the Company in the second quarter and the first half of 2021 increased by 48.2% and 20.1%, respectively.

Performance Overview for the Second Quarter and the First Half of 2021

Overall performance of the Company in the second quarter and the first half of 2021 had total revenue of 5,406 million baht and 10,798 million baht, respectively. Loans to customers and total accrued interest increased by 7.1% (yoY). The key performance of KTC can be summarized as follows:

- The Company's net profit in the second quarter equaled 1,703 million baht, increased by 48.2% (yoY) and 4.2% (qoq) and the net profit for the first half of 2021 amounted to 3,352 million baht, increased by 20.1% (yoY).
- Total loans to customers and accrued interest receivable were 89,444 million baht, grew by 7.1% (yoY), mainly from credit card receivable of 4.6% (yoY) and increased from KTBL receivable worth 4,255 million baht which was included in this quarter. The personal loan receivable decreased slightly by -2.5% (yoY).
- For the second quarter and for the first half of 2021, KTC's credit card spending rate grew by 13.1% and 3.9% respectively, or amounted to 45,739 million baht and 94,160 million baht respectively. The Company's member base shrunk at by -4.3% (yoY) or accounted for total members of 3.3 million accounts, comprising of 2,544,573 credit cards (down -2.3% yoy) and 802,971 personal loan accounts (down -10.0% yoy).

	Consolidated	Proportion	Growth	Growth	Consolidated	Proportion	Consolidated	Proportion
	1H2021	(%)	(%Y-Y) (Restated)	(%Y-Y) (Original)	1H2020	(%)	1H2020 (Original)	(%)
Total Revenues	10,798	100%	(4%)	(3%)	11,283	100%	11,078	100%
Bad Debt Recovery	1,686	16%	9%	11%	1,550	14%	1,513	14%
Total Operating Cost	3,555	33%	(0.2%)	4%	3,564	32%	3,430	31%
Finance Costs	726	7%	(8%)	(6%)	791	7%	773	7%
Profit (Loss) from Associate Company	5	0.0%	-	-	-	-	-	-
Profit before Expected Credit Loss	6,522	60%	(6%)	(5%)	6,928	61%	6,875	62%
Expected Credit Loss	2,331	22%	(31%)	(31%)	3,400	30%	3,392	31%
Bad Debt	2,552	24%	541%	579%	398	4%	376	3%
Doubtful Accounts (Reversal)	(221)	(2%)	(107%)	(107%)	3,001	27%	3,016	27%
Profit before Income Tax	4,191	39%	19%	20%	3,529	31%	3,483	31%
Income Tax Expense	839	8%	19%	21%	703	6%	693	6%
Net Profit for the period	3,352	31%	19%	20%	2,825	25%	2,790	25%
Total Comprehensive Income (Loss)								
Owners of the parent	3,314	31%	19%	19%	2,790	25%	2,790	25%
Non-controlling interests	38	0.4%	7.9%	9,365%	35	0.3%	(0.4)	(0%)
Earning per Share	1.29				1.08		1.08	

- The Company's credit card spending for five-month period of 2021 increased by 5.4%, while the industry grew at 2.2%. The industry's credit card spending increased during April and May at 38.0% and 12.6%, respectively. Meanwhile, the Company's spending in April, May, and June grew at 41.3%, 9.6% and dropped at -3.0% respectively due to the impact of a third wave of COVID-19 epidemic in April 2021.
- Net Interest Margin for the second quarter and the first 6 month of 2021 was 14.3% and 14.2%, decreased from 15.9% and 15.8% from the same period last year, due to the adjustment of the interest ceiling that was effective since 1 August 2020 in accordance with the Bank of Thailand.
- NPL ratio for the Company in the second quarter was at 4.4%, resulting from the inclusion of lease receivable from KTBL. Meanwhile, the NPLs for credit card and personal loan were 1.5% and 3.0% respectively, slightly higher from that of the previous quarter that equal to 1.4% and 2.9%, respectively.

