



## Management Discussion and Analysis for 1<sup>st</sup> Quarter, 2018

This paper describes changes in the financial statements (unreviewed)

### Performance overview for the 1<sup>st</sup> quarter, 2018

The first quarter result showed strong growth in both revenue and profit (yoy), despite the portfolio growth that decelerated due to higher competition and regulatory change. Since the portfolio growth declined from the 11% (yoy) growth in 1Q17 to 6% (yoy) growth in 1Q18, provision requirement reduced as a result. Profitability was achieved by higher bad debt recovery, lower financial expense, lower provision, and revenue growth that outpaced expenses. Performance highlights in the first quarter are as follows:

- Net profit was 1,209 MB increased 65% from 733 MB in the first quarter of 2017.
- In 2018 the company will face the full effect of the credit card interest reduction from 20% to 18% for the entire year, consequently interest income growth declined from 13% in the first quarter of 2017 to 3% this quarter. However, the company expanded its member base, increased total receivables, and increased fee income (15 % yoy); resulting in a total revenue of 5,108 MB, 10% higher than the same period of the previous year.
- Cost to income ratio dropped to 35.5% compared to the 36.2% of the same period prior year.
- In the first two months of 2018 KTC card spending growth was 7.9%, grew slower than the industry's growth of 9.9%. Merchant volume grew 24.9% to 13,195 MB, due to the expansion on merchants outlets to 33,154 compared to 30,060 outlets in the first quarter of 2017.
- Total receivables increase 6% yoy to 70,162 MB, consisted of total credit card receivables that increased 5% from 43,257 MB to 45,317 MB, and total personal loan receivables that increased 10% from 22,158 MB to 24,469 MB in the first quarter of 2018.
- Net interest margin in the first quarter of 2018 was 15.08% dropped from 15.56% in the first quarter of the previous year due to the reduction of the average interest received that declined from 18.77% in the first quarter of the previous year to 18.10% in the first quarter of 2018; although the financial expense was bought down from 3.21% to 3.02%.
- KTC continued to maintain control of the portfolio quality, proven by the total portfolio NPL of 1.34% a similar level to 1.32% by the end of 2017, but decreased significantly from the 1.65% level in the first quarter of 2017.

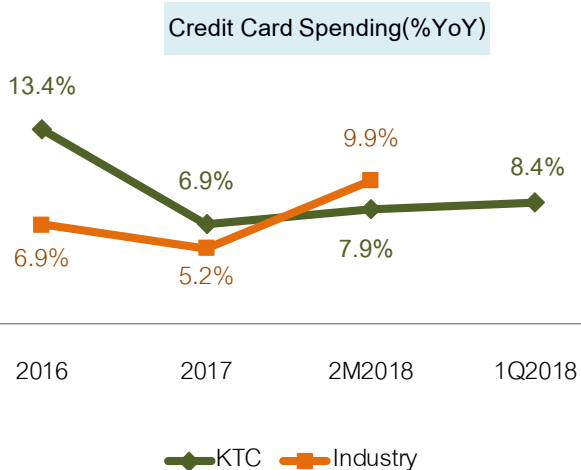
Profit grew 65%(yoy)

Operating Result (Unit: Baht Million)	1Q18	1Q17	Y-Y(%)
Total Revenue	5,108	4,633	10%
- Bad debt recovery	838	638	31%
Administrative Expense	1,811	1,678	8%
Financial Cost	388	400	(3%)
Bad debt and doubtful	1,404	1,640	(14%)
- Bad debt	1,534	1,580	(3%)
- Doubtful accounts	(130)	59	(320%)
Profit Before Tax	1,506	916	64%
Income Tax Expense	(297)	(183)	62%
Net Profit	1,209	733	65%

- Net profit in the first quarter of 2018 was 1,209 MB, increased 65% yoy as result of revenue generated from the personal loan business, higher bad debt recovery, lower financial expense and provision; meanwhile administrative expense grew at a lower rate than the revenue growth.
- Total revenue in the first quarter of 2018 grew 10% due to; 14% yoy increased in personal loan interest income, 15% yoy fee income (excluded credit usage), and 31% yoy increased in bad debt recovery, while credit card interest income declined 7% yoy.
- In the first quarter, administrative expense increased 8% yoy to 1,811 MB contributed mostly by; 13% yoy higher fee

expenses (increased merchant outlets, and outsourced collection fee), 5% yoy increased in personnel expense, 12% yoy increase in other expense, 6% yoy decline in marketing expense (lower card acquisition than anticipated), 14% yoy decline in bad debt and doubtful account (slower portfolio growth required no provision increment), and 3% lower financial expenses (the company replaced the expired debts with longer tenure and lower rates). Since the growth in revenue outweighed the growth in expense, the company's profitability was much higher than the first quarter of 2017.

