



บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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KTC 916 / 2559

November 10, 2016

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

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

Enclosure: Management Discussion and Analysis for the quarter ended

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, 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 3rd quarter 2016

Thai Economic Summary and Consumer Finance Overview

The release of the second quarter GDP reported 3.5% growth higher than the 3.2% in the first quarter of 2016. As a result, the first half of 2016 economic growth was 3.4%, which was supported mainly by the government stimulus package, along with an exceptional development of the private consumption, specifically in the household consumption sector. Tourism and government spending continued to be the core driver of the Thai economy. Exports contracted due to key trade partners' economic deceleration; which led to low private investments. Nevertheless, private consumption grew above expectation, and therefore the Bank of Thailand adjusted the estimated GDP of 2016 up to 3.2% (estimated on September 2016) a slight increase from the 3.1% of the previous estimation.

The consumer finance industry continued to grow steadily; the total industry receivable at the end of September 2016 was 316,621 MB, expanded 6% similar to the 298,571 MB or 6% growth rate of the previous year. Credit card spending in the first nine months of 2016 was 1,071,841 MB, a 7% gain, growing at the same rate of the nine months spending growth of 2015 which was 7%.

Personal Loan account receivable for the nine months of 2016 was 333,099 MB a 4% yoy increase; expected to expand at a reduced rate due to concerns of future income and consumer confidence. However, the demand for personal loan was still strong especially in the provinces and for customers who cannot apply for credit cards.

Industry Comparison	2014	2015	3Q2016
Credit Card Receivable (MB)	318,141	336,641	316,621
<i>Growth (%)</i>	10%	6%	6%
KTC credit card receivables to industry	11.8%	12.3%	13.1%
Number of Cards (Cards)	20,303,751	21,762,273	22,938,375
<i>Growth (%)</i>	9%	7%	8%
Credit card spending (MB)	1,307,152	1,393,121	1,071,841
<i>Growth (%)</i>	9%	7%	7%
KTC credit card spending to industry	9.9%	10.5%	11.0%
Personal Loan receivables (MB)	312,851	324,667	333,099
<i>Growth (%)</i>	5%	4%	4%
KTC Personal Loan receivables to industry	5.3%	5.7%	6.1%

Source: BOT, KTC

Performance Summary

The company maintained the ability to generate revenues and create profit, which was achieved by increase in spending volume, and also contributed by portfolio growth of both credit card and personal loan business. NPL remains lower than the industry as a result of effective collection. The summary of KTC performance in the third quarter was as follows.

- Net profit in 3Q16 was 640 MB a 10% qoq gain compared to 580 MB in 2Q16; a 28% yoy gain compared to 499 MB in 3Q15. Nine month profit was 1,854 MB. The profit growth was contributed by credit card and personal loan businesses as well as effective collection and the ability to drive cost of fund lower.
- Credit card spending growth in the nine months of 2016 was 14.0%, higher than the industry growth which was 7.2%. The growth was achieved by targeted marketing campaign that expanded the member base into the young generation and into provincial areas.
- Total portfolio increased 11% yoy. Credit card receivable increased from 37,603 MB to 41,325 MB, while personal loan receivable increased from 17,490 MB to 20,294 MB.
- Total revenue increased 12% yoy, an amount of 4,403 MB. The gain was contributed by 13% growth in interest income (including credit usage fee), 11% fee income growth, and 15% bad debt recovery.
- Net interest margin in 3Q16 and nine months 2016 was 16.3% and 15.5% respectively as a result of the lower cost of fund that decreased from 3.7% and 3.9% to 3.1% and 3.3% respectively.
- NPL in 3Q16 was 1.86% down from 2.19% yoy achieved by good control of the portfolio.
- Bad debt and doubtful accounts was 1,517 MB a 15% increase yoy, due to provisions that grew with the portfolio growth, and the provision policy that curbs NPL. With the conservative allowance to NPL remains high at 446%.
- Operating cost to income ratio was 28.8% down from 30.4% of the 3Q15, since the company was able to control operating expenses (excluding marketing expense) to stay lower than revenue growth.

21% profit growth

- For the nine months of 2016 KTC generated 1,854 MB net profit, a 21% yoy growth, because of the nine month revenue that grew 13% yoy, the ability to drive down cost of fund, and the portfolio quality that produced low NPL. In 3Q16 KTC reported 640 MB net profit, a 28% growth yoy compared to 499 MB in 3Q15. Resulting from the 12% revenue growth that grew greater than the 10% total expense growth. The growth in

total expense was contributed by outsourced fee expense, and provisions that grew with the portfolio expansion.

