

บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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KTC 134 / 2561

February 13, 2018

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

Subject: Operating result notification of the year ended December 31, 2017

Enclosure: Management Discussion and Analysis for the year ended December 31, 2017

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the year ended December 31, 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

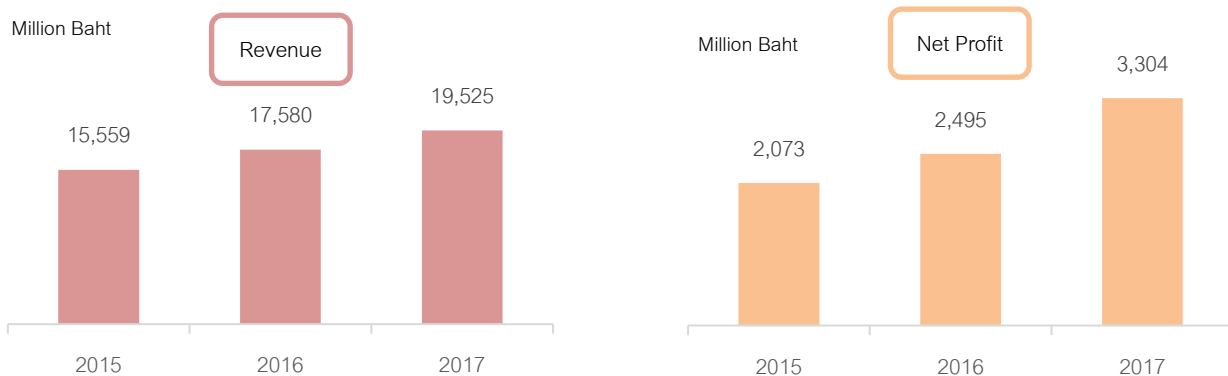
Executive Summary

Net profit grew 32% in 2017. The Company delivered a net income of 3,304 MB, a 32% increase from 2,945 MB in 2016, contributed mainly by credit card and personal loan businesses. Although financial expenses went up due to an increase in borrowing that parallel with the portfolio's growth, percentagewise cost of funds remained the same. Improved work efficiency drove cost to income ratio lower than that of the prior year. Moreover, effective debt collection and portfolio quality resulted in lower NPL; consequently, the amount of debt recovery grew simultaneously. Despite a slight increase in total expense, the Company generated substantially higher revenue and hence the continuous profit growth.

For 2018, the Company has targeted spending growth and portfolio growth of at least 15% and 10%, respectively; while maintain NPL at 2017 level. Therefore, KTC is expected to gross in profits no less than that of 2017.

Analysis of KTC's Overall Performance in 2017

Despite the intense competition in the consumer finance industry as new challenges arose from evolving consumer behaviors, 2017 has been another significant year for KTC that the Company continued to deliver higher profit than the previous year, which can be considered as the Company's record performance. To survive rapid technological developments and stricter regulations from regulators, it is crucial for the Company to adapt to these uncertainties. For the year 2017, KTC achieved a net profit of 3,304 MB, a 32% increase from 2016. Due to the Company's versatility, credit card spending remained high and receivables portfolio continued to grow. Credit card approval measure (under appropriate guidelines suitable for each target group), and effective debt collection were the factors retaining the company's NPL below the industry's level. KTC's performance overview can be summarized as the followings:



- Total comprehensive income for 2017 amounted to 3,287 MB, or a 35% yoy growth, which resulted from 17.5 MB other comprehensive loss of the year, net of income tax. This resulted from the difference between assumptions used in the calculation of employee benefit plans and the actual amount occurred.
- KTC credit card spending continued to grow in every quarter throughout 2017. 1Q, 2Q, 3Q, and 4Q grew 8.0%, 5.7%, 7.6%, and 6.3%, while the industry grew 4.1%, 1.7%, 6.8%, and 7.7%, respectively. Total credit card spending in 2017 was 176,777 MB, an annual growth of 6.9% which was higher than that of the industry's 5.2% growth. The credit card spending growth was mainly contributed by a 3.5% card holder expansion, year-round responsive marketing campaigns, additional benefits, discounts, cash back, and reward points, as well as simple and convenient online applications. Thus, credit card spending continued to grow.

