



## Management Discussion and Analysis for the year 2018 period ended December 31, 2018

This paper describes changes in the financial statements (unaudited)

### Company's performance overview for year 2018

For year 2018, KTC had succeeded its performance according to its management plans by attaining sustainable income growth and higher profit compared to last year. This was mainly resulted from not only the continuously growing in credit card spending but also the ongoing expansion in total receivables from both credit card and personal loan businesses, together with the continuing growth in the company's member base and its capability in maintaining low level of its NPL. KTC's performance overview for year 2018 can be summarized as the followings.

- Total net profit was 5,140 MB, a growth of 56%, compared to that of last year at 3,304 MB.
- Total revenue in 2018 grew at 9% (yoy), a slower pace compared to that of last year at 11% (yoy). Although member base in credit card business continued to expand, its interest income was slightly down at 1% (yoy) as a result of the decline in the interest rate charged in credit card from 20% to 18%. However, interest income from personal loan business still grew significantly at 13% (yoy). Thus, along with constant growth in total receivables, and steady increase in fee income and bad debts recovery; the company's total revenue in 2018 amounted to 21,198 MB, higher from 19,525 MB in 2017.
- Cost to income ratio was 35.5%, down from 36.6% compared to the same period of the previous year.
- For the first 11 months of 2018, KTC's credit card spending grew at 9.1% while that of industry grew at 10.6%. The company's merchant volume grew at 10.1%, amounted to 85,732 MB, with merchant outlets increased from 32,875 to 36,837.
- Total receivables grew at 6% compared to the same period of last year or amounted to 78,202 MB. Credit card receivables increased from 48,338 MB to 51,062 MB (up 6% yoy) and personal loan receivables increased from 24,757 MB to 26,821 MB (up 8% yoy).
- Net interest margin at the end of 2018 was at 15.10%, almost unchanged from that of 2017 at 15.13%. This change in the net interest margin was due to the decline in cost of fund to 2.89% from 3.12% was almost offset by the decrease in average interest received to 17.99% from 18.25%.
- Total receivables portfolio has been consistently well managed. The company's total NPL stood at 1.14%, down from 1.32% at the end of year 2017.
- The company's dividend policy is to pay no less than 40 percent of its net profit after the deduction of income tax and appropriation of legal reserve.

### Net profit grew at 56% (yoy)

- KTC's net operating profit for 2018 amounted to 5,140 MB, up 56%. This was due to the company's capabilities in generating sustainable income from its main businesses both credit card and personal loan; in managing effective funding, thus continuing low funding cost; and in constantly improving work efficiency, therefore sustaining well managed of total administrative expense. Income from bad debts recovery also continued to increase. And, as a result of high quality of receivables portfolio, total amount of bad debts and doubtful accounts was down from last year. All these positive factors had contributed to the company's sustainable profit growth.

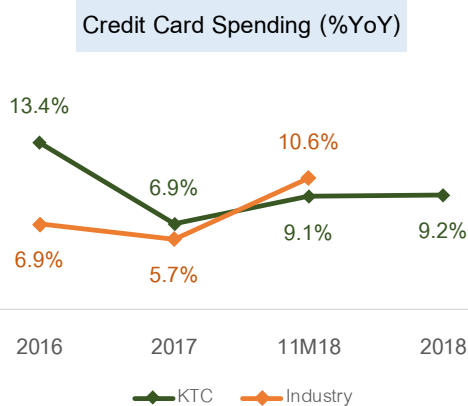
- Total revenue for 2018 increased to 21,198 MB. Of its total, credit card interest income, personal loan interest income, total fee income and other incomes were accounted for 27%, 32%, 23% and 18% respectively. Total revenue was contributed by the decrease in credit card interest income of 1% (yoy), the increase in personal loan interest income of 13% (yoy) and the increase in fee income (excluding credit usage fee) of 13% (yoy). With respect to fee income, interchange fee, merchant discounts fee and cash advance fee were up 34%, 8% and 4% respectively whereas collection fee was down at 5%. In term of other revenues, 88% of those were mainly from bad debt recovery.

(Unit: Baht Million)	2018	2017	Y-Y(%)
Total Revenue	21,198	19,525	9%
- Bad debt recovery	3,342	2,855	17%
Administrative Expense	7,524	7,143	5%
Financial Cost	1,555	1,629	(4%)
Bad Debt and Doubtful Accounts	5,703	6,627	(14%)
- Bad Debt	5,914	6,323	(6%)
- Doubtful Accounts	(211)	303	(170%)
Profit Before Tax	6,416	4,127	55%
Income Tax Expense	(1,277)	(822)	55%
Net Profit (Loss)	5,140	3,304	56%
other comprehensive income for	1	(18)	(108%)
Total Comprehensive income	5,141	3,287	56%

- Administrative expense in 2018 was at 7.524 MB, slightly up 5% (yoy) from that of 2017 which grew at 3% (yoy). This was mainly caused by the rise in marketing expense of 6% (yoy) due to new member acquisition from both credit card and personal loan businesses, together with continued marketing campaigns to promote credit card spending and cash advance withdrawal. Furthermore, not only fee expense was higher (up 5 % yoy) from increased number of transactions and outsourced collection fee but also were personnel expense (up 6% yoy), and other administrative expenses (up 4%).

