

Details of financial analysis and operating performance for the year ended December 31, 2020

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

Company's performance overview for the fourth quarter and for the Year 2020

The COVID-19 pandemic which started since the beginning of 2020 had severely affected overall economic data. However, due to the stimulus from government spending, the Thai economy had gradually recovered since the end of the second quarter. As overall economic data began to improve, the Company's credit card spending had passed its lowest point which contracted at -36.0% (yoY) in April (the average contraction rate in Q2 was -21.0%) and continued to grow each month, resulted in the average growth rate of credit card spending for the year 2020 to contracted to only -7.7% (yoY). The Company's total receivable portfolio in 2020 was also able to expand at 4.3% (yoY). Nonetheless, following the Bank of Thailand's new announcement to reduce its interest rate ceiling both for credit card business by 2% and for personal loan business by 3% since August 1, 2020, the Company's revenue in the fourth quarter had fully been impacted. Hence, the Company had given more priority to its customer screening so as to effectively manage its asset quality. The Company had also adjusted its strategies and acquired new business models to be in accordance with changing consumer behaviors. In addition, the Company had obtained appropriate measures for its receivables risk management, improved its entire work process to be more efficient in order to lower its operating costs, as well as bad debts write-off so as to truly reflected 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. KTC's performance can be summarized as followings.

- Under the TFRS 9 standard, net profits for 2020 totaled to 5,332 MB. Profit values before expected credit loss for 2020 equaled to 13,262 MB, approximately the same as last year of 13,337 MB.

(Unit : Million Baht)	Consolidated 4Q2020	Consolidated 4Q2019	Consolidated Y2020	Consolidated Y2019
Total Revenues ⁽¹⁾	5,566	5,927	22,056	22,625
- Bad Debt Recovered	836	898	3,119	3,496
Administrative Expense	2,037	2,038	7,260	7,722
Finance Costs	375	399	1,534	1,566
Pre-Provision Profit	3,153	3,490	13,262	13,337
Expected Credit Loss	1,511	1,841	6,605	6,433
(Bad Debts and Doubtful Accounts)				
- Bad Debt	1,186	1,648	4,920	6,290
- Doubtful Accounts (Reversal)	324	193	1,685	143
Profit before Income Tax	1,642	1,649	6,656	6,904
Income Tax Expense	321	330	1,325	1,380
Net Profit for the Period	1,321	1,319	5,332	5,524

Remark: ⁽¹⁾ In 2020, the total revenue including share of profit of an associate accounted for using equity method

- With the increase in interest income from both credit card and personal loan of 5.7% (yoY) and 2.8% (yoY), respectively, the Company's total interest income (including credit usage fee) for 2020 amounted to 14,167 MB, a 4.1% (yoY) growth but at a slower pace than that of 7.3% (yoY) for the first nine months period of this year. This was due to the impact from the reduction in interest rate ceiling for the last 5 months of this year, thus some decline in interest income for the fourth quarter. However, the Company still have sound member base whose accounts remained active roughly as before and continued to generate continuous interest income. In the meantime, fee income (excluding credit usage fee) for 2020 contracted at -11.0% (yoY) or amounted to 4,478 MB.
- For 2020, total operating cost to income ratio was 32.9%, down from 34.1% (yoY). This was owing to less marketing campaigns for both new card acquisition and card spending promotion, but more focus on marketing campaigns via online channels. Yet, net operating cost to income ratio was 25.4%, slightly up from 25.3% (yoY).
- For the first eleven months of 2020, KTC's credit card spending contracted at -8.3% and so did that of the industry at -13.1%. By monthly comparison for the last quarter of this year, the industry's contraction rate in October and November were at -16.5% and -9.8%, respectively while KTC's credit card spending in October and November contracted less than those of the industry at -12.4% and -4.0% respectively. For the Year 2020, KTC's credit card spending contracted at -7.7% or valued 197,087 MB in total.