Credit card spending grew at a declining rate

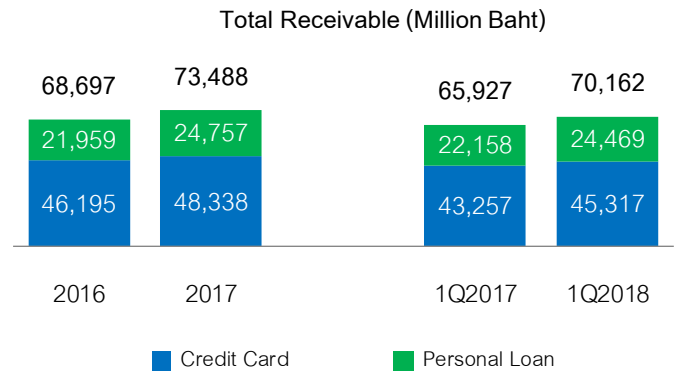


- Credit card spending in the first 2 months grew slower than the industry. KTC credit card spending grew 7.9% while the industry credit card spending grew 9.9% in the first two month of 2018; due to the decline in credit card receivables growth. In monthly terms the industry growth in January and February was 11.1% and 8.6%, while KTC credit card spending growth was 9.8% and 5.9% respectively. In March KTC's credit card spending was 9.2%, consequently the company's credit card spending growth in the first quarter of 2018 was 8.4%.

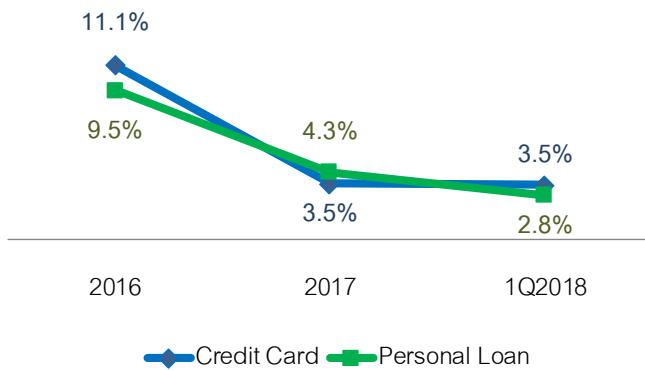


Portfolio quality

- Total receivables grew 6% to 70,162 MB, consisted of 45,317 MB total credit card receivables (5% yoy) and 24,469 MB total personal loan receivables (10% yoy). Once the 5,570 MB provision for doubtful account was deducted, total net receivables was 64,592 MB of which 42,137 MB was credit card net receivables and 22,315 MB was personal loan net receivables.

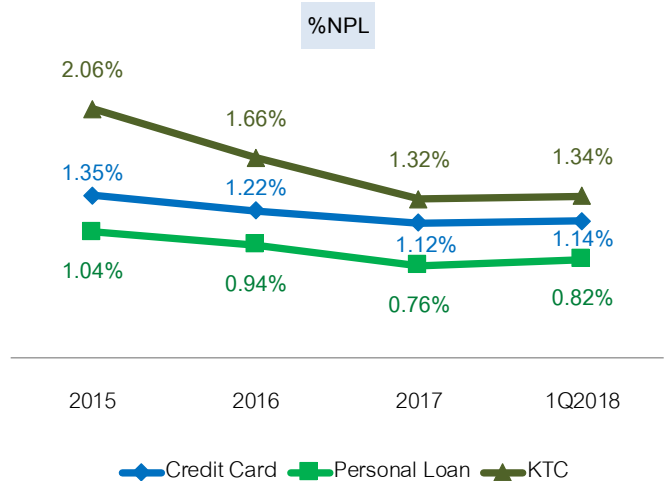


Member Base (%YoY)



- Member base grew 3.3% yoy. By the end of March 2018, KTC total member base was 3.1 million accounts, consisted of 2,207,773 credit cards (3.5% yoy growth) and 857,613 personal loan accounts (2.8% yoy growth).

- NPL of credit card and personal loan increased slightly. The company continuously emphasized on portfolio quality, total portfolio NPL was 1.34% declined from the 1.65% in same period of prior year; but increased slightly from the end of 2017 which was at 1.32%. Credit card and personal loan NPL in the first quarter was 1.14% and 0.82% respectively.



2018 outlook

The strategy for 2018 was to increase credit card spending no less than 15%, expand total portfolio at least 10%, and control NPL at the same level of 2017; therefore, the company expect to profit higher than 2017.