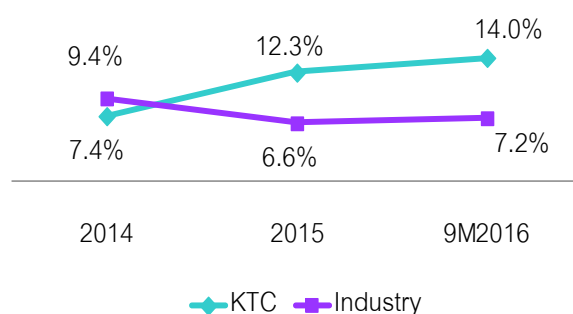
Operating Result	Q3	Q3	Growth		9M	9M	Growth
(unit: million Baht)	2016	2015	Q-Q(%)	Y-Y(%)	2016	2015	Y-Y(%)
Total Revenue	4,403	3,916	3%	12%	12,840	11,409	13%
- Bad debt Recovery	600	520	5%	15%	1,756	1,484	18%
Administrative Expense	1,727	1,579	1%	9%	5,084	4,447	14%
Financial Expense	358	389	-4%	-8%	1,116	1,229	-9%
Bad Debts and Doubtful Accounts	1,517	1,319	3%	15%	4,314	3,796	14%
Profit (Loss) before tax	801	629	10%	27%	2,326	1,938	20%
Income tax – Income (expense)	(161)	(130)	11%	24%	(472)	(400)	18%
Net Profit (Loss)	640	499	10%	28%	1,854	1,538	21%

- KTC reported 4,403 MB total revenue, a 12% yoy increase from 3Q15 revenue which was 3,916 MB. The growth was achieved by increased interest income and fee income from both credit card and personal loan businesses, as well as higher bad debt recovery. Administrative expense was 1,727 MB a 9% increase, due to higher personnel expense (employee headcount expanded from 1,474 to 1,510 yoy), higher marketing expenses, higher fee expense due to outsourced collection, and 15% increase in bad debt and doubtful accounts. However financial expense was reduced down 8%, resulting 3,602 MB total expense (a 10% increase).

Card spending grew higher than the industry

- Card spending in the nine months of 2016 grew higher than the industry. The 3Q16 monthly comparison revealed that the industry spending growth in July, August, and September was 3.6%, 5.1% and 7.7% while KTC spending growth was higher than the industry in every month with 12.2%, 9.4% and 11.8% respectively. The strong spending growth was supported by marketing campaigns as well as marketing activities that addressed customers' demand covering all major spending categories. KTC spending growth in the nine months of 2016 was 14.0%, higher than the industry which was 7.2%.

Credit Card Spending (%YoY)



Interest income increased in both businesses

- Total revenue in 3Q16 was 4,403 MB, a 12% growth, consisted of interest income (including credit usage fee), fee income, and other income in the amount of 2,735 MB, 951 MB, and 717 MB respectively, with proportion of 62%, 22% and 16% of total revenue; the majority of other income was bad debt recovery.

The company's Financial Statements (MB)	Q3 2016	% of Total Revenue	Q3 2015	% of Total Revenue	Growth (%)
Total interest income including credit usage fee	2,735	62%	2,427	62%	13%
- Credit card receivables	1,443	33%	1,328	34%	9%
- Personal Loan receivables	1,280	29%	1,084	28%	18%
- Other receivables (Circle Loans / Self-employ)	12	0.4%	15	0.4%	-21%
Fee income (excluding credit usage fee)	951	22%	856	22%	11%
Financial Cost	358	8%	389	10%	-8%
Net Interest Margin	16.3%		15.5%		

- Interest income grew in both businesses. Credit card and personal loan portfolio grew 10% and 16%, while interest income (including credit usage fee) grew 9% and 18% respectively.
- Net interest margin increased due to lowered cost of fund. KTC cost of fund in 3Q16 was 3.2% (nine month average was 3.3%) down from 3.7% in 3Q15. Average interest received grew slightly from 19.2% to 19.4%, consequently net interest margin increased from 15.5% to 16.3%.
- Higher fee income. Fee income (excluding credit usage fee) increased 11% yoy, an amount of 951 MB compared to 3Q15; the increase was contributed by growth in cash advance, merchant discount, and interchange fee.

Expense management

- Total expense increase from both administrative cost and provisions but financial expense declined. In 3Q16 the total expense (excluding income tax) was 3,602 MB grew 10% from 3,287 MB in 3Q15. Administrative expense along with Bad debt and doubtful account expanded 9% and 15% respectively, however financial expense decreased 8% by the replacement of matured debts with lower interest rate as well as increasing a higher mix of institutional lenders.
- Cost to income ratio was 39.2% (nine month average was 39.6%) declined slightly from 3Q15 which was 40.3%. The majority of the total administrative expense was personnel expense, marketing expense, and other administrative expense.

