



KTC

**บริษัท บัตรกรุงไทย จำกัด (มหาชน)**

591 อาคารสมัชชาวานิช 2 ชั้น 14 ถนนสุขุมวิท แขวงคลองตันเหนือ เขตวัฒนา กรุงเทพฯ 10110  
โทร: 02 123 5100 โทรสาร: 02 123 5190 ทะเบียนเลขที่ 0107545000110

**Krungthai Card Public Company Limited**

591 United Business Centre II, 14<sup>th</sup> Fl., Sukhumvit Rd., North Klongton, Wattana, Bangkok 10110 Thailand  
Tel: 02 123 5100 Fax: 02 123 5190 Reg. No. 0107545000110  
1016 / 2560

November 13, 2017

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

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

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

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the quarter ended September 30, 2017, which were reviewed 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

### Summary of Thai Economy and Overview of Consumer Finance Industry for Quarter 3 of 2017

The Thai economy continued to show strong growth particularly in the exports sector, which expanded more than estimated, and the tourism industry recovered from the improved global economy. However, despite the ongoing government stimulus, consumers spending remained cautious partly from weak agricultural income and weak factors supporting purchasing power; as a result private consumption grew slowly, hence consumer confidence dropped. Tourism and government spending continued to be the country's main economic driving force. With increasing positive outlook, the Bank of Thailand has adjusted GDP growth for 2017 to 3.8% (estimation as of September 2017) from previously estimation of 3.5%. GDP growth for 2018 was adjusted up to 3.8% as well.

As a result of the economic outlook, the industry's credit card receivable by the end of September 2017 was 342,710 MB; a growth of 7.7% which was higher than the 6.6% growth in same period of 2016. The industry's personal loan receivable in the nine months of 2017 increased 5.9% to 347,757 MB. The industry's credit card spending in the nine months of 2017 was 1,116,119 MB, grew 4.2% compared to the 7.1% growth in same period of 2016. Moreover, the bank of Thailand's revision of the credit card and personal loan regulations that limits credit line, which was effective on 1<sup>st</sup> September 2017 should affect the industry even more in the future.

Industry Comparison	2015	2016	9M2017
Credit Card Receivable (MB)	336,641	358,413	342,710
Growth (%)	5.8%	6.5%	7.7%
KTC credit card receivables to industry	12.3%	12.9%	12.9%
Number of Cards (Cards)	21,762,273	23,151,164	20,271,719
Growth (%)	7.2%	6.4%	1.3%
Credit card spending (MB)	1,393,121	1,488,408	1,116,119
Growth (%)	6.6%	6.8%	4.2%
KTC credit card spending to industry	10.5%	11.1%	11.4%
Personal Loan receivables (MB)	324,667	338,117	347,757
Growth (%)	3.8%	4.1%	5.9%
KTC Personal Loan receivables to industry	5.7%	6.5%	6.9%

Source: Bank of Thailand, KTC

## Overview of KTC's Performance during Quarter 3 of 2017

Although the Company faced challenges from higher degree of competition in the industry, as well as regulatory changes from the Bank of Thailand's in 3Q2017. KTC continued to generate income and profited from higher credit card spending, growth in credit card and personal loan receivables, and effective debt collection approach to maintain NPL level below the industry's. KTC's performance overview can be summarized as follow:

