Management Discussion and Analysis for the year 2019 period ended December 31, 2019

This paper describes changes in the financial statements (unaudited)

2019 Performance Overview

The Thai economy in 2019 began to soften, after many reversals of economic forecasts starting with 3% at the beginning of the year. Eventually in December the Bank of Thailand reduced their economic forecast down to 2.5%. Global economic slowdown is persisted with the trade wars between USA and China continues and will affect the economic growth of both superpowers contesting in the trade war. These impacts will be an inevitable pressure to the Thai economy. Furthermore, the digital revolution as well as the changes of rules, laws, and regulations that nurtured the adoption of new technologies will be more clarified. Such technologies that improve and facilitate services will eventually transform the marketing campaigns.

In 2019 KTC net income increase 7.5%, and the company achieved its portfolio growth target at 9.8% reinforcing revenue growth from the previous year. Moreover, credit card receivables grew 10.9%, the highest growth in 3 years since January 2017. Credit card spending grew continuously from the third quarter up to the holiday season in the fourth quarter. Although personal loans portfolio growth was 7.9% below target, the company was able to increase its member base as well as maintaining NPL at the low level. Financial expense was maintained at the same level, while operating expense increased slightly at 2.6% where the highest increased was marketing expense at 11.5%. However, the growth in portfolio and membership bases resulted in higher allowance and bad debt, which leaded to higher bad debt and doubtful accounts. Overview of the company's 2019 performance were as follows:

- Net profit increased 7.5% from the same period of prior year from 5,140 MB to 5,524 MB.
- In the third and fourth quarter, total portfolio grew significantly thanks to the 10.9% credit card receivable growth which grew highest in the past 3 years since January of 2017. Interest income from credit card and personal loan business grew 7.5% and 7.9% respectively, as well as fee income and recovery income; consequently, total revenue was 22,625 MB increased from 21,198 MB in 2018. Total revenue in 2019 increased 6.7% (yoy).
- The company has effective cost management, one of our strength. Cost to income ratio was 34.1% down from 35.5% at the same period of last year, despite the increase of marketing expense in half year.
- Credit card spending in the 11 months of 2019 grew 10.6%, higher than the industry that grew 8.7%.
- Total receivable increases 9.8% from the same period of prior year or an amount of 85,834 MB; this comprised of credit card receivable which grew 10.9% from 51,062 MB to 56,653 MB, and personal loans receivable grew 7.9% from 26,821 MB to 28,933 MB.

- Interest margin at the end of 2019 was 15.0% from 15.1% in 2018, even though interest rate received decreased from 17.99% to 17.80%, the financial expense also lowered from 2.89% to 2.81%; hence interest rate margin remained relatively the same.
- Portfolio was well control; total portfolio NPL was 1.06% reduced from 1.14% at the end of 2018.
- 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.

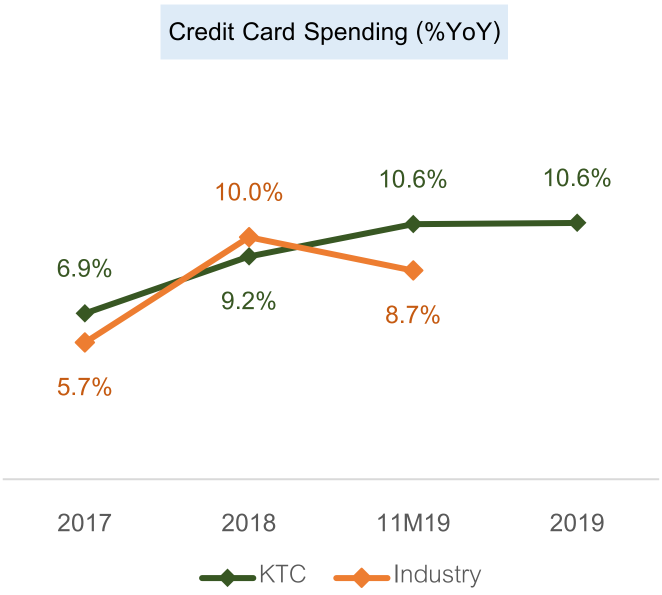
Total receivable grew, yet portfolio quality was well controlled.

- Net profit in 2019 was 5,524 MB increased 7.5% as a result of the company's ability to generate revenue from both credit card and personal loan, and recovery income remained at high level. Financial expense remained low thanks to the company's ability to managed source of funding. Meanwhile, the company's expense increased due to marketing and acquisition expense, which led to a fair growth of the company's portfolio. Provision and Bad debt increased as a consequence of the expanded portfolio, hence bad debt and doubtful account grew compared with the previous year. As a result, the company's profit grew slower than usual.
- Total revenue in 2019 increased to 22,625 MB contributed by credit card interest income, personal loan interest income, fee income, and other income of 27.6%, 32.4%, 22.2%, and 17.8% respectively. Revenue from credit card interest grew 7.5% (yoy), revenue from personal loan interest grew 7.9% (yoy), and revenue from fee income (excluding credit usage fee) increased 4.9% (yoy). Fee income comprised of interchange fee (increased 6.3%), merchant discount fee (increased 0.3%), and cash advance fee (increased 16.1%), and collection fee (decreased 3.6%). Other income mostly consisted of recovery income which amounts to 87.7% of other income.

