



บริษัท บัตรกรุงไทย จำกัด (มหาชน)

591 อาคารสมัยชาวนิช 2 ชั้น 14 ถนนสุขุมวิท 33 แขวงคลองตันเหนือ เขตวัฒนา กรุงเทพฯ 10110 โทร: +662 665 5000 โทรสาร: +662 828 5497

Krungthai Card Public Company Limited

591 United Business Centre II, 14th Fl., Sukhumvit 33 Rd., North Klongton, Wattana, Bangkok 10110 Thailand Tel: +662 665 5000 Fax: +662 828 5497

ทะเบียนเลขที่ 0107545000110

KTC

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August 10, 2017

To: The President of the Stock Exchange of Thailand
The Stock Exchange of Thailand

Subject: Operating result notification of the quarter ended June 30, 2017

Enclosure: Management Discussion and Analysis for the quarter ended June 30, 2017

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the year ended June 30, 2017, which were audited by Deloitte Touche Tohmatsu Jaiyos Company Limited, details enclosed. We would like to submit the corresponding Management Discussion and Analysis to the Stock Exchange of Thailand for the purpose of distributing to investors.

Please be informed accordingly

Respectfully yours,

Krungthai Card Public Company Limited

(Mr.Chutidej Chayuti)

Chief Financial Officer

Management Discussion and Analysis

Thai Economy and Consumer Finance Industry overview of Quarter 2 of 2017

The overall Thai economy continued to show strong growth contributed by the expansion of exports and the swift recovery of the tourism industry, which was in line with the improved global economy. While consumptions in the private sector increased from better agricultural incomes, labor income in the manufacturing sector is unpromising. Therefore, overall consumer purchasing power was weak. However, private investment recovered slowly and government spending remained the country's most important economic driving force. As a result in June, the Bank of Thailand had adjusted its overall economic outlook for the year 2017 from 3.4% growth to 3.5%.

The industry's total credit card receivable at the end of June 2017 was 336,386 MB, a 7% growth from the same period of previous year. Credit card spending was 733,900 MB, a 3% growth and personal loan receivable was 335,964 MB, or a 3% growth.

Industry Comparison	2015	2016	1H2017
Credit Card Receivable (MB)	336,641	358,413	336,386
<i>Growth (%)</i>	5.8%	6.5%	6.6%
KTC credit card receivables to industry	12.3%	12.9%	13.2%
Number of Cards (Cards)	21,762,273	23,151,164	19,848,871
<i>Growth (%)</i>	7.2%	6.4%	-12.1%
Credit card spending (MB)	1,393,121	1,488,408	733,900
<i>Growth (%)</i>	6.6%	6.8%	2.7%
KTC credit card spending to industry	10.5%	11.1%	11.5%
Personal Loan receivables (MB)	324,667	338,117	335,964
<i>Growth (%)</i>	3.8%	4.1%	2.7%
KTC Personal Loan receivables to industry	5.7%	6.5%	6.7%

Source: Bank of Thailand

Overview of KTC's Performance during Quarter 2 and First Half of 2017

During second quarter of 2017, the Company continued to generate income and profited from higher credit card spending, growth in credit card and personal loan receivables, while maintain NPL ratio at the same level. KTC's performance overview can be summarized as follow:

- In the first half of 2017, the Company reported a 25% increased net income of 1,519 MB, or earnings per share of 5.89 Baht; the net income for the second quarter was 787 MB.

- In the first half of 2017 KTC credit card spending expanded 6.8%, with growth higher than the industry's 2.7% growth. This was driven by the Company's credit card spending higher year on year growth than the industry in every month of 2017.
- Total receivable grew 10% yoy. Credit card receivables increased from 41,102 MB to 44,339 MB and personal loan receivables increased from 19,597 MB to 22,409 MB.
- Total revenue in the first half of 2017 expanded to 9,453 MB (12% yoy), resulting from 13% yoy increases in interest income (including credit usage fee) and 11% yoy increased fee income.
- Bad debt recovery amounted to 1,321 MB, an increase of 14% yoy, in the first half of 2017.
- Net interest margin in the second quarter and the first half of 2017 were at 15.9% and 15.6%, respectively, resulted from higher average interest received rate and lower cost of funds compared to the same period of the previous year.
- Total portfolio NPL continued to decrease to 1.57% from 1.66% at the end of 2016, and from 1.91% in the second quarter of 2016.
- Total bad debt and doubtful accounts was 3,316 MB, a 19% increase from the same period of prior year, as a result of write-offs and provision that increased with portfolio's growth. Allowance for doubtful accounts to NPL remained high at 528%.
- The operating cost to income was 27.3%, dropped from 29.2% in the same period of prior year and from 28.5% at the end of 2016.