2. Industry Overview

The overall Thai economy in the second quarter of 2021 still affected by the third wave of new outbreaks. As a result, the Bank of Thailand has revised its economic growth forecast in June 2021 for the year 2021 to 1.8% (previously 3.0%) and 3.9% (previously 4.7%) for the year 2022. This was in line with the trend of declining foreign tourists and the impact from domestic demand. However, the Thai economy will be supported by the increase in government spending from 500-billion-baht loan decree and the expansion of merchandise export following the global economic recovery, which could offset the impact only partially.

Although the situation was still uncertain, the consumer finance industry continues to grow. One of the reasons is the low base in the same period of the previous year. The total industry credit card receivables as of May 2021, equal to 402,109 million baht, an increase of 8.6% from the same period of 2020 and personal loan receivables for the first five months of this year were 623,738 million baht, growing at 9.8%. The overview of total credit card spending for the five-month period of 2021 amounted to 648,035 million baht, growing at 2.2%.

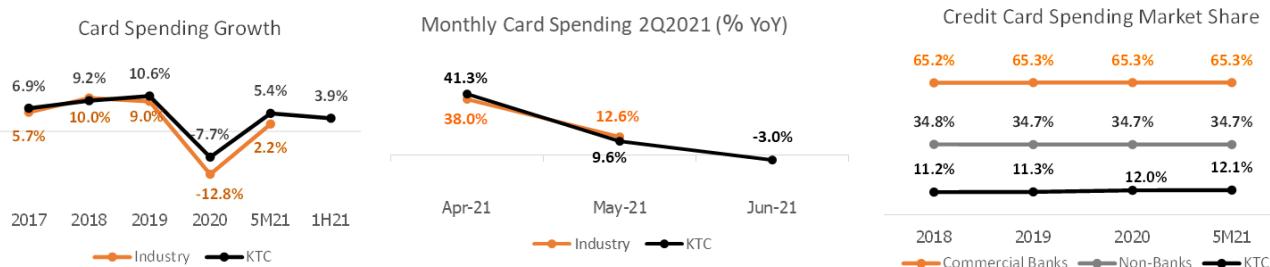
Since KTC's credit card receivable grew at 10.4%, compare to the industry of 8.6%, KTC's market share of credit card receivable was also increased. For the first 5 months of 2021 KTC's credit card receivable market share was at 13.7%, an increase from the same period of 2020 of 13.5%. For personal loan, the market share of personal loan receivables was at 4.7%.

Industry Comparison	5M2021	Y2020	5M2020
Credit Card Receivable (Million Baht)	402,190	449,733	370,492
Growth (%)	8.6%	(1.6%)	(5.1%)
KTC Credit Card Receivables to Industry (%)	13.7%	13.4%	13.5%
Number of Credit Cards (Cards)	24,420,556	24,163,921	23,873,524
Growth (%)	2.3%	2.3%	4.3%
Credit Card Spending (Million Baht)	648,035	1,643,709	634,329
Growth (%)	2.2%	(12.8%)	(14.2%)
KTC Credit Card Spending to Industry (%)	12.1%	12.0%	11.7%
Personal Loan Receivables (Million Baht)	623,738	580,454	568,320
Growth (%)	9.8%	0.1%	7.4%
KTC Personal Loan Receivables to Industry (%)	4.7%	5.2%	5.3%

Source: Bank of Thailand

The Company's growth rate of total credit card spending for the first 5 months of 2021 equal 5.4%, outperforming the growth rate of the industry that stood at 2.2%. The Company's market share for credit card spending was 12.1%.

Credit Card Spending



3. Total Revenue and Expenses

Revenue

- The Company's total revenue for the second quarter of 2021 was 5,406 million baht, close to the previous year. Due to the impact of the new wave of COVID-19 epidemic since early April 2021, lower consumers' confidence lead to the decrease in spending. The Company's total revenue for the second quarter declined by -0.1% (yoY) compared to the previous year. The Company's interest income fell -5.6% (yoY) due to the reduction of interest ceiling of the Company's two main businesses, while fee income (Excluding credit usage fee) increased by 7.6% (yoY) from credit card

business and the bad debt recovery increased by 19.3% (yoY) in the first half of 2021. Total revenue of the company was at 10,798 million baht, decreased by -2.5% (yoY).

