

Management Discussion and Analysis

For the 2nd Quarter 2023 ended August 31, 2023

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2Q/2023 financial statements as of August 31, 2023 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 (NESDB) data. Thailand’s economy in the second quarter of 2023 expanded by 1.8% y-y, decelerating from 2.6% in the first quarter of 2023 (%YoY) as a result of a slowdown in private investment and exports as well as a decline in public investment and government spending due to the delay in the new government formation. Hence, the NESDB has cut down its growth forecast for the Thai economy in 2023 to the range of 2.5%-3.0% from the previous forecast of the range of 2.7%-3.7%, which the supporting factors still being the continuous recovery of the tourism sector and from January to August, there is an accumulated number of tourist of 17.9 million and expecting to meet the target at 24 million by the end of the year, private consumption and the continued expansion of both private and government investment, while the headline inflation rate averaged of 1.7%-2.2%. The unemployment rate in 2Q/2023 was 1.06%, slightly increasing from the previous quarter. However, substance economic challenges are remained as a result of policy interest rate increment, high household debt level increasing from 86.3% to 90.6% in the first quarter of 2023 and increased by 0.7% in 2Q/2023.

For the 2Q/2023, the Company has total new sales increased by 7% y-y, mainly due to the continual increase in credit card spending and marketing with business partners. However, in regards to the current economic situation which is in an improved trend but the risks to asset quality remained in concerns. The Company therefore remains cautious in expanding high-risk loans.

As of August 31, 2023, the Company had business distributions as below;

Number of Networks and Merchandise Partners	Aug 31, 2022	Feb 28, 2023	Aug 31, 2023
Branches	103 branches	104 branches	104 branches
Bangkok	30%	31%	30%
Province	70%	69%	70%
ATMs (machine)	147	146	141
Affiliated Dealers	6,132	5,846	5,646