Net Profit increased 25% in the First Half of 2017

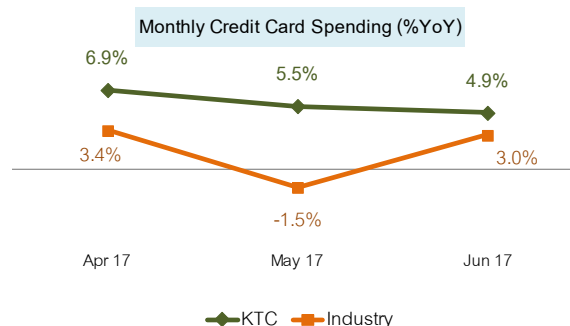
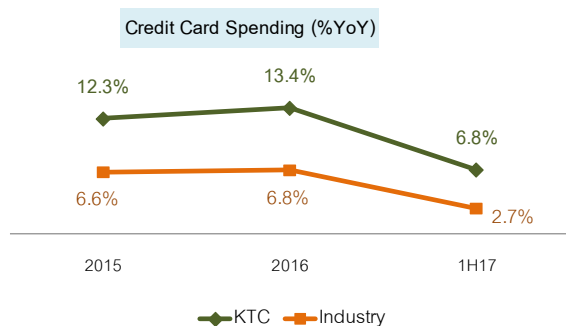
- The Company's net profit in the first half of 2017 was 1,519 MB, a 25% increase due to 12% yoy higher income growth compared to the 9% yoy increased in total expense.
- The net profit in 2Q2017 was 787 MB increased 7% from the previous quarter and 36% from the same period of last year (up from 580 MB). The increase profit resulted from higher income growth (12% yoy) than total expense growth (8% yoy), write-offs, and increased provision of doubtful accounts that increases with the portfolio's growth.

Operating Result (unit: million Baht)	2Q2017	2Q2016	Growth		1H2017	1H2016	Growth Y-Y(%)
			Y-Y(%)	Q-Q(%)			
Total Revenue	4,820	4,285	12%	4%	9,453	8,437	12%
- <i>Bad debt Recovery</i>	683	575	19%	7%	1,321	1,156	14%
Administrative Expenses	1,751	1,705	3%	4%	3,429	3,357	2%
Financial Expenses	406	375	8%	1%	806	758	6%
Bad Debts and Doubtful	1,676	1,480	13%	2%	3,316	2,797	19%
Profit (Loss) before tax	986	726	36%	8%	1,902	1,525	25%
Income tax – Income	(200)	(146)	37%	9%	(383)	(311)	23%
Net Profit (Loss)	787	580	36%	7%	1,519	1,215	25%

- Total revenue was 4,820 MB in 2Q2017 contributed by 10% growth of total receivables portfolio. Interest income (including credit usage fee) grew 13%, and fee income grew 9% year on year.
- Administrative expense was 1,751 MB increase a slight increase of 3%, resulted generally from the significant decrease in marketing expense. While personnel expense, fee expense, and other administrative expense rose incrementally. Bad debts and doubtful accounts grew 13% yoy.
- Although financial expense increased 8% but due to increase in borrowing amount, cost of funds decreased from 3.30% in second quarter of the previous year to 3.23% (the average cost of funds in the first half of 2017 was 3.20%). The aforementioned factors resulted in the Company's continued profitability.

KTC Credit Card Spending was higher than the Industry in the First Half of 2017

- KTC credit card spending in the first half of 2017 grew 6.8%, outperforming the industry. The industry's growth in April, May, and June was 3.4%, -1.5%, and 3.0%, while KTC was 6.9%, 5.5%, and 4.9%, respectively. As a result, KTC credit card spending growth in the first half of 2017 was 6.8%, which outperformed the industry's growth of 2.7%.



Interest income grew from both main businesses

- Total revenue increased 12%. Total revenue in the second quarter of 2017 was 4,820 MB, contributed mainly by 2,980 MB interest income (including credit usage fee), 1,040 MB fee income, and 799 MB of other income with a proportion of 62%, 22%, and 16% of total income respectively. Other income was mostly from bad debt recovery.
- Interest income increased from receivables of both businesses. Portfolio of total credit card and personal loan increased 8% and 14%, respectively. Interest income (including credit usage fee) of credit card grew 8% and of personal loan grew 19%.
- Net interest margin increased from lower cost of funds. The Company's cost of funds in the second quarter was 3.23% (the half year average was 3.20%), decreased from 3.30% compared to the same period of prior year. While the average interest receive rate increased from 18.90% to 19.08%. As a result, the net interest margin increased from 15.60% to 15.85%.

