

Management Discussion and Analysis for the 2nd Quarter 2019 Ended August 31, 2019

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2nd quarter financial statements as of August 31, 2019 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 2019 expanded at a slower pace by 2.3%, decreased from 2.8% in the previous quarter, driven mainly by a slowdown in domestic demand and private consumption. The exports sector fell sharply due to the continued strength of the baht, while tourism sector also slowed down. In addition, Thai economy still faces external risk such as trade war between US and China and global economic uncertainty.

As of August 31, 2019, the Company’s total cards reached 8.75 million cards, increased by 3% from the end of fiscal year 2018 (including 2.75 million credit cards, increased by 5% from the end of last year and 6 million member cards, increased by 2% from the end of last year). 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 105 branches, 431 ATMs, and 6,665 member dealers to provide quality financial services to AEON cardholders. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 307,000, increased by 42% from last year, and representing 13% of total company customers.

Summary of Consolidated Financial Results

1. Operating Results

Revenues

In the first half of fiscal year 2019, the total consolidated revenues were 11,157 million baht, showing an increase of 1,047 million baht or 10% y-y. In the second quarter of 2019, the Company’s revenues were 5,664 million baht, an increase of 570 million baht or 11% y-y. This is the result of continue growth in core business revenues that increased by 10% y-y, especially in personal loan and hire purchase products as well as a strong growth revenue from bad debt recovery by 42% y-y. In addition, the revenue from overseas subsidiaries grew by 68% y-y as a result of customer increase and product diversification. Details of each business can be described as follows:

- Credit Card

In the first half year of 2019, credit cards turnover accounted 63% of total turnovers with revenue of 3,754 million baht, an increase of 222 million baht or 1% y-y. In the second quarter of 2019, credit card revenue was 1,887 million baht, an increase of 9 million baht or 1% y-y. The Company has focused on promotion activities to encourage customer's spending and increase market share. For example, "AEON Shop Plus 2019" a credit card campaign for customers to accumulate sales slips up to amounts for premium redemption, "Exclusive Trip to Japan 2019" campaign of tour package to Japan for AEON Royal Orchid Plus Platinum Card and AEON Royal Orchid Plus World Mastercard customers when their spending reach specific amount and we also continued a joint promotion with leading department stores. Thus, the Company has a plan to launch new co-brand card to expand new customer base. In addition, AEON Specialized Bank (Cambodia) Plc had credit card revenue in the second quarter of 2019 of 17 million baht, grew by 100% y-y.

- Loans

In the first half year of 2019, loans shared 30% of total turnovers with the revenue of 5,940 million baht, an increase of 697 million baht or 13% y-y. In the second quarter of 2019, loans revenue was 3,020 million baht, an increase of 381 million baht or 14% y-y. This is because the Company integrated credit limit of personal loan and purpose loan to AEON Happy Pay program in 2018 and continued to run the marketing campaign. Thus, the Company provides more channels to facilitate financial services to customers and reduce Company's operation cost. After the Cardless withdrawal service was launched, the Cardless transactions at ATMs accounted for 18% of total personal loan sales. Moreover, loan income from AEON Microfinance (Myanmar) Company Limited in the second quarter of 2019 grew by 47% y-y and AEON Specialized Bank (Cambodia) Plc grew by 105% y-y.

- Hire Purchase

In the first half of 2019, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, with the revenues of 320 million baht, increasing by 69% y-y and hire purchase sales from overseas business grew by 31% y-y, especially from business in Cambodia grew by 48% y-y. In the second quarter of 2019, the Company had hire purchase revenue 173 million baht, increased by 74% y-y and 17% q-q, drove by auto loans business. In addition, in the second quarter of 2019, the Company had hire purchase income from AEON Specialized Bank (Cambodia) Plc that increased 89% y-y and AEON Leasing Service (Lao) Company Limited that increased 16% y-y.

- Others

In the first half of 2019, other incomes were 1,143 million baht, showing an increase of 198 million baht or 21% y-y and represented 10% of total revenues. The increase was mainly from the continued growth of bad debt recovery that increased 40% y-y caused by increased the internal legal staff to expedite

the legal process. In the second quarter of 2019, other incomes were 584 million baht, increased by 22% y-y, due to bad debt recovery that increased 42% y-y and 10% q-q. Moreover, the income for the first half year of 2019 of company's subsidiaries in Thailand, the Company had commission income of 267 million baht, increasing by 6% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 133 million baht, increasing 1% y-y from ACS Servicing (Thailand) Co., Ltd.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts and finance cost. In the first half of 2019, the Company had total consolidated expenses of 8,664 million baht, an increase of 809 million baht or 10% y-y. For the second quarter of 2019, the consolidated expenses were 4,443 million baht, an increase of 435 million baht or 11% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first half of 2019, the consolidated operating and administrative expense were 4,573 million baht, increasing by 7% y-y and represented 41% of total revenues. The expenses increase came from marketing expense increased 12% y-y and personal expense increased 8% y-y. For the second quarter of 2019, the consolidated operating and administrative expenses were 2,292 million baht, increasing by 4% y-y. However, the Company was able to control the operating and administrative expenses at same level as previous quarter, representing 40% of total revenues. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues represented 39% in the second quarter and the first half of 2019.

