



บริษัท บัตรกรุงไทย จำกัด (มหาชน)

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Krungthai Card Public Company Limited

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KTC

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August 10, 2018

To: The President of the Stock Exchange of Thailand

The Stock Exchange of Thailand

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

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

KTC's Board of Directors has approved the Company's Financial Statements and the Report of certified public accountant for the year ended June 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

Net profit in first half of 2018 grew at 66%. The company reported net operating profit of 2,515 MB, higher than that of 1,519 MB from the same period of the previous year. With the expansion of the portfolio base at 7%, interest income was consequently increased by 4%. The company also earned higher fee income from the continuous growth from both the credit card issuing and merchants acquiring. Besides, the company was able to vastly reduce the expenses in various aspects. Not only the financial expense was lowered compared to the same period of last year (because of well managed new borrowing cost of fund), but the operating cost to income ratio also continuously declined. Additionally, the company has applied the calculation approach according to IFRS9 standard in which reflected realistically and more conservatively the probability of bad debts incurred by using the entire lifetime (instead of any specific point in time) of receivables in portfolio. Thus, the better quality of total receivables portfolio, the lesser the amount of provision required. Together with efficient debt collection, income from bad debt recovery also improved. All these factors had contributed to the company's overall profit growth better than earlier estimated.

Overall performance analysis for second quarter of 2018

The company reported total revenue growth of 10% and has continued to achieve sustainable profit growth with net profit of 1,306 MB in Q2 and of 2,515 MB in the first half of 2018. However, due to the intensifying competition in consumer finance business, together with the challenge in consumer behavioral changes and the impacts from rapid technological developments, the company has constantly improved the communication process with consumers and continuously developed itself to this new rapidly changing environment. And although the newly enforced regulations have caused the slower portfolio growth in the credit card business, the company has adjusted its strategies and its creativities for new campaigns to meet customer satisfaction by emphasizing in customer experience enhancement and creating a differentiation in marketing strategy to increase credit card spending. Nevertheless, personal loan portfolio has continued to grow, and focused on expanding customer base to various vocational occupations and developing new products to garner customer



long term loyalty from customer satisfaction. Additionally, the company's ability to effectively manage debt collection resulted in lower NPL than the industry's. KTC's performance overview can be summarized as the followings.

- Total receivables in Q2, 2018 was 72,037 MB, a 7% growth of the same period of the prior year. Credit card receivables increased from 44,338 MB to 46,251 MB and personal loan receivables increased from 22,409 MB to 25,423 MB. Total revenue increased 9% YoY to 5,259 MB, resulting from the increase in interest income (including credit usage fee) of 5%, in fee income of 15% and in bad debt recovery income of 28%.
- KTC has achieved the low level of credit card fraud losses by effectively adopting risk protection measures and constantly improving its technology to prevent and control risk in credit card fraud. Combine with the company's capability in managing high quality of total receivables portfolio, total NPL in Q2 was at 1.27%, down from 1.57% YoY and down from 1.32% at the end of last year and is expected to be maintained at this low level.
- Bad debt and doubtful accounts amounted to 1,397 MB, decreased by 17% YoY. The company set up lesser provisions due to the low level of expansion in its portfolio and incurred lesser bad debt write offs as the result of its ability to manage better portfolio quality. Also contributed to less provisions setup and better portfolio's quality was the fact that the company has applied the calculation approach according to IFRS9 standard. With the low level of NPL, the company's allowance for doubtful accounts to NPL ratio was pushed higher to 605%.

Operating Result (unit: Million Baht)	2Q18	2Q17	YoY (%)	QoQ %	1H18	1H17	YoY (%)
Total Revenue	5,259	4,820	9%	3%	10,367	9,453	10%
- Bad debt recovery	872	683	28%	4%	1,709	1,321	29%
Administrative Expense	1,836	1,751	5%	1%	3,647	3,429	6%
Financial Expenses	393	406	-3%	1%	781	806	-3%
Bad debt and Dobutful Accounts	1,397	1,676	-17%	0%	2,801	3,316	-16%
Profit before tax	1,633	986	66%	8%	3,139	1,902	65%
Income tax expense	327	200	64%	10%	624	383	63%
Net Profit	1,306	787	66%	8%	2,515	1,519	66%

- Operating cost to income ratio was at 26.8%, a slight decreased from that of 27.3% for the same period of the previous year, implying that the company was still able to manage the expense ratio effectively.
- Net interest margin for the first half of 2018 was 15.26%, lower than that of 15.63% for the same period of last year. Although the company was able to reduce cost of funds from 3.20% to 2.97%, the regulation that reduced credit card interest cap resulted in the decrease in average interest received from 18.84% to 18.23%.
- For the first half of 2018, credit card spending of the industry grew at 12.0% while that of KTC grew at 7.7%. By monthly comparison, the industry's growth in April, May and June was at 12.3%, 17.2% and 10.6% whereas KTC's growth was at 6.0%, 7.1% and 8.2% respectively.

