

KTC

**บริษัท บัตรกรุงไทย จำกัด (มหาชน)**

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**Krungthai Card Public Company Limited**

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May 14, 2018

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

Subject: Operating result notification of the quarter ended March 31, 2018

Enclosure: Management Discussion and Analysis for the quarter ended March 31, 2018

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the year ended March 31, 2018, 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)

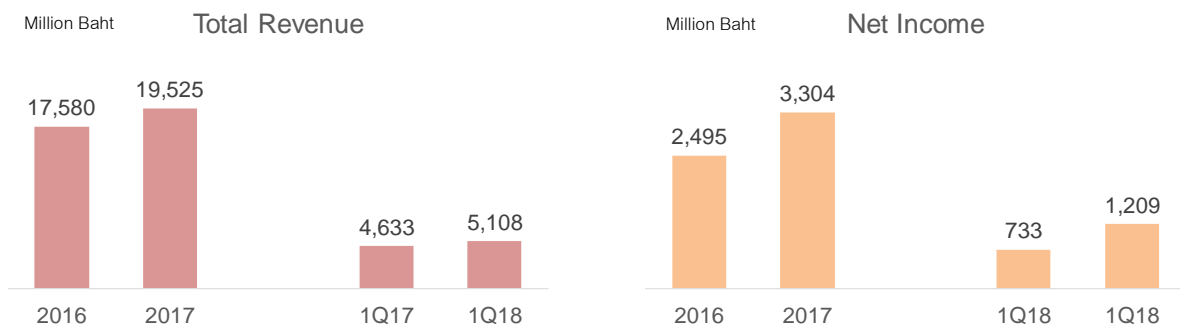
Chief Financial Officer

## Executive Summary

Net profit grew 65% in 1Q18. The Company delivered a net income of 1,209 MB, a 65% increase from 733 MB in the first quarter of 2017. As the Company was impacted by regulatory changes and higher competition, the portfolio growth declined from 11% (yoy) growth in 1Q17 to 6% (yoy) growth in 1Q18, provision requirement reduced as a result. Moreover, financial expenses decreased due to lower cost in funding; and the Company continued to lessen cost to income ratio. Effective debt collection was also maintained, hence higher bad debt recovery. Total expense was reduced, as a result, the Company was able to generate continuous profit growth.

## Analysis of KTC's overall performance in 1Q18

KTC continued to make profit in 1Q18 despite the intensifying competition in the consumer finance industry, as new challenges arose from evolving consumer behaviors. It is crucial for the company to adapt to these uncertainties to survive the rapid technological advancement and stricter regulations. For 1Q18, KTC achieved a net profit of 1,209 MB, a 65% growth yoy. Even though portfolio growth decelerated due to higher competition and regulatory changes, KTC strived to increase credit card spending through good customer experience and diverse marketing strategies. Personal loan portfolio continued to grow. Customer base expansion are focused on various vocational professions as well as developing products to satisfied customer needs that creates long-term brand loyalty. The company's mastery to maintain effective debt collection resulted in NPL level below the industry's. KTC's performance overview can be summarized as the followings:



- Total receivable in 1Q18 was 70,162 MB, a 6% growth yoy. Credit card receivables increased from 43,257 MB to 45,317 MB, and personal loan receivables from 22,158 MB to 24,469 MB. Total revenue grew 10% yoy to 5,108 MB because of increases in interest income (including credit usage fee) 3%, fee income 15%, and bad debt recovery 31%.
- Ability to preserve portfolio quality portrayed by the total NPL in 1Q18 decreased to 1.34% from 1.65% yoy, and up slightly from 1.32% as at the end of 2017. The Company is determined to maintain NPL at a continuously low level.
- Bad debt and doubtful accounts was 1,404 MB, decreased 14% yoy, due to modest portfolio growth, hence the lowered provision, and write off. Allowance to NPL was 591% due to low NPL.

