

Management Discussion and Analysis

For the 1st Quarter 2021 ended May 31, 2021

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 1st quarter financial statements as of May 31, 2021 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized are 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 first quarter of 2021 contracted by 2.6% compared with a decrease of 4.2% in the previous quarter. The main supporting factors were the return-to-expansion of export goods, private investment as well as a continual expansion of government expenditure. Meanwhile, the new wave of the COVID-19 pandemic continues to affect private consumption and domestic tourism sector continued to decline.

As of May 31, 2021, the Company’s total cards reached 9.25 million cards, including 2.98 million credit cards, and 6.27 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, 407 ATMs, and 6,260 member dealers to provide quality financial services to AEON cardholders. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 173,206 with representing 9% 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 in the amount of 2.5 billion baht from the total amount 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.

In the first quarter of 2021, the Company started the operation of life and non-life insurance brokerage business to be in line with customers’ lifestyle, increase efficiency and reduce operation cost by follow digitalization planning. In addition, the Company entered into a joint venture agreement with BSS Holding Company Limited and Humanica Public Company Limited to incorporate a joint venture company under the name of “Rabbit Cash Company Limited” to penetrate the digital lending market, with the Company holding 18% of shares. However, the extensive experience of AEON Thana Sinsap (Thailand) Public

Company Limited has contributed to the operation aspect of this joint venture that will lead to successful business expansion in the future.

Summary of Consolidated Financial Results

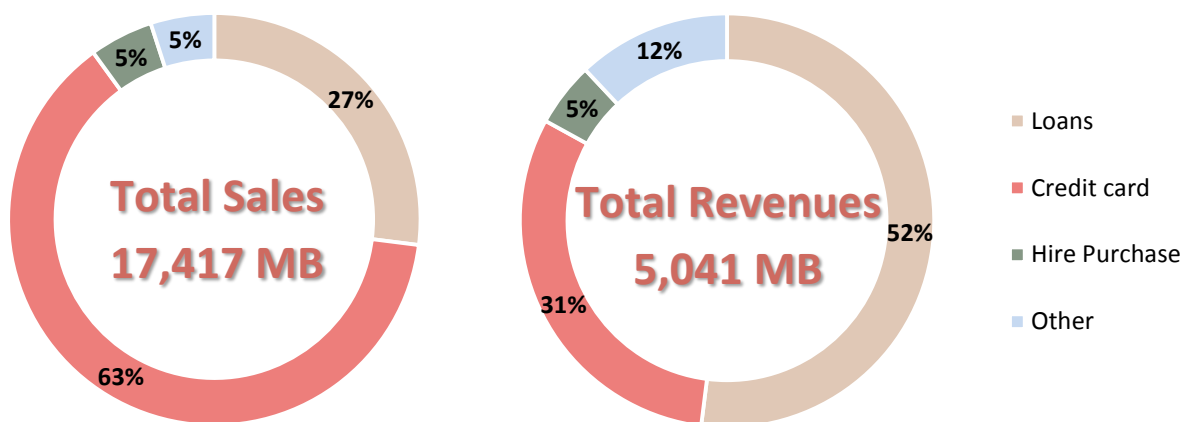
1. Operating Results

Profit and Loss Statement (Consolidated) Unit : Million Baht	1Q/20	4Q/20	1Q/21	%QoQ	%YoY
Credit card income	1,738	1,563	1,550	-1%	-11%
Loan income	3,076	2,525	2,612	3%	-15%
Hire-purchase income	249	276	273	-1%	10%
Other income	593	639	607	-5%	2%
Total Revenues	5,656	5,005	5,041	1%	-11%
Operating and administrative expenses	2,083	2,160	1,921	-11%	-8%
Expected credit loss	2,392	883	1,226	39%	-49%
Finance costs	558	469	453	-3%	-19%
Other expenses	15	2	2	0%	-87%
Total Expenses	5,048	3,514	3,602	3%	-29%
Profit before tax income	607	1,491	1,439	-3%	137%
Income tax expenses	152	231	355	54%	132%
Net profit for the period	530	1,184	1,149	-3%	117%
Earning Per Share (Baht per share)	2.12	4.74	4.60	-3%	117%

