

บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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KTC 972 / 2561

November 12th, 2018

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

Subject: Operating result notification of the quarter ended September 30, 2018

Enclosure: Management Discussion and Analysis for the quarter ended September 30, 2018

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, 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)

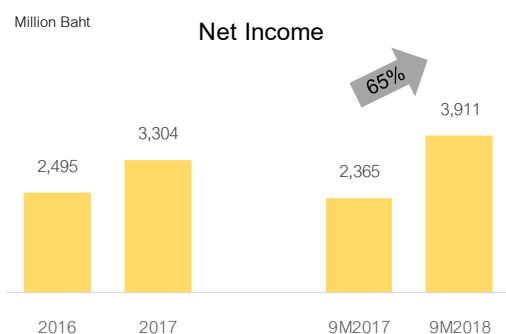
Chief Financial Officer

Executive summary

For the first nine months of 2018, the company's net profit amounted to 3,911 MB, a 65% growth, compared to that of 2,365 MB for the same period of last year. This was owing to not only the ongoing income growth in both credit card business and personal loan business but also the decline in total expense. In term of financial expense, the company has successfully achieved its lower cost of funds compared to that of last year. Even though the amount of total borrowings was higher along with total portfolio's growth, the company has accomplishedly managed its financing cost by stressing on replacing its matured debentures with the ones offering lower cost but longer maturity, thus prolonging low funding cost for extended periods. In term of marketing expense, the company was also able to spend less, yet effective with better response from clients, in both new credit cards acquisition and new marketing campaigns. As a result, the company has continuously attained its lower level of operating cost to income ratio compared to that of last year. Additionally, because of the company's high quality of total receivables portfolio and its high efficiency in debt collection, its bad debt write offs continued to decline while NPL level remained unchanged and so did the income from bad debt recovery. In all, due to the decrease in overall expense and the continued increase in income base, the company has sustainably achieved its high profit growth in the third quarter and in the first nine months of this year.

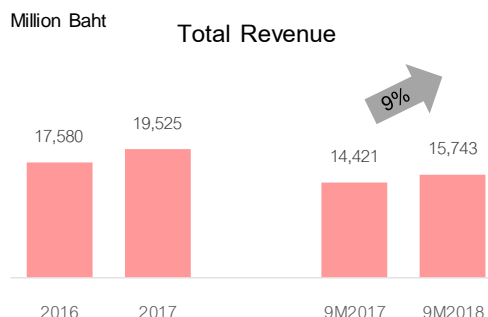
Overall performance analysis for the third quarter of 2018

For the first nine months of 2018, the company had total revenue growth of 9.2% and net profit growth of 65% from last year, with net profit amounted to 1,396 MB in Q3 and 3,911 MB for the first nine months. The company has continued to achieve sustainable profit growth from the ongoing expansion in credit card spending, credit card receivables and personal loan business. Although the company has faced the constantly increased and intense competition in consumer finance business caused by the challenge in consumer behavioral changes and the impacts from rapid technological developments, to response swiftly and successfully to these new challenges, the company has tirelessly adapted and improved its business plans, and as a result, its continued higher amount of credit card spending. Particularly for the first time in August and continued into September, KTC's growth in credit card spending had overcome the industry's one and continued doing so in September. Yet, the company has still strictly monitored the standard of its credit card approval process under appropriate guidelines and criteria suitable for each target group's risk profile. Together with the company's capability in managing its debt collection effectively, its NPL level has remained lower than the industry's one. KTC's performance overview can be summarized as the followings.



- Total receivables in Q3, 2018 was 72,870 MB, a 6% growth of the same period of the prior year. Credit card receivables increased from 44,219 MB to 46,616 MB and personal loan receivables increased from 24,019 MB to 25,917 MB.

- Total revenue was up 9% compared to the same period of last year or amounted to 15,743 MB, resulting from the increase in interest income (including credit usage fee) of 5%, in fee income of 14% and in bad debt recovery income of 22%.