Operating Result (unit: Million Baht)	2017	%	2016	%	Growth %
Total Revenue	19,525	100%	17,580	100%	11%
- Bad debt Recovery	2,855	15%	2,398	14%	19%
Addministrative Expenses	7,143	37%	6,902	39%	12%
Financial Expenses	1,629	8%	1,482	8%	10%
Bad debts and Doubtful Accounts	6,627	34%	6,070	35%	9%
Profit before tax	4,127	21%	3,126	18%	32%
Income tax expense	(822)	4%	(631)	4%	30%
Net Profit	3,304	17%	2,495	14%	32%
Other comprehensive income net of tax	(18)	0%	(68)	0%	74%
Total Comprehensive Income	3,287	17%	2,427	14%	35%

- Merchant volume in 2017 increased 26.3% yoy to 77,884 MB up from 61,678 MB. Merchant outlets grew from 29,764 to 32,875, or a 10.5% growth, mainly from increased outlet and Electronic Data Capture machine installation, online merchant expansion, Virtual Terminal payment service, and Alipay service expansion.
- Total receivable in 2017 was 73,488 MB, a 7% growth yoy. Credit card receivables increased from 46,196 MB to 48,338 MB and personal loan receivables from 21,959 MB to 24,757 MB.
- Total revenue grew to 19,525 MB (11% yoy) from increases in interest income (including credit usage fee) 10%, fee income 11%, and bad debt recovery 19%.

- Net interest margin in 2017 was 15.13%, similar to 15.12% in the previous year, resulted from the slight change between average interest received and cost of funds.
- Total portfolio NPL at the end of 2017 decreased to 1.3% from 1.7% in 2016. The Company expects to maintain NPL at a continuously low level.
- Bad debt and doubtful accounts was 6,627 MB, increased by 9% from the prior year, due to write-offs and provision that increased with both credit card and personal loan portfolio's growth. Allowance for doubtful accounts to NPL remained high at 589%.
- Operating cost to income ratio was 27.6% at the end of 2017, down from 28.5% from the same period of the previous year, indicates that the Company was able to effectively manage expense.

Overview of Thai Economy and Consumer Finance Industry in the year 2017

The Bank of Thailand estimated GDP growth of 3.9% in 2017, which was higher than the 3.2% growth in 2016, due to continuous positive support of exports in goods and services, modest expansion of private consumption and investment, and growth of tourism industry from the improved global economy. As well as government spending which was an important driving force for the continuous economic growth.

Thai economy was forecasted to grow at a steady rate with the GDP ranging from 3.8% to 4.0% in 2018, supported by recovery of the global economy (especially in the USA) coupled with domestic factors driven by spending and the government's economic stimulus measures, especially growing investments in infrastructure mega-projects of the Thai government. The government has prepared measures to steer the country forward to create jobs and generate income in local communities, as well as pushing Eastern Economic Corridor (EEC) project to action. Private consumption and investment is expected recover from growing tourism and expansionary monetary policy. However, there are still pressure points in terms of global financial market volatility and clustered domestic purchasing power.

Industry Comparison	2015	2016	2017
Credit Card Receivables (MB)	333,493	360,096	394,123
Growth (%)	4.8%	8.0%	9.4%
KTC credit card receivables to industry	12.4%	12.8%	12.3%
Number of Cards (Cards)	18,974,195	20,136,341	20,334,780
Growth (%)	-6.5%	6.1%	1.0%
Credit card spending (MB)	1,392,760	1,488,273	1,565,528
Growth (%)	6.5%	6.9%	5.2%
KTC Credit card spending to industry	10.5%	11.1%	11.3%
Personal Loan receivables (MB)	318,354	332,997	354,294
Growth (%)	1.8%	4.6%	6.4%
KTC Personal Loan receivables to industry	5.8%	6.6%	7.0%