- The impact of interest rate ceiling adjustment on interest income for both core businesses** Total interest income (Including credit usage fee income) for the second quarter of 2021 was at 3,430 million baht, decreased -5.6% (yoY). Interest income from credit card business and personal loan business was at 1,693 million baht, a decrease of -2.9% (yoY) and 1,766 million baht, a decrease of -9.2% (yoY), respectively. This was due to the Bank of Thailand's interest ceiling and the impact of COVID-19 which discourages the propensity to spend. In addition, in the second quarter of 2021, the Company has consolidated the interest income from KTBL's receivables at the amount of 25 million baht.

Total revenue 2nd quarter of 2021 equal 5,406 MB

Total Interest Income (including Credit Usage Fee)		(1)		(2)		(1) vs (2)		
	3,430 million baht	2Q2021	% of total revenue	2Q2020 (Restate)	% of total revenue	2Q2020 (Original)	% of total revenue	Growth (%)
Credit card receivable	1,639	30%	1,688	31%	1,688	31%	31%	(3%)
Personal loan receivable	1,766	33%	1,944	36%	1,944	36%	36%	(9%)
Lease receivable	25	0.5%	55	1%	-	-	-	-

Fee income (excluding Credit Usage Fee)		(1)		(2)		(1) vs (2)		
	1,042 million baht	2Q2021	% of total revenue	2Q2020 (Restate)	% of total revenue	2Q2020 (Original)	% of total revenue	Growth (%)
Fee income (excluding credit usage fee)	1,042	19%	983	18%	969	18%	18%	8%

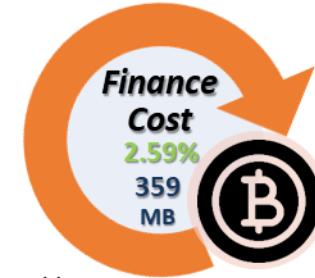


- Revenue from fees increased** in the second quarter of 2021, fee income (Exclude credit usage fee) was valued at 1,042 million baht, increased 7.6% (yoY) and Interchange fee increased 10.7% (yoY). Interchange fee is the fee incurred between the bank / issuing company and the bank / accepting company through payment intermediaries. Merchant Discount rate from stores increased 9.5% (yoY) due to the increase in number of stores to 42,625 stores as of June 2021 from 40,337 stores during mid-2020. The Merchant Discount rate is a rate that KTC receives from card-paying merchants who are members of KTC. In addition, cash advance fee increased 4.7% (yoY), while debt collection fee decreased -12.2% (yoY).
- Increase in bad debt recovery** In the second quarter of 2021, the Company had bad debt receivables at 833 million baht, an increase of 19.3% (yoY), consisting of an increase of KTC at 113 million baht 16.1% (yoY) and KTBL at 22 million baht.

Expenses

- Total expenses in the second quarter of 2021 amounted to 3,278 million baht, decreased by -17.3%(yoY) resulted from the decrease in expected credit loss of -45.1%(yoY) and a decrease in finance costs of -5.3% (yoY) while total operating expenses increased by 18.3% (yoY). For the first half of 2021, the Company had total expenses of 6,612 million baht, a decrease of -12.9% (yoY).

Total expenses for the 2nd quarter of 2021 equal 3,278 MB



Total Operating Cost	1,775 million baht	(1)			(2)		(1) vs (2)	
		2Q2021	% of total revenue	2Q2020 (Restate)	% of total revenue	2Q2020 (Original)	% of total revenue	Growth (%)
Personal expenses	601	11%	450	8%	413	8%	45%	
Marketing expenses	165	3%	146	3%	143	3%	15%	
Fee Expense	547	10%	499	9%	481	9%	14%	
Other administrative expenses	463	9%	471	9%	464	9%	0%	

Expected Credit Loss	1,144 million baht	(1)			(2)		(1) vs (2)	
		2Q2021	% of total revenue	2Q2020 (Restate)	% of total revenue	2Q2020 (Original)	% of total revenue	Growth (%)
Expected credit loss: credit card	560	10%	1,072	19%	1,072	20%	(48%)	
Expected credit loss: personal loan	578	11%	1,012	18%	1,012	19%	(43%)	
Expected credit loss: lease receivables	6	0%	11	0%	-	-	-	