Operating Result (unit: Million Baht)	1Q18	%	1Q17	%	Growth %
Total Revenue	5,108	100%	4,633	100%	10%
- Bad debt Recovery	838	16%	638	14%	31%
Administrative Expense	1,811	35%	1,678	36%	8%
Financial Expenses	388	8%	400	9%	-3%
Bad debt and Doubtful Accounts	1,404	27%	1,640	35%	-14%
Profit before tax	1,506	29%	916	20%	64%
Income tax expense	297	6%	183	4%	62%
Net Profit	1,209	24%	733	16%	65%

- The Company's operating cost to income ratio was 27.16% in 1Q18, which decreased slightly from 27.18% in 1Q17, depicting effective expense control.
- Net interest margin in 1Q18 was 15.08%, decreased from 15.56% of the same period in the previous year. This was resulted by a decrease in average interest receive from 18.77% to 18.10%. Despite the company's ability to reduce cost of fund from 3.21% to 3.02%, the credit card interest reduction from 20% to 18% still impacted the outcome.
- Total credit card spending of the industry in 1Q18 grew 10.1%, higher than the company's 8.4% growth. Comparing on a monthly basis in the first quarter of 2018, the industry growths in January, February, and March were 11.1%, 8.6%, and 10.6%, respectively; while KTC grew 9.8%, 5.9%, and 9.2% respectively. The company adjusted the credit card marketing strategies to gain confidence in new target groups and to retain existing customer base by providing additional benefits through discounts, rebates, and reward points; as well as simplifying online applications providing more convenient. Thus, credit card spending continued to grow.

- Merchant volume in 1Q18 increased by 24% to 20,966 MB up from 16,934 MB. Merchant outlets grew from 29,699 to 33,304, or a 12% growth. Merchant volume growth was mainly contributed by online merchant expansion, Virtual Terminal payment service, and Alipay service.

## Overview of Thai Economy and Consumer Finance industry in 2018

In March, the Bank of Thailand raise estimated GDP growth for 2018 from 3.9% to 4.1%. Exports is expected to improve in accordance with the global economy. Tourism industry remained strong, while agricultural remained feeble due to oversupply, low pricing, and the fluctuating Thai Baht.

The Thai economy was forecasted to grow steadily due to the recovery of the global economy (specifically the USA) coupled with domestic factors driven by spending and the government's economic stimulus, especially the growing investments in public infrastructure by the Thai government. The government has prepared policies to steer the country forward to create jobs and generate income in communities, as well as pushing Eastern Economic Corridor (EEC) project into action. Private consumption and investment is expected to recover from growing tourism and expansionary monetary policy.

Industry Comparison	2015	2016	2017	1Q18
Credit Card Receivable (MB)	333,493	360,096	394,123	358,291
Growth (%)	4.8%	8.0%	9.4%	7.5%
KTC Credit card receivables to industry	12.4%	12.8%	12.3%	12.6%
Number of Cards (cards)	18,974,195	20,136,341	20,334,780	20,601,876
Growth (%)	-6.5%	6.1%	1.0%	5.2%
Credit card spending (MB)	1,392,760	1,488,273	1,565,528	402,622
Growth (%)	6.5%	6.9%	5.2%	10.1%
KTC Credit card spending to industry	10.5%	11.1%	11.3%	11.0%
Personal Loan receivables (MB)	318,354	332,997	354,243	354,004
Growth (%)	1.8%	4.6%	6.4%	6.8%
KTC Personal Loan receivables to industry	5.8%	6.6%	7.0%	6.9%