The company's Financial Statements (MB)	Q3 2016	% of Total Revenue	Q3 2015	% of Total Revenue	Growth (%)
Personnel Expense	542	12%	480	12%	13%
Marketing Expense	264	6%	240	6%	10%
Fees	503	11%	474	12%	6%
Other Administrative Expense	419	10%	385	10%	9%
Total Administrative Expense	1,727	39%	1,579	40%	9%

- Operating cost to income (operating expense exclude marketing expense and interchange fee) was 28.8% (nine month average was 29.0%) down from 30.4% of the same period previous year. The decreased operating cost to income was contributed by improved work process efficiency that dropped operating expense down more than the revenue gain.

Portfolio Quality

- Gained 12% member base. By the end of September 2016, KTC reported a total of 2.8 million accounts a 12% gain. The members consisted of 2,039,967 credit cards (13% growth), and 793,486 personal loan accounts (8% growth).
- KTC total receivable in 3Q16 was 62,183 MB, consisted of 41,325 MB credit card receivable, and 20,294 MB personal loan receivable. Once the 5,168 MB total allowance was deducted the company's total net receivable was 57,015 MB which 67% or 38,247 MB was credit card and the rest was personal loan with the amount of 18,603 MB. The growth was realized by the expansion into provincial area that increased credit card spending and personal loan cash withdrawal.
- The company continued to emphasize on portfolio quality; total portfolio NPL in the nine months of 2016 was 1.86% a decline from 2.19% of the same period or prior year. Credit card NPL decreased from 1.42% to 1.37%, while personal loan NPL remains at 1.01%. With such portfolio quality along with declining overall NPL, allowance to NPL remains high at 446% compared to the same period of previous year which was 395%.

The company's Financial Statements (MB)	Q3 2016	% of Total Revenue	Q3 2015	% of Total Revenue	Growth (%)
- Credit Card's bad debts and doubtful accounts	830	19%	758	19%	9%
- Personal Loan's bad debts and doubtful accounts	682	16%	555	14%	23%
- Other Loan's Card's bad debts and doubtful accounts*	5	0.1%	5.8	0.1%	-11%
Total bad debts and doubtful accounts	1,517	34%	1,319	34%	15%

*Other Loans: Circle Loans Self-employ, and other receivables

- Bad debt and doubtful account was 1,517 MB up from 1,319 MB in 3Q15 due to provisions that grew with expansion in the portfolio. Write-offs and bad debt grew 19% (an amount of 238 MB) from 3Q15.

Financial Position and Sources of Funding

- KTC assets in 3Q16 were 61,146 MB, a 12% increased from 54,773 MB in 3Q15. Revenue generating asset was net account receivable which was 93% of total asset or an amount of 57,014 MB, the remaining 7% comprised of cash, other receivables, deferred tax asset, and other assets.
- Borrowing increased, but with lowered cost of fund. In 3Q16 the company reported 46,021 MB total borrowing, a 10% increased compared to 3Q15. Total borrowing structure consisted of both long term and short term sources.
- For the short term borrowing, 239 MB was from related financial institutions and 12,259 MB was from other financial institutions. For long term borrowings, 29,485 MB was from debentures with various sources i.e. commercial banks, securities companies, insurance companies, and asset management companies. At the end of 3Q16, the company reported 25,390 MB available credit line, consisted of 18,030 MB from KTB, and 7,360 MB from other commercial banks.
- The company's cost of fund in 3Q16 was 3.15% (nine month average was 3.27%) a decrease from 3Q15 which was achieved by replacing matured debts with lower interest rate. The company reported 5.27 times debt to equity ratio, which was lower than the debt covenant that limits debt to equity ratio at the maximum of 10 times.

Strategies for the last quarter of 2016 and year 2017

The national E-payment project is expected to boost up the e-commerce and consumer finance business. The project is a road map to develop the nation's payment infrastructure, providing and integrated electronic payment infrastructure to support individual and business transactions.

To support a sustainable growth, KTC aims to be the most preferred brand in Card Business & Non-collateral Personal Loan Business within the year 2018. The company also plans to penetrate all related business; credit card, personal loan, merchant acquisition, distribution, and online businesses. Employing three major principles: Firstly, develop Human resource potential, cultivate ownership and promote proactive process. Secondly, adopt Customer Centric Approach work procedures. Lastly, utilizing cutting edge information technologies, to support new businesses and deliver effectively to customers' demand, as well as cultivating long term relation with customer while maintaining portfolio quality at favorable level.