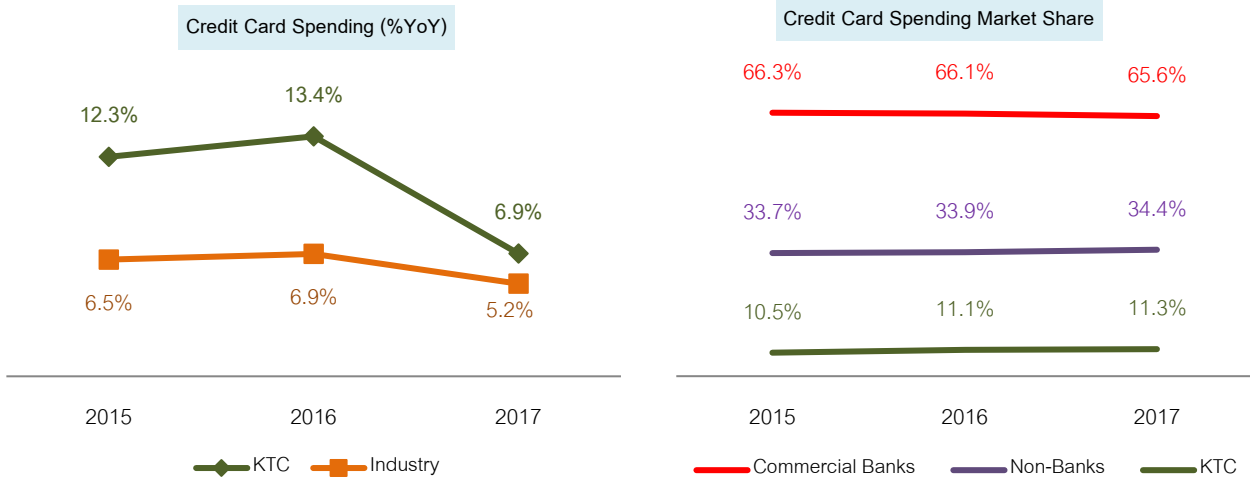
The overall consumer finance industry continued to grow but at a decelerated rate from the previous year. Industry credit card receivables as of December 2017 was 394,123 MB or a 9.4% growth, increased from 360,096 MB or 8.0% in 2016. Personal loan receivables was 354,294 MB or a 6.4% growth, which was higher than the 4.6% growth in the previous year. Credit card spending in 2017 was 1,565,528 MB, grew 5.2% a slight growth compared to the 6.8% growth in 2016, resulted from the industry's spending downturn. Furthermore, the Bank of Thailand announced regulatory changes on credit card and personal loan which took effect on September 1st, 2017.

It was expected that the implementation of BOT's new measures would pressure the overall portfolio growth since these measures tightened regulations on credit card and personal loan by decreasing credit lines and reducing credit card interest down to 18% from the previously 20%.

KTC's credit card receivable accounted for 12.3% of the industry, dropped slightly from the 12.8% share in 2016. Market share of credit card spending in 2017 increased to 11.3% from 11.1%. KTC's personal loan receivable accounted for 7.0% of the industry, up from 6.6% in 2016.

KTC credit card spending growth was higher than the industry in 2017.

The Company's credit card spending grew 6.9% in 2017, which was higher than the industry's 5.2% growth. Market share of credit card spending increased from 11.1% to 11.3% at the end of 2017.



Interest income increased from the 2 main businesses

- Total revenue increased.** Total revenue of the year 2017 increased 11% yoy to 19,525 MB, contributed by 11,960 MB interest income (including credit usage fee), 4,253 MB fee income, and 3,313 MB other income; a proportion of 61%, 22%, and 17% of total income, respectively. Bad debt recovery accounted for 86% of other income.
- Interest income grew mainly from personal loan business.** Credit card and personal loan portfolio increased 5% and 13%, while interest income (including credit usage fee) growth of credit card and personal loan grew of 3% and 19% respectively. Although credit card interest income in the last quarter was affected by the bank of Thailand's new regulation that reduce interest rate from 20% to 18%, credit card interest income continued to grow albeit a slower pace. Due to the strong personal loan interest income total interest income growth was 10%, resulted from members acquisition in the premium segment while maintaining the Mass segment member base, Customer Relationship Management (CRM) implementation that enhance customer experience, utilization of online media to boost credit card spending, and the government tax break program.
- Maintain net interest margin.** The Company's average interest received in 2017 and 2016 were similar at 18.25% and 18.20%, respectively. Cost of funds in 2017 was 3.12%, up from 3.08% yoy. As a result, the net interest margin increased slightly from 15.12% to 15.13% in 2017 due to proportional increase in the average interest receive and the cost of fund.

