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Mr. Chutidej Chayuti, Chief Finance Officer, “KTC” or Krungthai Card Public Company Limited, leader of the consumer finance business, organizes the “KTC FIT Talks 6: Delve into the effects of TFRS 9 implementation”,having Dr. Suphamit Techamontrikul, Partner of Deloitte Touche Tohmatsu Jaiyos Audit Company Limited, as a guest speaker, to foster proper knowledge and understanding about Thai financial institutions’ reaction including changes, risks, and related effects when the Thai Financial Reporting Standards: TFRS 9 came into implementation on January 1, 2020. As stated by Mr. Chutidej, KTC asserts that the TFRS 9 standard has caused changes in its financial report; however, there are no changes in terms of actual business operations. The event recently took place at the Meeting Room on the 14th floor of the UBC II Building. The event was also streamed on Facebook Live on the #KtcCsrClub page.

Dr. Suphamit gave an overview of the TFRS 9 standard, “TFRS 9 is the 9th financial reporting standard for financial instruments used in accounting for PAEs: Publicly Accountable Entities including public companies, businesses that need to mobilize large funds by issuing debt securities, equity securities, or warrants, such as financial institutions, securities companies, mutual funds, and more, including businesses that are in the process listing its securities in the stock market. The TFRS 9 standard has been enforced in Thailand since January 1, 2020.”

“The TFRS 9 standard has changed the principles in terms of classification, measurement, and impairment of financial instruments. Its highlight is holding reserves for possible loss of assets and contingencies, for instance, loans, investments in debt securities, financial guarantee contracts, and

unused credit lines, based off of the previous concept that allocates reserves from incurred loss as contingency for expected loss: EL. The reserve will reflect credit risks throughout the duration for the debtor. The standard requires a review of former, current and forward-looking information, and considers reserve funds differently according to debtors' status or stages."

Stage 1 includes financial instruments that have not had changes in credit risk since initial recognition. Allocate allowances based on 1-year expected losses.

Stage 2 includes financial instruments that have had a significant increase in credit risk.

Stage 3 includes non-performing loan: NPL. Allocate allowances based on lifetime expected losses, which will allow financial institutions to recognize reserves more in a timely manner due to changes in debtors' status, and financial statements reflect current and true status.

"The presentation of financial statements will be presented in a new manner in accordance with guidelines for classification and changing values, including the addition of some items, such as financial assets, and liabilities that are measured at fair value through PL (FVTPL). Financial statements will experience a few changes, such as gains (losses) from the measurement of different financial instruments. through FVTPL or Fair Value Through Other Comprehensive Income (FVOCI) and expected credit losses. This change will help the users of these financial statements understand the business model, and the purpose of holding business assets; users will recognise gains or losses caused by changes in value in the income statement (FVTPL) if the objective of holding assets is for the purpose of short-term profits. Whereas, if users hold business assets with the objective for cash flows and future sales, users will recognize gains or losses from changes in value in other comprehensive income statements (FVOCI), however, if assets are only held for cash flow as agreed, the value will be measured using the amortized cost method with reserve allocation as aforementioned. Additionally, there will also be changes for certain financial ratios. For example, loan money in stage 2 may have a ratio greater than the original Special Mention (SM) ratio due to a wider debt-counting range, while the Net Interest Margin (NIM) may be wider but not as much because of the recognition of interest income from the expected return of NPL receivables."

Mr. Chutidej states regarding the impacts of TFRS 9 on KTC, "The implementation of the TFRS 9 financial reporting standard on KTC's financial statements with an accounting period from January 1, 2020 onwards, will cause changes in the reporting of financial numbers rather than the actual business operation. The most change will arise from the write-off methods that are stricter than the previous standard. Financial reports according to the TFRS 9 standard will be different in the following four areas:

1. Changes in write-off and non-performing loans (NPL) or debtors the are 90 days past due. The process of write-offs will be slower due to bad debts written-off for tax purposes will not be excluded from the report until it is proven that the debt is no longer able to be collected. Consequently, non-performing loans (NPL) based on the new TFRS 9 standard are comparable to write off + NPL in accordance with the old standards. For instance, Company write off its debts around 7-8 percent annually with NPL remaining around 1 percent, but under TFRS 9, the company will report around 8-9 percent, with a higher displayed NPL rate according to new standards.

2. Changes in NPL recording and key financial indicators. Reported NPL under the TFRS 9 standard will increase in amount, which will cause related ratios to change, including allowance for doubtful accounts to total portfolio (Allowance/Port), allowance for doubtful accounts to debtors over 90 Days (NPL Coverage). For instance, under the new standard, the ratio of Allowance/Port according to new base numbers may be approximately 9 to 11 percent, and NPL Coverage around 100 to 200 percent. The estimation of these ratios can be done more clearly when the TFRS 9 standard is fully

implemented.

3. Changes in revenue recording. Under the new TFRS 9 standard, businesses remain required to recognize interest income gained from NPL until it is written off as bad debts despite being in Stage 3.

4. Increased accounting profit recording. The TFRS 9 standard requires companies to set aside reserves for NPL for both principal and interest in amounts calculated from the ECL Model (Expected Credit Loss Model), and this balance is not a full 100 percent reserve as before. With the TFRS 9 standard, in the case where there is a difference in interest income and reserves an interest that is less than 100 percent, that difference will be recognized in the financial statement, resulting in increased accounting profits.

The allowance for doubtful accounts as of December 31, 2019, resulted in a certain amount of excess after calculated according to the ECL Model. As a result, the company's management has considered additional management overlay as stipulated in the TFRS 9 standard. This will not cause any excess reserves with the adoption of the TFRS 9 standard.

As of December 31, 2019, KTC has reported the financial result as follows: KTC has a net profit of 5.524 billion with a total receivables of 85.834 billion. Membership base 3.4 million accounts, comprising of 2,510,914 credit cards, with credit card receivable of 56.653 billion. Total NPL at 1.06 percent. NPL for credit cards is 0.93 percent. Personal loans numbered 888,342 accounts. Personal loan receivable amounted to 28.933 billion and NPL for the personal loan business total 0.92 percent.