Summary of Consolidated Financial Results

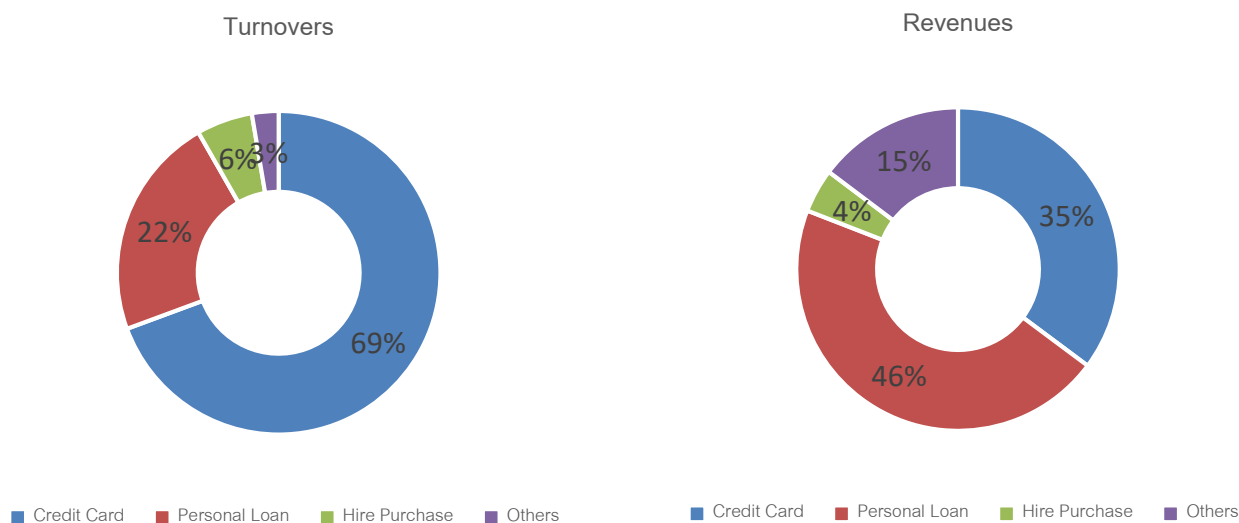
1. Operating Results

Profit and Loss Statement Unit : Million Baht	Consolidated					
	1Q/23	2Q/23	%LQ	1H/22	1H/22	%LY
Credit card income	1,951	1,968	1%	3,688	3,919	6%
Loan income	2,534	2,554	1%	5,258	5,089	(3%)
Hire-purchase income	240	248	3%	520	488	(6%)
Other income	734	907	24%	1,495	1,640	10%
Total Revenues	5,459	5,676	4%	10,960	11,136	2%
Operating and administrative expenses	2,029	2,070	2%	4,018	4,099	2%
Expected credit loss	2,094	1,949	(7%)	3,415	4,043	18%
Finance costs	527	574	9%	905	1,101	22%
Other expenses	5	1	(70%)	2	6	206%
Total Expenses	4,654	4,594	(1%)	8,340	9,249	11%
Profit before tax income	805	1,082	34%	2,620	1,887	(28%)
Income tax expenses	161	218	36%	530	379	(28%)
Net profit for the period	617	842	36%	2,018	1,459	(28%)
Earnings Per Share (Baht per share)	2.47	3.37	36%	8.07	5.84	(28%)

Revenues

For the 2Q/2023 and 1H/2023 financial results, the total consolidated revenues were 5,676 million baht and 11,136 million baht respectively, the total revenues for the 2Q/2023 increased 4% from last quarter, in which contributed from the sales of written-off receivables amount 167 million baht. However, in comparison of the first-half's revenue to the same period last year, the revenue from credit card increased 6%, in line with continued growth in card spending. However, although the overall economic growth rate of the country has a better outlook, there are risks from the slow recovery of some business sectors, including the export sector that continued to decline due to the economic slowdown in Thailand's major trading partners. This may affect the ability to pay of customers in the industrial sector. While the household debt rate remained high, the Company, therefore, implemented a more stringent credit lending policy in this quarter and focus on specific customer groups to reduce the risk of asset quality by being conservative in personal loans and hire purchase.

Sales and Revenues Structure for the 1H/2023



- Credit Card

For 1H/2023 financial results, credit card turnover accounted 69% of total turnovers with the 2Q/2023 credit card revenue reported 1,968 million baht, making the 1H/2023 credit card revenue increased to 3,919 million baht or 6% from the first half of the previous year and accounting of 35% of total revenues, as a result of an increase shopping spending such as payment such as shopping with partner traders, hypermarkets, hotel bookings platforms in regards to the relaxation of various measures and recovery of the tourism sector and hospitals.

- Loans

For 1H/2023 financial results, loans turnovers shared 22% of total turnovers, while the income from loans in the consolidated financial statements amount 2,554 million baht for the 2Q/2023 and amount 5,089 million baht for the 1H/2023, which reduced by 3% from the first half of previous year. The income from loans has 46% proportion of total revenues.

However, the Company has expanded its service channels through the online platform, which is more convenient for customers and also reduces the Company's operating costs, allowing AEON card members to conduct cash loan transactions through various channels. Therefore, cash withdrawals without using a card (Cardless Withdrawal) accounted for 96% of the total personal loan sales as a result of success digitalization for the Company's sustainability development.

- Hire Purchase

For the 1H/2023 financial results, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phones and others in overseas business turnovers was 6% of total turnovers, resulted in the Company's incomes from hire purchase in the 1H/2023 amounted 488 million baht and in the 2Q/2023 amounted 248 million baht, increased 3% from the same period last year.

In addition, the Company has directions and policies for sustainable development and well aware of the ESG impacts. Hence, in the second quarter of fiscal year 2023, the Company has initiated hire purchase loans for products that reducing environmental impact, such as electric motorcycles, which receiving good feedbacks from

customers since their consumption behavior has changed to place more importance to products that are environmentally friendly. The Company also has plans to expand to other products in the future.

- Others

For the 2Q/2023 and 1H/2023 financial results, other incomes were 907 million baht and 1,640 million baht respectively. It comprised of an increase in bad debt recovery income to 892 million baht or an increase of 12 percent from the same period last year. It means that the Company has better efficiency in debt collection. In addition, in the 2Q/2023, there was income from the gain on sale of written-off receivables in the amount of 167 million baht.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, expected credit loss and finance cost. For the 2Q/2023 and 1H/2023 financial results, the Company had total consolidated expenses of 4,594 million baht and 9,249 million baht respectively. Details of expenses are shown as follows:

- Operating and Administrative Expenses and other expenses

The consolidated operating and administrative expense which including director and management remuneration expense for the 2Q/2023 were 2,070 million baht, and for the 1H/2023 was 4,099 million, As a result, the expense to income ratio (Cost-to-Income Ratio) this quarter decreased to 36.5% from 37.2% in the previous quarter, as the Company can control operating and administrative expenses well through the Digitalization process. The operating and administrative expenses accounted for 44% of total expenses.

