



บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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KTC

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February 14, 2017

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

Subject: Operating result notification of the year ended December 31, 2016

Enclosure: Management Discussion and Analysis for the year ended December 31, 2016

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, 2016, 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

Management Discussion and Analysis

Summary of Thai Economy and Overview of Consumer Finance Industry for the year 2016

The Bank of Thailand estimated a GDP growth of 3.2% in 2016, which was higher than the 2.8% growth in 2015, due to improvements in exports and private consumptions. Although the tourism industry did not perform as expected, government spending was an important driving force for the economy's continuous growth. Thai economy was forecasted to grow at a steady rate with the GDP ranging from 3.2% to 4.0% in 2017, with supporting factors such recovery of the global economy (especially in the USA), increased infrastructure projects of the Thai government, the government's policies for economic stimulus, growing number of tourists, and expansionary monetary policy which allows private sector to spend and invest more. However, there are still pressures in terms of market volatilities in the global financial markets, structural problems in the Thai export sector, and high household debt.

Industry Comparison	2014	2015	2016
Credit Card Receivable (MB)	318,141	336,641	358,413
<i>Growth (%)</i>	9.5%	5.8%	6.5%
KTC credit card receivables to industry	11.8%	12.3%	12.9%
Number of Cards (Cards)	20,303,751	21,762,273	23,151,164
<i>Growth (%)</i>	9.5%	7.2%	6.4%
Credit card spending (MB)	1,307,152	1,393,121	1,488,408
<i>Growth (%)</i>	9.4%	6.6%	6.8%
KTC credit card spending to industry	9.9%	10.5%	11.1%
Personal Loan receivables (MB)	312,851	324,667	338,117
<i>Growth (%)</i>	4.6%	3.8%	4.1%
KTC Personal Loan receivables to industry	5.3%	5.7%	6.5%

Source: Bank of Thailand

The overall growth in the consumer finance industry continued to grow from the previous year. Industry credit card receivable as of December 2016 was 358,413 MB or a 6.5% growth, which was similar to that of 2015 which was 336,641 MB or 5.8%. The consumer finance industry potential remains strong, especially for the high income and Gen Y customers. The industry's credit card spending in 2016 was 1,488,408 MB or a 6.8% growth, which was similar to the 6.6% growth in 2015.

In 2016 personal loans receivables was 338,117 MB a growth of 4.1%, growing at a similar rate of 2015 at which grew 3.8%. Due to the considerably high ratio of household debt to GDP (approximately 80%), financial institutions were less confident in the borrower's ability to repay. As a result, stricter measures were introduced for credit screening; focusing on quality customers and existing customers with good repayment records. Although consumers were concerned of their uncertain future income, KTC believed that they are still demands in personal loans, especially in provincial areas and consumers who are ineligible to apply for credit cards.

The Company continued to expand in both businesses in all aspects. The ratio of KTC credit card receivables to industry was 12.9%, increased from 12.3% in the previous year; the ratio of KTC credit card spending to industry grew from 10.5% in 2015 to 11.1% in 2016; and the ratio of KTC personal loan receivables to industry also increased to 6.5% from 5.7% over the past year.

Overview of KTC's Performance in 2016

The Company remained focused in generating income and successfully increased revenue from various supporting factors. Firstly, as credit card spending that was higher than the industry, secondly growth in credit card and personal loan receivables by expanding customer base under appropriate credit approval, thirdly efficient debt collection, and lastly effective risk management that kept NPL low. KTC's performance overview can be summarized as follow:

- The Company reported a net income of 2,495 MB in 2016, increased by 20% from 2,073 MB in 2015. The increase in net income was due to growth in credit card and personal loan businesses, the ability to maintain low financial cost throughout the year, effective debt collection, and good portfolio management; although increased in provisioning, NPL remained low; bad debt recovery also increased. However, the growth of the total portfolio naturally led to more provision according to the company's policy.
- The year-on-year growth of KTC credit card spending was higher than the industry in all consecutive quarters of 2016 at 15.5%, 15.4%, 11.1%, and 11.2%, while the industry spending growth was 8.2%, 7.9%, 5.4%, and 6.0% respectively. The Company's total credit card spending in 2016 was 164,991 MB or a 13.2% growth, which was higher than the industry's growth of 6.8%. The growth was driven by 11.1% member base expansion, continuous creative marketing campaigns, accessible and user-friendly online campaigns, and added benefits through discounts, cash-backs, and reward points.
- Merchant acquiring business grew 22.2% to 61,340 MB up from 50,180 MB, and merchant outlets grew 29.2% to 29,764 outlets up from 23,041 outlets; as a result of the joint projects with KTB to acquire more

stores, install more EDC devices, expand online merchants, virtual terminal payment system, and expand Alipay merchants.

- In 2017 total receivable increased 13%, an amount of 68,697 MB, of which credit card receivables increased from 41,412 MB to 46,195 MB, and personal loan receivables increased from 18,583 MB to 21,959 MB.
- Total revenue grew 13% to 17,580 MB in 2016; consisted of 12% growth in interest income (including credit usage fee), 13% growth in fee income, 18% growth in bad debt recovery.
- Net interest margin in 2016 was 15.1%, increased from 14.5% in 2015, meanwhile cost of funds reduced from 3.7% to 3.1%.
- Total portfolio NPL decreased 1.7% yoy down from 2.1% in the prior year. The Company is determined to maintain NPL at a continuously low level.
- Total bad debt and doubtful accounts was 6,070 MB, increased 17% from the previous year, due to write-offs and provision that increased with both the credit card and personal loan portfolio's growth. The ratio of allowance for doubtful accounts to NPL remained high at 472.8%.
- The operating cost to income ratio was 39.3%, which was similar to 39.5% in 2015, indicating that the Company was able to effectively manage expense.
- In 2016, there were changes in the assumptions used for calculating the employee benefit plans that differs from that of 2015. The Company realized a loss of 84.8 MB from the employee benefit plans using actuarial technique based on the assumptions of retirement age, mortality rate, disability rate, personnel turnover rate, and rate of increase and decrease of future salary. The Company reported a 67.8 MB loss in other comprehensive income for the year, net of income tax; and reported a 2,427 MB total comprehensive income for the year.

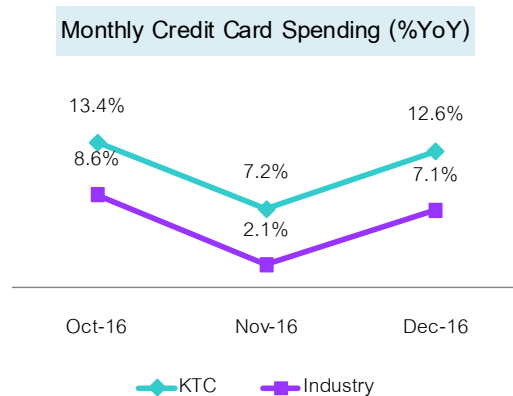
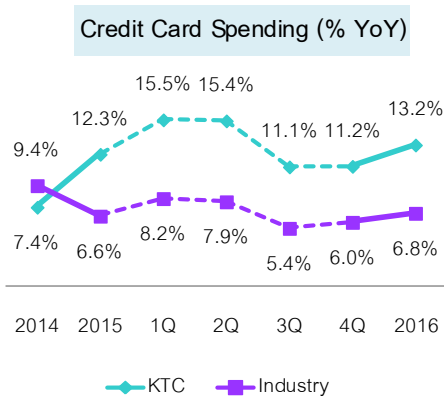
Net Profit increased by 20%

- The Company reported a net profit of 2,495 MB in 2016, which a growth of 20% yoy.
- The Company reported a total revenue of 17,580 MB in 2016, which increased 13% yoy from 15,559 MB in 2015. Administrative expense was 6,902 MB, a 12% yoy increase, up mostly from fees and higher marketing expenses. Bad debts and doubtful accounts increased 17% yoy due to higher write-offs and provision. The Company, however, was able to reduced financial expenses by 9%. The total expense was 14,454 MB or a 12% increase. Nevertheless, revenue exceeded expenses from increased income from new members and growing portfolio, resulting in the company's net profit growth.