- The Company reported an increase in net income from 787 MB in 2Q2017 to 846 MB in 3Q2017, or an 8% qoq growth; and a 32% yoy growth from 640 MB in 3Q2016. Net profit for the nine months of 2017 was 2,365 MB contributed by the main businesses, well-managed operational expenses, and effective debt collection.
- KTC credit card spending expanded 7.1% in the nine months of 2017, which was higher than the industry's 4.2% growth. Although KTC credit card spending remains higher than the industry, the lower consumer's spending resulted in a slower growth.
- Total receivable grew 10% yoy. Credit card receivables increased from 41,325 MB to 44,219 MB and personal loan receivables from 20,294 MB up to 24,019 MB.
- In 3Q2017, total revenue grew 13% yoy to 4,968 MB contributed by 11% yoy increases in interest income (including credit usage fee), 11% yoy increase fee income, and 28% yoy increase bad debt recovery.
- Net interest margin in the third quarter and nine months of 2017 were at 15.9% and 15.6%, respectively. Average interest received were 19.2% and 18.8%; while costs of funds were 3.3% and 3.2%, respectively. The Company plans to maximize the benefits from the currently low costs.
- Total NPL portfolio continued to decrease in 3Q2017 to 1.46% from 1.86% of the same period last year.
- Total bad debt and doubtful accounts was 1,681 MB, increased by 11% from the same period of prior year, due to write-offs and provision that increased with portfolio's growth. In addition, a carefully constructed provisioning policy helped maintain a low probability of bad debt occurring. The ratio of allowance for doubtful accounts to NPL remained high at 565%.
- In the third quarter of 2017, the Company's operating cost to income ratio was 27.2% dropped from 28.8% from the same period of previous year due to the ability to control cost (excluding marketing expense) growth below net income growth.

### Net Profit increased 28% in the nine months of 2017

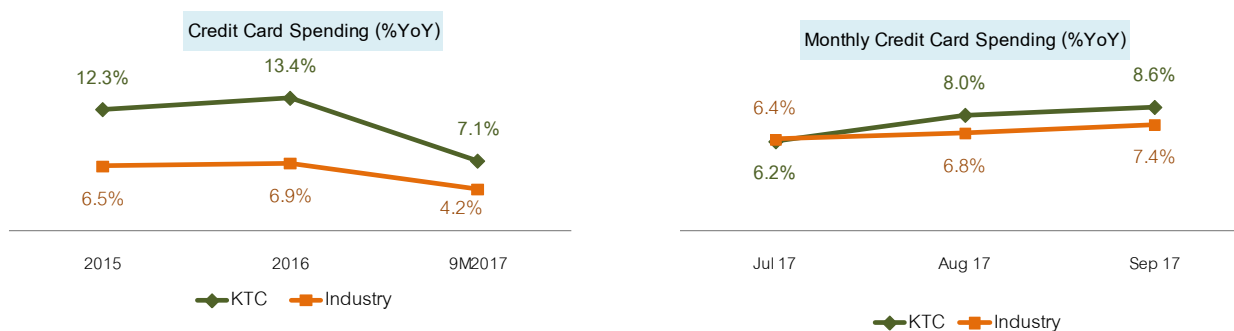
- The Company's net profit in the nine months of 2017 was 2,365 MB, increased 28%, contributed by higher nine-month income growth (12% yoy), quality of portfolio expansion, and ability to maintain low NPL level.
- The net profit in 3Q2017 was 846 MB increased 32% from 640 MB in 3Q2016. Resulted from higher income growth (13% yoy) than total expense growth 9% yoy (from outsourced collection fee, write-offs, and increased provision of doubtful accounts to comply with portfolio's growth).

Operating Result (unit: million Baht)	3Q2017	3Q2016	Growth		9M2017	9M2016	Growth
			Y-Y(%)	Y-Y(%)			Y-Y(%)
Total Revenue	4,968	4,403	3%	13%	14,421	12,840	12%
- Bad debt Recovery	767	600	12%	28%	2,088	1,756	19%
Administrative Expenses	1,813	1,727	4%	5%	5,242	5,084	3%
Financial Expenses	414	358	2%	16%	1,220	1,116	9%
Bad Debts and Doubtful Accounts	1,681	1,517	0.3%	11%	4,997	4,314	16%
Profit before tax	1,059	801	7%	32%	2,961	2,326	27%
Income tax expense	(213)	(161)	7%	32%	(596)	(472)	26%
<b>Net Profit</b>	<b>846</b>	<b>640</b>	<b>8%</b>	<b>32%</b>	<b>2,365</b>	<b>1,854</b>	<b>28%</b>

- The Company continued to generate profits in the third quarter with total revenue of 4,968 MB, increased 13% yoy from 4,403 MB in 3Q2016, contributed by interest income and fee income from the 2 main businesses, as well as high bad debt recovery rate. Administrative expense increased only 5% to 1,813 MB, a slight contributed mainly from outsourcing fee and other administrative expense.
- Bad debts and doubtful accounts increased 11% while financial expense rose 16%. Although the Company's total expense grew by 9% to 3,908 MB, it was lower than total revenue growth. Therefore, the Company still yielded a profit growth of 32%.

