

Management Discussion and Analysis

For the 1st Quarter 2020 ended May 31, 2020

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 1st quarter financial statements as of May 31, 2020 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The Company has net profit attributed to owners of the parent of 530 million baht or 2.12 baht per share, decreasing by 46% y-y. The financial performance can be summarized as follows.

Overview

The Thai economy in the first quarter of 2020 contracted by 1.8%, compared to a growth of 1.5% in the previous quarter, according to data from Bank of Thailand and NESDB. This was mainly from contraction of export sector due to sluggish demand in the global market, oil prices as well as the decline in public and private consumption. The tourism industry, especially in the hotel, transportation and restaurant businesses, was hard hit by the impact of COVID-19 outbreak, resulting in an increase in the unemployment rate.

The impact of COVID-19 was felt globally, and the state of emergency was declared in Thailand, resulting in disrupted economic activities whereby certain places were closed temporarily and travel restrictions imposed. Consequently, the Company’s marketing activities were suspended and over 70 branches were closed down temporarily, from April to mid-May. In order to alleviate such impact on our customers, the Company offered credit assistance measures to those customers affected by COVID-19, in line with the Bank of Thailand’s measures to ease debtors’ burden by reducing minimum payment for credit card and personal loan as well as providing a grace period and relief program in the first quarter of 2020. Moreover, the Company adopted a more cautious in granting new credits.

As of May 31, 2020, the Company’s total cards reached 9.01 million cards, increasing by 4% y-y (including 2.86 million credit cards and 6.15 million member cards). Covering networks nationwide, the Company has 104 branches decreased 1 branch from previous quarter, 410 ATMs, and over 6,660 member dealers to provide quality financial services to AEON cardholders.

Adoption of new financial reporting standards

In the first quarter of 2020 ended May 31, 2020, the Company and its subsidiaries started to adopt the new Financial Reporting Standards (TFRS 9), which effects the classification and measurement of financial assets and financial liabilities, impairment of financial assets and general hedge accounting as well as leases standard (TFRS 16). However, the Company has not restated the comparative information (See more details

in Item 2.7 of the Notes of Financial Statements). The financial reporting in the first quarter of 2020 has the material changes from the previous reporting as follows:

- As at May 31, 2020, the loss allowance for a financial instrument was calculated based on the concept of expected credit losses (ECL), the principles of hedge accounting and forward looking macroeconomic factors totally at the amount of 11,775 million baht. The Group has elected to recognize the cumulative effect of initially adopting of TFRS 9 and TFRS 16 as an adjustment to the beginning balance of retained earnings of the reporting period as at March 1, 2020, the additional credit loss allowance has been recognized against retained earnings and net of their related deferred tax, resulting in a net decrease in retained earnings of 6,788 million baht.

Summary of Consolidated Financial Results

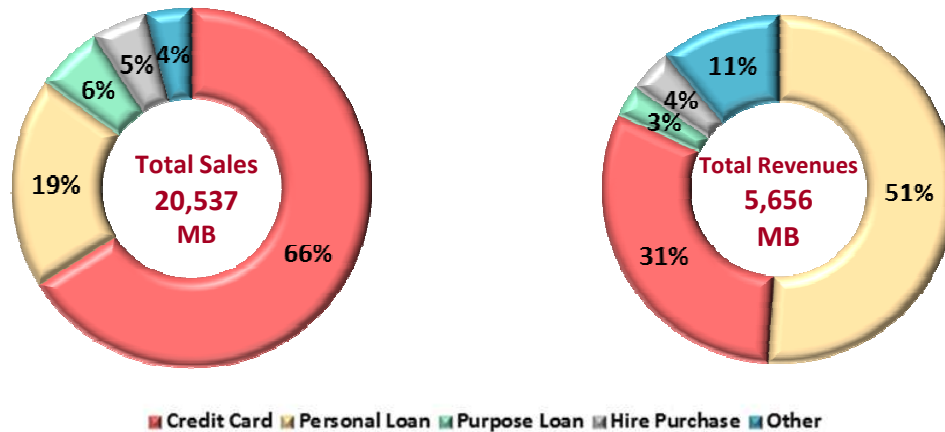
1. Operating Results

Profit and Loss Statement (Consolidated) Unit : Million Baht	1Q/19	1Q/20 (TFRS9)	%YoY
Credit card income	1,867	1,738	-7%
Loan income	2,920	3,076	5%
Hire-purchase income	148	249	69%
Other income	559	593	6%
Total Revenues	5,494	5,656	3%
Operating and administrative expenses and others	2,283	2,086	-9%
Bad debts and doubtful accounts	1,395	2,392	72%
Finance costs	544	558	3%
Total Expenses	4,221	5,036	19%
Profit before tax income	1,272	607	-52%
Income tax expenses	255	152	-40%
Net profit for the period	987	530	-46%
Earning Per Share (Baht per share)	3.95	2.12	-46%