(Unit: Baht Million)	Q4 2019	Q4 2018	Y-Y(%)	2019	2018	Y-Y(%)
Total Revenue	5,927	5,455	8.7%	22,625	21,198	6.7%
- *Bad debt recovery*	898	792	13.4%	3,496	3,342	4.6%
Administrative Expense	2,038	2,052	(0.7%)	7,722	7,524	2.6%
Financial Cost	399	388	3.0%	1,566	1,555	0.7%
Bad Debt and Doubtful Accounts	1,841	1,481	24.3%	6,433	5,703	12.8%
- Bad Debt	1,647	1,506	9.4%	6,290	5,914	6.4%
- Doubtful Accounts	193	(25)	(866%)	143	(211)	(167.9%)
Profit Before Tax	1,649	1,534	7.5%	6,904	6,416	7.6%
Income Tax Expense	330	306	8.0%	1,380	1,277	8.1%
Net Profit (Loss)	1,319	1,229	7.4%	5,524	5,140	7.5%
Profit (Loss) other comprehensive income for the year net of tax	(54)	1	(3994.6%)	(54)	1	(3994.6%)
Total Comprehensive income	1,265	1,230	2.9%	5,470	5,141	6.4%

In 2019, administrative expense was 7,722 MB, which increased 2.6% (yoy) mainly from the 11.5% (yoy) rise in marketing expense due to the member acquisition of both credit card and personal loans, as well as marketing campaign to promote credit card spending. Meanwhile personal expense, other administrative expense and fee expense increased slightly at 3.2%, 0.5%, and 0.3% respectively. At the meantime, bad debt and doubtful account increased 12.8% (yoy), from both bad debt write off and provisions; the remaining portfolio after written off will remain in good quality. However, financial expense remained the same as a result of the company's ability to control funding cost. Ultimately, the company generated profit continuously and expanding of customer bases is an investment for the company's sustainable future profit.

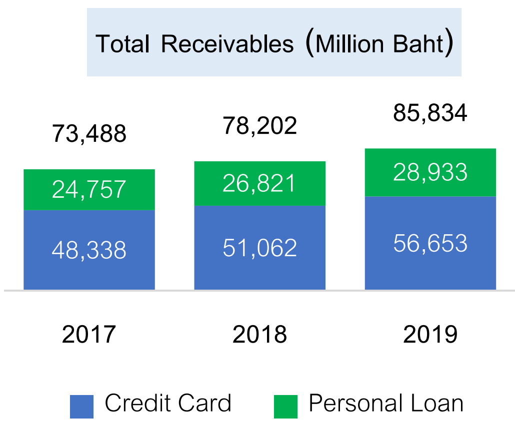
Credit card spending remained higher than the industry

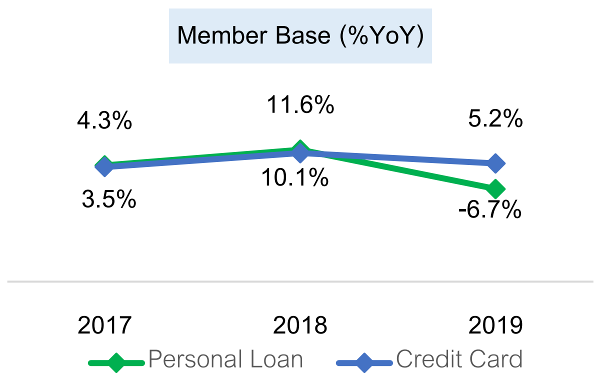


- **Credit card spending in 2019 improved compared to the previous year.** With the growth of 10.6%, it was higher than 9.2% in 2018. Compared to the industry in the 11 months of 2019, the company spending growth was 10.6% where the industry grew at 8.7%. The industry's monthly credit card spending growth in October and November was 5.7% and 7.7% respectively, while KTC monthly growth in October and November was 9.9% and 12.5% respectively. In the final quarter of 2019, the company's credit card spending growth was 11.1%.

Credit card portfolio grew higher than targeted at 10.9%, while personal loans portfolio grew at 7.9%

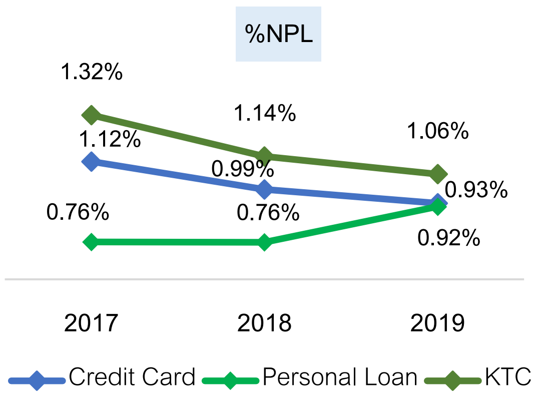
- **Total portfolio grew 9.8% (YoY).** The company's total receivable was 85,834 MB comprised of 56,653 MB (10.9% yoy) credit card receivable, and 28,933 MB (7.9% yoy) personal loan receivable. Once the 5,650 MB provision for doubtful account was deducted, the company's total net receivables was 80,183 MB, consisted of 53,254 MB credit card net receivables and 26,807 MB personal loans net receivables.