- Total operating expenses increased 18.3%(yoY)** in the second quarter of 2021 amounted to 1,775 million baht from the increase in personnel expenses, marketing expenses, and fee expenses, while other administrative expenses remain at similar level. The increase in marketing expenses resulted from expenses to create marketing activities to stimulate higher credit card spending where the Company continues to focus more on marketing through online channels. The increase in fees resulted from higher litigation costs, while the increase in personnel expenses resulted from the Company's number of employees, including the acquisition of KTBL, as well as management restructuring to support continued growth in the future.
- Expected credit loss amounted to 1,144 million baht, decreased -45.1%(yoY)** in the second quarter of 2021, due to the increase in bad debt write-off between the quarters. Meanwhile, credit approval has become more stringent as the new approval criteria has been tightened in line with the lower level of new interest rate ceiling, in order to improve the quality of the portfolio. Consequently, the provision was reduced compared to the same period last year. Hence, the total expected credit losses was reduced. For the first half of 2021, the expected credit loss amounted to 2,331 million baht, a decrease of -31.3% (yoY).

- Finance costs decreased by -5.3% (yoY) in the second quarter of 2021, the Company's financial cost amounted to 359 million baht from efficient financial cost management. For the first half of 2021, the Company's finance costs amounted to 726 million baht, a decrease of -6.1%. The Company's cost of fund as of June 30, 2021, is at 2.62%.

Changes in allowance for expected credit losses and credit quality

- NPL ratio to total loans (% of NPL) of the company for the second quarter of 2021 is 4.4%, increased from Q1 2021 that was at 1.9%. The main reason was from the inclusion of KTBL portfolio, coupled with the epidemic of COVID-19, which resulted in the lower ability to repay for debtors. The NPL of credit card, personal loan and lease receivable was at 1.5%, 3.0% and 51.7% respectively.

% of NPL		4.4%			
		2Q2021	1Q2021 (Original)	Y2020 (Original)	
NPL to credit card receivable		1.5%	1.4%	1.3%	
NPL to personal loan receivable		3.0%	2.9%	2.7%	
NPL to lease receivable		51.7%	N/A	N/A	

- The table below shows the changes in allowance for expected credit losses as of June 30, 2021.

(Unit : Million Baht)	Allowance for Expected Credit Loss				Total
	12-month ECL (Stage 1)	Lifetime ECL - not Credit Impaired (Stage 2)	Lifetime ECL - Credit Impaired (Stage 3)	Financial assets applied simplified approach to calculate lifetime expected credit losses	
Balance as of January 1, 2021	3,865	2,445	1,046	2,605	9,960
Changes in staging	217	(451)	234	-	-
Changes in risk parameters	(273)	787	3,127	(10)	3,631
New financial assets originated or purchased	211	-	-	0.3	212
New financial assets derecognized	(197)	(511)	(805)	-	(1,512)
Written-off	-	-	(2,507)	(45)	(2,552)
Balance as at June 30, 2021	3,824	2,270	1,095	2,550	9,739

- Total portfolio grew at 7.1% (yoY), amounted to 89,444 million baht. This was comprised of total credit card receivables of 55,708 million baht, total personal loan receivables of 29,480 million baht, and lease receivables of 4,255 million baht.

- At the end of the second quarter of 2021, the Company has an allowance for expected credit losses of 9,739 million baht, where the Management Overlay amounting to 1,000 million baht to accommodate the volatility of economic factors and risks of credit portfolio quality under uncertain circumstances.

(Unit: Million Baht)	Consolidated Financial Statements as of June 30, 2021			
	Credit Card	Personal Loan	Lease Receivables	Total
Stage 1	49,148	23,403	-	72,550
Stage 2	5,533	4,922	-	10,455
Stage 3	808	869	-	1,678
Financial assets applied simplified approach to calculate lifetime expected credit losses	-	-	4,255	4,255
Total loans to customers	55,489	29,194	4,255	88,938
Add Accrued interest receivables and undue interest receivables	219	286	-	506
Total loan to customers and accrued interest receivables	55,708	29,480	4,255	89,444
Less Allowance for expected credit loss	(4,091)	(3,098)	(2,550)	(9,739)
Total loans to customers and accrued interest receivables, net	51,617	26,382	1,705	79,704

