



บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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August 10, 2016

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

Subject: Operating result notification of the quarter ended June 30, 2016

Enclosure: Management Discussion and Analysis for the quarter ended June 30, 2016

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the quarter ended June 30, 2016, 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)

Senior Executive Vice President-Corporate Finance

Management discussion and analysis 2nd quarter 2016

Thai Economic summary and Consumer Finance overview

The economic outlook continued to recover at a slow rate, however recovery are expected to be stronger in the second half of 2016. The Bank of Thailand maintained its original GDP forecast of March 2016, at 3.1%, due to the lower export figures. Private investment remained low, with limited growth in some business sectors. Consumer confidence index was in a downward trend, reflecting decrease in private consumptions. While positive factors were: low oil price that benefited businesses, growth in tourism, and expected increase in government spending in the second half of the year.

Consumer finance sector, however, continued to grow in the first half of 2016. The industry total credit card receivables at the end of June 2016 was 315,557 MB increased 6% from the same period of 2015. KTC credit card spending amounted to 714,547 MB a 8% growth, while personal loan receivables at the end of June 2016 was 327,169 MB, a 3% growth.

Industry Comparison	2014	2015	2Q2016
Credit Card Receivable (MB)	318,141	336,641	315,557
<i>Growth (%)</i>	10%	6%	6%
KTC credit card receivables to industry	11.8%	12.3%	13.0%
Number of Cards (Cards)	20,303,751	21,762,273	22,578,242
<i>Growth (%)</i>	9%	7%	8%
Credit card spending (MB)	1,307,152	1,393,121	714,547
<i>Growth (%)</i>	9%	7%	8%
KTC credit card spending to industry	9.9%	10.5%	11.0%
Personal Loan receivables (MB)	312,851	324,667	327,169
<i>Growth (%)</i>	5%	4%	3%
KTC Personal Loan receivables to industry	5.3%	5.7%	6.0%

Source: BOT, KTC

Performance summary

The company maintained its profitability from the growth in credit card spending as well as expanding portfolios of both the credit card business and the personal loan business; while maintained NPL at low level. The overview of the first half of 2016 was:

- At the end of June 2016, KTC reported 1,215 MB net profit, an increase of 17% (yoy) or 4.71 THB earnings per share. The company realized 580 MB net profit in the second quarter of 2016.



- Credit card spending grew 15.4% in the first half of 2016, a higher growth than the industry that grew 8.0%. KTC monthly credit card spending growth was higher than the industry in every month of 2016 compared to the same period of 2015.
- Total receivables grew 12% over the same period of last year; contributed by credit card receivables that increased from 37,226 MB to 41,102 MB, and personal loan receivables that increased from 16,769 MB to 19,597 MB.
- Total revenue in the first half of the year increased 13% (YoY) or an amount of 8,437 MB; up from the growth of 11% (YoY) interest income (including credit usage fee), and 12% (YoY) fee income.
- KTC reported 1,156 MB bad debt recovery, an increase of 20% from the same period of the previous year.
- Net interest margin in the second quarter, and the first half of 2016 were 15.6% and 15.3% respectively, as a result of lower financial cost.
- Maintained control of the portfolios. NPL of total receivables was 1.9% down from the 2015 year-end figure of 2.1%, and also down from 2.2% of the same period of last year.
- Bad debt and doubtful account amounted to 2,797 MB, up 13% from the same period of last year from increased allowances that accompanied portfolio growth. The allowance to NPL remains high at 439%.
- Operating cost to income increased slightly to 29.2% from 29.1% of the same period of prior year, a decrease from the 2015 year-end of 29.4%.

17% Profit Growth

- For the first half of 2016 KTC reported 1,215 MB net profit, a 17% increase, resulting from of the 13% (yoy) revenue growth in the first six month of the year that offset total expense that grew 12% (yoy).
- KTC reported 580 MB net profit in the second quarter of 2016, a 9% decrease (qoq) from the previous quarter, but a 25% increase (yoy) from the same period of last year which was 464 MB. This was contributed by the ability to generate more revenue (13% increase) than the total expense (11% increase). The risen expense was driven mainly from outsourced fee expense, and the bad debt and doubtful account that grew with the growing portfolio.

