

Management Discussion and Analysis

Fiscal year ended February 28, 2021

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the audited financial statements for the year ended February 28, 2021 which were audited 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 2020 dropped by 6.1% compared with a growth of 2.3% in the previous year. This was an impact of COVID-19 outbreak, especially on export, tourism and industrial sector. However, economic recovery has been high uncertain from new wave of the COVID-19 pandemic since December 2020. As a result, the domestic tourism sector at the end of the year was restricted again and decrease of consumer’s confidence accordingly.

As of February 28, 2021, the Company’s total cards reached 9.19 million cards, including 2.95 million credit cards, and 6.24 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 103 branches, 411 ATMs, and 6,463 member dealers to provide quality financial services to AEON cardholders. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 186,724 with representing 7% of total company customers.

The Company and subsidiaries have managed liquidity risk of operating cash flow under the COVID-19 situation with soft loan facilities of 5 billion baht from Government Saving Bank in Thailand. This is not only potentially decreases our funding costs but also stabilized company financial conditions.

Summary of Consolidated Financial Results

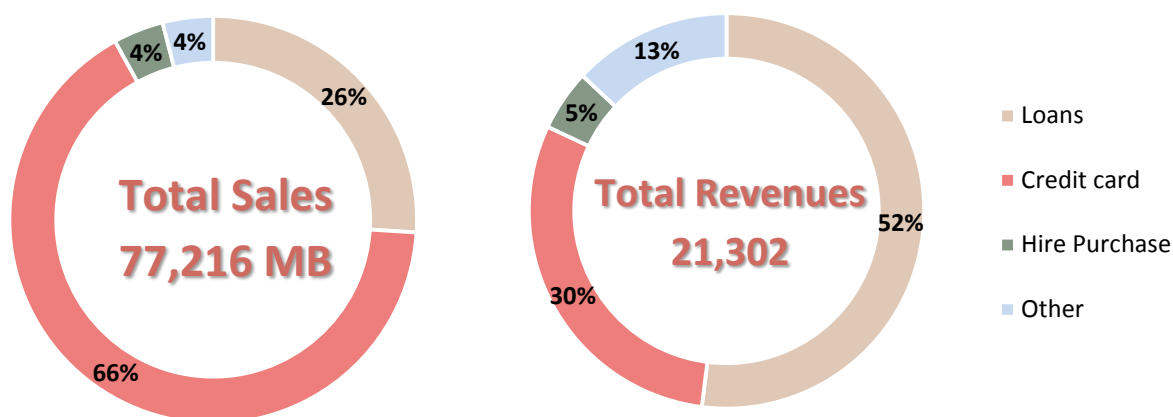
1. Operating Results

Profit and Loss Statement (Consolidated) Unit : Million Baht	4Q/19	3Q/20	4Q/20	%QoQ	%YoY	FY19	FY20	%YoY
Credit card income	1,878	1,529	1,563	2%	-17%	7,529	6,451	-14%
Loan income	3,077	2,616	2,525	-3%	-18%	12,065	11,121	-8%
Hire-purchase income	241	249	276	11%	15%	754	1,014	35%
Other income	969	864	639	-26%	-34%	2,953	2,715	-8%
Total Revenues	6,165	5,257	5,005	-5%	-19%	23,301	21,302	-9%
Operating and administrative expenses	2,337	2,056	2,160	5%	-8%	9,263	8,303	-10%
Expected credit loss	1,872	1,345	883	-34%	-53%	6,646	6,210	-7%
Finance costs	560	515	469	-9%	-16%	2,209	2,096	-5%
Other expenses	26	8	2	-75%	-92%	39	46	18%
Total Expenses	4,795	3,924	3,514	-10%	-27%	18,157	16,655	-8%
Profit before tax income	1,370	1,333	1,419	12%	9%	5,144	4,647	-10%
Income tax expenses	271	297	231	-22%	-15%	1,024	967	-6%
Net profit for the period	1,055	1,009	1,184	17%	12%	3,975	3,690	-7%
Earning Per Share (Baht per share)	4.22	4.04	4.74	17%	12%	15.9	14.76	-7%

Revenues

In the fiscal year ended February 28, 2021, the total consolidated revenues were 21,302 million baht, decreasing of 1,999 million baht or 9% y-y. For the fourth quarter of 2020, the Company's revenues were 5,005 million baht, decreasing 19% y-y. This is a result of the COVID-19 pandemic situation, economic slowdown and a higher household debt, In addition, the Bank of Thailand cut the ceiling rates of 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 onward. However, a change of customer behavior to be more cashless society on mobile payments and a promotion during New Year, our credit card shopping showed recovery at 6% q-q supported by domestic consumption in supermarket and online shopping. Moreover our revenue from bad debt recovery continued growing by 18% y-y and the revenue from overseas subsidiaries grew by 10% y-y. Details of each business can be described as follows:

Sales and Revenues Structure for the fiscal year of 2020.