Operating Result (unit: million Baht)	2016	% of Total Revenue	2015	% of Total Revenue	Growth Y-Y(%)
Total Revenue	17,580	100%	15,559	100%	13%
-Bad debt Recovery	2,398	14%	2,037	13%	18%
Administrative Expenses	6,902	39%	6,139	39%	12%
Financial Expenses	1,482	8%	1,621	10%	-9%
Bad Debts and Doubtful Accounts	6,070	35%	5,183	33%	17%
Profit (Loss) before tax	3,126	18%	2,616	17%	20%
Income tax – Income (expense)	(631)	4%	(543)	3%	16%
Net Profit (Loss)	2,495	14%	2,073	13%	20%
Other Comprehensive Income – Net of Tax	(68)	(0.39%)	0.9	0.01%	(7620%)
Total Comprehensive Income	2,427	14%	2,074	13%	17%

KTC Credit Card Spending continued to grow higher than the Industry

- KTC credit card spending in 2016 grew higher than the industry.** KTC credit card spending in 2016 grew 13.2%, higher than the industry growth of 6.8%. Comparing on a monthly basis for the last quarter of 2016, the industry growths in October, November, and December were 8.6%, 2.1%, and 7.1%, respectively; while KTC spending grew 13.4%, 7.2%, and 12.6%, respectively. The increase of KTC credit spending was contributed mainly by the growth of new member base, variety of marketing campaigns, and creative activities that addressed the demands of customers across all major spending categories.



Total interest income increased due to expansion of member base of both businesses

- **Total revenue increased.** Total revenue in 2016 was 17,580 MB a 13% increased, which was contributed by 10,830 MB interest income (including credit usage fee), 3,839 MB fee income, and 2,911 MB of other income; a proportion of 62%, 22%, and 16% of total income respectively. While 82% of other income was from bad debt recovery.
- **Interest income increased from the receivables of both main businesses.** Portfolio of total credit card and personal loan increased 12% and 18% respectively, as a result interest income (including credit usage fee) growth of both credit card and personal loan was 9% and 17% respectively. This was achieved by strategies that sought new members in the Premium segment, while maintaining member base in the mass segment. Customer Relationship Management (CRM) system was utilized to enhance customer experience. Online medias were used to helped stimulate credit card spending and also respond to specific needs, as well as cultivating long term brand loyalty.
- **Net interest margin increased due to lower cost financial expense.** The Company's cost of funds in 2016 was 3.1% down from 3.7% of the previous year, while average interest received remained the same over the year at 18.2%. As a result, net interest margin increase steadily from 14.5% to 15.1% due to lower financial expense.

The company's Financial Statements (MB)	2016	% of Total Revenue	2015	% of Total Revenue	Growth (%)
Total interest income including credit usage fee	10,830	62%	9,633	62%	12%
-Credit card receivables	5,706	33%	5,248	34%	9%
-Personal Loan receivables	5,074	29%	4,324	28%	17%
-Other receivables (Circle Loans / Self-employ)	50	0.3%	61	0.4%	-17%
Fee income (excluding credit usage fee)	3,839	22%	3,401	22%	13%
Financial Cost	1,482	8%	1,621	10%	-9%
Net Interest Margin	15.1%		14.5%		

- **Fee income increased.** Fee income (excluding credit usage fee) grew 13% yoy or an amount of 3,839 MB. The increase was due to the growth of cash advance fee (12% growth), merchant discounts (21% growth), and interchange fee (21% growth). Collection fee, however, declined by 32% due to change in collection fee structure.

Expense Management

- **Total expense increased from fees and marketing expenses as well as bad debts and doubtful accounts, while cost of funds decreased.** In 2016 the Company reported 14,454 MB total expense (excluding income tax) a 12% increase from 12,943 MB in 2015. Total administrative expense increased by 12% due to higher fees expense (21% increase) paid to outsourced debt collection, higher marketing expenses (17% increase) for the new member base expansion and marketing activities to boost credit card spending and personal loans cash withdrawal. Although bad debts and doubtful accounts increased 17%, financial expense decreased 9% by the replacement of mature debt with lower interest rates.