Source: The Bank of Thailand

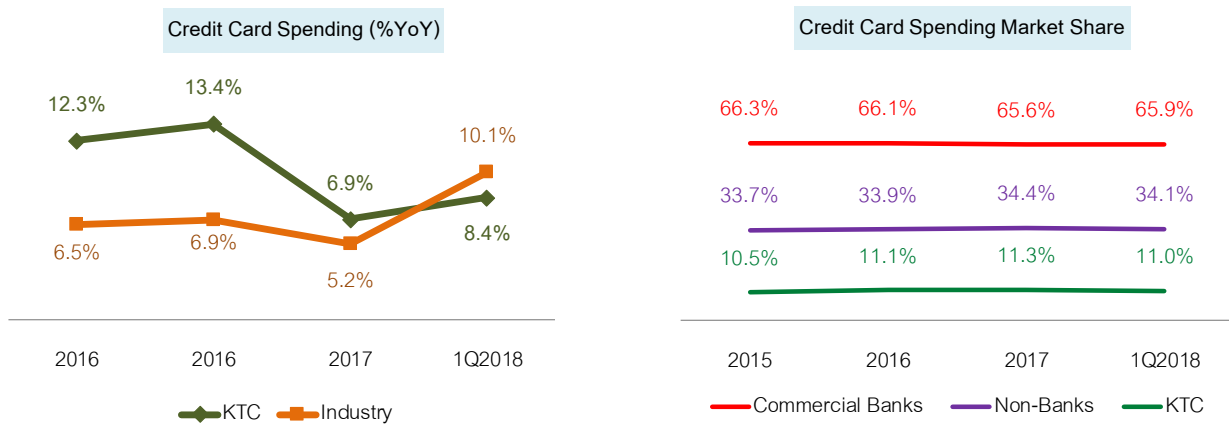
The overall consumer finance industry continued to grow but at a decelerated rate from that of the previous year. Industry credit card receivables grew 7.5% yoy in March 2018 to 358,291 MB, the growth declined compared to the 9.4% yoy growth of 394,123 MB in year 2017. Personal loan receivables in the first quarter grew 6.8% to 354,004 MB, compared to the 6.4% growth in year 2017. Credit card spending in the first quarter grew 10.1% to 402,622 MB

higher than the 4.1% growth of the same period last year. However, the credit card spending growth will be in a relapse as a resulted of The Bank of Thailand regulatory changes on credit card and personal loan which took effect on September 1<sup>st</sup>, 2017. The new regulation decreased new members' credit lines as well as reducing credit card interest from 20% to 18%. Thus, impacting both businesses directly and decelerating portfolio growth compared to the previous years.

In the first quarter KTC's credit card receivable accounted to 12.6% of the industry, an increase from 12.3% by the end of 2017. KTC credit card's NPL was 1.14%, lower than the industry's NPL of 2.26%. KTC's personal loan receivable was 6.9% of the total industry's receivable, reduced from 7.0% at the end of 2017. KTC personal loan's NPL was 0.82%, lower than the industry's NPL of 2.67%.

### Industry credit card spending comparison

- **KTC credit card spending in 2018 grew at a slower pace.** The Company's credit card spending grew 8.4% in 1Q18, which was slower than the industry's 10.1% growth. Market share of credit card spending was 11.0% compared to the 11.3% share at the end of 2017. The Company will constantly revise marketing campaigns to keep up with the evolving competition to accomplish the targeted goals.



### Interest income increased from the 2 main businesses

- **Total revenue increased** 10% yoy to 5,108 MB. The revenue growth was supported by 2,995 MB interest income (including credit usage fee), 1,140 MB fee income, and 973 MB other income (86% of other income was bad debt recovery); with a proportion of 59%, 22%, and 19% of total income respectively.
- **Interest income grew mostly from the growing personal loan portfolio.** Total credit card and personal loan portfolio increased 5% and 10%, respectively. Credit card interest income (including credit usage fee) decreased 7% due to the Bank of Thailand's new regulation that decreased interest rate from 20% down to

18%. Meanwhile, interest income on personal loan grew 14%. In 1Q18, credit card interest income continued to grow from 1Q17 but at a slower pace. This, however, was compensated by a strong performance of interest income from personal loan and yielded an increase in the overall interest income by 3%. Interest income growth resulted from strategies that sought new members in the premium segment while maintaining member base in the mass segment, employing Customer Relationship Management (CRM) to enhance customer experience, as well as utilizing online media to boost credit card spending.

Unit: Million Baht	1Q18	% of total Revenue	1Q17	% of total Revenue	Growth
Total interest income including credit usage fee	2,995	59%	2,903	63%	3%
- Credit card receivables	1,383	27%	1,483	32%	-7%
- Personal Loan receivables	1,604	31%	1,410	30%	14%
- Other receivables (Circle Loans / Self-employ)	8	0.2%	11	0.2%	-26%
Fee income (excluding credit usage fee)	1,140	22%	993	21%	15%
Financial cost	388	8%	400	9%	-3%
Net Interest Margin		15.08%		15.56%	

- **Net interest margin decreased due to lowered credit card interest.** The Company's average interest receive rates in 1Q18 was 18.10%, dropped from 18.77% in 1Q17, due to credit card interest reduction. Since the company was able to manage funds effectively, cost of funds in 1Q18 was 3.02%, dropped from 3.21% yoy. As a result, Net interest margin decreased from 15.56% to 15.08% in 1Q18.
- **Fee income increased.** Fee income (excluding credit usage fee) grew 15% yoy to 1,140 MB, mainly contributed by 28% yoy interchange fee growth (fee charged between banks/credit card issuers and banks/intermediary payment companies), 16% yoy merchant discounts growth (fee charged for performing as a credit card accepting agent for merchant members), and 1% yoy cash advancement growth. Collection fee, however, declined 4% yoy.