Revenues

In the first quarter of 2021 ended May 31, 2021, the total consolidated revenues were 5,041 million baht, decreasing of 615 million baht or 11% y-y. This was an impact of the third wave of the COVID-19 pandemic, which is presently spreading rapidly and appears almost uncontrollable coupled with 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, the company focuses on promoting sales through online channels to be consistent with consumer's behavior. Moreover, our revenue from bad debt recovery continued growing by 31% y-y. Details of each business can be described as follows:

Sales and Revenues Structure for the first quarter of 2021



- Credit Card

In the first quarter of 2021, credit card sales accounted for 63% of total turnovers with revenue of 1,550 million baht, a decrease of 188 million baht or 11% y-y, mainly resulted from a reduction in interest rate for credit card by 2%, which effective in 1st August 2020 and decreasing of credit card spending due to the impact of the COVID-19 pandemic. However, credit card revenue was 31% of total revenues. In this quarter, the Company launched the promotion “AEON 365 DAYS PRIVILEGES” which offering privileges to AEON credit card holders by adding new partners Lazada and Food Panda, customers can get a discount code through AEON THAI MOBILE Application. For overseas business, AEON Specialized Bank (Cambodia) Plc had credit card revenue in the first quarter of 2021 of 29 million baht, grew by 16% y-y.

- Loans

In the first quarter of 2021, loans shared 27% of total turnovers with the revenue of 2,612 million baht, a decrease of 464 million baht or 15% y-y which was 52% of total revenues, mainly from a reduction in interest rate ceiling for personal loan by 3%. Moreover, loan income from AEON Specialized Bank (Cambodia) PLC of 72 million baht, decreasing by 14% y-y and AEON Microfinance (Myanmar) Company Limited of 21 million baht, decreasing by 83% y-y due to COVID-19 lockdown and political turmoil that impacted operation in Yangon and Mandalay. Therefore, AEON Microfinance (Myanmar) Co., Ltd has stopped new loan and cut the expenses as well as continued pursuing debt collection respectively.

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 37% of total personal loan sales.

- Hire Purchase

In the first quarter of 2021, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phones in overseas business, with the revenues of 273 million baht, increasing by 24 million baht or 10% y-y. In addition, hire purchase income from AEON Specialized Bank (Cambodia) Plc was 160 million baht, increasing by 5% y-y and AEON Leasing Service (Lao) Company Limited of 28 million baht, decreasing 10% y-y.

- Others

In the first quarter of 2021, other incomes were 607 million baht or 12% of total revenues, showing an increase of 14 million baht or 2% y-y. Other revenues consist of bad debt recovery, which was 328 million baht or 7% of total revenues, collection service income was 58 million baht or 1% of total revenues, Insurance business income was 151 million baht or 3% of total revenues, and others of 70 million baht or 1% of total revenues. Other revenues was mainly from the continued growth of bad debt recovery that increased by 31% 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. In the first quarter of 2021, the Company had total consolidated expenses of 3,602 million baht, a decrease of 1,434 million baht or 28% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first quarter of 2021, the consolidated operating and administrative expense were 1,921 million baht, decreasing by 162 million baht or 8% 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. However, the Company still maintained effective operating cost control with cost to income ratio at 38% of total revenues. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues was 36 in the first quarter of 2020.

- Expected Credit Loss

The consolidated expected credit loss in the first quarter of 2021 amounted to 1,226 million baht, decreasing by 1,166 million baht or 49% y-y. Net credit cost was at 4.1% reduced from 5.6% in the fourth quarter of 2020.

- Finance Cost

The Company recorded consolidated finance cost in the first quarter of 2021 of 453 million baht, decreasing by 19% y-y, which the portion of finance cost in the first quarter was 9% of total revenues. The average funding cost in the first quarter of 2021 was at 2.66% decreased from 2.89% in the first quarter of 2020.