Revenues

In the first quarter of 2020, the total consolidated revenues were 5,656 million baht, showing an increase of 162 million baht or 3% y-y. This was mainly contributed from an increase in hire purchase income by 69%, personal loan income increased by 5% y-y and other incomes in bad debt recovery increased by 7% y-y as well as revenue growth from overseas subsidiaries by 46% y-y. As of May 31, 2020, the Company has active customers more than 2 million IDs, mainly from Bangkok 31%, and in up-country 69%. For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 356,000 customers, increased by 16% from last year, and representing 13% of active customers of the Company. Details of each business can be described as follows:

Sales and Revenues Structure for the first quarter of 2020



- Credit Card

Credit cards turnover shared 66% of total turnovers. In the first quarter of 2020, the consolidated revenues from credit card were 1,738 million baht, a decrease of 129 million baht or 7% y-y, and represented 31% of total revenues. A drop in the revenue from credit card was attributable to the slump in credit card spending caused by of the COVID-19 pandemic. During this quarter the Company collaborated with new business alliances, namely Shopee and Grab Food, to increase business opportunities via online channels and also offer more discount and convenience to our customers. The AEON Shop More Get More Campaign which offering a cash back through accumulated spending via AEON credit cards up on the conditions. In addition, AEON Specialized Bank (Cambodia) Plc expanded credit card revenue of 25 million baht in the first quarter of 2020, grew by 66% y-y.

- Loans

In the first quarter of 2020, loans shared 25% of total turnovers (shared 19% from personal loan and 6% from purposed loan for mobile phone, IT products, electrical appliances and etc. at department stores and over 6,660 dealers nationwide) with the consolidated revenues of 3,076 million baht, showing an increase of 156 million baht or 5% y-y, and shared 54% of total revenues. This was contributed from loan income from AEON Microfinance (Myanmar) Company Limited of 123 million baht, which grew by 41% y-y and AEON Specialized Bank (Cambodia) PLC of 84 million baht, grew by 52% 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 25% of total personal loan sales.

- **Motorcycle and Used Car Hire Purchase**

In the first quarter of 2020, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, sharing 5% of total turnovers. The consolidated revenues from hire purchase were 249 million baht, showing an increase of 101 million baht or 69% y-y. In addition, the Company had hire purchase income from AEON Specialized Bank (Cambodia) PLC of 152 million baht, increasing by 60% y-y and AEON Leasing Service (Lao) Company Limited of 31 million baht, increasing by 8% y-y.

- **Other**

In the first quarter of 2020, other incomes were 593 million baht, showing an increase of 34 million baht or 6% y-y and represented 10% of total revenues. This was as a result of an increase in others income from bad debt recovery of 250 million baht, which grew by 7% from the same period last year. Moreover, the income for the first quarter of 2020 of company's subsidiaries in Thailand, the Company had commission income from AEON Insurance Service (Thailand) Co., Ltd. of 133 million baht, which was the same level as last year, and collection service income from ACS Servicing (Thailand) Co., Ltd. of 72 million baht, increasing by 7% y-y.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts and finance cost. In the first quarter of 2020, the Company had total consolidated expenses of 5,036 million baht, an increase of 815 million baht or 19% y-y. Details of expenses are shown as follows:

- **Operating and Administrative Expenses**

In the first quarter of 2020, the operating and administrative from consolidated expenses were 2,086 million baht, a decrease of 197 million baht or 9% y-y. This was as a result of a decrease in premises and equipment expenses by 47% y-y, personal expenses by 17% y-y and marketing expense by 2% y-y. The Company's efficient control of operating expenses was down from 42% of total revenues to 37% in the first quarter of 2020. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of total revenues was down to 35% in the first quarter of 2020.