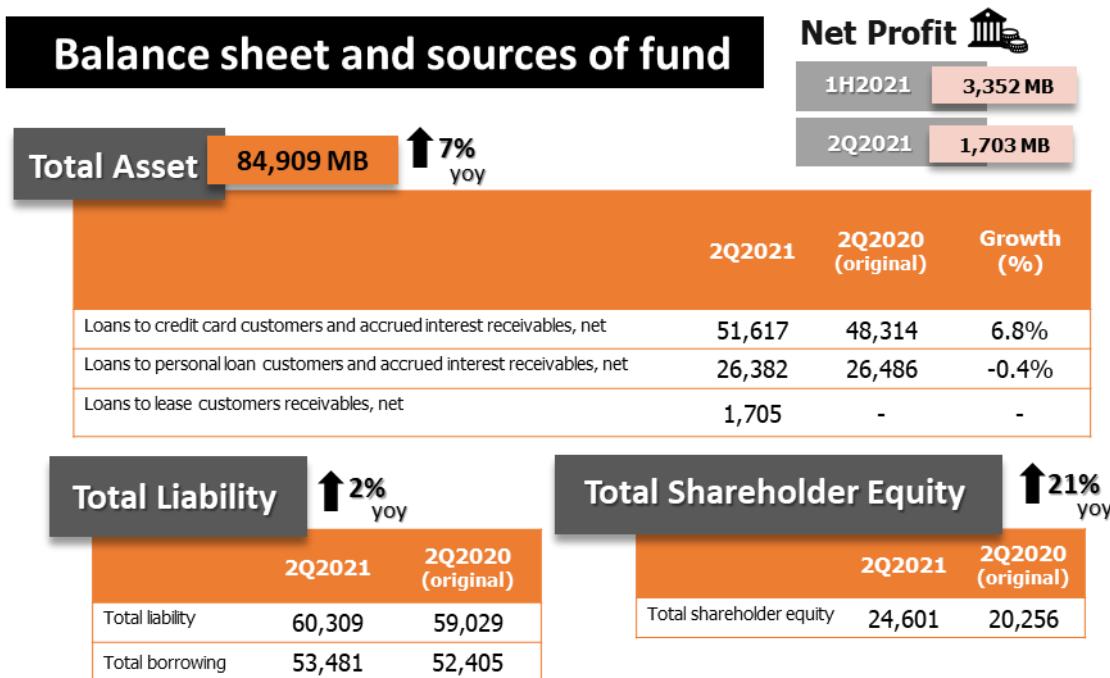
- Allowance for expected credit losses to NPL of KTC in the separate financial statement and consolidated financial statement for the first half of 2021 was 428.6% and 251.1% respectively. This due to KTBL's former NPL, which is a large corporate loan, is still in the process of collection and litigation. Therefore, the aforementioned amount were still unable to be written-off from the account.

Allowance for Expected Credit Loss to NPL (%)

KTC (Separate)	KTC (Consolidated)
428.6%	251.1%

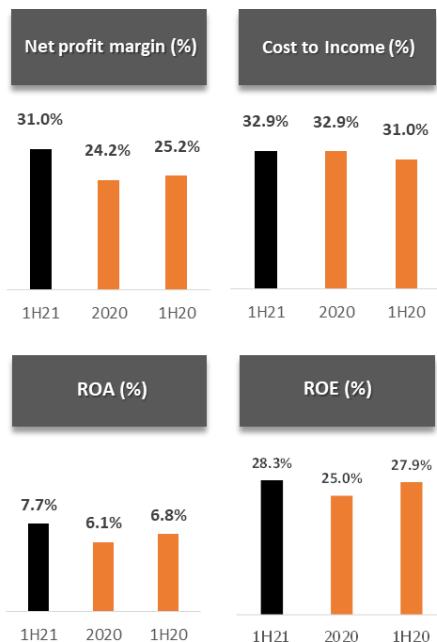
4. Financial Position and Sources of Funds

- **The Company's assets increased.** At the end of the second quarter of 2021, the Company's asset amounted to 84,909 million baht, increased by 7.1% (yoy). The main income generating assets to the company are in the form of loans to customers and net accrued interest receivable, representing 93.9% of total assets or amounting to 79,704 million baht. The remaining 6.1% of assets is divided into cash, other receivables, deferred tax assets, and other assets.



