

Management Discussion and Analysis

For the 2nd Quarter 2021 ended August 31, 2021

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2nd quarter financial statements as of August 31, 2021 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 2021 increased by 7.5% (y-y) compared with a decrease of 2.6% (y-y) in the first quarter. The main supporting factors were the return-to-expansion of export goods and private investment. On the other hand, the third wave of the COVID-19 pandemic continues to affect from a government adopting a more restrictive lockdown measures in dark-red zones and uncertainty surrounding the COVID-19 situation that will hinge mainly on the rollout of vaccines in order to curb the pandemic. From the situation, unemployment rate in the second quarter of 2021 was at 1.89% and household debt showed high level.

As of August 31, 2021, the Company’s total cards reached 9.29 million cards, including 3.01 million credit cards, and 6.28 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 100 branches, 404 ATMs, and 6,272 member dealers to provide quality financial services to AEON cardholders. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 133,535 with representing 5% 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 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

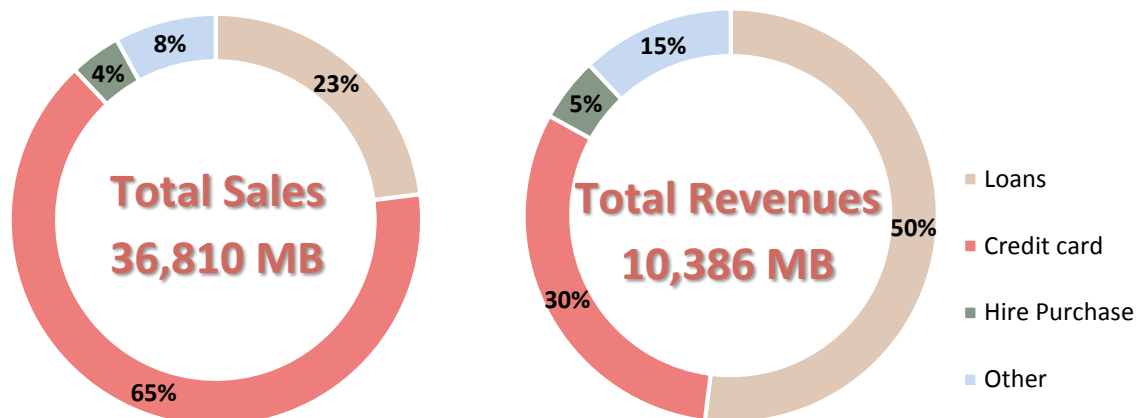
1. Operating Results

Profit and Loss Statement (Consolidated) Unit : Million Baht	2Q/20	1Q/21	2Q/21	%QoQ	%YoY	1H20	1H21	%YoY
Credit card income	1,621	1,550	1,594	3%	-2%	3,359	3,144	-6%
Loan income	2,905	2,612	2,586	-1%	-11%	5,980	5,198	-13%
Hire-purchase income	240	273	258	-5%	8%	489	531	9%
Other income	619	607	906	49%	46%	1,212	1,513	25%
Total Revenues	5,384	5,041	5,344	6%	-1%	11,040	10,386	-6%
Operating and administrative expenses	2,003	1,921	1,974	3%	-1%	4,086	3,895	-5%
Expected credit loss	1,590	1,226	2,005	64%	26%	3,982	3,231	-19%
Finance costs	554	453	448	-1%	-19%	1,112	901	-19%
Other expenses	21	2	6	200%	-71%	37	8	-78%
Total Expenses	4,168	3,602	4,433	23%	6%	9,217	8,035	-13%
Profit before tax income	1,216	1,439	911	-37%	-25%	1,823	2,351	29%
Income tax expenses	286	355	194	-45%	-32%	439	550	25%
Net profit for the period	966	1,149	678	-41%	-30%	1,384	1,828	22%
Earnings Per Share (Baht per share)	3.87	4.60	2.71	-41%	-30%	5.99	7.31	22%