- Total loans expanded at 4.3% or amounted to 90,149 MB, consisting of 60,235 MB from total credit card receivables and 29,915 MB from total personal loan receivables.
- Net interest margin for 2020 was 14.66% due to average interest received at 17.32% and cost of funds at 2.67%. Net interest margin for this year was down from last year of 14.93% following the reduction in interest rate ceiling.
- The Company's total NPL under the TFRS 9 standard for 2020 declined to 1.8% from that of 1.9% in Q3. This was due to the Company's capability in effectively managing its receivables quality. 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 without undertaking debt restructuring. Therefore, the value of receivables in Stage 3 (NPL) at the end of the year hardly changed with the amount of 1,598 MB, compared to that of 1,555 MB in Q3.
- Allowance for expected credit loss to total loans at the end of 2020 equaled to 8.2%, compared to that of 8.3% in Q3 and NPL Coverage Ratio was higher to 460.4% in this quarter from that of 452.0% in the last quarter.

Impacts from Implementing TFRS9	Consolidated 4Q2020 (TFRS9)	Consolidated 3Q2020 (TFRS9)	Consolidated 2Q2020 (TFRS9)
Total NPL(%)	1.8%	1.9%	6.6%
-NPL Credit Card (%)	1.3%	1.4%	5.6%
-NPL Personal Loan (%)	2.7%	2.6%	8.5%
Allowance for Expected Credit Loss to Total Receivables (%)	8.2%	8.3%	10.4%
NPL Coverage Ratio (%)	460.4%	452.0%	157.5%

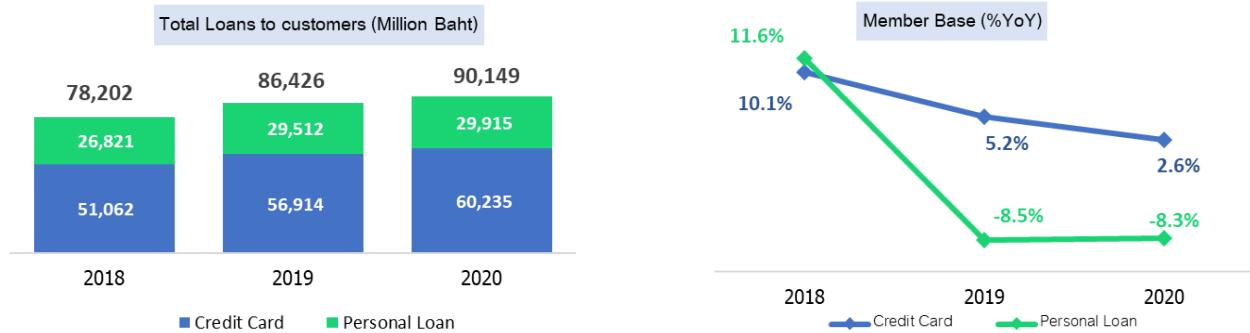
Revenue and Expense

- Total revenue for 2020 was 22,056 MB, down by -2.5% compared to the same period of last year. Interest income from credit card receivables and personal loan receivables increased by 5.7% (yoY) and 2.8% (yoY) respectively, yet at a slower pace as a result of the COVID-19 pandemic, together with the impact from the reduction of interest rate ceiling following the Bank of Thailand's debt relief measure. Meanwhile, fee income (excluding credit usage fee) contracted at -11.0% (yoY) because of the decline in fee income from interchange fee, fee income from cash withdrawal, and fee income from merchant's acquiring business.
- Total expense for this year equaled to 15,400 MB, comprising of 7,260 MB from administrative expense, 6,605 MB from expected credit loss, and 1,534 MB from financial expense.
- Administrative expense was down by -6.0% (yoY) due to the decline in both transaction volumes and marketing activities.
- Expected credit loss valued 6,605 MB in total, up 2.7% (yoY), consisting of 4,920 MB of bad debts and 1,685 MB of doubtful accounts.