- For the first nine months of 2018, credit card spending of the industry grew at 10.5% whereas that of KTC grew at 8.7% or amounted 138,289 MB. By monthly comparison, the industry's growth in July, August and September was at 11.7%, 9.9% and 8.1% whereas KTC's one was at 9.4%, 11.5% and 11.3% respectively.

| Operating Result (unit: Million Baht) | 3Q18 | 3Q17 | YoY (%) | QoQ % | 9M18 | 9M17 | YoY (%) |
|--|-------|-------|---------|-------|--------|--------|---------|
| Total Revenue | 5,376 | 4,968 | 8% | 2% | 15,743 | 14,421 | 9% |
| - Bad debt recovery | 841 | 767 | 10% | -4% | 2,550 | 2,088 | 22% |
| Administrative Expense | 1,825 | 1,813 | 1% | -1% | 5,472 | 5,242 | 4% |
| Financial Expenses | 387 | 414 | -7% | -1% | 1,168 | 1,220 | -4% |
| Bad debt and Doubtful Accounts | 1,421 | 1,681 | -16% | 2% | 4,222 | 4,997 | -16% |
| Profit before tax | 1,743 | 1,059 | 65% | 7% | 4,882 | 2,961 | 65% |
| Income tax expense | 347 | 213 | 63% | 6% | 971 | 596 | 63% |
| Net Profit | 1,396 | 846 | 65% | 7% | 3,911 | 2,365 | 65% |

- In term of merchant business, merchant volume for the first nine months of 2018 grew at 14.4% to 62,359 MB, up from 54,520 MB, with merchant outlets increased from 31,686 to 35,311, up 11.4%. The volume increase was due to the merchant expansion and card terminal installation project. Additionally, in this past August, KTC has successfully tested and got approval from the Bank of Thailand to take its card payment service thru QR Code out of Regulatory Sandbox, hence enabling the company to offer this credit card QR Code payment service more publicly widespread. This KTC QR Pay channel not only would yield in more new merchants acquiring business but would also offer KTC's members to newly experience a different way of credit card payment.
- Net interest margin in Q3 and for the first nine months of 2018 was at 16.13% and 15.46%, compared to that of 15.88% and 15.58% respectively for the same period of last year. The average interest received was at 19.09% and 18.44% while cost of funds was at 2.97% and 2.98% respectively. Even though the company's average interest received has lowered a bit due to the decrease in credit card's interest charged from 20% to 18%, the also drop in its financing cost from the lower funding yet longer term borrowings has helped maintain net interest margin closed to the previous level.
- KTC has persistently managed high quality of its total receivables portfolio. Its total NPL this year was down to 1.2%, from 1.5% (yoy) and expected to be continuously maintained at this low level.

- Bad debt and doubtful accounts amounted to 4,222 MB, decreased by 16% compared to the same period of last year. Because of the company's less bad debt write offs and less provisions set up as well as its high quality of receivables portfolio, its allowance for doubtful accounts to NPL ratio remained at the high level of 615%.
- For the first nine months of 2018, operating cost to income ratio was at 26.4%, down from that of 27.2% for the same period of the previous year, implying that the company has consistently managed the expense ratio efficiently.

Thai Economic outlook and overview of consumer finance business in 2018

Thai economy has still persistently growing due to the strong drive in export and tourism sectors, both benefiting from the ongoing expansion of global economy, and the continuing push of domestic consumption demand. Despite household debts remain high, household purchasing power has been slowly recovered. The Bank of Thailand has projected GDP in 2018 to grow at 4.4%, higher than that of 3.9% in 2017. Plausibly better than expected growth of global economy, improved expansion in our private consumption and investment, and continued government spending would remain to be the key driving forces for the continuous growth of our domestic economy. The new government election expectedly held at the beginning of 2019 would also supposedly help stimulate domestic spending. Yet, uncertainties in global financial market and less than expected growth in domestic consumption could also have unpredictable impacts on overall Thai economy.