Operating Result (unit: million Baht)	Q2 2016	Q2 2015	Growth		Q2 2016	1H 2015	Growth Y-Y(%)
			Y-Y(%)	Q-Q(%)			
Total Revenue	4,285	3,789	13%	3%	8,437	7,494	13%
- <i>Bad Debt Recovery</i>	575	484	19%	-1%	1,156	963	20%
Administrative Expense	1,705	1,434	19%	3%	3,357	2,868	17%
Financial Expense	375	418	-10%	-2%	758	840	-10%
Bad Debts and doubtful Accounts	1,480	1,353	9%	12%	2,797	2,477	13%
Profit (Loss) before tax	726	583	24%	-9%	1,525	1,309	17%
Income tax – Income (expense)	(146)	(119)	23%	-11%	(311)	(270)	15%
Net Profit (Loss)	580	464	25%	-9%	1,215	1,039	17%

- KTC's total revenue in the second quarter of 2016 was 4,285 MB. The revenue increase was contributed by the 12% total portfolio growth, which in turn boosted interest income by 12% and fee income by 15% (yoy).
- The company total administrative expense was 1,705 MB, a 19% increased (yoy). The buildup in administrative expense was contributed by 28% increase in fee expense, which was driven by the outsourced collection service since May of 2015.
- Marketing expense increased 54% (yoy), but declined 1% (qoq). The company also reported 9% increased bad debt and doubtful account.
- In the second quarter of 2016, KTC reported 3.30% cost of fund, compared to the 4.04% of the same period of prior year; with a half year average of 3.34%.

Card spending continued to grow

- KTC credit card spending growth in the first half of 2016 was 15.4%. The industry's credit card spending growth in April, May, and June of 2016 was 8.4%, 9.3% and 6.1% respectively, while KTC credit card spending growth was 16.7%, 16.2% and 13.4%. Consequently, KTC credit card spending growth in the second quarter of 2016 was 15.4%, higher than that of the industry which grew 8.0%.

Interest Income Increases in both main businesses

- **Total revenue grew 13%.** KTC reported 4,285 MB total revenue in the second quarter of 2016. The total revenue comprised of interest income (including credit usage fee), fee income, and other income with amounts of 2,641 MB, 951 MB, and 693 MB respectively, the proportion of 62%, 22% and 16% of total revenue. Other income was mostly bad debt recovery.



- **Gained more Interest income in both businesses.** Total credit card receivable and total personal loan receivables increased 10% and 17% respectively. Interest income (including credit usage fee) increased 8% from credit card portfolio and 17% from personal loan portfolio.
- **Net interest margin boosted due to the lowered financial expense.** In the second quarter of 2016 KTC cost of fund was 3.30% (half year average of 3.34%), down from 4.04% of the same period of last year. While average interest received decreased slightly to 18.90% down from 18.92%. As a result of lowered cost of funding, net interest margin advanced to 15.60% up from 14.89%.

The company's Financial Statements (MB)	Q2 2016	% of Total Revenue	Q2 2015	% of Total Revenue	Growth (%)
Total interest income including credit usage fee	2,641	62%	2,367	62%	12%
- Credit card receivables	1,402	33%	1,301	34%	8%
- Personal Loan receivables	1,227	29%	1,051	28%	17%
- Other Receivables (Circle Loans / Self-employ)	12	0.3%	15	0.4%	-20%
Fee income (excluding credit usage fee)	951	22%	830	22%	15%
Financial Cost	375	9%	418	11%	-10%
Net Interest Margin	15.60%		14.89%		

- **Higher fee income.** Fee income (excluding credit usage fee) was 951 MB, grew 15% compared to that of the prior year. The fee income growth was contributed by merchant discount fee, cash advance fee, and interchange fee. The collection fee, however, had decreased.

Expense grew in tandem with the portfolio growth

- **Total expense rose from administrative expense as well as higher bad debt and doubtful accounts.** In the second quarter of 2016 the company reported 3,559 MB in total expense (excluding income tax), an increase of 11% up from 3,205 MB in the same period of last year. Administrative expense, and bad debt and doubtful accounts increased 19% and 9% respectively. While financial expense decreased by 10%.
- **Cost to income escalated.** In the second quarter of 2016 KTC's cost to income ratio was 39.8%, up from the same period of last year which was 37.9%. The increase expense was contributed by the outsourced fee expense.

The company's Financial Statements (MB)	Q2 2016	% of Total Revenue	Q2 2015	% of Total Revenue	Growth (%)
Personnel Expense	512	12%	473	12%	8%
Marketing Expense	266	6%	173	5%	54%
Fees	529	12%	415	11%	28%
Other Administrative Expense	398	9%	374	10%	6%
Total Administrative Expense	1,705	40%	1,434	38%	19%

- **Operating cost to income remained at reasonable level.** The operating cost to income (excluding marketing expense and interchange fee paid) was 29.4%; down slightly from 29.5% of prior year as a result of higher revenue growth offsetting operating expense.