### KTC credit card spending outperformed the Industry and Merchant transactions continued to grow

- KTC credit card spending was higher than the industry in the nine months of 2017. For the third quarter, the industry's growth in July, August, and September was 6.4%, 6.8%, and 7.4%, while KTC was 6.2%, 8.0%, and 8.6%, respectively. Due to intense competition and slowed consumer spending, the Company's credit card spending grew 7.1% during the first nine months which was higher than the industry's 4.2% growth.



- Merchants volume for the nine months of 2017 increased by 28% to 54,520 MB up from 42,605 MB from the same period of last year. Merchant outlets grew 10% yoy to 31,686 outlets up from previously 28,817 outlets.

### Interest Income increased from both businesses

- Total revenue increased by 13% mainly contributed by 3,025 MB interest income (including credit usage fee), 1,050 MB fee income, and 892 MB other income; a proportion of 61%, 21%, and 18% of total income, respectively. Other income was mostly from bad debt recovery.
- In 3Q2017, portfolio of total credit card and personal loan increased by 7% and 18% with interest income (including credit usage fee) growth of 3% and 20%, respectively. Growth rate of interest income in the credit card business decelerated despite portfolio expansion, a possible consequence from the Bank of Thailand's new regulation that reduced the interest rate from 20% to 18%, which took effect on September 1<sup>st</sup>, 2017. In contrary, interest income of personal loan increased from 29% of total income to 31% in the third quarter mainly from significant portfolio expansion.

The company's Financial Statements (MB)	3Q2017	% of Total Revenue	3Q2016	% of Total Revenue	Growth (%)
Total interest income including credit usage fee	3,025	61%	2,735	62%	11%
- Credit card receivables	1,483	30%	1,443	33%	3%
- Personal Loan receivables	1,532	31%	1,280	29%	20%
- Other receivables (Circle Loans / Self-employment)	10	0.3%	12	0.4%	-20%
Fee income (excluding credit usage fee)	1,050	21%	951	22%	11%
Financial Cost	414	8%	358	8%	16%
Net Interest Margin	15.9%		16.3%		

- Net interest margin decreased from higher cost of funds. The Company's cost of funds in 3Q2017 was 3.3% (the nine-month average was 3.2%), increased from 3.1% of the previous year. The average interest receive

rate decreased slightly from 19.4% to 19.2%. As a result, the net interest margin dropped from 16.3% to 15.9%.

- Fee income (excluding credit usage fee) in the third quarter grew 11% from the same period of last year to 1,050 MB. The increase was contributed by the growth of merchant discounts and interchange fee.

## Expense Management

- The Company's total expense (excluding income tax) grew 9% from 3,602 MB in 3Q2016 to 3,908 MB in 3Q2017. Total administrative expense and bad debts and doubtful accounts increased by 5% and 11%, respectively. Financial expense grew by 16% due to replacement of maturing debentures with longer tenors. Nevertheless, the Company's funding structure for short-term and long-term borrowings remained diverse without depending on any one financial institution in particular.
- The Company's cost to income ratio in 3Q2017 was 36.5% (the nine-month average was 36.3%) reduced from 39.2% in 3Q2016 mainly due to a 11% yoy drop in marketing expense, which resulted from lower members acquisition cost. Fees (interchange fee, collection fee, system management fee, computer maintenance fee, etc) and other administrative expense increased by 16% and 6%, respectively.