Revenues

In the first half of fiscal year 2021, the total consolidated revenues were 10,386 million baht, decreasing of 655 million baht or 6% y-y. In the second quarter of 2021, the Company's revenues were 5,344 million baht, decreasing of 40 million baht or 1% y-y but increase by 6% q-q. The decreased income was a result of 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 since August 1 last year as well as the announcement of temporary lockdown in July and August in this year due to COVID-19 outbreak. Therefore, the Company temporarily closed 57 branches in department stores. However, the company focuses on promoting sales through online channels and cardless cashing totally online shopping increased around 2 times and cardless cashing share more than 30% of total personal loans. Moreover, our revenue from bad debt recovery growing by 11% y-y. Details of each business can be described as follows:

Sales and Revenues Structure for the first six months of 2021



- Credit Card

In the first half year of 2021, credit card sales accounted for 65% of total turnovers with revenue of 3,144 million baht, a decrease of 215 million baht or 6% y-y. In the second quarter of 2021, credit card revenue was 1,594 million baht, a decrease of 27 million baht or 2% y-y but increased by 3% q-q, 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 30% of total revenues. For overseas business, AEON Specialized Bank (Cambodia) Plc had credit card revenue in the second quarter of 2021 of 56 million baht, grew by 12% y-y.

- Loans

In the first half of 2021, loans shared 23% of total turnovers with the revenue of 5,198 million baht, a decrease of 782 million baht or 13% y-y which was 50% of total revenues. In the second quarter of 2021, loan revenue was 2,586 million baht, a decrease of 318 million baht or 11% 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 138 million baht, decreasing by 15% y-y and AEON Microfinance (Myanmar) Company Limited of 24 million baht, decreasing by 88% 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 38% of total personal loan sales.

- Hire Purchase

In the first half of 2021, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phones in overseas business, with the revenues of 531 million baht, increasing by 42 million baht or 9% y-y. In the second quarter of 2021, the Company had hire purchase revenue of 258 million baht, increasing by 18 million baht or 8% y-y. In addition, hire purchase income in the first half of 2021 from AEON Specialized Bank (Cambodia) Plc was 312 million baht, increasing by 5% y-y and AEON Leasing Service (Lao) Company Limited of 55 million baht, decreasing 4% y-y.

- Others

In the first half of 2021, other incomes were 1,513 million baht or 15% of total revenues, showing an increase of 301 million baht or 25% y-y. Other revenues consist of bad debt recovery, which was 638 million baht increased by 11% y-y or sharing 6% of total revenues, gain on sales of written-off receivables were 320 million baht or 3% of total revenues, collection service income was 107 million baht or 1% of total revenues, Insurance business income was 325 million baht increased by 23% y-y and sharing 3% of total revenues, and others of 123 million baht or 1% of total revenues. Other revenues was mainly from the continued growth of bad debt recovery because of expedite the legal process.

For the second quarter of 2021, other incomes were 906 million baht, an increased 287 million baht or 46% y-y. In addition, in the second of 2021, The Company had other incomes from bad debt selling at the amount of 320 million baht.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, expected credit loss and finance cost. In the first half of 2021, the Company had total consolidated expenses of 8,035 million baht, a decrease of 1,182 million baht or 13% y-y. For the second quarter of 2021, the consolidated expenses were 4,433 million baht, an increase of 264 million baht or 6% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first half of 2021, the consolidated operating and administrative expense were 3,902 million baht, decreasing by 203 million baht or 5% 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 second quarter of 2021, the consolidated operating and administrative expenses were 1,980 million baht, decreasing by 40 million baht or 2% y-y. 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 represented 35% in the second quarter of 2021 and in the six-months of 2021.

- Expected Credit Loss

The consolidated expected credit loss in the first half of 2021 amounted to 3,231 million baht, decreasing by 751 million baht or 19% y-y. For the second quarter of 2021, the consolidated expected credit loss was 2,005 million baht increasing by 415 million baht or 26% y-y. This was a result from increasing of written-off receivables as well as the Company has also set additional management overlay for a hedge with probable forward looking macroeconomics factors, the disease pandemic and government's lockdown measures of shopping mall as well as business activities.

- Finance Cost

The Company recorded consolidated finance cost in the first half of 2021 of 901 million baht, decreasing by 19% y-y. For the second quarter of 2021, the finance cost was 448 million baht, decreasing by 106 million baht or 19% y-y, which the portion of finance cost in the second quarter was 8% of total revenues. The average funding cost in the second quarter of 2021 was at 2.56% decreased from 2.92% in the second quarter of 2020.