Portfolio quality

- **Portfolio grew 12%.** The total receivable was 61,282 MB, which comprised of 41,102 MB total credit card receivable, and 19,597 MB personal loan receivable. After total allowance was deducted the total net receivables was 56.129 MB, of which 68% or 38,024 MB was credit card and the rest was personal loan with the amount of 19,939 MB.
- **Membership base increased 6% (yoy).** At the end of June 2016, KTC had a total of 2.8 million accounts, an increase of 6% up from 2.6 million accounts from the same period of prior year. Of the total accounts 1,988,842 was credit card holders (5% increased), and 784,395 was personal loan accounts (10% increased).
- **NPL continued to improve.** KTC continued to maintain a good control on portfolio quality. In the first half of 2016 the company's total portfolio NPL was 1.9% down from the same period of prior year which was 2.2%. Compared year on year, NPL of credit card and NPL of personal loan remains at the same level of 1.4% and 1.0% respectively. Due to the increased provision while NPL was decreasing, the Allowance to NPL increased to 439% up from 393% to that of the same period of last year.

The company's Financial Statements (MB)	Q2 2016	% of Total Revenue	Q2 2015	% of Total Revenue	Growth (%)
- Credit Card's bad debts and doubtful accounts	836	20%	766	20%	9%
- Personal Loan's bad debts and doubtful	640	15%	576	15%	11%
- Other Loan's bad debts and doubtful accounts*	4	0.1%	10	0.3%	-63%
Total bad debts and doubtful accounts	1,480	35%	1,353	36%	9%

*Other loans: Circle Loans, Self-employed Loans, and other receivable

- **Bad debt and doubtful account increased from portfolios growth and write-offs.** Bad debt and doubtful accounts amounted to 1,480 MB up from 1,353 MB of 2Q15 due to write-offs and provision for the portfolio that grew 12%. The portfolio improved consistently while NPL remained low.

Low funding cost

- **Asset increased from portfolio growth.** On the second quarter of 2016 the company's asset was 60,270 MB increased 12% up from 53,828 MB from the same period of last year. The main revenue generating assets was account receivables which was 93% of total asset or an amount of 56,129 MB. The remaining 7% comprised of cash, other receivables, deferred tax asset, and other assets.
- **Lower cost of fund.** KTC reported total borrowing of 45,754 MB, an increase of 11% compared to the same period of prior year. Total borrowing consisted of both long term and short term sources. For the short term borrowing, 499 MB was from related financial institutions and 12,232 MB was from other financial institutions. For long term borrowings, 33,023 MB was from debentures. The company diversified source of fund through commercial banks, securities companies, insurance companies, and asset management companies. At the end of the second quarter 2016, the company reported 25,290 MB available credit line, of which 18,030 MB was from KTB, and 7,260 MB was from other commercial banks. The company's cost of fund in the first half of 2016 was 3.34%, a decrease from the same period of last year. The debt to equity ratio was 5.62 times, still lower than the debt covenant that limits debt to equity ratio at the maximum of 10 times.

Strategies for the second half of 2016

In 2016 KTC targeted to expand all businesses such as credit card, personal loan, merchant acquiring, distribution channels, and online business. The company will focus on the three core driving forces for KTC operations, which consist of human resource efficiency, integrated work process, and modernized information technology. The strategies for the second half of 2016 are as follows:

Credit card business

- **Increased membership base and deliver more campaign in the provincial hubs.** KTC aims to increase membership base and in turn increases credit card spending in the provincial hubs by working closely with local partners; covering 17 major provinces nationwide such as Chiang mai, Chiang rai, Khon kaen.
- **Penetrating premium member base, while maintain focus on young generation.** KTC targets to expand into premium customers who have the spending potential, at the same time cultivating young generations who have the lifestyle and growth potential; utilizing point of market entry (POME) to create impression, facilitating KTC as their first card and creating a lasting relationship with the members.

- **Provide unique and creative mix in marketing activities, covering all spending categories.** The company tailors marketing campaigns to all categories to promote KTC as primary spending card, for example, dining, shopping, travel and leisure. KTC not only creates new promotions, but also reintroduced past successful campaigns such as “Pin your wish” that received positive feedback at the end of 2015. Consequently, “Pin your wish 2” was re-launch, and will be available from 1st July until 30th September 2016. Marketing activities are also designed to be flexible, simple, and diverse, to address KTC members demand.
- **Merchant acquiring to penetrate new business, and expand to provincial hubs by partnership with KTB.** Merchant business targets to penetrate into new categories, and to expand more into the major cities; also promote both Flexi and full payment, while work closely with KTB to support the growth of merchant business and the growth of online merchants.

Personal loan business

- **Maintain members by cultivating long term KTC brand loyalty, providing both mass and segmentation marketing campaigns.** KTC utilized customer relation management (CRM) to analyze customer's demand and generate attractive marketing campaigns, with the target to create customer satisfaction and lasting relationship with the brand.
- **Increase KTC Proud members.** KTC continued to promote the flexi feature of KTC Proud (the new product feature) to targeted customers. The company also speeds up the application process, as well as providing online channels. KTC Proud applicants can now submit applications via www.ktc.co.th/ktcproud, and be contacted by KTC agents who will facilitate the application process. The company also utilized KTC touch as channels for applications, where the approval process takes only 30 minutes. Lastly, offline channels are also available via outsourced sales and KTB.