The company's Financial Statements (MB)	3Q2017	% of Total Revenue	3Q2016	% of Total Revenue	Growth (%)
Personnel Expense	549	11%	542	12%	1%
Marketing Expense	235	5%	263	6%	-11%
Fees	585	12%	503	11%	16%
Other Administrative Expense	444	9%	419	10%	6%
<b>Total Administrative Expense</b>	<b>1,813</b>	<b>36%</b>	<b>1,727</b>	<b>39%</b>	<b>5%</b>

- When considered only the operating cost, excluding marketing expense and interchange fee, operating cost to income ratio was 27.2% (same as the nine-month average), lower than 28.8% of the same period prior year. As a consequence of efficient work process that led to lower operating expense growth compared to income growth.

## Quality of the receivables portfolio

- The Company's total member grew 8% yoy to 3.1 million accounts as at the end of September 2017. The company's member consisted of 2,220,970 credit card holders (9% growth) and 849,335 personal loan accounts (7% growth).
- In 3Q2017, total receivables was 68,670 MB, consisted of 44,219 MB credit card receivables and 24,019 MB personal loan receivables. Once the 5,661 MB total allowance of was deducted, total net receivables was 63,008 MB. Net credit card receivable was 40,918 MB, accounted for 65% of total net receivables while personal loan receivables portfolio was 21,940 MB. The expansion of the member base resulted in spending increase.
- NPL remained low while provision for doubtful accounts remained high, as the Company prioritizes on portfolio's quality. Consequently total portfolio NPL in the nine months of 2017 was 1.46%, decreased from 1.86% from the same period of last year. Credit card's NPL dropped from 1.37% to 1.20% and personal loan's NPL decreased from 1.01% to 0.82%. As a result of the portfolio's quality, allowance to NPL increased to 565%, compared to 446% from the same period of last year.

The company's Financial Statements (MB)	3Q2017	% of Total Revenue	3Q2016	% of Total Revenue	Growth (%)
Credit Card's bad debts and doubtful accounts	797	16%	830	19%	-4%
Personal Loan's bad debts and doubtful	880	18%	682	16%	29%
Other Loan's bad debts and doubtful accounts*	4	0.1%	5	0.1%	-24%
<b>Total bad debts and doubtful accounts</b>	<b>1,681</b>	<b>34%</b>	<b>1,517</b>	<b>34%</b>	<b>11%</b>

\*Other loans include KTB Thanawat Loan, loans for business owners, etc.

- Bad debts and doubtful accounts increased to 1,681 MB in 3Q2017 from 1,517 MB in 3Q2016. Provision for doubtful accounts in this quarter increased in accordance with portfolio growth. Bad debts undergoing legal procedures and were due for write-offs in this quarter increased by 7% (103 MB) y-o-y.

## Statement of financial position and source of income

- The Company's assets in 3Q2017 was 68,132 MB, increased 11% from 61,146 MB in the previous year. The main income generating assets were net receivables of 63,008 MB or 92% of total assets while the other 8% were cash, other receivables, deferred tax assets, and other assets.
- In the third quarter, the Company total borrowing increased 8% to 49,883 MB. The structure of the funds was both short-term and long-term; the short-term borrowings were from related financial institutions of 120 MB and other financial institutions of 5,878 MB. The long-term borrowing was 43,885 MB of debentures with diverse sources from Thai and Foreign commercial banks, securities companies, insurance companies, and various funds. At the end of September 2017, the Company's available credit line was 24,540 MB consisted of 18,030 MB from Krung Thai Bank and 6,510 MB from other commercial banks. The cost of funds in the third quarter was 3.28% (the nine-month average was 3.22%) up from the same period last year since the company replaced matured debentures with longer tenors to maintain the low costs of fund over a longer period. The Company's debt to equity ratio was 4.85 times, which remained below the bond covenant at 10 times.

## Company's Operation Continuity Plan for 4Q2017 and 2018

In the final quarter of 2017, the company plans to penetrate the market by providing members in all areas (Bangkok, provincial, and abroad) with benefits and joy spending via KTC cards either online or offline; with campaigns covering everyday usage (gas, grocery), specific lifestyle (dining, travel) utilizing KTC forever rewards and KTC flexi (installment payments) as the promotional driver.