Unit: Million Baht	2017	% of total Revenue	2016	% of total Revenue	Growth
Total interest income including credit usage fee	11,960	61%	10,830	62%	10%
- Credit card receivables	5,894	30%	5,706	32%	3%
- Personal Loan receivables	6,027	31%	5,074	29%	19%
- Other receivables (Circle Loans / Self-employ)	39	0.2%	50	0.3%	-22%
Fee income (excluding credit usage fee)	4,253	22%	3,839	22%	11%
Financial Cost	1,629	8%	1,482	8%	10%
Net Interest Margin	15.13%		15.12%		

- **Fee income increased.** Fee income (excluding credit usage fee) grew 11% yoy to 4,253 MB. The increase was due to the growth of merchant discounts (fee charged to merchants for providing services), collection fee, and interchange fee (fee charged between banks / credit card issuers and banks / intermediary payment companies). Cash advance fee, however, declined.

Expense management

- **Total expense increased 7% but less than last year's growth of 12% due to lower marketing expense and improved efficiency.** The Company's total expense (excluding income tax) was 15,399 MB by the end of 2017, increased by 7% from 14,454 MB in 2016. Total administrative expense increased slightly by 3%, due to 9% yoy higher fees expense from increased transactions and outsourced debt collection, 8% yoy increased in personnel expense, and 8% yoy increased in other administrative expense. On the Contrary, marketing expense in 2017 dropped to 23% yoy due to lower than anticipated new card acquisitions as well as efficient use of marketing budget by the application of technology to maximize the budget. Bad debts and doubtful accounts increased 9% yoy. Financial expense grew 10% from increased borrowing in parallel with the portfolio's growth.
- **Lower operating cost to income as a result of improved work process.** The Company's cost to income ratio was 36.6% down from 39.3% yoy. When excluding marketing expense and interchange fee, and only considered the operating expense, operating cost to income ratio lowered slightly to 27.6% compared to 28.5% in 2016. This was due to improved work efficiency, and the income growth that outpace the operating expense.

Unit: Million Baht	2017	% of total Revenue	2016	% of total Revenue	Growth
Personal Expense	2,231	11%	2,060	12%	8%
Marketing Expense	866	4%	1,122	6%	-23%
Fees	2,258	12%	2,063	12%	9%
Other Administrative Expense	1,787	9%	1,656	9%	8%
Total Administrative Expense	7,143	37%	6,902	39%	3%

Portfolio quality

- Total receivables continued to grow.** In 2017, total receivables grew 7% yoy to 73,488 MB, consisted of 48,338 MB (5% yoy) credit card receivables, and 24,757 MB (13% yoy) personal loan receivables. When the 5,699 MB doubtful accounts was deducted, total net receivables was 67,788 MB. Net credit card receivables portfolio was 45,048 MB, which accounted for 66% of total net receivables portfolio. Personal loan receivables was 22,596 MB. Total portfolio growth was contributed by the increased credit card spending, and cash advancement by KTC PROUD members.
- Member base expanded due to new members of the 2 businesses.** The Company's total member was 3.0 million accounts as at the end of December 2017, or grew by 3.7% yoy. There are 2,169,370 credit card members (4.3% growth) and 852,915 personal loan accounts (4.3% growth).

Unit: Million Baht	2017	% of total Revenue	2016	% of total Revenue	Growth
Credit Card's bad debts and doubtful accounts	3,431	18%	3,359	19%	2%
Personal Loan's bad debts and doubtful accounts	3,180	16%	2,692	15%	18%
Other bad debts and doubtful accounts	17	0.1%	19	0.1%	-13%
Total bad debts and doubtful accounts	6,627	34%	6,070	35%	9%

- NPL ratio of both businesses continued to improve.** The Company prioritizes on portfolio quality indicated by the total portfolio NPL of 1.3% in 2017, decreased from 1.7% in 2016. Credit card's NPL decreased to 1.1% from 1.2% and personal loan's NPL decreased to 0.8% from 0.9%. Despite the same company's provision policy, the quality of the portfolio continued to improve; as a consequence, allowance to NPL remained high at 589%, up from 473% in the previous year.
- Increased write-offs and provisions to reflect portfolio growth.** Bad debts and doubtful accounts grew to 6,627 MB in 2017, or a 9% growth yoy. Although provision for doubtful accounts increased in accordance

with portfolio growth, bad debts undergoing legal procedures due for write-offs in 2017 increased by 11%. Bad debts in credit card and personal loan portfolio grew 7% and 18%, respectively.