(Unit : Million Baht)	Consolidated Y2020 (TFRS9)	Consolidated 4Q2020 (TFRS9)	Consolidated 3Q2020 (TFRS9)	Consolidated 2Q2020 (TFRS9)	Consolidated 1Q2020 (TFRS9)
Expected Credit Loss	6,605	1,511	1,703	2,084	1,308
(Bad Debt & Doubtful Accounts)					
- Bad Debt	4,920	1,186	3,358	66	310
- Doubtful Accounts (Reversal)	1,685	324	(1,655)	2,018	998

Member and Loan quality

- Member base stayed approximately the same. At the end of December 2020, the Company had total members of 3.4 million accounts, comprising of 2,575,684 credit cards (up 2.6% yoy) and 814,329 personal loan accounts (including Circle Loan and Self-employed loan, down -8.3% yoy from non-active accounts closing during the past period).



- Total loans grew 4.3% (oy). The Company's loans totaled 90,149 MB. Once the allowance for expected credit loss of 7,355 MB was deducted, the Company's net loans valued 82,794 MB in total.

(Unit : Million Baht)	Consolidated Financial Statement		
	As at December 31, 2020		
	Credit Card	Personal Loan	Total
Stage 1	53,402	23,618	77,020
Stage 2	5,797	5,192	10,989
Stage 3	791	807	1,598
Total loans to customers	59,990	29,617	89,607
<u>Add</u> Accrued interest receivables and undue interest receivables, net	245	298	543
Total loan to customers and accrued interest receivables	60,235	29,915	90,149
<u>Less</u> Allowance for expected credit loss	4,218	3,138	7,355
Total loans to customers and accrued interest receivables, net	56,017	26,777	82,794

Remark: The numbers in the above table are estimated from the unreviewed financial statements. The full information will be available in the notes to financial statements for the Year 2020, which will be released in February 2021.

- Change in allowance for expected credit loss as of December 31, 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	831	(582)	(249)	-	-
Changes in risk parameters	148	1,528	5,696	-	7,372
New financial assets purchased/acquisition	631	-	-	-	631
New financial assets derecognized	(165)	(500)	(732)	-	(1,397)
Written-off	-	-	(4,920)	-	(4,920)
Balance as at December 31, 2020	3,865	2,445	1,046	-	7,355

Remark: The numbers in the above table are estimated from the unreviewed financial statements. The full information will be available in the notes to financial statements for the Year 2020, which will be released in February 2021.

- At the end of 2020, the Company's Management Overlay was 1,000 MB to prepare to mitigate economic risk in the future.

Impacts from the COVID-19

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 measures 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. However, on January 12, 2021, the Bank of Thailand had announced another forbearance measure to aid retail clients for a new round of the domestic COVID-19 outbreak by extending relief period until June 30, 2021 in which the Company will later proceed accordingly.

For those who have participated in debt restructuring under the Company's debt relief program, since the beginning of the program, the debt obligation has accumulated to 911 MB (11,404 accounts). As of December 31, 2020, the total debt was amounted to 813 MB (10,812 accounts).



KTC's business direction for future growth

In 2020, the Company had faced sudden and severe changes caused by the COVID-19 crisis, along with the continued revisions in regulations from regulatory bodies, hence prompting the Company to vastly adapt itself in response to such changes. The Company currently operates 2 key businesses, credit card and personal loan, and had launched its new 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. Its marketing strategies will be focused on adopting online system, assigning specialized team to directly contact with target clients, together with adding client's comfort and satisfaction by applying client centric approach.

Under such current circumstance, for 2021 the Company, therefore, has adjusted its business plans for credit card business by aiming to closely coordinate with its business partners in focusing more on promoting marketing campaigns thru online channels. For personal loan business, the Company seeks to provide convenience for its clients with all utilized functions, 'Withdraw-Swipe-Pay Installments-Transfer', offered in one card. For 'KTC P Berm' covering auto title loan and motorcycle title loan, the Company plans to largely expand its market this year with loan growth target of 1,000 MB in which it's believed to be the root to support the Company's future business growth. In addition, the Company aims not just to manage high quality of its total receivable portfolio but also to focus on maintaining its current membership loyalty to KTC by continuously promoting marketing campaigns thru both online and offline.

The Company also has another ongoing project plan related to Payment System in which its information and operating procedures are still under study. Nonetheless, the management is convinced that this could become another new business which would help strengthening the Company's core businesses as well as creating opportunities for the Company to achieve growth with sustainability and stability in the long run.