The company's Financial Statements (MB)	2016	% of Total Revenue	2015	% of Total Revenue	Growth (%)
Personnel Expense	2,060	12%	1,926	12%	7%
Marketing Expense	1,122	6%	956	6%	17%
Fees	2,063	11%	1,701	11%	21%
Other Administrative Expense	1,656	10%	1,556	10%	6%
Total Administrative Expense	6,902	39%	6,139	39%	12%

- **Managing operating cost to income at appropriate level.** Cost to income ratio was at 39.3%, which was at similar level to the previous year. When excluding marketing expenses and interchange fees and only considered the operating expense, operating cost to income ratio became slightly lower at 28.5% compared to 29.4% in 2015. This was due to net income growth outpacing that of the operating expense.

Growth and portfolio quality

- **Total portfolio grew.** The Company reported 68,697 MB total receivables, a 13% increase from that of the previous year; consisted of 46,195 MB credit card receivables (12% increase), and 21,959 MB personal loan receivables (18% increase). Once the 5,394 MB allowance was deducted the company's total net receivables was 63,303 MB, which 68% or 42,988 MB was credit card net receivables, and personal loan net receivables amounted to 20,154 MB. The growth in credit card and personal loan portfolios was contributed by increased credit card spending and higher cash withdrawal from KTC PROUD members.
- **Larger member base due to expanding members in both businesses.** The Company had a total member of 2.9 million accounts by the end of December 2016, a 10.6% increase from the same period of the

previous year. Current credit card members were 2,095,563 (11.1% growth), and current personal loan accounts were 818,068 (9.5% growth).

- **NPL of both businesses remained low.** The Company emphasized on portfolio quality, total portfolio NPL was at 1.7% in 2016, decreased from 2.1% in 2015. Credit card's NPL decreased to 1.2% down from 1.3% and personal loan's NPL decreased to 0.9% down from 1.0% due to quality of expanding portfolio. Although the company adhere to the same provisioning policy, the company continued to experienced lowering NPL which resulted a high allowance to NPL ratio 472.8%, increased up from 399.9% in the previous year.

The company's Financial Statements (MB)	2016	% of Total Revenue	2015	% of Total Revenue	Growth (%)
Credit Card's bad debts and doubtful accounts	3,359	19%	2,945	19%	14%
Personal Loan's bad debts and doubtful accounts	2,692	15%	2,205	14%	22%
Other Loan's Card's bad debts and doubtful accounts*	19	0.1%	34	0.2%	-44%
Total bad debts and doubtful accounts	6,070	35%	5,183	33%	17%

- **Provision increased to reflect portfolio growth.** Bad debts and doubtful accounts increased to 6,070 MB in 2016 from 5,183 MB in 2015. As a result of the portfolio growth of both credit card and personal loan businesses, in 2016 provision for doubtful accounts of both business increased 167% (an amount of 242 MB). Bad debts and doubtful accounts increased 13% (an amount of 645 MB) compared to the prior year. Credit card and personal loan bad debt increased 10% and 13%, respectively.

Financial position and sources of fund

- **Assets increased from receivables growth.** The Company's asset at the end of 2016 was 68,297 MB, increased 13% yoy from 60,179 MB in the previous year. The main income generating assets were net receivables of 63,303 MB or 93% of total assets while the other 7% were cash, other receivables, deferred tax assets, and other assets.
- **Effective cost of funds management.** In 2016 the Company reported a total borrowing of 51,088 MB in an increase of 13% yoy. The structure of the funds was both short-term and long-term. The short-term borrowings were from related financial institutions of 120 MB and other financial institutions of 9,545 MB. The long-term borrowings were from debentures of 41,423 MB with diverse sources from Thai and Foreign commercial banks, securities companies, insurance companies, and various funds. At the end of 2016, the Company available credit line was 26,190 MB consisted of 18,030 MB credit line from Krung

Thai Bank and 8,160 MB from other commercial banks. The cost of funds by the end of 2016 was 3.08% down from 3.74% contributed by the replacement of matured debenture with lower interest rate. Combined with the credit rating of the company and the unsecured and unsubordinated debentures at “A+” which reflected the Company’s financial stability and drove lower the company’s costs of fund. The Company’s debt to equity ratio was at 5.62 times, which remained below the bond covenant at 10 times.

