

Details of financial analysis and operating performance for the six-month period ended 30 June 2020

(This report details significant changes in unreviewed financial statements under the TFRS 9 standard)

Company's performance overview for the second quarter and for the first half of 2020

The COVID-19 pandemic has begun to give clearer impacts when the government has announced to enforce the Emergency Decree on Public Administration in Emergency Situations since March 26, 2020, in which the Company's credit card spending had been significantly lower during the declaration of emergency situation. However, after the situation appeared to ease, the Company's credit card spending began to improve accordingly. Meanwhile, the total receivable portfolio of the Company remained expanding at 8.3% (yoY). It also continued its capabilities to generate revenue and profit, as well as simultaneously maintained financial expense at an appropriate level and gained income from bad debt recovery at a satisfactory level. The performance of the Company can be summarized as follows.

- Under the TFRS 9 standard, net profits for the second quarter and for the first half of 2020 totaled to 1,149 MB and 2,790 MB, respectively.
- Total interest income (including credit usage fee) for the second quarter and for the first half of 2020 grew at 9.3% (yoY) and 10.0% (yoY) or amounted to 3,632 MB and 7,247 MB, respectively whereas fee income (excluding credit usage fee) contracted at 20.4% (yoY) and 12.3% (yoY) or equaled to 969 MB and 2,152 MB, respectively.

| (Unit : Million Baht) | Consolidated 2Q2020 (TFRS9) | Proportion (%) | Consolidated 2Q2019 (Previous Standard) | Proportion (%) |
|--|-----------------------------------|-------------------|---|-------------------|
| Total Revenues | 5,409 | 100% | 5,528 | 100% |
| - Bad Debt Recovered | 699 | 13% | 818 | 15% |
| Administrative expenses | 1,501 | 28% | 1,913 | 35% |
| Finance Costs | 379 | 7% | 391 | 7% |
| Expected Credit Loss | 2,084 | 39% | 1,567 | 28% |
| (Bad Debts and Doubtful Accounts) | | | | |
| - Bad Debt | 66 | 1% | 1,506 | 27% |
| - Doubtful Accounts | 2,018 | 37% | 61 | 1% |
| Profit before Income Tax | 1,446 | 27% | 1,657 | 30% |
| Income Tax Expense | 297 | 5% | 333 | 6% |
| Net Profit for the Period | 1,149 | 21% | 1,323 | 24% |

- For the first half period, total operating cost to income ratio decreased from 33.8% (yoY) to 31.0% (yoY) due to the reduction in marketing campaigns during the period.

- For the first five months of 2020, KTC's credit card spending contracted at 10.7% and so did that of the industry at 14.2%. By monthly comparison for the second quarter of this year, the rate in April and May contracted to 40.1% and 27.6% respectively, while KTC's credit card spending in April and May contracted at 36.0% and 22.4%. It appears that the contraction of credit card spending continued to ease, in which the credit card spending in June contracted at 4.5%. However, the Company's credit card spending contraction has been relaxed continuously due to the forbearance program of the government, as well as the behavior of consumer that started to adjust and resume their normal card spending. For the first half of 2020, KTC's credit card spending decreased by 9.6% or totaled to 90,613 MB.



- Total loans to customers grew by 8.3% or amounted to 83,486 MB, consisting of 53,242 MB from total credit card receivables and 30,244 MB from total personal loan receivables.
- Net interest margin for the first half of 2020 was 15.82% from the average interest received at 18.64% and cost of fund at 2.81%.
- The Company's total NPL under the TFRS 9 standard stood at 6.6%.

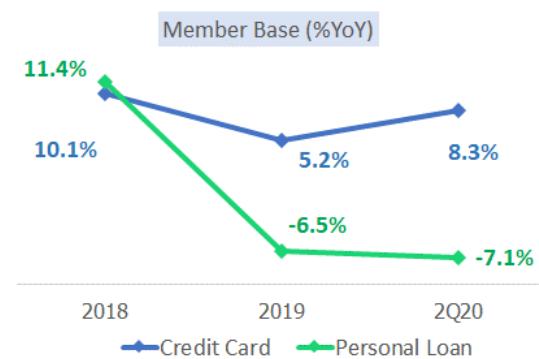
| (Unit : Million Baht) | Consolidated 1H2020 (TFRS9) | Proportion (%) | Consolidated 1H2019 (Previous Standard) | Proportion (%) |
|-----------------------------------|-----------------------------------|-------------------|---|-------------------|
| Total Revenues | 11,078 | 100% | 11,102 | 100% |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

Revenue and Expense

- Total revenue for the first half of 2020 remained approximately at the same level as the same period of last year, consisting of interest income from both credit card receivables and personal loan receivables that increased by 11% (yoY) and 9% (yoY) respectively. In the meantime, fee income (excluding credit usage fee) contracted at 12% (yoY), from the decline in fee income from interchange fee, fee income from cash withdrawal, and fee income from Merchant Acquiring business.
- Total expense for the first half of this year equaled to 7,595 MB, comprising of 3,430 MB from administrative expense, 3,392 MB from expected credit loss (bad debts and doubtful accounts), and 773 MB from funding cost.
- Administrative expense was lower by 9% (yoY).
- Expected credit loss (bad debts and doubtful accounts) valued 3,392 MB in total, consisting of 376 MB from bad debts and 3,016 MB from doubtful accounts.