Net Profit

For the first quarter of 2021, consolidated operating income was reported at 1,439 million baht, an increase of 832 million baht or 137% y-y. The Company recorded net profit of 1,149 million baht, an increase of 619 million baht or 117% y-y, and earning per share was 4.60 baht, which was resulted from higher provision in the first quarter of 2020 with probable forward looking risk factors due to COVID-19 situation. Net profit was mainly contributed by continued growth of bad debt recovery and efficiently control the operation cost.

2. Financial Status

Statement of Financial Position	February 28, 2021	May 31, 2021	Change
Unit : Million Baht			%YoY
Accounts Receivable	87,433	86,690	-1%
Total Assets	87,389	86,842	-1%
Total Borrowing	62,710	62,160	-1%
Total Liabilities	70,009	68,421	-2%
Total Equites	17,380	18,421	6%
ROE	19.5%	26.1%	34%
ROA	4.0%	5.3%	33%
D/E Ratio	4.0	3.7	-8%

Total Assets

As of May 31, 2021, consolidated total assets were 86,842 million baht, a decrease of 546 million baht or 1% from 87,389 million baht as of February 28, 2021. 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 86,690 million baht as of May 31, 2021, decreased by 1% from as of February 28, 2021. The decrease was attributed mainly from the reducing of trading volume caused by the COVID-19 pandemic, but some of customers able to repay better than expected caused there is no lockdown measure. However, this can be categorized by business type as

follows: credit card receivable of 35,589 million baht, decreasing by 1% y-y; loans receivable of 44,831 million baht, decreased by 1% y-y; hire purchase receivable of 6,134 million baht, increasing by 5% y-y and others receivable of 136 million baht decreased by 18% from last year accordingly.

- Allowance for expected credit loss

As of May 31, 2021, the Company provided allowance for doubtful accounts of 11,138 million baht or 12.8% of total accounts receivable, decreasing from 11,593 million baht or 13.3% of total accounts receivable at the end of previous year. The delinquent account receivables for 3 months and up was 5.2% in the first quarter of 2021, which was at the same level as last year. For default receivables in credit risk (Stage 3) was 5.6% decreased from 5.8% at the end of previous year, mainly from caution on new loan under the third wave of COVID-19 situation and some of the customers able to repay and accelerated write off of NPL from 2020. In the first quarter of 2021, the consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was at 225% and the Company's NPL coverage ratio was at 237%.

Liabilities

The consolidated liabilities of the Company as of May 31, 2021 totaling 68,421 million baht, a decrease of 1,588 million baht or 2% from 70,009 million baht at the end of previous year. There were both short-term and long-term borrowings totally 62,160 million baht, decreasing by 1% from the end of last year. The portion of long-term borrowings was 47,241 million baht or represented 76% of total borrowings. To manage risk that might occur from the fluctuation in currency. 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 May 31, 2021 totaling 3 billion baht and unused uncommitted facilities with foreign banks totaling 7.8 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 within 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 May 31, 2021, total shareholders' equity amounted to 18,421 million baht, an increase of 1,042 million baht or 6% from the end of fiscal year 2020. Book value as of May 31, 2021 was 72.6 baht per share, increased from that of 68.2 baht per share as of February 28, 2021.

Debt to Equity ratio as of May 31, 2021 was at 3.7 times decreased from 4.0 times at the end of 2020 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 first quarter of 2021 are 26.1% and 5.3%, respectively.

Key Financial Ratio	1Q20	FY20	1Q21
Net Profit Margin (%)	9.4%	17.3%	22.8%
Interest Coverage ratio (Times)	2.1	3.2	4.2
Allowance for Expected Credit Loss/ Total Receivables (%)	13.3%	13.3%	12.8%
NPL Coverage Ratio (%)	359%	230%	225%
Cost to Income (%)	36.8%	39.0%	38.1%
Book Value per Share (Baht)	68.2	68.2	72.6
EPS (Baht)	2.12	14.76	4.60