

Management Discussion and Analysis

For Fiscal Year 2023 ended February 29, 2024

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated audited the fiscal year 2023 financial statements ended February 29, 2024 which were audited 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 fourth quarter of 2023 expanded by 1.7%, resulting in the GDP of Thailand in 2023 growing only 1.9%, decelerating from 2.5% in the previous year, from a slowdown in public investment and public consumption due to the delay of government’s budget allocation, although the exports improved from the previous quarter continuously. Hence, the NESDB has cut down its growth forecast for the Thai economy in 2024 to the range of 2.2-3.2%, in which the supporting factors still being the continuous recovery of the tourism sector, the private consumption and the private investment, while the headline inflation rate averaged of only 1.2%. The unemployment rate in 4Q/2023 was slightly reduced down to 0.81%. However, substance macroeconomic challenge is remained as the level of household debt (seasonal adjusted) continued to increase from 90.7% in the 1Q/2023 to 91.4% in 1Q/2024.

For the fiscal year 2023, the Company has total new sales and credit card spending increased by 4% 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 February 29, 2024, the Company had business distributions as below;

Number of Networks and Merchandise Partners	Feb 28, 2022	Feb 28, 2023	Feb 29, 2024
Branches	101 branches	104 branches	101 branches
Bangkok	30%	31%	29%
Other Provinces	70%	69%	71%
ATMs (machine)	389	146	73
Affiliated Dealers	6,328	5,846	5,276

Summary of Consolidated Financial Results

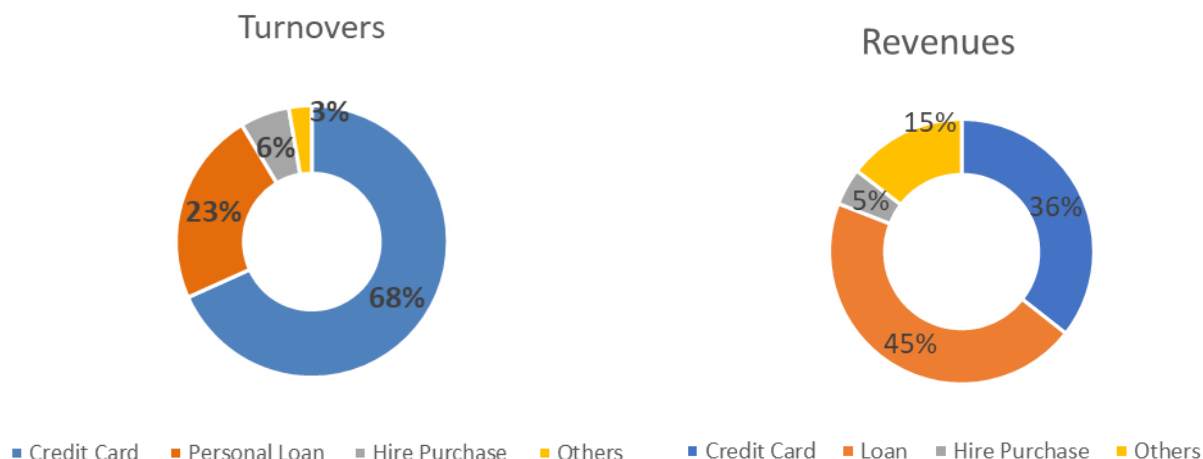
1. Operating Results

Profit and Loss Statement Unit : Million Baht	Consolidated					Separated		
	4Q/23	%QoQ	FY22	FY23	%YoY	FY22	FY23	%YoY
Credit card income	1,910	(4%)	7,642	7,819	2%	7,488	7,653	2%
Loan income	2,451	2%	10,385	9,950	(4%)	10,274	9,805	(5%)
Hire-purchase income	261	5%	1,029	998	(3%)	246	262	7%
Other income	803	6%	3,277	3,198	(2%)	3,108	3,018	(3%)
Total Revenues	5,425	0.4%	22,332	21,965	(2%)	21,116	20,739	(2%)
Operating and administrative expenses	2,181	3%	8,117	8,394	3%	7,387	7,546	2%
Expected credit loss	1,298	(32%)	7,263	7,240	(0.3%)	7,070	7,033	(1%)
Finance costs	550	8%	1,904	2,162	14%	1,970	2,156	9%
Other expenses	2	-	98	8	(92%)	97	8	(91%)
Total Expenses	4,031	(11%)	17,382	17,804	2%	16,525	16,743	1%
Profit before tax income	1,394	58%	4,950	4,161	(16%)	4,591	3,995	(13%)
Income tax expenses	273	60%	996	824	(17%)	881	743	(16%)
Net profit for the period	1,094	55%	3,815	3,259	(15%)	3,711	3,253	(12%)
Earnings Per Share (Baht per share)	4.38	55%	15.26	13.04	(15%)	14.84	13.01	(12%)

Revenues

For the fiscal year 2023 financial results, the total consolidated revenues were 21,965 million baht, reduced 2% from last year, because there is no sale of written-off receivables in the fourth quarter per usual. However, the revenue from credit card increased 2%, in line with continued growth in card spending and aligned with the credit card receivables in the industry. However, although the overall economic growth rate of the country has a better outlook, it is lower than the situation prior to the Covid-19 pandemic, especially the government investment and consumption, although it has a better outlook since the third quarter in 2023. In additions, 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 Fiscal Year 2023



- Credit Card

For the fiscal year 2023 financial results, credit card turnover accounted 68% of total turnovers with the fiscal year 2023 credit card revenue reported 7,819 million baht, increased by 2% from previous year and accounting of 36% of total revenues, as a result of an increase shopping spending such as payment for shopping with partner traders, hypermarkets, hotel bookings platforms in regards to the recovery of the tourism sector and hospitals, including the launch of a new credit card product, namely the Digital Next Gen Credit Card, the Company's first digital credit card that delivers innovation and advanced security verification solutions which is in line with the Company's sustainable development plan that focuses on creating a secure financial service for customers.