| Industry Comparison | 2016 | 2017 | 9M18 |
|---|------------|------------|------------|
| Credit Card Receivable (MB) | 360,096 | 394,123 | 370,576 |
| Growth (%) | 8.0% | 9.4% | 8.1% |
| KTC credit card receivables to industry | 12.8% | 12.3% | 12.6% |
| Number of cards (cards) | 20,136,341 | 20,334,780 | 21,550,041 |
| Growth (%) | 6.1% | 1.0% | 6.3% |
| Credit card spending (MB) | 1,488,273 | 1,572,599 | 1,241,116 |
| Growth (%) | 6.9% | 5.7% | 10.5% |
| KTC credit card spending to industry | 11.1% | 11.2% | 11.1% |
| Personal loan receivables (MB) | 332,996 | 354,243 | 373,184 |
| Growth (%) | 4.6% | 6.4% | 7.4% |
| KTC Personal loan receivables to industry | 6.6% | 7.0% | 6.9% |

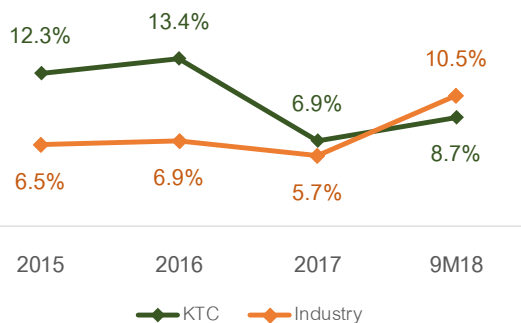
Source: The Bank of Thailand

Overall consumer finance industry has continued to grow with the industry's credit card receivables as of September 2018 at 370,576 MB, an 8.1% growth, up from that of 7.7% or amounted to 342,710 MB for the same period of 2017. For the first nine months of 2018, the industry's credit card spending amounted to 1,241,116 MB, a 10.5% growth, up from that of 4.9% in 2017 whereas the industry's personal loan receivables amounted to 373,184 MB, a 7.4% growth, higher than that of 5.9% of last year. Effective since Sep 1, 2017, the Bank of Thailand has announced the measure to tighten credit lines available to clients in both credit card and personal loan business by capping their credit limits according to each client's income base. As a result, growth in overall consumer finance business is expected to decline in the future. In term of KTC's market share to the industry, at the end of September 2018, its credit card receivable accounted for 12.6% of the industry while its personal loan receivable accounted for 6.9%.

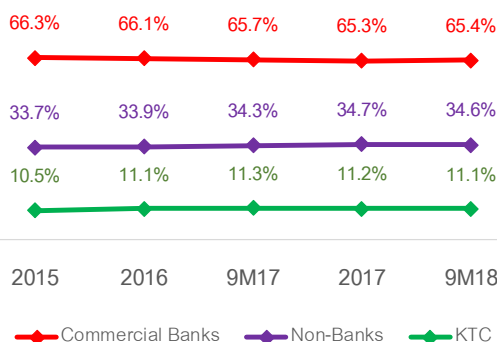
KTC credit card spending compared to the industry

- KTC's growth in credit card spending for the first nine months was at 8.7%, compared to that of the industry at 10.5%. The company's market share for the same period was slightly down from 11.3% to 11.1%. Yet, as the company's credit card spending in August and September 2018 outgrew that of the industry, its growth in this third quarter of 10.7% had outpaced that of the industry at 9.9%. Consequently, KTC's overall credit card spending would most probably outperform the industry's in this near future.

Credit Card Spending (%YoY)



Credit Card Spending Market Share



Higher interest income from two main businesses

- Higher total revenue. Total revenue for the third quarter of 2018 amounted to 5,376 MB, an 8% increase. Interest income (including credit usage fee), fee income and other incomes amounted to 3,226 MB, 1,182 MB and 968 MB respectively and were accounted for 60%, 22% and 18% of total revenue respectively. In term of other revenues, 87% of those were mainly from bad debt recovery.
- Higher interest income for Q3 due to personal loan receivables business. Credit card receivable and personal loan receivable portfolios grew at 5% and 8% respectively. Due to the impact of the decrease in interest rate charged for credit card business from 20% to 18%, credit card's interest income (including credit usage fee) remained unchanged. However, personal loan's income was up 13%. Compared to the same period of last year, the interest income growth of credit card business and personal loan business was at 3% and 20% respectively. As the company acquired customer base less than expected in the first nine months, credit card receivables and credit card spending still couldn't grow as much as earlier planned. Nonetheless, despite the increased and intensified marketing competition, to persistently expand its new member base, the company has focused its marketing campaigns on enhancing values and creating brand loyalty for using KTC's card. In addition, the company has consistently promoted its technology offering a convenient and secure way for credit card spending thru its mobile application 'TapKTC'. The company also set up special campaigns for personal loan to help its members reduce their interest burden and to encourage them more of cash withdrawal.
- Maintain net interest margin. In the third quarter of 2018, although the company's average interest rate received was at 19.09%. down from 19.16%, compared to the same period of last year, its cost of fund was also lower to 2.97%, from 3.28%. Hence, net interest margin increased a bit from 15.88% to 16.13%.