- Merchant volume for the second quarter of 2018 grew at 13.4% to 21,140 MB, up from 18,634 MB, and for the first half of 2018 it amounted to 42,106 MB, up 18.4%. Due to the merchant expansion project, merchant outlets increased 10% from 30,426 to 33,514 compared to the same period of the previous year, thus also contributing to higher merchant volume.
- On July 6th, 2018, the company held the extraordinary general meeting No. 1/2018 to approve the change in the company's registered par value from 10 Baht to 1 Baht per share. Once the company had registered with the Ministry of Commerce, it informed the above change to the Stock Exchange of Thailand. And, effective on July 13th, 2018, the new registered par value had resulted in the company's common shares increased from 257,833,407 shares, par value at 10 Baht per share, to 2,578,334,070 shares, par value at 1 Baht per share.

Thai Economic outlook and overview of consumer finance business in Q2, 2018

Thai economy has continued to expand, supported not only by domestic consumption demand but also by the strong drive in the export sector as well as the constantly growing of tourism industry due to the ongoing expansion of global economy. Hence, last June, the Bank of Thailand had adjusted the estimated GDP in 2018 from 4.1% to 4.4%. Private consumption experienced consistent growth, yet the pressure from household debts remained high. Furthermore, the economic expansion has not widely and thoroughly affected household income and employment. However, private investment has constantly improved and has been supported by Thai government projects. And, government spending will still be the main driving force for the economic growth this year.

Industry Comparison	2015	2016	2017	1H18
Credit Card Receivable (MB)	333,493	360,096	394,123	366,309
Growth (%)	4.8%	8.0%	9.4%	8.9%
KTC credit card receivables to industry	12.4%	12.8%	12.3%	12.6%
Number of cards (cards)	18,974,195	20,136,341	20,334,780	21,031,216
Growth (%)	-6.5%	6.1%	1.0%	6.0%
Credit card spending (MB)	1,392,760	1,488,273	1,565,528	820,983
Growth (%)	6.5%	6.9%	5.2%	11.9%
KTC credit card spending to industry	10.5%	11.1%	11.3%	11.1%
Personal loan receivables (MB)	318,354	332,997	354,243	361,400
Growth (%)	1.8%	4.6%	6.4%	7.6%
KTC Personal loan receivables to industry	5.8%	6.6%	7.0%	7.0%

Source: The Bank of Thailand

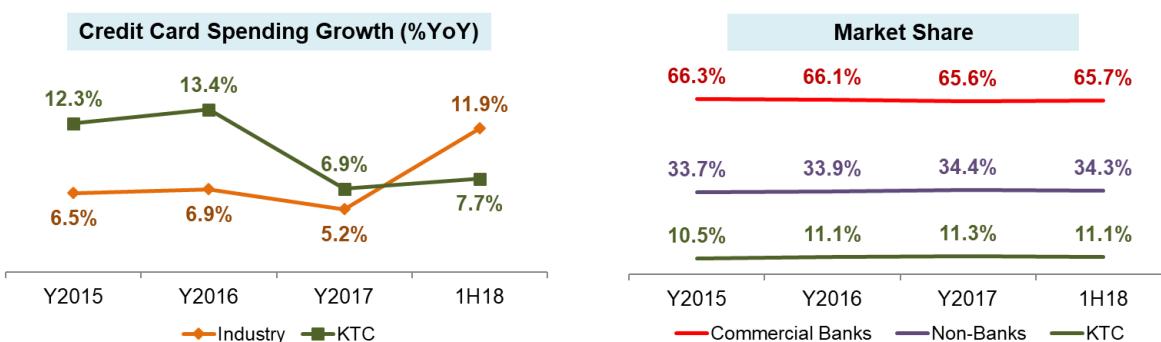
The overall consumer finance industry continued to grow with the industry's credit card receivables as of June 2018 at 366,309 MB, a 8.9% growth, up from 6.1% growth in 2017 or amounted to 336,386 MB. Credit card spending for the first half of 2018 grew 11.9% to 820,983 MB higher than that of 2.9 % for the same period of 2017.