The company's Financial Statements (MB)	2Q2017	% of Total Revenue	2Q2016	% of Total Revenue	Growth (%)
Total interest income including credit usage fee	2,980	62%	2,641	62%	13%
- Credit card receivables	1,512	31%	1,402	33%	8%
- Personal Loan receivables	1,458	30%	1,227	29%	19%
- Other receivables (Circle Loans / Self-employ)	10	0.2%	12	0.3%	-16%
Fee income (excluding credit usage fee)	1,040	22%	951	22%	9%
Financial Cost	405	8%	375	9%	8%
Net Interest Margin	15.85%		15.60%		

- Higher fee income. Fee income (excluding credit usage fee) grew 9% yoy to 1,040 MB. The increase was contributed by the growth of merchant discounts (fee received from merchants who are members of KTC), collection fee, and interchange fee (fee from transactions between banks/card issuers and banks/payment service provider). The cash advance fee, however, remain at a similar level compared to the previous quarter.

Expense increased with the growing portfolio

- Total expense increased from the growing bad debts and doubtful accounts. The Company's total expense (excluding income tax) in the second quarter was 3,833 MB, increased by 8% from 3,559 MB the same period of prior year. Bad debts and doubtful accounts increased 13%, financial expense increased 8%, and total administrative expense increased 3%.

- Cost to income ratio decreased. Cost to income in the second quarter was 36.3% down from the same period of prior year which was 39.8% due to reduced marketing expense, despite higher fee expense as a result of outsourced collection.

The company's Financial Statements (MB)	2Q2017	% of Total Revenue	2Q2016	% of Total Revenue	Growth (%)
Personnel Expense	550	11%	512	12%	7%
Marketing Expense	219	5%	266	6%	-18%
Fees	555	12%	529	12%	5%
Other Administrative Expense	427	9%	398	9%	7%
Total Administrative Expense	1,751	36%	1,705	40%	3%

- Operating cost to income remained at acceptable level. Considering only the operating cost, excluding marketing expense and interchange fee, operating cost to income ratio was 27.3%, lower than the same period of the previous year which was 29.4%. Since the company generated higher revenue than the operating cost.

Portfolio Quality

- Receivables portfolio grew 10%. Total receivable in the second quarter was 67,228 MB, consisted of 44,339 MB credit card receivables and 22,409 personal loan receivables. Once the 5,583 MB of doubtful accounts was deducted, total net receivable was 61,645 MB. Net credit card receivable was 40,991 MB, which accounted for 66% of total net receivables portfolio. Personal loan receivables portfolio was 20,503 MB.
- Member base expanded 9% yoy. The company's total member was 3 million accounts by the end of June, grew 9% from 2.8 million accounts in the second quarter of 2016. Currently there are 2,180,786 credit card holders (10% growth) and 850,383 personal loan accounts (8% growth).
- NPL continued to improve and provision for doubtful accounts remained high. The company continued to maintain good portfolio quality with total NPL of 1.57% in the first half of 2017, decreased from 1.91% in the same period of previous year. Credit card's NPL decreased to 1.22% from 1.37% and personal loan's NPL decreased to 0.88% from 1.04% resulted from higher provision and lower NPL. The allowance to NPL ratio increased to 528%, up from 439% in the same period of last year.

The company's Financial Statements (MB)	2Q2017	% of Total Revenue	2Q2016	% of Total Revenue	Growth (%)
Credit Card's bad debts and doubtful accounts	947	20%	836	20%	13%
Personal Loan's bad debts and doubtful	725	15%	640	15%	13%
Other Loan's bad debts and doubtful accounts*	4	0.1%	4	0.1%	8%
Total bad debts and doubtful accounts	1,676	35%	1,480	35%	13%

*Other loans include Circle Loan, KTC million, etc.

- Bad debts and doubtful accounts increased due to write-offs and portfolio growth. Bad debts and doubtful accounts increased to 1,676 MB in the second quarter up from 1,480 MB in the same period of prior year due 10% provision growth, while the portfolio quality continued to improve, and NPL amount lowered.