| Unit: Million Baht | 3Q18 | % of total revenue | 3Q17 | % of total revenue | Growth |
|--|--------|--------------------|--------|--------------------|--------|
| Total interest income including credit usage fee | 3,226 | 60% | 3,025 | 61% | 7% |
| - Credit card receivables | 1,483 | 28% | 1,483 | 30% | 0% |
| - Personal loan receivables | 1,735 | 32% | 1,532 | 31% | 13% |
| - Other receivables (Circle loans / self-employment) | 7 | 0.1% | 10 | 0.2% | -24% |
| Fee income (excluding credit usage fee) | 1,182 | 22% | 1,050 | 21% | 13% |
| Financial cost | 387 | 7% | 414 | 8% | -7% |
| Net Interest Margin | 16.13% | | 15.88% | | |

- Higher fee income. Fee income (excluding credit usage fee) grew at 13% compared to the same period of the previous year or amounted to 1,182 MB. The increase was mainly from merchant discounts fee which is the fee charged to KTC merchants for providing services, from cash advanced fee and from interchange fee which is the fee charged between issuing banks or issuing credit card companies and banks or intermediary payment companies. However, the revenue from bad debt recovery fee was lower.

Company's expense

- Total expense decreased 7% (yoy) compared to that of 9% increase last year. For the third quarter of 2018, the company's total expense (excluding income tax) amounted to 3,632 MB, down 7% from 3,908 MB. Firstly, total administrative expense was up only 1% (yoy). Secondly, bad debts and doubtful accounts were down by 16% (yoy) as a result of less provisions set up due to the ongoing high quality of receivables portfolio. And thirdly, the company's cost of funds was also lower by 7% (yoy). All these three factors have contributed to the significant decrease in the company's total expense.
- Total administrative expense up only 1%. Even if personnel expense was higher by 7% (yoy) and other administrative expense was up by 3% (yoy), fee expense from computer outsourcing was down by 2% (yoy). Marketing expense was also remarkably dropped by 11% (yoy) from less expense in new card acquisition and from the company's capability to spend less, yet effective, marketing budget. Consequently, total administrative expense was increased only a little.
- Drop in operating cost to income ratio compared to the same period of last year. Total operating cost to income ratio was at 34.8%, lower from the previous year of 36.3%. When operating expense excluding marketing expense and interchange fee expense was only considered, net operating cost to income ratio was at 26.4%, down from that of 27.2% for the same period of last year. This is owing to the improvement in working process performance and the outpace of the increase in net income to the increase in operating expense.

| Unit: Million Baht | 3Q18 | % of total revenue | 3Q17 | % of total revenue | Growth |
|------------------------------|-------|--------------------|-------|--------------------|--------|
| Personal Expense | 585 | 11% | 549 | 11% | 7% |
| Marketing Expense | 209 | 4% | 235 | 5% | -11% |
| Fees | 572 | 11% | 585 | 12% | -2% |
| Other Administrative Expense | 459 | 9% | 444 | 9% | 3% |
| Total Administrative Expense | 1,825 | 34% | 1,813 | 36% | 1% |

Constantly maintained high quality of receivables portfolio.