Personal loan receivables at the end of second quarter 2018 was 361,400 MB, a 6.8% growth higher than the previous year's growth of 4%.

Effective since Sep 1st, 2017, the Bank of Thailand had announced the new measure to tighten credit lines for new customers from both credit card and personal loan business. As a result, KTC lending portfolio had grown at a slower pace than the past. The reduction of the credit card interest rate cap down from 20% to 18% also directly impacted the company's credit card income. For the second quarter of 2018, KTC credit card receivable accounted for 12.6% of the industry, increased from 12.3% at the end of last year whereas KTC personal loan receivable accounted for 7.0% of the industry, unchanged from the end of the previous year. The credit card NPL was at 1.08%, lower than that of the industry which was at 1.92%, while the personal loan's NPL stood at 0.77%, less than that of the industry which was at 2.50%.

KTC credit card spending compared to the industry

- KTC credit card spending in 2018 continued to grow² but at a decelerating rate. Growth of the company's credit card spending in the first half of 2018 was at 7.7%, compared to that of the industry which was 11.9%, while the company's market share stood at 11.1%, compared to 11.3% at the end of last year. Nevertheless, to cultivate the targeted consumer's confidence, the company had enhanced its strategies by focusing mainly on implementing new innovations, eliminating unnecessary procedures, and promoting customer satisfaction. Also, to successfully achieve the company's targets, marketing campaigns will be consistently reviewed and adjusted to maintain the competitive edge in the ongoing changing environment.



Higher interest income from both main businesses

- **Higher total revenue** Total revenue of the second quarter, 2018 amounted to 5,259 MB, a 9% increase. Interest income (including credit usage fee), fee income and other incomes amounted to 3,126 MB, 1,199 MB and 934 MB respectively and were accounted for 59%, 23% and 18% of total revenue respectively. In term of other revenues, 93% of those were mainly from bad debt recovery.
- **Interest income increased mainly from the continued growth of personal loan receivables.** Credit card receivable and personal loan receivable portfolios grew at 4% and 13%. Due to the decrease in interest rate cap for the

credit card business from 20% to 18%, interest income (including credit usage fee) from credit card business was lowered by 4%. However, interest income growth from personal loan business was high by 15%. Although the interest income from credit card was shrinking compared to the same period of last year, revenue was offset by the continuously growing of interest income from personal loan, total interest income was increased by 5%.

- Decrease in net interest margin was from lower interest income. In second quarter of 2018, the company's average interest rate received was at 18.62%, down from 19.08% for the same period of the prior year, as a consequence the decrease in interest rate cap from the credit card business whereas cost of funding stood at 2.99%, lower than the same period of the previous year which was 3.23% due to the company's effective fund raising. As a result, net interest margin for the second quarter of 2018 was 15.63%, slightly lower from the second quarter of 2017 of 15.85%.

Unit: Million Baht	2Q18	% of total revenue	2Q17	% of total revenue	Growth
Total interest income including credit usage fee	3,126	59%	2,980	62%	5%
- Credit card receivables	1,445	27%	1,512	31%	-4%
- Personal loan receivables	1,673	32%	1,458	30%	15%
- Other receivables (Circle loans / self-employ)	8	0.1%	10	0.2%	-25%
Fee income (excluding credit usage fee)	1,199	23%	1,040	22%	15%
Financial cost	393	7%	406	8%	-3%
Net Interest Margin	15.63%		15.85%		

- Higher fee income. Fee income (excluding credit usage fee) grew 15% from the same period of last year to 1,199 MB. The increase was achieved mainly from higher interchange fee (up 43% yoy) which is the fee charged between issuing banks or issuing credit card companies and banks or intermediary payment companies, and from higher merchant discounts fee (up 10% yoy) which is the fee charged to KTC merchants for providing services. Cash advanced fee remained closed to the same level (up 1% yoy) while the revenue from bad debt recovery fee declined (down 7% yoy).

