

## Management Discussion and Analysis for the 2<sup>nd</sup> Quarter 2020

### Ended August 31, 2020

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2<sup>nd</sup> quarter financial statements as of August 31, 2020 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

#### Overview

According to the Bank of Thailand and Office of the National Economic and Social Development Board data, the Thai economy in the second quarter of 2020 dropped by 12.2% compared with a 2% contraction in the previous quarter, as a result of the Covid-19 pandemic situation which disrupted economic activities in many sectors, especially in tourism sector that was directly impacted by lockdown measures. The exports sector fell sharply affected by weakening trading partner demand. These factors resulted in an increase in the unemployment rate to 2% in the second quarter of 2020 and the high level of household debt. On the other hand, public spending and investment continued to grow due to government’s relief measure through cash injection for people and businesses.

As of August 31, 2020, the Company’s total cards reached 9.03 million cards, including 2.88 million credit cards, and 6.15 million member cards. The Company has active customers more than 2 million IDs, mainly from Bangkok 31%, and in up-country 69%. Covering networks nationwide, the Company has 102 branches, 408 ATMs, and 6,494 member dealers to provide quality financial services to AEON cardholders. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 276,000, with representing 10% of total company customers.

#### Summary of Consolidated Financial Results

##### 1. Operating Results

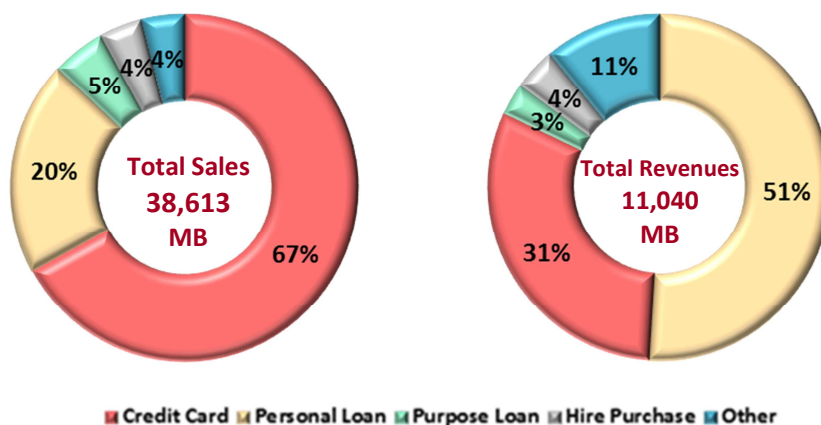
Profit and Loss Statement (Consolidated) Unit : Million Baht	2Q/19	1Q/20	2Q/20	%QoQ	%YoY	1H19	1H20	%YoY
Credit card income	1,887	1,738	1,621	-9%	-14%	3,754	3,359	-11%
Loan income	3,020	3,076	2,905	-6%	-4%	5,940	5,980	1%
Hire-purchase income	173	249	240	-4%	38%	321	489	52%
Other income	584	593	619	4%	6%	1,143	1,212	6%
<b>Total Revenues</b>	<b>5,664</b>	<b>5,656</b>	<b>5,384</b>	<b>-5%</b>	<b>-5%</b>	<b>11,157</b>	<b>11,040</b>	<b>-1%</b>

Profit and Loss Statement (Consolidated) Unit : Million Baht	2Q/19	1Q/20	2Q/20	%QoQ	%YoY	1H19	1H20	%YoY
Operating and administrative expenses and others	2,293	2,086	2,019	-3%	-12%	4,576	4,105	-10%
Bad debts and doubtful accounts	1,593	2,392	1,590	-34%	-0.2%	2,988	3,982	33%
Finance costs	557	558	554	-1%	-0.5%	1,100	1,112	1%
<b>Total Expenses</b>	<b>4,443</b>	<b>5,036</b>	<b>4,163</b>	<b>-18%</b>	<b>-7%</b>	<b>8,664</b>	<b>9,199</b>	<b>6%</b>
Profit before tax income	1,219	607	1,216	100%	0%	2,491	1,823	-27%
Income tax expenses	241	152	286	88%	19%	496	439	-12%
<b>Net profit for the period</b>	<b>942</b>	<b>530</b>	<b>966</b>	<b>82%</b>	<b>3%</b>	<b>1,929</b>	<b>1,497</b>	<b>-22%</b>
<b>Earning Per Share (Baht per share)</b>	<b>3.77</b>	<b>2.12</b>	<b>3.87</b>	<b>82%</b>	<b>3%</b>	<b>7.72</b>	<b>5.99</b>	<b>-22%</b>