- **Expect Credit Loss**

In the first quarter of 2020, the Company posted the expect credit loss of 2,392 million baht, an increase of 997 million baht or 72% y-y. This was as a result of an increase in the provision of bad debt in accordance with the new Financial Reporting Standards (TFRS 9) coupled with additional provision for future impact of ongoing economic slowdown and the COVID-19 pandemic totally at the amount of 1,016 million baht.

- Finance Cost

In the first quarter of 2020, the Company had finance cost of 558 million baht, a slightly increase of 14 million baht or 3% y-y. However, finance cost in the first quarter of 2020 accounted for 10% of total revenues. As a result, the weighted average funding cost in the first quarter of 2020 was 2.89%, decreased from 3.04% in the first quarter of 2019.

Net Profit

In the first quarter of 2020, the Company had consolidated operating income of 607 million baht, a decrease of 664 million baht or 52% y-y and reported net profit attributed to owners of the parent of 530 million baht, a decrease of 456 million baht or 46% y-y, and earning per share (EPS) was 2.12 baht. The decrease was derived largely from the sudden stop in economic activities during in April and May 2020 to prevent the spread of COVID-19 such as the shopping malls were closed temporarily and travel restrictions imposed, resulting in lower credit card spending. The provision of bad debt also increased in accordance to TFRS 9. On the other hand, the Company continued success to control the operation cost and finance cost.

2. Financial Status

Statement of Financial Position	February 29, 2020	May 31, 2020	Change
Unit : Million Baht		(TFRS 9)	%YoY
Accounts Receivable	90,232	88,468	-2%
Total Assets	95,396	88,633	-7%
Total Borrowing	69,437	66,904	-4%
Total Liabilities	74,271	73,779	-1%
Total Equites	21,125	14,854	-30%
ROE	20.5%	12.0%	-41%
ROA	4.4%	2.3%	-48%
D/E Ratio	3.6	5.1	42%

Total Assets

As of May 31, 2020, consolidated total assets were 88,633 million baht, a decrease of 6,763 million baht or 7% 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 had gross accounts receivable of 88,468 million baht as of May 31, 2020, a decrease of 2% from the fiscal year 2019. 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 35,246 million baht decreasing by 4% y-y, loans receivable of 47,263 million baht decreasing by 2% y-y, hire purchase receivable of 5,760 million baht increasing by 11% y-y and others receivable of 199 million baht increasing by 8% y-y.

- **Allowance for expected credit loss**

As of May 31, 2020, the Company provided allowance for expected credit loss at the amount of 11,775 million baht or 13.3% 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. The majority of this increase was related to adopt financial reporting standards' provision model by calculating the expected credit loss (ECL Model) together with probable forward looking macroeconomic factors. The Company has also set additional management overlay for customers in the relief program of COVID-19 at the amount of 1,016 million baht. The non-performing loan ratio was 3.70%, which was the same level last year. The coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) increased from 119% at the end of last year to 359% in the first quarter of 2020.

Liabilities

The consolidated liabilities of the Company as of May 31, 2020 totaled 73,779 million baht, a decrease of 491 million baht or 1% from 74,270 million baht at the end of fiscal year 2019. There were both short-term and long-term borrowings totally 66,904 million baht, decreasing by 4% from the end of last year. The portion of long-term borrowings was 47,772 million baht or represented 71% 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 May 31, 2020 totaling 3,000 million baht and unused uncommitted facilities with foreign banks totaling 10.4 billion baht, which is enough to drive the Company's operation. The Company also has the debentures totaling 4,600 million baht that will mature in 2020, which the Company can issue the replacement debentures or use a working capital to repay those debentures.

Shareholders' Equity

As of May 31, 2020, total shareholders' equity amounted to 14,854 million baht, decreasing by 6,271 million baht, or 30% from the end of fiscal year 2019, reflected the first time adoption of ECL model, hedge accounting and leases standard (TFRS 16) resulting in a net decrease in retained earnings of 6,788 million baht. Consequently, Book value as of May 31, 2020 was 58.2 baht per share, decreased from that of 82.9 baht per share as of February 29, 2020.

Debt to Equity ratio as of May 31, 2020 was at 5.1 times increased from 3.6 times at the end of fiscal year 2019. Return on Equity (ROE) and Return on Asset (ROA) equaled to 12.0% and 2.3%, respectively.