- Total receivables portfolio grew at 6%. For the third quarter of 2018, total receivables amounted to 72,870 MB, up 6% from the same period of last year. Total credit card receivables amounted to 46,616 MB (up 5% yoy) and total personal loan receivables amounted to 25,917 MB (up 8% yoy). When deducting the allowance for doubtful accounts of 5,516 MB, the company's net receivables was at 67,355 MB, with the amount of 43,476 MB which was 65% of total net receivables accounted for net credit card receivables, and with the amount of 23,743 MB accounted for net personal loan receivables. The continuing growth of total receivables portfolio was due to the increase in credit card spending and the increase in cash withdrawal from KTC PROUD usage.
- Increase in member base from new membership acquiring in both businesses. At the end of September, 2018, the company had total members of 3.2 million accounts, up by 5.2% compared to the same period of last year, with current membership consisting of total number of 2,301,431 credit cards (grew at 3.6%) and total number of 929,634 personal loan accounts (grew at 9.5%).

| Unit: Million Baht | 3Q18 | % of total revenue | 3Q17 | % of total revenue | Growth |
|---|--------------|--------------------|--------------|--------------------|-------------|
| - Credit card's bad debts and doubtful accounts | 725 | 13% | 797 | 16% | -9% |
| - Personal loan's bad debts and doubtful accounts | 693 | 13% | 880 | 18% | -21% |
| - Other bad debts and doubtful accounts | 3 | 0.1% | 4 | 0.1% | -19% |
| Total bad debts and doubtful accounts | 1,421 | 26% | 1,681 | 34% | -16% |

* Other loans include circle loan, self employed loan, etc.

- Ongoing lower level of NPLs from both businesses. Due to the company's emphasis on NPL portfolio's quality, its NPL of total portfolio for the third quarter of 2018 stood at 1.2%, dropped from 1.5% compared to the same period of the previous year. Its NPL for credit card decreased to 1.1% from 1.2%, in comparison with that of the industry at 1.9% while its NPL for personal loan unchanged at 0.8%, yet much less than that of the industry at 2.6%. With the high quality of incoming receivables portfolio, even applying the previous calculation method for bad debts write offs, the company still had lower level of NPL, thus contributing to the remaining high ratio of the allowance for doubtful accounts to NPL at 615%, compared to that of 565% for the same period of last year.
- Less bad debts and less provisions set up due to better quality of receivables portfolio. Bad debts and doubtful accounts decreased to 1,421 MB from 1,681 MB, down 16% compared to the same period of the prior year. Due to the company's high quality of receivables portfolio, there was no necessity for more provisions setup. Bad debt write offs was also declined by 11%, with write offs in credit card and personal loan down by 14% and 5% respectively.

Financial status and sources of fund raising

- Increased assets from receivables portfolio. The company's assets at the end of third quarter, 2018 were at 73,319 MB, increased from 68,132 MB by 8% compared to the same period of the previous year. The main income generating assets were net receivables of 67,355 MB, accounted for 92% of total assets whereas the rest of 8% comprised of cash, other receivables, deferred tax assets and other assets.
- Effective funding. Compared to the same period of last year, the company's total borrowing amounted to 50,974 MB or higher by 2%. Fund raising structure was both from short-term and long-term borrowings. Short term borrowings were loans from related financial institutions of 599 MB and from other financial institutions of 4,490 MB. Long term borrowings were from debentures issuances of 45,885 MB to various sources, i.e. Thai commercial banks, securities companies, insurance companies and other asset managements.

At the end of third quarter, 2018, the company's available credit lines amounted to 25,390 MB, comprising of 18,030 MB from Krung Thai Bank and 7,360 MB from other commercial banks. The company's cost of funds at the end of third quarter and for the first nine months of 2018 stood at 2.97% and 2.98%, down from 3.28% and 3.22% compared to the same period of the previous year. Additionally, the company's debt to equity ratio was at 3.85 times, very well below the bond covenant limited at 10 times.