Other supporting strategies

- **Promote KTC Forever Rewards adding benefits and value to KTC members.** The company provides more channels for KTC members to redeem Forever Reward points, meanwhile continuing to enhance the new RewardzNow system that was developed to support segmented marketing campaigns. Personal loan members are also able to redeem reward points as payments. These strategies will add value to KTC Forever Rewards points and in turn create customers preference to KTC products.
- **Expanding KTC Online Services.** KTC provides members with convenient online channels to access and perform transactions, on both the website (ClickKTC), and the mobile application (TapKTC). KTC Online Services operates with high level of security, using OTP (one time password) send to the registered mobile phone, and email notification every time that online access is made.



- **Work closely with KTB.** The company cooperates with KTB on spending promotions, membership, and merchant expansion. KTC also works with KTB to facilitate members who travels abroad in purchasing currencies via KTC card, benefiting 45 days of interest free.
- **Creating revenue via product promotion, additional services, and business exploration.** KTC conducts research in trending businesses, potential businesses, or businesses that aligns with members' demand; such as, online promotion, insurance promotion, and "U Shop V Deliver". The online service "U Shop V Deliver" is a joint marketing activity with partners in the mail order category; presenting products via catalogs or www.ktc.co.th.

In summary, KTC continues to cater marketing activities to the premium segment, while maintaining the mass segment. Segmentation in the specific target market is utilized by CRM systems to maximize effectiveness. KTC Forever Rewards is a marketing tool that supports and cultivates long term customer loyalty; a key feature that differentiates KTC from competition. Being aware of the intensifying competition, along with the target to be the industry leader; KTC continues to employ diverse marketing strategies that provide competitiveness in the market, as well as being open to innovations and business opportunities.

In the first half of the year the company was able to deliver strong profit from the growth of the total portfolio, while employing less than anticipated marketing expense. As well as the net interest margin that grew higher from lower cost of fund. With higher than anticipated performance in the first half of the year, the company believe that the overall performance of year 2016 will be higher than initially estimated.

KTC Financial Highlight

(Unit: Baht Million)	Quarter 2	Quarter 2	Growth	6 months	6 months	Growth
	2016	2015	(Y-Y%)	2016	2015	(Y-Y%)
Total Revenue	4,285	3,789	13.1%	8,437	7,494	12.6%
Total Expense (Excluding Financial Cost)	3,185	2,787	14.3%	6,154	5,345	15.1%
Total Expense (Including Financial Cost)	3,559	3,205	11.0%	6,911	6,185	11.7%
Net Profit	580	464	24.9%	1,215	1,039	17.0%
Credit Card Net Receivables	38,024	34,417	10.5%	38,024	34,417	10.5%
Personal Loan Net Receivables	17,939	15,349	16.9%	17,939	15,349	16.9%
Other Net Receivables	167	190	-12.3%	167	190	-12.3%
Total Asset	60,270	53,828	12.0%	60,270	53,828	12.0%
Total Borrowings	45,754	41,369	10.6%	45,754	41,369	10.6%
Total Liabilities	51,160	46,130	10.9%	51,160	46,130	10.9%
Total Shareholders' Equity	9,110	7,698	18.3%	9,110	7,698	18.3%
Financial Ratios	Quarter 2	Quarter 2	Growth	6 months	6 months	Growth
	2016	2015	(Y-Y%)	2016	2015	(Y-Y%)
Gross Profit Margin (%)	85.6%	84.0%	2.0%	85.4%	83.9%	1.7%
Net Profit Margin (%)	13.5%	12.3%	10.4%	14.4%	13.9%	3.9%
Interest Coverage Ratio (times)	2.9	2.4	22.7%	3.0	2.6	17.8%
Debt to Equity Ratio (times)	5.6	6.0	-6.3%	5.6	6.0	-6.3%
Return on Equity (%)	26.0%	24.7%	5.5%	27.2%	27.6%	-1.2%
Return on Asset (%)	3.9%	3.4%	12.3%	4.0%	3.8%	5.2%
Allowance / Total Receivables (%)	8.4%	8.7%	-3.2%	8.4%	8.7%	-3.2%
Allowance / NPL (%)	439%	393%	11.9%	439%	393%	11.9%
Book Value (Baht)	35.3	29.9	18.3%	35.3	29.9	18.3%
Earnings per share (Baht)	2.25	1.80	24.9%	4.71	4.03	16.9%

*Other loans: Circle Loans, Self-employed Loans, and other receivable