KTC Financial Highlight (unit : Million Baht)	2017	2016	Growth (Y-Y%)
Total Revenue	19,525	17,580	11%
Total Expense (Excluding Financial Cost)	13,770	12,972	6%
Total Expense (Including Financial Cost)	15,399	14,454	7%
Net Profit	3,304	2,495	32%
Credit Card Net Receivables	45,048	42,988	5%
Personal Loan Net Receivables	22,596	20,154	12%
Other Net Receivables*	144	161	-10%
Total Assets	73,636	68,297	8%
Total Borrowing	53,423	51,088	5%
Total Liabilities	61,059	57,976	5%
Total Shareholder's Equity	12,577	10,322	22%

*Other loans include Circle Loan, Self Employed Loan, etc.

Statement of financial position and source of income

- Assets grew from portfolio expansion.** The Company's asset at the end of 2017 amounted to 73,636 MB, increased 8% from 68,297 MB in the previous year. The main income generating assets were net receivables of 67,788 MB or 92% of total assets while the other 8% were cash, other receivables, deferred tax assets, and other assets.
- Effective cost of fund management.** In 2017, the Company reported a total borrowing of 53,423 MB, an increase of 5% yoy. The structure of the funds was both short-term and long-term. The short-term borrowings were from related financial institutions of 500 MB and other financial institutions of 9,568 MB. The long-term borrowings were from 43,355 MB of debentures with diverse sources from Thai and Foreign commercial banks, securities companies, insurance companies, and various funds. At the end of 2017, the Company's available credit line was 21,570 MB consisted of 18,030 MB from Krung Thai Bank and 3,540 MB from other commercial banks. The cost of funds as at the end of 2017 was 3.12% up slightly from 3.08% due to increased borrowing because of the overall portfolio's growth. The Company's debt to equity ratio was 4.85 times, which remained below the bond covenant that limits 10 times debt to equity ratio.

KTC Financial Highlight	2017	2016	Growth (Y-Y%)
Gross Profit Margin	85.8%	85.9%	-0.20%
Net Profit Margin	16.9%	14.2%	19%
Interest Coverage ratio (times)	3.5	3.1	14%
Debt to Equity ratio (times)	4.9	5.6	-14%
Return on Equity (%)	28.9%	26.2%	10%
Return on Asset (%)	4.7%	3.9%	20%
Allowance / Total Receivables (%)	7.8%	7.9%	-1%
Allowance / NPL (%)	589%	473%	24%
Book Value (Baht)	48.8	40.0	22%
Earnings per share (Baht)	12.82	9.68	32%

Overview comparison targeted and actual achievements in 2017

For the year 2017, the Company has targeted spending growth of 15% but the actual growth was 7%. Receivables portfolio was targeted to grow 10% but the actual growth was 7%. Nevertheless, the Company was able to reduce NPL below the target of 1.7% to 1.3%. Net profit grew by 32% which surpassed the target growth of 10%.

	2017 target	2017 results
Total Card Spending growth	15%	7%
Total Portfolio growth	10%	7%
% NPL	Maintain 2016 level at 1.7%	1.3%
Net Profit growth	no less than 10%	32%

Although the Company fell short of the targeted spending and portfolio growths due to overall economy, less than anticipated member base expansion, household debts, restraints on credit limits, personal loan accessibility, and lowered credit card interest from 20% to 18%. However, KTC strived to achieve exceptional net profit thanks to the member base expansion, NPL improvement, and increased fee income; despite a slight increase in operational cost.

Company's operation plans for 2018

The arrival of Financial Technology (FinTech) as well as the transition to the era of digital economy played a pivotal role in transforming financial transactions. In addition, the government's implementation of the National e-Payment is steering the consumer behavior from cash society to cashless society. As a result, technological intermediary payment systems will play an important role in everyday life.