Net Profit

For the first half of 2021, consolidated operating income was reported at 2,351 million baht, an increase of 528 million baht or 29% y-y. The Company recorded net profit of 1,828 million baht, an increase of 331 million baht or 22% y-y, and earning per share was 7.31 baht, For the second quarter of 2021, net profit of the parent was 647 million baht decreased by 30% y-y which was resulted from higher provision in August 2021 with probable forward looking risk factors due to COVID-19 and lock down business. Net profit was mainly contributed by continued growth of bad debt recovery and efficiently control the operation cost and funding cost.

2. Financial Status

Statement of Financial Position	February 28, 2021	August 31, 2021	Change
Unit : Million Baht			%YoY
Accounts Receivable	87,433	87,077	-0.4%
Total Assets	87,389	87,426	0.04%
Total Borrowing	62,710	64,113	2%
Total Liabilities	70,009	68,972	-1.5%
Total Equities	17,380	18,454	6%
ROE	19.5%	20.8%	7%
ROA	4.0%	4.2%	5%
D/E Ratio	4.0	3.7	-7.5%

Total Assets

As of August 31, 2021, consolidated total assets were 87,426 million baht, an increase of 37 million baht or 0.04% 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 87,077 million baht as of August 31, 2021, decreased by 0.4% from as of February 28, 2021. The decrease was attributed mainly from the reducing of trading volume caused by the COVID-19 pandemic. However, this can be categorized by business type as follows: credit card receivable of 36,094 million baht, loans receivable of 44,944 million baht, hire purchase receivable of 5,950 million baht and others receivable of 89 million baht accordingly.

- Allowance for expected credit loss

As of August 31, 2021, the Company provided allowance for doubtful accounts of 10,930 million baht or 12.6% of total accounts receivable. The delinquent account receivables for 3 months and up was 4.7% in the second quarter decreasing from 5.2% in the end of last year. For default receivables in credit risk (NPL Stage 3) was 5.2% decreasing from 5.8% at the end of previous year, mainly from caution on new loan under the third wave of COVID-19 situation and accelerated write off of NPL from last year. In the end of second quarter of 2021, the consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was at 243% increased from 230% from fiscal year of 2020 and increased from 225% from last quarter.

Liabilities

The consolidated liabilities of the Company as of August 31, 2021 totaling 68,972 million baht, a decrease of 1,037 million baht or 1.5% from 70,009 million baht at the end of previous year. There were both short-term and long-term borrowings totally 64,113 million baht, increasing by 2% from the end of last year. The portion of long-term borrowings was 45,874 million baht or represented 72% 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. In addition, the Company has unused unsecured revolving credit facilities 7.2 billion baht and 3 billion baht unused uncommitted facilities with a verities of domestic financial institutions which is enough to drive the Company's operation. The Company also has the debentures totaling 2.9 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 August 31, 2021, total shareholders' equity amounted to 18,454 million baht, an increase of 1,074 million baht or 6% from the end of fiscal year 2020. Book value as of August 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 August 31, 2021 was at 3.7 times decreased from 4.0 times at the end of 2020. Return on Equity (ROE) and Return on Asset (ROA) for the first half of 2021 are 20.8% and 4.2%, respectively.

The Company also announces to pay interim dividend of six month performance at the amount 2.50 baht per share or 34.2% payout ratio. The shareholder register book for the right to receive dividends shall be recorded on October 19, 2021 (XD will be posted on October 18, 2021) and dividend will be paid on November 2, 2021.

Key Financial Ratio	2Q20	2Q21	6M20	6M21
Net Profit Margin (%)	17.9%	12.7%	13.6%	17.6%
Interest Coverage ratio (Times)	3.2	3.0	2.7	3.6
Allowance for Expected Credit Loss/ Total Receivables (%)	12.2%	12.6%	12.2%	12.6%
NPL Coverage Ratio (%)	197%	243%	197%	243%
Cost to Income (%)	37.2%	36.9%	37.0%	37.5%
Book Value per Share (Baht)	60.4	72.6	64.0	72.6
EPS (Baht)	3.87	2.71	5.99	7.31