- **Efficient Cost of Fund management.** As of the second quarter of 2021, the Company's total borrowing amounted to 53,481 million baht, representing an increase of 2.1% (yoY). The sources of funds are from both short-term and long-term sources. Short-term sources of funds include loans from related financial institutions at 5,010 million baht (from KTC at 3,910 million baht and from KTBL at 1,100 million baht) and other financial institutions at 3,700 million baht. The long-term loans are from debentures amounting to 44,771 million baht. The sources of funds are distributed among Thai commercial banks, securities companies, insurance companies, and funds.
- KTC has a total credit line of 29,940 million baht, consisting of Krungthai Bank's credit line of 18,030 million baht and another 11,910 million baht comes from other commercial banks. However, the Company has partially used such credit line with the amount of 7,610 (excluding the part of KTBL that has been used up to 1,100 million baht), resulted in the available credit line totaling 22,330 million baht as of the end of June 2021. The cost of funds is 2.62% and the debt-to-equity ratio is 2.45, which was very well below the bond covenant limited at 10 times.

Key Financial Ratio



	1H2021	Y2020 (Original)	1H2020 (Original)
Gross Profit Margin (%)	88.5%	88.3%	88.3%
Interest Coverage Ratio (Times)	6.8	5.3	5.5
Debt to Equity Ratio (Times)	2.5	2.9	2.9
Allowance for Expected Credit Loss/Total Receivables (%)	10.9%	8.2%	10.4%
NPL Coverage Ratio (%)	251.1%⁽¹⁾	460.4%	157.5%
Expected Credit Loss/Total Receivables (%)	5.2%	7.3%	8.1%
Operating Cost to Income (%) ⁽²⁾	26.1%	25.4%	23.4%
Book Value per share (Baht)	9.5	8.9	7.9
Earning per Share (Baht)	1.29	2.07	1.08
Dividend Payout Ratio (%)	N/A	42.5%	N/A

¹ KTC (Separate) = 428.6%

² Operating Cost excluding Marketing Expenses

5. Impacts from the COVID-19 Outbreak and 2021 Business Direction

The situation of the third wave of COVID-19 epidemic since April 2021 has created continuous pressure. The rapid increase in the number of daily infections and the emergence of new clusters of outbreaks have prompted the government to impose strict travel and precautionary measures in certain high-risk areas. This has an inevitable impact on the amount of card spending and the growth of the portfolio.

The Bank of Thailand has announced the phase 3 measures to assist retail debtors during the COVID-19 epidemic, dated May 14, 2021, by extending the application period for debtors until December 31, 2021, in which the Company has complied with the aforementioned assistance measures. At the end of June 2021, the total debt values participating in such measures had outstanding of 1,545 million baht (21,564 accounts).

Regarding the growth direction in 2021, KTC will strengthen portfolios of its two main businesses, which are credit cards and personal loans (including secured loans). In this regard, the Company will expand the scope of business to be more diversified by covering both KTC P Berm and the leasing business. Upon completion of the share acquisition, the Company will become the major shareholder of KTB Leasing Co., Ltd. and aiming to become the leader in comprehensive loan business. Technology will be applied to help creating faster and more agile business operation as well as to create an impressive experience for members. Furthermore, the Company will maintain the original member base through marketing promotion activities both online and offline. The Company's main targets are as follows:

- Credit card: credit card spending for the year 2021 should be worth 200,000 million baht or expanded by 5% (down from the previous projection of 8% growth) due to the pressure factors on the economic outlook and the impact of the COVID-19 epidemic situation.
- Personal loan: maintain personal loan receivables to be in line with 2020's value.
- Secured loans: "KTC P Berm" including loans from KTB Leasing Co., Ltd., targeting loans at 1,000 million baht.
- Merchant acquiring: Focus on online channels through cooperation with partners.

In addition to the measures to help members affected by the COVID-19 epidemic in line with the Bank of Thailand's measures, the Company has also carried out various activities to help those who have suffered, such as joining with the Thai Red Cross Society to invite members to Donate KTC FOREVER points to donate survival kits to those who have to be quarantined for 14 days, etc. The Company also provides staff health and hygiene care to prevent the spread of COVID-19 on an ongoing basis.