| KTC Financial Highlight (Unit: Million Baht) | 3Q18 | 3Q17 | Growth (Y-Y%) | 9M18 | 9M17 | Growth (Y-Y%) |
|---|--------|--------|------------------|--------|--------|------------------|
| Total Revenue | 5,376 | 4,968 | 8% | 15,743 | 14,421 | 9% |
| Total Expense (Excluding Financial Cost) | 3,245 | 3,494 | -7% | 9,693 | 10,239 | -5% |
| Total Expense (Including Financial Cost) | 3,632 | 3,908 | -7% | 10,861 | 11,460 | -5% |
| Net Profit | 1,396 | 846 | 65% | 3,911 | 2,365 | 65% |
| Credit card net receivables | 43,476 | 40,918 | 6% | 43,476 | 40,918 | 6% |
| Personal loan net receivables | 23,743 | 21,940 | 8% | 23,743 | 21,940 | 8% |
| Other net receivables | 136 | 150 | -9% | 136 | 150 | -9% |
| Total Assets | 73,319 | 68,132 | 8% | 73,319 | 68,132 | 8% |
| Total Borrowing | 50,974 | 49,883 | 2% | 50,974 | 49,883 | 2% |
| Total Liabilities | 58,198 | 56,476 | 3% | 58,198 | 56,476 | 3% |
| Total Shareholders' Equity | 15,122 | 11,656 | 30% | 15,122 | 11,656 | 30% |

* Other loans include circle loan, self employed loan, etc.

| KTC Financial Highlight | 3Q18 | 3Q17 | Growth (Y-Y%) | 9M18 | 9M17 | Growth (Y-Y%) |
|---------------------------------|-------|-------|------------------|-------|-------|------------------|
| Gross profit margin | 87.2% | 85.9% | 1% | 86.8% | 85.7% | 1% |
| Net profit margin | 26.0% | 17.0% | 53% | 24.8% | 16.4% | 51% |
| Interest coverage ratio (times) | 5.5 | 3.6 | 55% | 5.2 | 3.4 | 51% |
| Debt to equity ratio (times) | 3.8 | 4.8 | -21% | 3.8 | 4.8 | -21% |
| Return on equity | 40.3% | 30.8% | 31% | 37.7% | 28.7% | 31% |
| Return on asset | 7.6% | 5.0% | 53% | 7.1% | 4.6% | 54% |
| Allowance/ Total receivables | 7.6% | 8.2% | -8% | 7.6% | 8.2% | -8% |
| Allowance / NPL | 615% | 565% | 9% | 615% | 565% | 9% |
| Book Value | 5.9 | 4.5 | 30% | 5.9 | 4.5 | 30% |
| Earning per shares (Baht) | 0.5 | 0.3 | 65% | 1.5 | 0.9 | 65% |

Company's performance compared to 2018 budget

For year 2018, KTC has targeted to achieve credit card spending growth of no less than 15%, yet for the first nine months, it only expanded at 9%. The company has also set the target growth of receivables portfolio at 10%, yet, at the end of third quarter, the growth was only at 6% (yoy). Nevertheless, the company's NPL at the end of third quarter stood at 1.2%, lower than expected; the company expects net income of 2018 to be around 5,000 MB (+/-).

| | 2018 target | 9M18 results | 2019 target |
|----------------------------|-----------------------------|--------------|---------------------------------|
| Total card spending growth | 15% | 9% | 15% |
| Total portfolio growth | 10% | 6% | 10% |
| % NPL | Maintain 2017 level at 1.3% | 1.2% | Maintain 2018 level at year end |
| Net profit growth* (MB) | more than 2017 | 3,911 | 10% growth |

*Adjusted in August 2018

Due to still ongoing overall economic recovery, less than expected growth of its member base, pressures from household debt problems, together with strict measures and regulations to tighten credit limits and access in credit card and personal loan business as well as the impact of less interest rate charged in credit card from 20% to 18%, the company was unable to achieve its planned targets of portfolio growth and credit card spending for the first nine months. Nonetheless, to cope with rapid changing and competitive environment, the company has endlessly adjusted its marketing strategies. As a result, it has continually expanded its member base. The company was also able to maintain high quality of its receivables portfolio, thus less provisions were set up. Additionally, it has sustainably achieved higher fee income while incurred less marketing and financing costs. All these factors eventually have contributed to much better than expected growth of the company's net profit.

For 2019, KTC has continually laid out its seamless business plans from last year by targeting to achieve its growth in net profit of 10%, in its credit card spending of no less than 15% and in its receivables portfolio of 10%, and also to maintain its NPL to be the same level as the end of last year. With regard to the startup of Nano finance and Pico finance businesses, the process is still pending for Krungthai Bank's approval, once approved, the submission for the Bank of Thailand's approval would be the next step to proceed.