- Expected Credit Loss

The consolidated expected credit loss in 1H/2023 amounted 4,043 million baht, remained higher in comparison to the same period in the previous year. However, for the 3-month period of the 2Q/2023, the expected credit loss was reported 1,949 million baht, reduced by 7% from the previous quarter.

- Finance Cost

The Company recorded consolidated finance cost in the 2Q/2023 of 574 million baht and in the 1H/2023 of 1,101 million baht, in which increased by 22% from the last year, with the 1H/2023 average funding cost 2.94%, increasing in the relation to the gradual increasing of the policy interest rate from 0.50% in 2022 to 2.25 as of August 2023.

Net Profit

In 1H/2023 financial results, the consolidated profit attributable to the owners of the parent for the period was reported at 1,459 million baht, and earning per share was 5.84 Baht. And the profit attributable to the owners for the parent for the 2Q/2023 was 842 million baht, increasing 36% from the previous quarter, which equivalent to the earning per share of 3.37 baht.

2. Financial Status

Statement of Financial Position	February 28, 2023	August 31, 2023	Change
Unit : Million Baht			%YTD
Accounts Receivable	93,937	93,969	0.03%
Total Assets	95,207	94,946	(0.3%)
Total Borrowing	66,055	64,836	(2%)
Total Liabilities	71,859	70,717	(2%)
Equity Attributable to Owners of the Parent	22,821	23,636	4%
ROE (attributable to owners of the parent)	17.9%	12.6%	-
ROA	4.1%	3.1%	-
D/E Ratio	3.1	2.9	-

Total Assets

As of August 31, 2023, consolidated total assets were 94,946 million baht, decreasing 0.3% from 95,207 million baht as of February 28, 2023 due to the reduction in personal loan receivable by 879 million baht or 2% from end of last fiscal year, whereas the credit card receivable maintained and hire purchase receivable increased by 9%. The main assets were attributed to the portfolio of net account receivables which shared 99% of total assets.

- Account Receivables

The Company has account receivables of 93,969 million baht as of August 31, 2023, maintained from February 28, 2023 due to the conservative approach in lending policy although the credit card sales continued to grow. The account receivables are consisting credit card receivable of 43,879 million baht, increasing by 1% from end of last year; loan receivable of 43,999 million baht, decreased by 2% from end of last year; hire purchase receivable of 6,009 million baht, increasing by 9% from end of last year and others receivable of 83 million baht increased by 13% from end of last year.

- Allowance for expected credit loss

As of August 31, 2023, the Company provided allowance for doubtful accounts of 10,086 million baht, where the default receivables in credit risk (NPL Stage 3) in accordance to TFRS9 was 6.18% increasing from 5.9% last quarter. The consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was at 174%, decreased from 184% from fiscal year of 2022.

Liabilities

The consolidated liabilities of the Company as of August 31, 2023 totaling 70,717 million baht, a decrease of 2% from as of February 28, 2023. There were both short-term and long-term borrowings totaled 64,836 million baht, decreasing by 2% from the end of last year. The portion of long-term borrowings was 45,604 million baht or represented 70% of total borrowings. However, in order to manage risk that might occur from the fluctuation in foreign currencies, the Company has entered cross currency interest rate swap contracts to fully hedge its debt.

Debentures, Solvency and Liquidity Management

As of August 31, 2023, the Company has outstanding long-term debentures, representing unsubordinated and unsecured debentures, amount 9,266 million baht, reduced from the outstanding of 9,580 million baht as of February 28, 2023, with the interest rate ranged between 0.65%-3.18% (debenture details can be referred to the Financial Statement's notes). However, the Company can maintain financial ratios and other requirements according to the conditions as specified in the agreement and does not have any debentures maturity due within 12 months. As of August 31, 2023, the interest bearing debt to equity ratio is 2.68 times, while the interest coverage ratio is 2.72 times.

In addition, the Company has unused unsecured revolving credit facilities of 14,160 million baht, 3,000 million baht unused committed facilities with various financial institutions and cash and cash equivalent 3,794 million baht, which is sufficient for the Company's operation and debt payment.