- **Member base grew 2% from 2018.** At the end of December 2019, the company reported a total member base of 3.40 MB accounts, comprised of 2,510,914 credit cards (grew 5.2%), and 888,342 personal loan accounts (decreased 6.7%) due to the purge of inactive accounts.

- **Maintained low NPL of both credit card and personal loan.** The company continues to prioritize on maintaining the quality of the portfolio, total NPL was 1.06% lower than 1.14% from the same period of last year. Credit card NPL decreased from 0.99% last year to 0.93% while personal loan NPL increased from 0.76% from last year to 0.92%.



Expected effect from the adoption of TFRS9: Financial instruments in 2020

The Thai federation of accounting professions released new financial reporting standards which was announced on the royal gazette and later came into effect on 1 January 2020. One of such standards was the TFRS9: financial instruments.

The effect from the adoption of the TFRS9 standard involved largely on the financial reporting aspect rather than that of the operational aspect. The most notable change was the bad debt write off which became more sophisticated than that of the previous standard. TFRS9 defined that bad debt write off can only be performed once the company can reliably determine that debt collection can no longer be made (referring to section 3.2 of the TFRS9: impairment of financial assets). Once the company written off bad debt to obtain tax benefit in accordance to the Thai ministerial regulations No. 186 BE 2534, the write off will not be recorded to the financial statements; and must wait until it is determined that collection cannot be made reliably before the write off are recognized on the accounting records.

According to TFRS9, financial reporting will be altered in the following aspects:

1. Bad debt that was written off for tax benefit will not be removed from the financial report until it is certain that collection cannot be reliably made. Therefore, NPL under the TFRS9 standard can be compared with write off + NPL under the old accounting standard. For instance, company A written off bad debt approximately 7-8% annually and was left with 1% NPL, under the TFRS9 standard company A will report NPL of approximately 8-9% which will be the new base for NPL reporting.
2. The new standard defined that companies continues to realize interest income from NPL until such loan are written off, despite being in stage 3.
3. TFRS9 specified that company must provide provision for NPL (both principle and interest) according to ECL (Expected Credit Loss Model) which is not 100% provision as the previous standard.
4. If there are differences in the interest income and provision of the interest portion, such difference must be realized in the income statement.
5. The NPL are reported differently from that of the previous standard, the related financial ratios such as allowance to portfolio, NPL coverage will change. Also, as the portfolio's provision was calculated with the ECL model, along with other changes from the new standard; financial ratios that rely on the provision figure will be difficult to forecast. Yet, the company believes that under the current circumstance, once the TFRS9 standard was applied to the company's results, the allowance to portfolio ratio would be approximately 9-11%, and NPL coverage would be around 100-200%. Once the TFRS9 is fully adopted such estimate of these ratios would be clearer.

With the doubtful accounts as of 31 December 2019, the ECL model calculation yield an excess amount. Consequently, the management setup an amount of management overlay in accordance to the TFRS9 standard to discharge the excess provision once TFRS9 was adopted.

The company will continue to provide financial report under both the old and new standard. The same financial report will be provided in the management report section of the MD&A for one year as comparison between the new and old standard, starting in the first quarter of 2020.

2020 outlook

2020 will be one of the most challenging years. The company anticipated significant pressure from the economic which will be higher than that of the past. Since KTC's strength is in the portfolio quality, low financial expense, as well as robust shareholder's equity; the company intended to focus even more on controlling the portfolio quality, despite profit growth will be pressured as a result.

Management intend to use this opportunity to increase credit card spending, member base, as well as receivables with sufficient and effective marketing campaigns in accord with the company's strategy.

The target for 2020 emerged from the pressure to achieve growth in: credit card spending, member base, and total portfolio while preserving the portfolio quality. Therefore, the goal of KTC's separated financial statements (credit card, personal loans, car for cash) is to obtain no less than 15% credit card spending growth, approximately 10% growth in total portfolio; Even though NPL will be monitored extensively, it may increase slightly. Moreover, net profit will be maintained no less than the current level.

Since the three new business which comprise of car title loan, Pico Finance, and Nano Finance are intended to be developed as a foundation for KTC's future; the operation was carried out with care. The implementation of new technologies as well as implementation of new work process are different from the company's existing methodology. Hence, the system test and eventual launched of these new businesses to the market are gradual and careful especially in the presence of the current economic climate. The company also have to evaluate credit risk between each and every test.

Thus, it is too soon to be able to give specific guidance for the three new business, despite the system test are on track. The company will update the status of the three new business regularly.