- Bad debt and Doubtful accounts

The consolidated bad debts and doubtful accounts, in the first half of 2019, amounted to 2,988 million baht, increasing by 21% y-y. For the second quarter of 2019, the Company recorded bad debts and doubtful accounts of 1,593 million baht, increasing by 27% y-y and 14% q-q. The increase of bad debt and doubtful accounts was mainly from continued growth of total portfolio and also negatively impacted from the economic slowdown and during the early stage of implementation of new collection system.

- Finance Cost

The Company recorded consolidated finance cost in the first half of 2019 of 1,100 million baht which was at the same level as last year. For the second quarter of 2019, the finance cost was 557 million baht, increasing by 2% q-q and the same level as last year and accounted for 11% of total revenues. The average funding cost in the second quarter of 2019 was at 2.99% decreased from 3.32% last year,

due to reducing trend of market interest rate and interest rate paid to ATS Rabbit Special Purpose Vehicle Company Limited.

Net Profit

For the first half of 2019, consolidated operating income was reported at 2,491 million baht, showing an increase of 232 million baht or 10% y-y. The Company recorded net profit of 1,929 million baht, showing an increase of 140 million baht or 8% y-y, and earning per share was 7.72 baht. For the second quarter of 2019, the Company had consolidated operating income of 1,219 million baht, an increase of 131 million baht or 12% y-y. The Company reported net profit attributed to owners of the parent of 942 million baht, an increase of 81 million baht or 9% y-y and earning per share was 3.77 baht. The net profit in the second quarter of 2019 increased thanks to the increase in core business revenues and continued growth of bad debt recovery and total portfolio and a strong growth of both domestic and overseas subsidiaries. In addition, the Company efficiently managed the funding cost.

2. Financial Status

Total Assets

As of August 31, 2019, consolidated total assets were 92,241 million baht, an increase of 5,119 million baht or 6% from 87,122 million baht as of February 28, 2019. The main assets were attributed to the portfolio of net account receivables which shared 91% of total assets.

- Accounts Receivable

The Company has gross accounts receivable of 87,131 million baht (both current assets and non-current assets) as of August 31, 2019, increasing 6% from as of February 28, 2019. This can be categorized by business type as follows: credit card receivable of 37,274 million baht, increasing by 2% y-y; loans receivable of 46,665 million baht, increasing by 7% y-y; hire purchase receivable of 3,077 million baht, increasing by 45% y-y and others receivable of 115 million baht.

- Allowance for doubtful accounts

As of August 31, 2019, the Company provided allowance for doubtful accounts of 3,395 million baht or 3.90% of total accounts receivable, comparing to that of 2,880 million baht or 3.49% of total accounts receivable at the end of previous fiscal year. The percentage account receivable 3 month's overdue or non-performing loan ratio was 3.12%, increased from 2.77% at the end of last year. The coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 125% in the second quarter of 2019, which was the same level as the end of last year of 126%.

Liabilities

The consolidated liabilities of the Company as of August 31, 2019 totaling 72,534 million baht, an increase of 3,801 million baht or 6% from 68,733 million baht at the end of fiscal year 2018. This is a result of both short-term and long-term borrowings increased by 5% from the end of last year to 67,073 million baht. The portion of long-term borrowings was 43,255 million baht or represented 64% of total borrowings, decreasing from 75% of fiscal year 2018.

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.

Shareholders' Equity

As of August 31, 2019, total shareholders' equity amounted to 19,707 million baht, an increase of 1,318 million baht or 7% over the end of fiscal year 2018. Consequently, book value as of August 31, 2019 was 77.4 baht per share, increased from 72.2 baht per share as of February 28, 2019.

Debt to Equity ratio as of August 31, 2019 remained constant at 3.7 times slightly decrease from 3.8 times at the end of 2018. Return on Equity (ROE) and Return on Asset (ROA) for six month period are 20.6% and 4.3%, respectively.

The Company also announces to pay interim dividend of six month performance at the amount 2.45 baht per share or 31.7% payout ratio. The shareholder register book for the right to receive dividends shall be recorded on October 21, 2019 (XD will be posted on October 18, 2019) and dividend will be paid on November 4, 2019.