Overall marketing plan in 2016

Although the consumer markets industry in 2016 grew continuously from the previous year, the growth was at a declining rate. The Company’s credit card and personal loan businesses have grown significantly. This was supported by the company’s intense marketing strategies that focused on rewarding members in various ways to create customer satisfaction and encourage them to pick KTC as their default card. The Company made a strategic links with customers through 3 main aspects of reformation—1) personnel: develop and train personnel so that they are able to help customers solve problems rapidly and effectively, 2) information technology: the key of business operation with systems to accurately response to customer demands, and 3) improve integrated workflow: to optimize work processes.

Credit Card Business

For product strategy, KTC was one of the organizations that partnered with Samsung, in which customers were able to make credit card payment via Samsung Pay. Since smart phones have become an essential aspect of everyday life, this service was beneficial in terms of convenience, real-time processing, and add on benefits. For strategy to stimulate spending, KTC focused on broad categories of goods and services such as dining, shopping, gas stations (everyday usage), and traveling. When payments are made with KTC credit card in these categories, special reward points or mileages are rewarded. Customers can choose to receive cash back, redeem reward points for further discount, or use KTC FLEXI instalment payments.

Additionally, KTC worked with business partners to create sales promotional as well as established new partners such as merchants for instalment payments or expand into new categories creating online platform to promote and encouraging members to redeem points when shopping with stores. In order to optimize the use of EDC to maximize benefits. New and unique corporate identity was developed. KTC spent a lot on media to compete for market share of credit card spending and to create awareness and member satisfaction.

Personal Loan Business

KTC's personal loan business in 2016 grew higher than the overall market. However, the management insisted cautious and sustainable marketing campaigns. From November 1st, 2016 onwards, one qualification of KTC PROUD applicants was adjusted—minimum income changed from 10,000 Baht to 12,000 Baht. Supporting activities were created to promote new application of personal loan such as applying via KTC's partner shops, or applying at KTC branches and receive results in 30 minutes. Mass campaigns were conducted to help relieve members' expenses. Segmentation campaigns were conducted to analyze customers and present specific benefits using customer centric principle. Seminars were also provided to share knowledge and create career opportunities for members, which in turn help promote brand loyalty in the long run.

In conclusion, KTC is a service provider with a substantial customer base who has grown significantly over the past year. The Company has been aware of intense competition and with the determination to be the market leader, KTC has relentlessly developed marketing strategies to diversify itself both online and offline so that the Company is able to compete in the market. Marketing campaigns and activities are available in all dimensions such as being responsive to the premium market, while maintaining member base in the mass market, while apply segmentation to a specific segment, using CRM system, and practicing Total Business Relationship to particularly enhance efficiency.

Operation Plan for 2017

With the target “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”, KTC has clearly announced its intention to grow with sustainability and to urge customers to be courageous and live the life they desire. As a result, the Company provided product options and a variety of services to address the customers' demand by mainly focusing on approachability and member obsession. Currently, the Company has progressed as planned.

For 2017, the Company has targeted to increase credit card spending growth at least 15%, to expand receivables portfolio approximately 10%, and to maintain NPL at the same level as the previous year. With these targets, the Company is expected to increase its net profit by at least 10% from 2016. To become the most preferred brand, KTC will focus on continuous internal and external organization development in order to build sustainable long term growth. Moreover, the Company will operate under the three new core values: courageous, smart & simplicity, and meaningful, with the intentions to motivate members or stakeholders in being courageous

about choosing to live the lives they desire. These brand core values are cultivated within organization to reach out to the public covering all dimension. The Company's operation strategies can be summarized as follow:

- **Credit card business to focus on member base expansion and to be more digitally responsive to customers' demands.** This is a marketing strategy to continuously increase new members in potential segments—upper and young generation with explicit lifestyles—by focusing on online application, through merchants and business partners. This strategy also help develop products and services to meet the needs of customers by improving existing digital services and creating a variety of new services that are more approachable. The mobile application optimized, be more convenient, support all operational platforms, and are highly secured. The website is to be more user-friendly, modern, and provide seamless user experience and satisfaction.
- **Focus on variety and coverage credit card benefits.** By prioritizing on being the default credit card covering all categories of spending needs, KTC will collaborate with business partners, merchants, and various organizations to create marketing programs and benefits that uphold KTC's identities (creativity, and diversity). Online benefits will also be improved as well as providing activities and events that enhance good customer experience.
- **Add value from Forever Rewards points and focus segmentation marketing.** Manage existing portfolio for maximum effectiveness coupled with campaigning the benefits of using Forever Rewards points in both dimensions: earn and burn. Online points redemption and frequency of credit card spending will be promoted so that KTC credit card becomes the default card. Most importantly, targeted marketing will be applied in provincial areas and members of older generation.
- **Merchant acquiring: to penetrate new business, online businesses as well as expanding to provincial areas.** KTC aims to present KTC Pay service for transactions of e-Commerce and m-Commerce to support the growing online businesses. Stores of all type will be closely attended to by teams of sales and marketing so that the most appropriate KTC Payment Solutions is offered to cater each business type. The teams will also help with the planning process and seeking new business opportunities together with the store.
- **Elevate KTC PROUD products, enhance online experiences, expand customer base, and create long-term loyalty.** As consumers are inevitably involved in the digital world, KTC PROUD focuses on elevating its products to enhance online experiences such as 24-hour online cash advance service with no restrictions on withdrawals, which is beneficial in terms of convenient and safety. Moreover, the company aims to expand to new quality target groups to maintain market share; and also, satisfy members to promote brand loyalty in the long-term.

- KTC plans to explore new businesses and build a lasting Total Business Relationship (TBR). The Company will study the growing business trend, potential business or businesses that meet the lifestyle demands of customers. Other marketing campaigns that promote customer satisfaction and credit card spending such as online promotion, insurance plans, and “U Shop V Deliver” service, will not be overlooked as they focus on direct segmentation marketing. Relations will be made with every business group that address the needs of members. KTC will also explore new businesses which are trending locally and globally, or have high potential, or are able to closely cope with the customers’ lifestyles.

For 2017, marketing activities will continue to intensify to upgrade and optimize the previous year’s scheme. The Company will also expand the concept and apply new marketing strategies by focusing on the online market, developing online functions, and upgrading the existing mobile application to maximize benefits. In addition, KTC will relentlessly strive to analyze, seek, and explore new business opportunities.

KTC Financial Highlight

(Unit : Baht Million)	2016	2015	Growth (Y-Y%)
Total Revenue	17,580	15,559	13%
Total Expense (Excluding Financial Cost)	12,972	11,323	15%
Total Expense (Including Financial Cost)	14,454	12,943	12%
Net Profit	2,495	2,073	20%
Credit Card Net Receivables	42,988	38,429	12%
Personal Loan Net Receivables	20,154	17,073	18%
Other Net Receivables	161	177	-9%
Total Asset	68,297	60,179	13%
Total Borrowings	51,088	45,057	13%
Total Liabilities	57,976	51,446	13%
Total Shareholders' Equity	10,322	8,733	18%
Gross Profit Margin (%)	85.9%	84.5%	2%
Net Profit Margin (%)	14.2%	13.3%	7%
Interest Coverage Ratio)times(3.1	2.6	19%
Debt to Equity Ratio (times)	5.6	5.9	-5%
Return on Equity (%)	26.2%	25.7%	2%
Return on Asset (%)	3.9%	3.6%	7%
Allowance / Total Receivables (%)	7.9%	8.2%	-5%
Allowance / NPL)%(473%	400%	18%
Book Value (Baht)	40.0	33.9	18%
Earnings per share (Baht)	9.68	8.04	20%

*Other loans: Circle Loans, Self-employed Loans, and etc