## Control on Expenses

- **Total expense decreased 3% yoy due to lower marketing expense and effective budget spending.** The Company's total expense (excluding income tax expense) was 3,603 MB in 1Q18, decreased 3% from 3,718 MB in 1Q17. Total administrative expense increased by 8% yoy from higher fees expense (13% yoy) as a result of increased merchant transactions and outsourced debt collection, Personnel expense increased 5% yoy, and other administrative expense grew 12% yoy. Contrarily, marketing expense dropped by 6% yoy in this quarter due to lower than anticipated new card acquisitions as well as efficient use of marketing budget that utilized technology to maximize the budget impact. Bad debts and doubtful accounts also decreased

14% yoy due to decelerated portfolio growth and lower provision. Financial expense decreased 3% yoy from the issuance of new debentures with longer tenure and lower rates.

- Maintain low level of Operating Cost to Income Ratio.** The Company's cost to income ratio was 35.4% down from 36.2% yoy. Once the marketing expense and interchange fee was excluded and considered only the operating expense, operating cost to income ratio was 27.2% the same level compared to the first quarter of the previous year; indicating the company's ability to maintain operational efficiency.

Unit: Million Baht	1Q18	% of total Revenue	1Q17	% of total Revenue	Growth
Personal Expense	575	11%	547	12%	5%
Marketing Expense	187	4%	199	4%	-6%
Fees	589	12%	523	11%	13%
Other Administrative Expense	459	9%	409	9%	12%
<b>Total Administrative Expense</b>	<b>1,811</b>	<b>35%</b>	<b>1,678</b>	<b>36%</b>	<b>8%</b>

### Quality of the portfolio

- Total receivables portfolio grew 6% yoy, decreased from 11%.** In the first quarter, total receivables amounted to 70,162 MB, grew 6% yoy compared to the 11% yoy growth in 1Q17. Total receivables consisted of 45,317 MB (5% yoy) credit card receivables, and 24,469 MB (10% yoy) personal loan receivables. When 5,570 MB of doubtful accounts was deducted, total net receivables was 64,592 MB. Net credit card receivables portfolio was 42,137 MB, which accounted for 65% of total net receivables portfolio, and net personal loan receivables was 22,315 MB. Total portfolio growth was contributed by increased credit card spending and increased cash withdrawal from KTC PROUD members.
- Member base expansion decelerated.** The Company's total member was 3.0 million accounts as of March 2018, or grew by 3.3% yoy. There are 2,207,773 credit card members (3.5% growth) and 857,613 personal loan accounts (2.8%).

Unit: Million Baht	1Q18	% of total Revenue	1Q17	% of total Revenue	Growth
- Credit Card's bad debts and doubtful accounts	689	13%	888	19%	-21%
- Personal Loan's bad debts and doubtful accounts	711	14%	756	16%	-6%
- Other bad debts and doubtful accounts*	3	0.1%	6	0.1%	-39%
<b>Total bad debts and doubtful accounts</b>	<b>1,404</b>	<b>27%</b>	<b>1,640</b>	<b>35%</b>	<b>-14%</b>

\* Other receivables consisted of Circle Loans, and Self-employ Loans

- NPL ratio of both businesses continued to improve.** KTC prioritizes on portfolio quality, with an NPL ratio of 1.3% in 1Q18, decreased from 1.7% in 1Q17. Credit card's NPL decreased to 1.1% down from 1.3%, and personal loan's NPL decreased to 0.8% down from 0.9%. Although write-offs are still based on the same policy the company's NPL remained low due to the quality of the new receivables, and allowance to NPL remained high at 591% compared to 500% of last year.
- Bad debts and doubtful accounts decreased due to lowered provision.** Bad debts and doubtful accounts decreased decrease of 14% yoy from 1,640 MB to 1,404 MB as a consequent of slowing growth, higher competition, and BOT's new regulations. As a result, the provision requirements were lowered; while bad debts remained at a similar level to that of the same period in the prior year.