Nonetheless, because of its high quality portfolio, the company was able to lower its bad debts and doubtful accounts by 14% (yoy) from its decrease in write-offs and provisions. The company's cost of funds was also dropped to 4% (yoy) due to effective funding. Consequently, with its sustainable income growth, its shrinking expenses from the improvement in its working process and its ability to well manage receivables portfolio quality at the appropriate and acceptable risk level, the company was able to continuously generate sustainable profits.

Net profit grew at 56% (yoy)

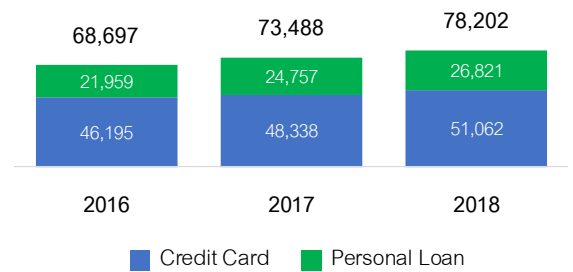


- The company's credit card credit card spending for 2018 started to improve compared to last year, with a growth of 9.2%, up from that of last year at 6.9%. When compared to the industry for the first 11 months of 2018, KTC's credit card spending grew at 9.1% while that of industry grew at 10.6%. By monthly comparison for the last quarter of this year, the industry's growth in October and November was 17.2% and 5.2% while that of KTC was 17.6% and 3.9% respectively. For the last quarter of 2018, the company's credit card spending grew at 10.5%.

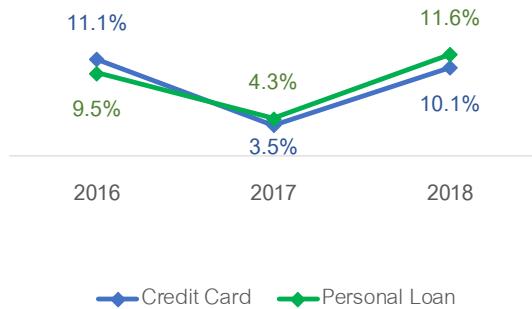
**Portfolio Quality**

- Total receivables grew 6% (YOY). The company had total receivables amounted to 78,202 MB, consisted of total credit card receivables amounted 51,062 MB (6% yoy) and total personal loans receivables amounted to 26,821 MB (8% yoy). Once the amount of 5,489 MB provision for doubtful accounts was deducted, the company's total net receivables was 72,713 MB, of which, 47,937 MB was credit cards net receivables and 24,644 MB was that of personal loans.

**Total Receivables (Million Baht)**



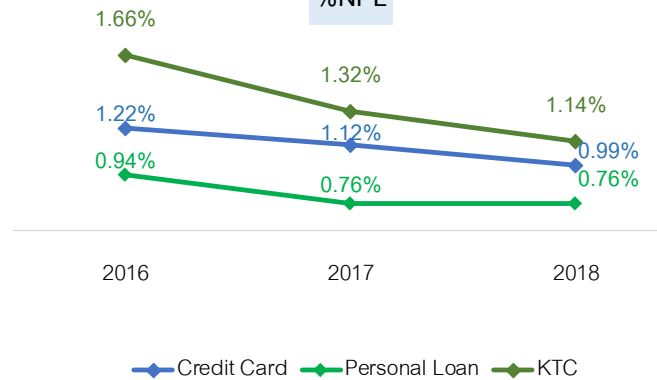
**Member Base (%YoY)**



- Member base grew 10.5% from last year. At the end of December 2018, the company had total member of 3.3 million accounts, with current membership consisting of total number of 2,387,659 credit cards (grew at 10.1%) and total number of 951,882 personal loan accounts (grew at 11.6%).

- NPL was well managed in both credit card and personal loan businesses. KTC has consistently attributed to the importance of the receivables portfolio's quality. The company has total NPL of 1.14%, down from that of 1.32% for the same period of last year in which NPL of credit cards was down from 1.12% to 0.99% whereas NPL of personal loans was at 0.76%, remained unchanged from the same period of last year.

**%NPL**



**2019 growth outlook**

KTC has laid out plans in 2019 to achieve a growth in credit card spending of no less than 15%, to attain the expansion in receivables portfolio of no less than 10%, and to maintain its low level of NPL at 1.14%, same level as in 2018. As a result, the company has estimated its net profit in 2019 to grow at 10% compared to 2018.