Credit card business

- Credit card business targets to penetrate young generation in both Bangkok and provincial areas. Expanding market into the young generations that recently begins their careers, who resides in Bangkok and 18 major provinces that has high purchasing power or the tourist destinations.
- Increase credit card spending via marketing activities in all categories. The company prioritized everyday usage category, to promote KTC as the primary spending card. Also providing benefits to the occasional usage category by working with business partners to provide effective marketing activities; periodically launching value added campaigns throughout the year. For the nine months of 2016 the credit card spending grew 14.0% compared to the previous year. KTC believes that credit card spending for 2016 will be close to the initial target.
- Merchant business penetrates on new businesses and expands into provincial area, markets both FLEXI and full payments; and work closely with KTB. In the nine months of 2016 KTC reported 42,267 MB merchant volume and 28,817 merchants, up from 34,206 MB merchant volume and 21,058 merchants; a 24% and 37% gain respectively from the same period of prior year. The company expects that the merchant business will be able to drive revenue in the future.

Personal Loan Business

- Promote KTC PROUD via creative marketing campaign gaining new members while maintaining existing member base. KTC PROUD launched marketing activities to promote KTC FLEXI up to 36 months with special rates employing three main strategies: 1) Increase and expand member base with fast approval process to receive cash instantly. 2) Relieving financial burden by focusing on members' needs. 3) Create customer satisfaction cultivating long term relations with the product and KTC brand.
- Create customer satisfaction and provide convenient access to cash. New KTC members can visit KTC TOUCH for instant cash via "CASH@KTC TOUCH" for simple application, fast approval, and provide cash within 30 minutes to facilitate members demand. Cash withdrawal is also available online, which current members can make transactions anytime anywhere 24/7 via TapKTC mobile application or ClickKTC.

Other supporting activities

- KTC FOREVER REWARD continues to be KTC strategic marketing engine; reward points exchangeable to products and services over 3,000 exchange points, also exchangeable via online channels with the company's business partners. KTC FLEXI installment plan, with up to 10 month payments are also offered to ease members' financial burden
- KTC ONLINE are convenient and secure online channels, providing KTC members to perform transactions on both the website (ClickKTC), and the mobile application (TapKTC). KTC ONLINE operates with high level of

security, utilizing OTP (one time password) send to the registered mobile phone, and also provide email notification every time the account is access online.

- Continuous development of one stop vacation service. KTC will not only provide services, discounts, or benefits with business partners, but also establish KTC World Travel Services as a one stop service center providing airline and hotel booking. Work closely with travel agency partners to promote creative tourism activities addressing customer's demand.

With the rapidly digitization of the financial industry, that could potentially impact economic growth, along with the awareness of Fin-Tech and the National E-payment, the company had prepared a long term strategic plan to address demands on card / payment platform. KTC personnel also have to adapt and evolve to understand members by analyzing insight intelligence.

In 2017 KTC targets to increase at least 15% card spending growth, 10% total portfolio growth, and keep NPL at the same level of 2016. The company expects at least 10% net profit growth next year.

KTC Financial Highlight

Key Financial Figures (Unit: Baht Million)	Quarter 3	Quarter 3	Growth	9 months	9 months	Growth
	2016	2015	(Y-Y%)	2016	2015	(Y-Y%)
Total Revenue	4,403	3,916	12%	12,840	11,409	13%
Total Expense (Excluding Financial Cost)	3,244	2,989	12%	9,398	8,243	14%
Total Expense (Including Financial Cost)	3,602	3,287	10%	10,513	9,472	11%
Net Profit	640	499	28%	1,854	1,538	21%
Credit Card Net Receivables	38,247	34,743	10%	38,247	34,743	10%
Personal Loan Net Receivables	18,603	16,051	16%	18,603	16,051	16%
Other Net Receivables	164	188	-13%	164	188	-13%
Total Asset	61,146	54,773	12%	61,146	54,773	12%
Total Borrowings	46,021	41,675	10%	46,021	41,675	10%
Total Liabilities	51,397	46,576	10%	51,397	46,576	10%
Total Shareholders' Equity	9,749	8,197	19%	9,749	8,197	19%
Financial Ratios	Quarter 3	Quarter 3	Growth	9 months	9 months	Growth
	2016	2015	(Y-Y%)	2016	2015	(Y-Y%)
Gross Profit Margin (%)	86.2%	85.0%	1%	85.7%	84.3%	2%
Net Profit Margin (%)	14.5%	12.7%	14%	14.4%	13.5%	7%
Interest Coverage Ratio (times)	3.2	2.6	24%	3.1	2.6	20%
Debt to Equity Ratio (times)	5.3	5.7	-7%	5.3	5.7	-7%
Return on Equity (%)	27.7%	25.7%	8%	26.8%	26.3%	2%
Return on Asset (%)	4.2%	3.7%	15%	4.1%	3.8%	9%
Allowance / Total Receivables (%)	8.3%	8.6%	-4%	8.3%	8.6%	-4%
Allowance / NPL (%)	446%	395%	13%	446%	395%	13%
Book Value (Baht)	37.8	31.8	19%	37.8	31.8	19%
Earnings per share (Baht)	2.48	1.93	29%	7.19	5.96	21%

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