KTC Financial Highlight (หน่วย : ล้านบาท)	1Q18	1Q17	Growth (Y-Y%)
Total Revenue	5,108	4,633	10%
Total Expense (Excluding Financial Cost)	3,215	3,318	-3%
Total Expense (Including Financial Cost)	3,603	3,718	-3%
Net Profit	1,209	733	65%
Credit Card Net Receivables	42,137	40,035	5%
Personal Loan Net Receivables	22,315	20,286	10%
Other Net Receivables*	139	153	-9%
Total Assets	69,965	65,450	7%
Total Borrowing	49,375	48,635	2%
Total Liabilities	56,179	54,395	3%
Total Shareholder's Equity	13,786	11,054	25%

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

## Financial Position

- Assets increased from receivables portfolio.** The Company's asset at the end of 1Q18 amounted to 69,965 MB, increased 7% yoy from 65,450 MB. The main income generating assets were net receivables of 64,592 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 1Q18, the Company reported a total borrowing of 49,375 MB, an increase of 2% yoy. The structure of the funds was both short-term and long-term. The short-term borrowings were from other financial institutions of 4,570 MB. The long-term borrowings were from debentures of 44,805 MB with diverse sources from Thai and Foreign commercial banks, securities companies, insurance companies, and various funds. At the end of 1Q18, the Company's available credit line was 24,670 MB consisted of 18,030 MB from Krung Thai Bank and 6,640 MB from other commercial banks. The cost of funds by the end of 1Q18 was 3.02% down from 3.21% in 1Q17, and down from 3.12% by the end of 2017. The



lowered cost of fund was contributed by issuance of new debentures with longer tenure and lower rates. The company's debt to equity ratio was at 4.08 times, which remained below the bond covenant of 10 times.

KTC Financial Highlight (unit: Million Baht)	1Q18	1Q17	Growth (Y-Y%)
Gross Profit Margin	86.3%	85.5%	1%
Net Profit Margin	23.7%	15.8%	50%
Interest Coverage ratio (times)	4.88	3.29	49%
Debt to Equity ratio (times)	4.08	4.92	-17%
Return on Equity (%)	36.7%	27.4%	34%
Return on Asset (%)	6.7%	4.4%	54%
Allowance / Total Receivables (%)	7.9%	8.3%	-4%
Allowance / NPL (%)	591%	500%	18%
Book Value (Baht)	53.47	42.9	25%
Earnings per share (Baht)	4.69	2.84	65%

## 2018 Guideline

For 2018, the company has targeted spending growth of at least 15%, but the actual growth in the first quarter of 2018 was 8.4%. Total portfolio growth in 1Q18 was 6% yoy compared to the targeted growth of 10%. Nonetheless, the company's NPL in the first quarter was 1.3% in line with the NPL target (maintain the previous year's level). The Company has targeted to earn higher net profit than 3,304 MB achieved in 2017. Thus far, a net profit of 1,209 MB has been attained in the first quarter.

	2018 target	1Q18 results
Total Card Spending growth	15%	8%
Total Portfolio growth	10%	6%
% NPL	Maintain 2017 level at 1.3%	1.3%
Net Profit growth	more than 2017	1,209

The company did not achieve the targeted on spending and portfolio growths partly due to economic conditions, lingering household debts, restraints on credit limits, personal loan accessibility, and reduced credit card interest from 20% to 18%. Despite those effects, KTC has continuously revised marketing plans to deal with the evolving competition. Yet the company still possessed the capabilities to expand member base, maintained low NPL, increased fee income, kept operational cost under control, and the lowered provisions; as a result, total expense decreased. And thus, the impressive profit growth.



KTC's business plan for 2018 will mainly focused on customer needs by expanding collaborative business partners in marketing, IT, start-up, and FinTech to cater valuable and satisfactory services to KTC members. The company has enhanced the TapKTC application by focusing on usability, convenience, and good customer experience to garner long-term customer loyalty with the KTC brand.

Overall Performance

Business Outlook

2018 Operation Strategy