The company is always prepared for the new trends, innovation, and keeping up with technology to differentiate our business model and deliver satisfying customer experience. Such example is the launch of the new TapKTC that is stable, secure, and simple to use as well as the E-coupon feature on the TapKTC application as a channel to redeem reward points.

Cashless transactions in the age of digital economy will be a positive factor for the credit card business from the National-e-Payment strategy established by the government (aimed to shift behavior from cash economy to cashless economy) due to the increase in number of EDC machines that can help increase the growth of the credit card industry.

KTC's business outlook for 2018 will target mainly customer necessity and customer needs by moving forward the business model with partners (marketing, IT, start-up, and Fintech) to offer valued services that are valuable and satisfactory. KTC also plans to push forward digital initiatives in offering services with cutting edge technology as



the nation progresses to a cashless society, and confident that superior customer experience will strengthen loyalty with the KTC brand.

Strategies for financial management will focus on maximizing efficiency, which include lower cost of funding, increased proportion of long-term borrowing, and replacement of maturing debentures with longer tenors.

The company focused on business expansion with a differentiated business models utilizing technology as tools to drive the business with stability and to fully support a digital platform. Moreover, a sufficient provision compliance with IFRS9 has been set. The company also relentlessly develops and improves products and services to ensure customer satisfaction, making KTC their default choice and contributing to the company's sustainable growth.

#### **Credit Card Business**

Marketing strategies for credit card business in 2018 will continue to be engaging and offering varieties continuous from 2017 in order to increase members' credit card spending via reward points, making KTC their preferred card and also differentiate products through KTC World Travel Service and point redemption via KTC Ushop. This will be achieved by partnering with various businesses in order to create beneficial privileges, in which members can use their reward points to obtain these privileges. This is a tool for building long-term relationship with members as well as expanding merchant partners in the high end.

#### **Merchant acquiring Business**

KTC aims to penetrate new businesses as well as expands to provincial areas by promoting both FLEXI installment payment and full payment. The company continues to work closely with Krung Thai Bank to effectively expand merchant acquiring business. Member stores are projected to grow significantly online as well as other alternative stores that manage payment. Therefore, appropriate KTC Payment Solutions such as QR Code Payment and Alipay O2O (Online to Offline) payment solution are offered to cater each business type and to respond to merchant members' needs. This is expected to help boost the company's revenue base in the future.

#### **Personal Loan Business**

In 2018, the personal loan business industry will be more competitive due to the impacts of BOT's new regulations, which took effect on September 1<sup>st</sup>, 2017. For personal loan, KTC will emphasize more on customers with income of 30,000 Baht per month because they are potential clients with no regulations on their credit lines nor limited by number of financial institutions they can apply. In parallel, KTC is ready to offer new products and services to customers with income below 30,000 Baht per month as they are the company's target group, especially those who have just entered the workforce and those with specialized professions. By providing the

customers with memorable experiences, KTC will be the top brand in mind to fulfill their financial needs. Marketing campaign will also be provided to ease existing members of their burdens.

#### **Member base expansion**

KTC has established more suitable guidelines in 2018 to recruit new members by considering on four following aspects: 1) prioritize on quality rather than quantity of new applicants by focusing on those with income over 30,000 Baht per month as they yield higher spending and lower NPL; 2) emphasize online channels as an outreach to the new generation through [www.ktc.co.th](http://www.ktc.co.th) website, TapKTC mobile application, or QR Code payment; 3) utilize KTB branches and outsource sale as the primary channel to expand member base; and 4) provide a variety of attractive marketing campaigns to urge target customers in applying with KTC.