Company's expense

- Total expense decreased 5% YoY. For the second quarter of 2018, the company's total expense (excluding income tax) amounted to 3,626 MB, decreased by 5% from 3,833 MB. Total administrative expense increased 5% YoY due to the 7% YoY increase in fee expense and from higher transaction volumes and from outsourced debt collection, as well as the 8% YoY increase in personnel expense and the 3% YoY increase in other administrative expense. However, marketing expense dropped by 5% YoY due to less than estimated new card member acquired, thus resulting in the decrease in new card acquisition expense and the decrease in new card issuing administrative expense. Additionally, not only bad debts and doubtful accounts were down by 17% YoY due to the slowed growth of receivables portfolio but also less provision was set up due to the ongoing high quality of company's portfolio. In term of financial expense, the

company's cost of fund was low at 3% due to the longer tenure and lower borrowing cost thanks to the company's newly issued debentures.

- **Continuously maintained low level of operating cost to income.** For the second quarter of 2018, total operating cost to income ratio was at 34.9% down from the previous year which was 36.3%. When operating expense excluding marketing expense and interchange fee expense was only considered, net operating cost to income ratio was also decreased to 26.4% from 27.3% of the same period of last year, indicating that the company was efficiently well managed.

Unit: Million Baht	2Q18	% of total revenue	2Q17	% of total revenue	Growth
Personal Expense	591	11%	549	11%	8%
Marketing Expense	209	4%	219	5%	-5%
Fees	596	11%	555	12%	7%
Other Administrative Expense	440	8%	428	9%	3%
Total Administrative Expense	1,836	35%	1,751	36%	5%

maintained portfolio quality.

- **Total receivables portfolio grew at 7%, a slower pace than the 10% growth from the previous year.** For the second quarter of 2018, total receivable was 72,037 MB, up 7% from the same period of last year, but with a slower pace than that of 10% of last year. Total credit card receivables amounted to 46,251 MB (up 4% yoy) and total personal loan receivables amounted to 25,423 MB (up 13% yoy). When deducting the allowance for doubtful accounts of 5,520 MB, the company's net receivables was at 66,517 MB, with the amount of 43,113 MB which was 65% of total net receivables accounted for net credit card receivables, and with the amount of 23,266 MB accounted for net personal loan receivables. The continuing portfolio growth resulted from the increase in credit card spending and the increase in value of cash withdrawal from KTC PROUD usage.
- **Slower growth of member base.** At the end of June 2018, the company reported a total of 3.1 million accounts, increased by 2.8% compared to the same period of last year, with current membership consisted of 2,249,933 credit cards (3.2% growth) and 867,236 personal loan accounts (2.0% growth).

Unit: Million Baht	2Q18	% of total revenue	2Q17	% of total revenue	Growth
- Credit card's bad debts and doubtful accounts	704	13%	947	20%	-26%
- Personal loan's bad debts and doubtful accounts	691	13%	725	15%	-5%
- Other bad debts and doubtful accounts	2	0.0%	4	0.1%	-50%
Total bad debts and doubtful accounts	1,397	27%	1,676	35%	-17%

* Other receivables consisted of circle loans, and self-employ loans

- NPLs continue to decline from both businesses.** Due to the company's continuously emphasis on portfolio's quality and with high quality of existing and new receivables, the company's NPL of total portfolio for the first half of 2018 stood at 1.3%, dropped from 1.6% compared to the same period of the previous year; credit card NPL lowered to 1.1% from 1.2% and personal loan NPL down to 0.8% from 0.9%. Despite same write off procedure, the company still had lower level of NPL, thus resulting in the remaining high ratio of the allowance for doubtful accounts to NPL at 605%, compared to that of 528% for the same period of last year.
- Lower bad debts and doubtful accounts due to better quality of receivables portfolio.** Bad debts and doubtful accounts decreased to 1,397 MB from 1,676 MB, down 17% compared to the same period of the prior year. This was resulted from the company's slower portfolio growth due to increasing competition and new regulations from the Bank of Thailand. Additionally, with the quality of the portfolio less provisions and write reduced compared to the same quarter of last year.

KTC Financial Highlight (Unit: Million Baht)	2Q18	2Q17	Growth (Y-Y%)	1H18	1H17	Growth (Y-Y%)
Total Revenue	5,259	4,820	9%	10,367	9,453	10%
Total Expense (Excluding Financial Cost)	3,233	3,427	-6%	6,448	6,745	-4%
Total Expense (Including Financial Cost)	3,626	3,833	-5%	7,229	7,551	-4%
Net Profit	1,306	787	66%	2,515	1,519	66%
Credit card net receivables	43,113	40,992	5%	43,113	40,992	5%
Personal loan net receivables	23,266	20,503	13%	23,266	20,503	13%
Other net receivables	139	150	-8%	139	150	-8%
Total Assets	71,919	66,166	9%	71,919	66,166	9%
Total Borrowing	51,553	49,548	4%	51,553	49,548	4%
Total Liabilities	58,194	55,357	5%	58,194	55,357	5%
Total Shareholders' Equity	13,725	10,810	27%	13,725	10,810	27%