Credit Ratings

The Company has received credit ratings and have them reviewed annually by accredited credit rating agencies such as Japan Credit Rating Agency and Fitch Rating. The credit rating details as of August 31, 2023 are as follows:

Credit Rating Agency	Issuing Date	Credit Ratings
Fitch Ratings	27 February 2023	A-/Stable
Japan Credit Rating Agency	28 February 2023	A/Stable

Shareholders' Equity

As of August 31, 2023, total equity attributable to owners of the parent amounted to 23,636 million baht, an increase of 815 million baht or 4% from the end of fiscal year 2022, Book value (attributable to the owners of the parent) as of August 31, 2023 was 94.5 baht per share, increased from that of 91.3 baht per share as of February 28, 2023.

In additions, the Board of Directors has approved the resolution of interim dividend payment for the 1H/2023 ended August 31, 2023 at the rate of 2.55 baht per share, equivalent to Dividend Payout Ratio of 43.7%. The RD date is October 20, 2023 and the dividend payout date is November 2, 2023.

Debt to Equity ratio as of August 31, 2023 was at 2.9 times decreased from 3.1 times as of February 28, 2023. Return on Equity (attributable to the owners of the parent) (ROE) and Return on Asset (ROA) for the first half of 2023 are 12.6 % and 3.1%, respectively.

Key Financial Ratio Ended 31 August	2Q/22	2Q/23	1H/22	1H/23
Net Profit Margin (%)	16.5%	14.8%	18.4%	13.1%
Debt-to-Equity ratio (Times)	3.4	2.9	3.9	2.9
Cost to Income (%)	36.2%	36.5%	36.6%	36.8%
EPS (Baht)	3.61	3.37	8.07	5.84

Key Financial Ratio	31 August, 22	28 February, 23	31 August, 23
Allowance for Expected Credit Loss/ Total Receivables (%)	11.3%	10.8%	10.7%
NPL Coverage Ratio (%)	207%	190%	174%
Book Value per Share (attributable to owners of the parent) (Baht)	86.1	91.3	94.5

Sustainability Development

The Company operates the business with awareness of environmental, social and governance and bring the Sustainable Development Goals; SDGs as the part of organization driven continuously to respond client and all stakeholders needs and to consecutively operate the business under the challenging situation.

Environmental

The Company has joined as a member in Greenhouse Gas Reduction workforce in Aeon Financial Services Group, Japan, in which established goals and short-term and long-term action plans to reduce greenhouse gas emissions to Zero CO₂ Society as follows;

- 35% reduction within the year 2030
- Zero CO2 by the year 2050

The Company has implemented environmental development through strategic plans. Digitalization Roadmap since 2017 and implementation of resource management in business operations, which are;

1. Reducing the use of paper and plastic;
2. Waste management; and
3. Management of electrical energy, water, and energy.

Social

The Company conducts business in accordance to human rights principles, based on its philosophy which places importance to peace, human beings and society, which aims to conduct business with responsibility to both customers; via the development of financial products and services regularly to enhance the financial service accessibility and the use of financial services with safety and fairness, and employees; via our Human Resources Management policy to treat employees equally through recruiting, providing a safe working environment and good occupational healthy environment, performance appraisal, layoffs and retirement processes.

In addition, the Company also supports various social projects through AEON Thailand Foundation with the following objectives:

1. Promote and support forest conservation;
2. Promote education, including granting scholarships and/or donations to students and/or schools;
3. Develop Thai society and promote and support general public interest;
4. Conduct or cooperate with other charitable organizations. for public benefit; and
5. Do not engage in any political activities.

Governance

The Company is aware of the industry risks, therefore, we place importance to technology development and management as well as financial innovations in response to customer's needs by focusing on providing personal loan services responsibly and customer satisfaction. In addition, the Company develops corporate governance and risk management continuously to maintain credibility and trust of all stakeholders. Besides operating under the supervision of the SEC/SET, Bank of Thailand, related laws and regulations, the Company also complies ISO world-class standards to control various operational processes to ensure that the Company conducts business with transparency and fairness for stakeholders' confidence.

Details of governance performance results in detail can be viewed in the Sustainability Report and 56-1 One Report, Section 2, Corporate Governance and environmental, social and economic performance in detail can be viewed in the Sustainability Report and Report 56-1 One Report, topic: Driving Business for Sustainability.