- Credit Card

For the fiscal year 2020, credit card sales accounted for 66% of total turnovers with revenue of 6,451 million baht, a decrease of 1,078 million baht or 14% y-y. For the fourth quarter of 2020, credit card revenue was 1,563 million baht, a decrease of 315 million baht or 17% y-y, mainly resulted from a dropped in credit card spending and cutting in ceiling interest rate for credit card by 2%, which effective in 1st August 2020. However, the Company continued to collaborate with exiting and new business partners in order to offer more benefits and to expand our customer base. The Company also launched the marketing campaigns throughout the year. For example, AEON Gift 2021 campaign to redeem the premiums and vouchers and AEON shop plus 2020 campaign, customers can get a Shopee discount code through AEON THAI MOBILE Application. For overseas business, AEON Specialized Bank (Cambodia) Plc had credit card revenue in the fiscal year of 2020 of 106 million baht, grew by 44% y-y.

- Loans

For the fiscal year 2020, loans shared 26% of total turnovers with the revenue of 11,121 million baht, a decrease of 944 million baht or 8% y-y. In the fourth quarter of 2020, loans revenue was 2,525 million baht, a decrease of 552 million baht or 18% y-y, mainly from a reduction in interest rate ceiling for personal loan by 3%. Moreover, loan income from AEON Specialized Bank (Cambodia) PLC of 316 million baht, grew by 20% y-y and AEON Microfinance (Myanmar) Company Limited of 315 million baht, decreasing by 21% y-y due to COVID-19 lockdown and political turmoil that impacted operation in Yangon and Mandalay. However, the Company has been expanding more online service channels to customers and reduced the Company's operation cost. As a result, the Cardless transactions currently accounted for 30% of total personal loan sales.

- Hire Purchase

For the fiscal year of 2020, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phones in overseas business, with the revenues of 1,014 million baht, increasing by 260 million baht or 35% y-y mainly from continued growth of hire purchase both in domestic and overseas business. In the fourth quarter of 2020, the Company had hire purchase revenue of 276 million baht, increasing by 35 million baht or 15% y-y. In addition, hire purchase income from AEON Specialized Bank (Cambodia) Plc was 594 million baht, increasing by 26% y-y and AEON Leasing Service (Lao) Company Limited of 114 million baht, which was at the same level as last year.

- Others

For the fiscal year of 2020, other incomes were 2,715 million baht or 13% of total revenues, showing a decrease of 238 million baht or 8% y-y, mainly from reduce of selling Bad debt. Other revenues consist of bad debt recovery, which was 1,230 million baht or 6% of total revenues, gain on sales of written-off receivables was 250 million baht or 1% of total revenues, collection service income was 246 million baht or 1% of total revenues, Commission income was 510 million baht or 2% of total revenues, and others of 479 million baht or 2% of total revenues. Other revenues was mainly from the continued growth of bad debt recovery that increased by 18% y-y caused by the increased of expedite the legal process.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, expected credit loss and finance cost. For the fiscal year of 2020, the Company had total consolidated expenses of 16,655 million baht, a decrease of 1,502 million baht or 8% y-y. For the fourth quarter of 2020, the consolidated expenses were 3,514 million baht, a decrease of 1,281 million baht or 27% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

For the fiscal year of 2020, the consolidated operating and administrative expense were 8,303 million baht, decreasing by 10% y-y. The decrease in operating and administrative expense was mainly from personal expense, transportation expense, and decelerated of marketing activities as well as a decrease in space of property expenses. For the fourth quarter of 2020, the consolidated operating and administrative expenses were 2,160 million baht, decreasing by 8% y-y. However, the Company still maintained effective operating cost control with cost to income ratio at 39% of total revenues. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues was 37% in the fiscal year of 2020.

- Expected Credit Loss

The consolidated expected credit loss in the fiscal year of 2020 amounted to 6,210 million baht, decreasing by 7% y-y. For the fourth quarter of 2020, the Company recorded expected credit loss of 883 million baht, decreasing by 53% y-y and 34% q-q. Net credit cost was at 5.6% reduced from 6.6% in the third quarter of 2020. Moreover, in the first quarter of 2020, the Company has an additional provision 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 fiscal year of 2020 of 2,096 million baht, decreasing by 5% y-y. For the fourth quarter of 2020, the finance cost was 469 million baht, decreasing by 16% y-y and 9% q-q, which the portion of finance cost in the fourth quarter was 9% of total revenues. The average funding cost in the fourth quarter of 2020 was at 2.57% decreased from 2.92% last year.