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

Overall Performance

Business Outlook

Performance compared to projection 2018

Financial status and sources of funding

- Increased assets from receivables portfolio.** The company's asset at the end of the second quarter, 2018 was 71,919 MB, increased 9% YoY from 66,166 MB of the previous year. The main income generating assets were net receivables of 72,037 MB, accounted to 92% of total assets whereas the rest of 8% comprised of cash, other receivables, deferred tax assets and other assets.
- Effective fund raising** Compared to the same period of last year, the company's total borrowing increased 4% YoY to 51,553 MB. Sources of funds was from both short-term and long-term borrowing, with short term loans of 6,747 MB from

other financial institutions, and with long term debentures of 44,805 MB from various sources (i.e. Thai commercial banks, securities companies, insurances and other asset managements). At the end of second quarter, 2018, the company's available credit was 24,890 MB, consisted of 18,030 MB from Krung Thai Bank and 6,860 MB from other commercial banks. The company's cost of funds at the end of second quarter, 2018 stood at 2.99%, down from 3.23% compared to the same period of last year. Cost of funds for the first half of 2018 was at 2.97%, down from that of 3.12% at the end of last year due to the company's new debentures issued with longer tenure but at lower coupon rate. Additionally, the company's debt to equity ratio was at 4.24 time, well below the bond covenant limited at 10 times.

KTC Financial Highlight (Unit: Million Baht)	2Q18	2Q17	Growth (Y-Y%)	1H18	1H17	Growth (Y-Y%)
Gross profit margin	86.7%	85.8%	1%	86.5%	85.6%	1%
Net profit margin	24.8%	16.3%	52%	24.3%	16.1%	51%
Interest coverage ratio (times)	5.2	3.4	50%	5.0	3.4	49%
Debt to equity ratio (times)	4.2	5.1	-17%	4.2	5.1	-17%
Return on equity	39.7%	29.8%	33%	38.2%	28.8%	33%
Return on asset	7.2%	4.7%	53%	6.9%	4.5%	53%
Allowance/ Total receivables	7.7%	8.3%	-8%	7.7%	8.3%	-8%
Allowance / NPL	605%	528%	15%	605%	528%	15%
Book Value	53.2	41.9	27%	53.2	41.9	27%
Earning per shares (Baht)	5.1	3.1	66%	9.8	5.9	66%

Company's performance compared to 2018 projection

For year 2018, KTC has aimed to achieve credit card spending growth of no less than 15%, yet for the first half, it only expanded at 8%. The company also projected 10% portfolio growth but by the end of the second quarter, portfolio growth stood at 7% YoY. Whereas the company's NPL was maintained at 1.3%, the same level as last year and as projected. The company targeted higher net profit than the 3,304 MB achieved in 2017, currently the company already attained profit of 2,515 MB in the first half of 2018.

	2018 target	1H18 results
Total card spending growth	15%	8%
Total portfolio growth	10%	7%
% NPL	Maintain 2017 level at 1.3%	1.3%
Net profit growth	more than 2017	2,515

Due to the continuing of the overall economic recovery, less than expected expansion of member base, pressures from household debt problems, together with the new measures and regulations to tighten credit lines and access to personal

loans and the impact from the reduced credit card interest rate cap from 20% to 18%, the company has yet to achieve the projected portfolio growth and credit card spending.

Nonetheless, to cope with fast changing competitive environment, the company has consistently adapted its marketing strategies and was able to expand its member base, maintain high quality of receivables portfolio same as last year, attain higher fee income and yet had little increase in operating expense because of the company's constantly evolving working process. Furthermore, due to less provision, overall expense was also lower, thus resulting in net profit growth much better than expected.

Ultimately, to achieve sustainable business growth and to promote customer long term loyalty with KTC brand, the company has continuously planned and set its main objectives to meet customer demands, to expand collaborative business models with business alliances, to provide valuable services that truly serve customer needs, and to develop customer satisfactory applications thru TapKTC by emphasizing in useful, friendly and enhanced customer experience functions.

Overall Performance

Business Outlook

Performance compared to projection 2018