Loan quality

- **Total loans continued to grow.** The Company's total loans equaled to 83,486 MB. After the deduction of 8,686 MB allowance for expected credit loss, the Company's net loans valued 74,800 MB in total.
- **Member base expanded 3.8% from last year.** At the end of June 2020, the Company had total members of 3.5 million accounts, comprising of 2,605,461 credit cards (up 8.3% yoY) and 932,112 personal loan (including Circle Loan and Self-Employed Loan) accounts (down 7.1% yoY) from non-active accounts closing.



- Outstanding balances of loan to customers and accrued interest receivables, net as of June 30, 2020 are classified by type of business and stage as follows:

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

Remark: The numbers in the table above are estimated from the unreviewed financial statements. The full information will be available in the notes to the financial statements of the second quarter 2020, which will be released in August 2020.

Impacts from the implementation of the 9th financial reporting standard (TFRS 9)

KTC has started implementing the 9th financial reporting standard (TFRS 9) since January 1, 2020, hence affecting the Company's financial numbers as follows.

- Stricter write-offs methods than the previous standard. Methods for bad debt write-offs and NPL receivables are altered from the prior in which under the TFRS 9 standard, the write-offs process will be slower. Bad debts will be written off only when it is proven that the debt is no longer able to be collected.

The aforementioned accounting standard resulted in a higher reported NPL as shown in the below table.

| Financial Highlights (Unit : Million Baht) | Consolidated | Consolidated | Consolidated |
|--|-------------------|-------------------|-------------------|
| | 1H2020 (TFRS9) | 2Q2019 (TFRS9) | 1Q2020 (TFRS9) |
| NPL | 5,526 | 5,526 | 3,280 |
| Expected Credit Loss (Bad Debt and Doubtful Accounts) | 3,392 | 2,084 | 1,308 |
| - Bad Debt | 376 | 66 | 310 |
| - Doubtful Accounts | 3,016 | 2,018 | 998 |

2) Change in NPL receivables. Under the TFRS 9 standard, the Company is required to set up provisions for NPL (both principle and interest) according to the calculation following ECL Model (Expected Credit Loss Model), thus impacting any related ratios of NPL and allowance for expected credit loss (Allowance for doubtful accounts). Changes of figures from the previous standard are displayed in the following table.

| Impacts from Implementing TFRS9 | Consolidated | Consolidated |
|---|-------------------|-------------------|
| | 2Q2020 (TFRS9) | 1Q2020 (TFRS9) |
| Total NPL(%) | 6.6% | 4.0% |
| -NPL Credit Card (%) | 5.6% | 3.4% |
| -NPL Personal Loan (%) | 8.5% | 5.0% |
| Allowance for Expected Credit Loss to Total Receivables (%) | 10.4% | 8.1% |
| NPL Coverage Ratio (%) | 157% | 203% |
| Book Value per Share (Baht) | 7.9 | 8.3 |
| Earning per Share (Baht) | 0.45 | 0.64 |

3) Changes in Allowance for Expected Credit Loss as of June 30, 2020 and 2019 are as follows:

| (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) | | |
| Balance as at 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 | 167 | (724) | 557 | - | - |
| Changes in risk parameters | 122 | 1,028 | 2,348 | - | 3,498 |
| New financial assets originated or purchased | 236 | - | - | - | 236 |
| Financial assets derecognized | (48) | (62) | (232) | - | (342) |
| Written-off | - | - | (376) | - | (376) |
| Balance as at June 30, 2020 | 2,897 | 2,241 | 3,549 | - | 8,686 |

Remark: The numbers in the table above are estimated from the unreviewed financial statements. The full information will be available in the notes to the financial statements of the second quarter 2020, which will be released in August 2020.

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



Impacts from the COVID-19 Outbreak

The COVID-19 pandemic had inevitably impacted the growth of KTC's credit card spending and its receivable portfolio. The Ministry of Finance and the Bank of Thailand have announced forbearance measures to assist clients affected by the COVID-19 outbreak, which the Company has proceeded according to the program since March 26, 2020. Later on, the Bank of Thailand has announced the second phase of forbearance measures dated June 19, 2020 to further aid retail clients during the COVID-19 pandemic. The Company, therefore, has resolved to implement additional policies following the Bank of Thailand's guidelines by reducing its interest rate ceiling as well as increasing its credit limits for credit card and personal loan clients, which will be effective on August 1, 2020. The Company has also carried out its second phase of debt relief measures for its retail clients affected by the COVID-19 by providing alternatives such as restructuring debt to long term loan, postponing payment or principle, and installment payment reduction, in which the ending of relief period had extended to December 31, 2020. As of June 30, 2020, there were approximately 4,000 clients on the Company's debt relaxation program, with total value of around 300 MB – whilst there were only 99 clients on the postponing payment or principle.

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