#### **Other supporting factors**

- **KTC Forever Rewards** remains as a strategy used to create marketing activities for KTC credit card. Members can redeem rewards and services at more than 3,000 service locations. They can also redeem points online via various partners under the terms and conditions specified by KTC. Moreover, FLEXI allows up to 10-month installment payment to ease the members' burden.
- **To improve self-service channels to enhance customer experience and to support the expanding online market as KTC enters the digital age.** As customer behavior becomes more independent, KTC has developed more online channels to serve their needs. Customers can access TapKTC and ClickKTC applications on the website to customize their own services such as payments, check credit limits, apply for more credit limits, request credit card approval, monitor, and redeem points, etc.
- **Redesigned the [www.ktc.co.th](http://www.ktc.co.th) website to enhance accessibility of information by users, to support all kinds of device, and to increase user-friendliness.** KTC has redesigned and updated the KTC website to enhance accessibility of information with 3 main features as follow: 1) a modern design fitting for the digital age; 2) accessible by devices anywhere, anytime, any platform; and 3) an upgraded search functions with a more organized and categorized storage system, coupled with simpler functional menus for quick and easy use.
- **To promote the tourism industry by providing one-stop service centers.** KTC will collaborate with partners to offer privileges or discounts covering all aspects of tourism both domestic and international. In addition, KWT (KTC World Travel Services) one-stop service center are available to provide complete travel-related services such as ticket and hotel reservations. KTC will also team up with many travel agencies as well as create new marketing campaigns to satisfy customer needs.

KTC's business strategies continued to emphasize on credit card, personal loan, and merchant acquiring to create new opportunities under the rules and regulations of the Bank of Thailand. The company expects to gain trust from the new members while maintains confidence of the existing customers to support a sustainable growth. As a leader in the consumer finance industry, KTC's development plans in 2018 will mainly focus on understanding and responding to customers' demand. The business model will adhere on partnering with various business lines to add value to the company's member base that amounts to more than 3 million accounts.

For 2018, the Company has targeted to increase credit card spending growth at least 15% yoy, to expand receivables portfolio by more than 10% yoy, and to maintain NPL at the same level as the previous year. Thus, KTC is expected to gain higher profits in 2018 than 2017.

## KTC Financial Highlight

Financial Figures (Unit : Baht Million)	3Q2017	3Q2016	Growth (Y-Y%)	9M2017	9M2016	Growth (Y-Y%)
Total Revenue	4,968	4,403	13%	14,421	12,840	12%
Total Expense (Excluding Financial Cost)	3,494	3,244	8%	10,239	9,398	9%
Total Expense (Including Financial Cost)	3,908	3,602	9%	11,460	10,513	9%
Net Profit	846	640	32%	2,365	1,854	28%
Credit Card Net Receivables	40,918	38,247	7%	40,918	38,247	7%
Personal Loan Net Receivables	21,940	18,603	18%	21,940	18,603	18%
Other Net Receivables	150	164	-9%	150	164	-9%
Total Asset	68,132	61,146	11%	68,132	61,146	11%
Total Borrowings	49,883	46,021	8%	49,883	46,021	8%
Total Liabilities	56,476	51,397	10%	56,476	51,397	10%
Total Shareholders' Equity	11,656	9,749	20%	11,656	9,749	20%
Financial Ratio	3Q2017	3Q2016	Growth (Y-Y%)	9M2017	9M2016	Growth (Y-Y%)
Gross Profit Margin (%)	85.9%	86.2%	-0.3%	85.7%	85.7%	0.1%
Net Profit Margin (%)	17.0%	14.5%	17%	16.4%	14.4%	14%
Interest Coverage Ratio (times)	3.6	3.2	10%	3.4	3.1	11%
Debt to Equity Ratio (times)	4.8	5.3	-8%	4.8	5.3	-8%
Return on Equity (%)	30.8%	27.7%	11%	28.7%	26.8%	7%
Return on Asset (%)	5.0%	4.2%	18%	4.6%	4.1%	13%
Allowance / Total Receivables (%)	8.2%	8.3%	-0.8%	8.2%	8.3%	-0.8%
Allowance / NPL (%)	565%	446%	27%	565%	446%	27%
Book Value (Baht)	45.2	37.8	20%	45.2	37.8	20%
Earnings per share (Baht)	3.28	2.48	32%	9.17	7.19	28%

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