Financial position and source of fund

- The Company's assets in the second quarter were 66,166 MB, increased 10% yoy from 60,270 MB. The main income generating assets were 61,645 MB net receivables, or 93% of total assets, while the other 7% were cash, other receivables, deferred tax assets, and other assets.
- The Company's total borrowing in the second quarter was 49,548 MB, an 8% increase from the same period of prior year. The source of funds was both short-term and long-term. The 140 MB of the short-term borrowings were from related financial institutions and 5,123 MB are from other financial institutions. The long-term borrowings were from debentures of 44,285 MB with diverse sources from Thai commercial banks, securities companies, insurance companies, and various funds. At the end of June 2017, the Company's available credit line was 24,890 MB consisted of 18,030 MB from Krung Thai Bank and 6,860 MB from other commercial banks. The cost of funds by the end of the first half of 2017 decreased to 3.20% compared to the same period of last year. The Company's debt to equity ratio was at 5.12 times, which remained below the bond covenant at 10 times.

Impacts of the Bank of Thailand regulatory changes

According to the Bank of Thailand updated rules governing credit cards and personal loans to curb public overspending; summaries of the regulatory changes and the affects to the company are as follows:

	Current Regulation	New Regulation (Effective 1st September 2017)
Credit Card		
Credit card	THB 15,000	THB 15,000
Minimum income	20%	18%
Maximum Credit Line	≤ 5x	Income (new customer only) THB 15,000 – 29,999 ≤ 1.5 x THB 30,000 – 49,999 ≤ 3 x Over THB 50,000 ≤ 5 x
Personal Loan		
Interest rates and fees	28%	28%
Maximum Credit Line	≤ 5x	Income (new customer only) < 30,000 ≤ 1.5 x / no more than 3 institutions ≥ 30,000 ≤ 5 x / no institution limit

- The new credit limit for credit card and personal loans will come into effect for new applicants for the loans only. Consequently existing customer will be motivated to retain their credit limit resulting in a better portfolio quality
- Total portfolio growth may decline due to lower in credit limit for new applicants both credit card and personal loan.
- The ceiling for interest charged on credit-card loans will be reduced from the current 20% to 18% per year will impact only revenue from revolving portfolios which will affect a fraction of the total revenue.
- With the revised regulation only affecting new credit card and personal loan applicants, the total portfolio would improve in quality due to the inability to increase credit line and resulting in reduced provisioning of the portfolio.

In the first half of the year the company generated a satisfactory profit as a result of the portfolio that grew with quality, effective uses of marketing budget at a lower than expected amount along with higher net interest margin and decreased cost of fund. Although the company will be affected by the new regulation which will be in effect on September 1st 2017 KTC the company expects to deliver the 2017 profit as stated in our guide line of 10%.

KTC Financial Highlight

Financial Figures (Unit : Baht Million)	2Q2017	2Q2016	Growth (%)	1H2017	1H2016	Growth (%)
Total Revenue	4,820	4,285	12.5%	9,453	8,437	12.0%
Total Expense (Excluding Financial Cost)	3,427	3,185	7.6%	6,745	6,154	9.6%
Total Expense (Including Financial Cost)	3,833	3,559	7.7%	7,551	6,911	9.3%
Net Profit	787	580	35.7%	1,519	1,215	25.0%
Credit Card Net Receivables	40,992	38,024	7.8%	40,992	38,024	7.8%
Personal Loan Net Receivables	20,503	17,939	14.3%	20,503	17,939	14.3%
Other Net Receivables	150	167	-10.1%	150	167	-10.1%
Total Asset	66,166	60,270	9.8%	66,166	60,270	9.8%
Total Borrowings	49,548	45,754	8.3%	49,548	45,754	8.3%
Total Liabilities	55,357	51,160	8.2%	55,357	51,160	8.2%
Total Shareholders' Equity	10,810	9,110	18.7%	10,810	9,110	18.7%
Financial Ratio	2Q2017	2Q2016	Growth (%)	1H2017	1H2016	Growth (%)
Gross Profit Margin (%)	85.8%	85.6%	0.1%	85.6%	85.4%	0.3%
Net Profit Margin (%)	16.3%	13.5%	20.6%	16.1%	14.4%	11.6%
Interest Coverage Ratio (times)	3.4	2.9	16.8%	3.4	3.0	11.5%
Debt to Equity Ratio (times)	5.1	5.6	-8.8%	5.1	5.6	-8.8%
Return on Equity (%)	29.8%	26.0%	14.5%	28.8%	27.2%	5.6%
Return on Asset (%)	4.7%	3.9%	21.5%	4.5%	4.0%	12.0%
Allowance / Total Receivables (%)	8.3%	8.4%	-1.2%	8.3%	8.4%	-1.2%
Allowance / NPL (%)	528%	439%	20.3%	528%	439%	20.3%
Book Value (Baht)	41.9	35.3	18.7%	41.9	35.3	18.7%
Earnings per share (Baht)	3.05	2.25	35.6%	5.89	4.71	25.1%

*Other loans: Circle Loans, Self-employed Loans, and etc