## Revenues

In the first half of fiscal year 2020, the total consolidated revenues were 11,040 million baht, decreasing of 117 million baht or 1% y-y. In the second quarter of 2020, the Company's revenues were 5,384 million baht, decreasing of 279 million baht or 5% y-y and q-q. This is the result of the COVID-19 pandemic situation and economic slowdown has made consumers more cautious on spending, resulting in decreasing of card spending. In addition, the Bank of Thailand cut the ceiling rates for interest rates on credit card from 18% to 16% per annum and personal loan from 28% to 25% per annum, effective from August 1, 2020 onwards. On the other hand, our revenue from bad debt recovery continued to grow that increased by 26% y-y and the revenue from overseas subsidiaries grew by 28% y-y. Details of each business can be described as follows:

### Sales and Revenues Structure for the first six months of 2020



#### - Credit Card

In the first half year of 2020, credit card turnover accounted 67% of total turnovers with revenue of 3,359 million baht, a decrease of 359 million baht or 11% y-y. In the second quarter of 2020, credit card revenue was 1,621 million baht, a decrease of 266 million baht or 14% y-y, mainly resulted from dropped in

credit card spending and cutting in ceiling interest rate for credit card by 2%, which would be effective in August. For credit card expansion, in this quarter, the Company cooperated with Big C Supercenter Public Company Limited to launch Big C World Mastercard, which offering privileges under the concept “The best credit card @Big C”. The Big C World Mastercard offers special discount of 10% to our cardholders when spending through Big C shopping online and 7% at Big C Supercenter. In addition, our cardholders can enjoy 0% interest rate for 6 or 10 months installment payment when purchasing electrical appliances. In addition, AEON Specialized Bank (Cambodia) Plc had credit card revenue in the second quarter of 2020 of 25 million baht, grew by 47% y-y.

- Loans

In the first half of 2020, loans shared 25% of total turnovers with the revenue of 5,980 million baht, an increase of 40 million baht or 1% y-y. In the second quarter of 2020, loans revenue was 2,905 million baht, a decrease of 115 million baht or 4% y-y, mainly from lower new trading volume and reduction on interest rate ceiling for personal loan by 3%. Moreover, loan income from AEON Specialized Bank (Cambodia) PLC of 79 million baht, grew by 23% y-y and AEON Microfinance (Myanmar) Company Limited of 82 million baht, decreasing by 17% y-y. In addition, the Company has been expanding more service channels providing more convenience to customers and this also saved the Company's operation cost. For the Cardless transactions currently accounted for 31% of total personal loan sales.

- Hire Purchase

In the first half of 2020, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, with the revenues of 489 million baht, increasing by 168 million baht or 52% y-y mainly from continued growth of hire purchase in overseas business. In the second quarter of 2020, the Company had hire purchase revenue of 240 million baht, increasing by 66 million baht or 38% y-y. In addition, in the second quarter of 2020, the Company had hire purchase income from AEON Specialized Bank (Cambodia) Plc of 146 million baht, increasing by 29% y-y and AEON Leasing Service (Lao) Company Limited of 26 million baht, which was at the same level as last year.

- Others

In the first half of 2020, other incomes were 1,212 million baht, showing an increase of 69 million baht or 6% y-y and represented 11% of total revenues. The increase was mainly from the continued growth of bad debt recovery that increased by 17% y-y caused by increased expedite the legal process. In the second quarter of 2020, other incomes were 619 million baht, increased by 6% y-y, due to bad debt recovery that increased by 26% y-y and 30% q-q. Moreover, the income for the first half year of 2020 of company's subsidiaries in Thailand, the Company had commission income of 263 million baht, decreasing

by 1% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 121 million baht, decreasing 9% y-y from ACS Servicing (Thailand) Co., Ltd.

### Expenses

The Company's expenses mainly consist of operating and administrative expenses, expected credit loss and finance cost. In the first half of 2020, the Company had total consolidated expenses of 9,199 million baht, an increase of 535 million baht or 6% y-y. For the second quarter of 2020, the consolidated expenses were 4,163 million baht, a decrease of 280 million baht or 6% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first half of 2020, the consolidated operating and administrative expense were 4,105 million baht, decreasing by 10% y-y. The decrease in operating and administrative expense was mainly from lower marketing activities and a decrease in personal expense and transportation expense. For the second quarter of 2020, the consolidated operating and administrative expenses were 2,019 million baht, decreasing by 12% y-y. However, the Company still maintained effective operating cost control with cost to income ratio at 37% of total revenues. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues represented 35% in the second quarter and the first half of 2020.

- Expected Credit Loss

The consolidated expected credit loss in the first half of 2020 amounted to 3,982 million baht, increasing by 33% y-y. For the second quarter of 2020, the Company recorded expected credit loss of 1,590 million baht, which was at the same level as last year and decreasing by 34% q-q. The significant decrease in expected credit loss was mainly from additional provision in the previous quarter in accordance with the new Financial Reporting Standards (TFRS 9) coupled with provision for future impact of ongoing economic slowdown and management overlay.