KTC's business outlook for 2018 will mainly target necessity and consumer needs by advancing collaborative business model with partners in marketing, IT, start-up, and FinTech to offer value and satisfactory services. KTC also plans to push forward digital initiatives in offering services with cutting edge technology as the country progresses into a cashless society. It is with confident that satisfactory customer experience will help strengthen customer relationship with the KTC brand and to achieve the Company's vision: "To be a membership company through creating solid foundation for a sustainable growth and becoming the most preferred brand under a spirit of The Courage to Choose What is Right". It is the company's intention to grow sustainably and to urge customers to be courageous and live the life they desire. Therefore, the Company provided product options and a variety of services to address customer's demands by mainly focusing on approachability and member obsession.

To become the most preferred brand, KTC will focus on continuous internal and external organization development to build sustainable long-term growth. The Company will operate under the 3 core values: courageous, smart & simplicity, and meaningful, with the intentions to motivate members or stakeholders in being courageous to live the lives they desire. These core values are cultivated from within the organization to reach out to the public covering all aspects.

Strategies for financial management focus on maximizing the funds benefits, which include low cost of fund, increased long-term borrowing, and replace maturing debentures with longer tenors. KTC emphasizes on business expansion with a unique and concrete model by utilizing technology as a tool to drive the business with stability to fully support a digital platform. Moreover, a sufficient provision in compliance with IFRS9 has been set. The company sought to develops and improves products and services to garner customer loyalty from customer satisfaction, which in turn leads the company to a sustainable growth.

Credit card business

Marketing strategies for credit card business in 2018 aim to improve beneficial privileges of certain credit card types to be engaging and more competitive. KTC will co-brand with partners in creating privileges and planning for member base expansion. The Company will also differentiate products through KTC World Travel Service and point redemption via KTC Ushop, which is achieved by partnering with various businesses. There are 4 main marketing strategies: 1) select marketing campaigns that meet the needs of customers and cover all aspects

for everyday use in order to make KTC their default card; 2) use KTC Forever Rewards as a tool for building long-term relationship with members; 3) apply new online technologies to enhance services such as the upgraded TapKTC with the E-Coupon feature; and 4) expand member base in the premium segment in addition to KTC's strong base of the general segment.

Merchant acquiring business

KTC targets to penetrate new businesses and expands to provincial areas by promoting both FLEXI installment payment and full payment, and continues to work closely with Krung Thai Bank to effectively expand merchant acquiring business. The company also planned to increase more member stores in the online and alternative stores, as well as emphasizing the development of the new KTC payment solutions to address merchant's demand of each segment. Ultimately, KTC aim to become a payment solutions provider that provide adequate coverage; to cultivate and expand member store which will in turn increase the company's revenue.

Personal loan business

In 2018, the personal loan business industry is expected to be highly competitive due to the impacts of BOT's new regulations, which took effect on September 1st, 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 credit lines nor number of financial institutions applied. 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 giving them memorable experiences, KTC will be the first brand in mind to fulfill their financial needs. KTC will also provide financial consultant service, marketing campaigns to ease customers' burden as well as address customer's demand.

Member base expansion

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

Other supporting factors

- **KTC Forever Rewards** remains 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.
- **Improvement of self-service channels to enhance customer experience as KTC enters the digital age to support online market.** As customers become more independent, KTC has developed more online channels to serve their needs. Customers can access ClickKTC and TapKTC mobile applications on the website to perform banking services on their own to make payments, check credit lines, increase credit limits, monitor card application status, monitor and redeem reward points, etc.
- **To promote tourism industry by providing one-stop service centers.** KTC will collaborate with airline, travel agency, and both domestic and foreign tourism organization partners to offer privileges or discounts covering all travel category. Additionally, KWT (KTC World Travel Services) is setup to provide travel information as a one-stop service with complete travel-related services such as travel planning, ticket and hotel reservations; as well as creating marketing campaign to address members demands.

KTC's business strategies continued to emphasize on credit card, personal loan, and merchants 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 current members to support a sustainable growth. As a leader in the consumer finance industry, KTC's development plans for 2018 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 of more than 3 million accounts.

For 2018, the Company has targeted spending growth and portfolio growth of 15% and 10%, respectively; while maintain NPL level similar to that of 2017. Therefore, KTC is expected to gross in profits no less than that of 2017.

	2018 target
Total Card Spending growth	15%
Total Portfolio growth	10%
% NPL	Maintain 2017 level at 1.3%
Net Profit	more than 2017