Net Profit

For the fiscal year of 2020, consolidated operating income was reported at 4,647 million baht, a decrease of 497 million baht or 10% y-y. The Company recorded net profit of 3,690 million baht, a decrease of 286 million baht or 7% y-y, and earning per share was 14.76 baht, which was resulted from higher provision in the first quarter of 2020 with probable forward looking risk factors due to COVID-19 situation. For the fourth quarter of 2020, the Company had consolidated operating income of 1,491 million baht, an increase of 121 million baht or 9% y-y. The Company reported net profit attributed to owners of the parent of 1,184 million baht, an increase of 128 million baht or 12% y-y and 17% q-q, and earning per share was 4.74 baht, mainly contributed by continued growth of bad debt recovery and efficiently control the operation cost.

2. Financial Status

Statement of Financial Position	February 29, 2020	February 28, 2021	Change
Unit : Million Baht		(TFRS 9)	%YoY
Accounts Receivable	90,232	87,433	-3%
Total Assets	95,396	87,389	-8%
Total Borrowing	69,437	62,710	-10%
Total Liabilities	74,271	70,009	-6%
Total Equities	21,125	17,380	-18%
ROE	20.5%	19.5%	-5%
ROA	4.4%	4.0%	-8%
D/E Ratio	3.6	4.0	14%

Total Assets

As of February 28, 2021, consolidated total assets were 87,389 million baht, a decrease of 8,007 million baht or 8% 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 accounts receivable of 87,433 million baht as of February 28, 2021, decreased by 3% from as of February 29, 2020. The decrease was attributed mainly from the reducing of trading volume caused by the COVID-19 pandemic. This can be categorized by business type as follows: credit card receivable of 36,088 million baht, decreasing by 2% y-y; loans receivable of 45,332 million baht, decreased by 6% y-y; hire purchase receivable of 5,848 million baht, increasing by 13% y-y and others receivable of 165 million baht decreased by 1% from last year accordingly.

- Allowance for expected credit loss

As of February 28, 2021, the Company provided allowance for doubtful accounts of 11,593 million baht or 13.3% of total accounts receivable, increasing from 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 additional management overlay. The delinquent account receivables for 3 months and up was 5.24% in the fiscal year of 2020 increased from 3.70% at the end of previous year. For default receivables in credit risk (Stage 3) was 5.77% of total accounts receivable due to some of the customers who joined the grace period in Thailand and overseas and decreased trading volume in the second wave of COVID-19 situation from January to February of 2021. In the fourth quarter of 2020, the consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was at 230%.

Liabilities

The consolidated liabilities of the Company as of February 28, 2021 totaling 70,009 million baht, a decrease of 4,262 million baht or 6% from 74,270 million baht at the end of previous year. There were both short-term and long-term borrowings totally 62,709 million baht, decreasing by 10% from the end of last year. The portion of long-term borrowings was 45,335 million baht or represented 72% 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 cross currency interest rate swap contracts to hedge its debt. However, the Company has unused unsecured revolving credit facilities as of February 28, 2021 totaling 3 billion baht and unused uncommitted facilities with foreign banks totaling 5.5 billion baht, which is enough to drive the Company's operation. The Company also has the debentures totaling 3.4 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 February 28, 2021, total shareholders' equity amounted to 17,380 million baht, a decrease of 3,745 million baht or 18% from the end of fiscal year 2019, reflected the adoption of ECL model, hedge accounting and leases standard (IFRS 16). Consequently, Book value as of February 28, 2021 was 68.2 baht per share, decreased from that of 82.9 baht per share as of February 29, 2020.

Debt to Equity ratio as of February 28, 2021 was at 4.0 times increased from 3.6 times at the end of 2019 while the Company considers it is within the appropriate range to appreciate leverage and maintaining acceptable credit rating. Return on Equity (ROE) and Return on Asset (ROA) for the fiscal year of 2020 are 19.5% and 4.0%, respectively.

Key Financial Ratio	4Q19	4Q20	FY19	FY20
Net Profit Margin (%)	17.1%	23.6%	17.1%	17.3%
Interest Coverage ratio (Times)	3.5	4.2	3.3	3.2
Allowance for Expected Credit Loss/ Total Receivables (%)	4.4%	13.3%	4.4%	13.3%
NPL Coverage Ratio (%)	119%	230%	119%	230%
Cost to Income (%)	38.3%	43.2%	39.8%	39.0%
Book Value per Share (Baht)	82.9	68.2	82.9	68.2
EPS (Baht)	4.22	4.74	15.90	14.76