- Finance Cost

The Company recorded consolidated finance cost in the first half of 2020 of 1,112 million baht, increasing by 1% y-y. For the second quarter of 2020, the finance cost was 554 million baht, which was the same level as last year and accounted for 11% of total revenues. The average funding cost in the second quarter of 2020 was at 2.92% decreased from 2.99% last year.

## Net Profit

For the first half of 2020, consolidated operating income was reported at 1,823 million baht, a decrease of 668 million baht or 27% y-y. The Company recorded net profit of 1,497 million baht, a decrease of 432 million baht or 22% y-y, and earning per share was 5.99 baht, which was resulted from higher provision in the first quarter with probable forward looking macroeconomic factors. For the second quarter of 2020, the Company had consolidated operating income of 1,216 million baht, which was the same level as last year. The Company reported net profit attributed to owners of the parent of 966 million baht, an increase of 24 million baht or 3% y-y and earning per share was 3.87 baht, mainly contributed by continued growth of bad debt recovery and efficiently control the operation cost as well as the relaxation of lockdown measures both in Thailand and abroad, supporting economic activities to resume operations.

## 2. Financial Status

Statement of Financial Position	February 29, 2020	August 31, 2020	Change
Unit : Million Baht		(TFRS 9)	%YoY
Accounts Receivable	90,232	88,017	-2%
Total Assets	95,396	87,265	-9%
Total Borrowing	69,437	65,310	-6%
Total Liabilities	74,271	71,921	-3%
Total Equities	21,125	15,344	-27%
ROE	20.5%	16.7%	-18%
ROA	4.4%	3.3%	-25%
D/E Ratio	3.6	4.8	33%

## Total Assets

As of August 31, 2020, consolidated total assets were 87,265 million baht, a decrease of 8,131 million baht or 9% from 95,396 million baht as of February 29, 2020. The main assets were attributed to the portfolio of net account receivables which shared 87% of total assets.

- Accounts Receivable

The Company has gross accounts receivable of 88,017 million baht as of August 31, 2020, decreasing 2% from as of February 29, 2020. The decrease was attributed mainly from the reducing of new customers and trading volume caused by the COVID-19 pandemic. This can be categorized by business type as follows: credit card receivable of 35,935 million baht, decreasing by 3%; loans receivable of 46,257

million baht, decreasing by 4%; hire purchase receivable of 5,643 million baht, increasing by 9% and others receivable of 181 million baht, increasing by 9% from the end of last year.

- Allowance for expected credit loss

As of August 31, 2020, the Company provided allowance for doubtful accounts of 11,972 million baht or 13.6% of total accounts receivable, comparing to that of 3,962 million baht or 4.39% of total accounts receivable at the end of previous fiscal year, which was resulted from the adoption of accounting standard TFRS 9 by calculating the expected credit loss (ECL Model) together with probable forward looking macroeconomic factors and also set additional management overlay in the previous quarter. The non-performing loan ratio was 3.88% slightly increased from the previous quarter due to higher provision of overseas business caused by IFRS 9 adoption and lockdown measures in April. The coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) decreased from 359% in the first quarter of 2020 to 351% in the second quarter of 2020.

#### Liabilities

The consolidated liabilities of the Company as of August 31, 2020 totaling 71,921 million baht, a decrease of 2,349 million baht or 3% from 74,271 million baht at the end of fiscal year 2019. There were both short-term and long-term borrowings totally 65,310 million baht, decreasing by 6% from the end of last year. The portion of long-term borrowings was 45,358 million baht or represented 69% of total borrowings. To manage risk that might occur from the fluctuation in currency and interest rate of long-term a debenture in foreign currencies, the Company has entered into cross currency interest rate swap contracts to hedge its debt. However, the Company has unused unsecured revolving credit facilities as of August 31, 2020 totaling 3 billion baht and unused uncommitted facilities with foreign banks totaling 9.8 billion baht, which is enough to drive the Company's operation. The Company also has the debentures totaling 4.9 billion baht that will mature in the next 12 months, which the Company can issue the replacement debentures or use a working capital to repay those debentures.

#### Shareholders' Equity

As of August 31, 2020, total shareholders' equity amounted to 15,106 million baht, a decrease of 5,622 million baht or 27% from the end of fiscal year 2019, reflected the adoption of ECL model, hedge accounting and leases standard (TFRS 16). Consequently, Book value as of August 31, 2020 was 60.4 baht per share, decreased from that of 82.9 baht per share as of February 29, 2020. Debt to Equity ratio as of August 31, 2020 was at 4.8 times increased from 3.6 times at the end of 2019. Return on Equity (ROE) and Return on Asset (ROA) for six month period of 2020 are 16.7% and 3.3%, respectively.

The Company also announces to pay interim dividend of six month performance at the amount 1.85 baht per share or 30.9% payout ratio. The shareholder register book for the right to receive dividends shall be recorded on October 20, 2020 (XD will be posted on October 19, 2020) and dividend will be paid on November 5, 2020.