- Loans

For the fiscal year 2023 financial results, loans turnovers shared 23% of total turnovers, while the income from loans in the consolidated financial statements amount 9,950 million baht for the fiscal year 2023, which reduced by 4% from last year. The income from loans has 45% 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 over 97% of the total personal loan sales as a result of success digitalization for the Company's sustainability development.

In addition, the Company has started offering a new loan product in the fourth quarter of this year, namely the AEON Auto Quick Cash, vehicle title loan, which is a loan with collateral as an alternative product for customers, especially the existing customers.

- Hire Purchase

For the fiscal year 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 2023 amounted 998 million baht, decreased 3% from last year as a result of hire purchase income reduction in CLM. However, the hire purchase income in Thailand increased 7% from last year.

In addition, the Company has directions and policies for sustainable development and well aware of the ESG impacts. Hence, in the third quarter of fiscal year 2023, the Company has initiated hire purchase loans for products that reducing environmental impact, such as electric motorcycles and solar cells, 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 fiscal year 2023 financial results, other incomes were 3,198 million baht. It comprised of an increase in bad debt recovery income to 1,849 million baht or an increase of 9% from last year and increased of 4% from the previous quarter, indicating a better efficiency in debt collection continuously. However, in the 4/2023 quarter this year, there was no income from the gain on sale of written-off receivables.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, expected credit loss and finance cost. For the fiscal year 2023 financial results, the Company had total consolidated expenses of 17,804 million baht. 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 fiscal year 2023 were 8,394 million baht. As a result, the expense to income ratio (Cost-to-Income Ratio) this year slightly increased to 38.2%, due to the deceleration of revenues. However, the Company can maintain its operating and administrative expenses well through the Digitalization process. The operating and administrative expenses accounted for 47% of total expenses.

- Expected Credit Loss

The consolidated expected credit loss in the fiscal year 2023 amounted 7,240 million baht, remained stable in comparison to last year. However, the expected credit loss in the fourth quarter reduced continuously from the previous quarter from the ability to control the quality of assets in Stage 3 and better debt collection performance as well as better macroeconomic outlooks.

- Finance Cost

The Company recorded consolidated finance cost in the fiscal year 2023 of 2,162 million baht, in which increased by 14% from the last year from the increase of policy interest rate. However, the Company has an appropriate capital management to optimize the efficiency of funding cost and the reduction of interest-bearing loans. The average funding cost for the year 2023 was increased to 2.99%, increasing from 2.64% at the end of last year, due to the announcement of the Monetary Policy Committee (MPC) to increase the policy interest rate from 0.50% in 2022 to 2.50 as of November 2023 and the rate was remained at the MPC's meeting in February 2024.

Net Profit

In the fiscal year 2023 financial results, the consolidated profit attributable to the owners of the parent for the period was reported at 3,259 million baht, reduced by 15% from last year and earning per share was 13.04 Baht. Moreover, the overseas subsidiaries in Cambodia, Myanmar and Laos generated revenues and net profits for the fiscal year 2023 ended 31 December 2023, totaled 1,351 million baht and 224 million baht, respectively.

2. Financial Status

Statement of Financial Position	February 28, 2023	February 29, 2024	Change
Unit : Million Baht			%YTD
Accounts Receivable	93,937	91,305	(3%)
Total Assets	95,207	92,499	(3%)
Total Borrowing	66,139	62,513	(5%)
Total Liabilities	71,859	67,437	(6%)
Equity Attributable to Owners of the Parent	22,821	24,472	7%
ROE (attributable to owners of the parent)	17.9%	13.8%	-
ROA	4.1%	3.5%	-
D/E Ratio	3.1	2.7	-

Total Assets

As of February 29, 2024, the consolidated total assets were 92,499 million baht, reducing 3% from 95,207 million baht as of February 28, 2023. The main assets were attributed to the portfolio of net account receivables which shared 99% of total assets.

- Accounts Receivable

The Company has accounts receivable of 91,305 million baht as of February 29, 2024, reduced 3% from last year due to the conservative approach in lending policy although the credit card sales continued to grow. The accounts receivable are consisting credit card receivable of 41,162 million baht, reducing 5% from end of last year; loan receivable of 43,421 million baht, decreased by 3% from end of last year; hire purchase receivable of 6,647 million baht, increasing by 21% from end of last year and other receivables of 73 million baht increased slightly from end of last year.

- Allowance for expected credit loss

As of February 29, 2024, the Company provided allowance for doubtful accounts of 8,288 million baht, where the default receivables in credit risk (NPL Stage 3) in accordance to TFRS9 was 5.0% slightly decreasing from last quarter and last year. The consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was at 183%, decreased from 190% of last year in relation to better macroeconomic outlooks, but remained being at appropriate level.

Liabilities

The consolidated liabilities of the Company as of February 29, 2024 totaling 67,437 million baht, a decrease of 6% from last year. There were both short-term and long-term borrowings totaled 62,513 million baht, decreasing by 6% from the end of last year. The portion of long-term borrowings was 40,383 million baht or represented 65% 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 February 29, 2024, the Company has outstanding long-term debentures, representing unsubordinated and unsecured debentures, amount 5,966 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 has debentures maturity due within 12 months amounted 1,999 million baht.

In addition, the Company has unused credit facilities of 16,910 million baht and credit facilities with various financial institutions and cash and cash equivalent 2,797 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 Fitch Rating and Japan Credit Rating Agency. The credit rating details as of February 29, 2024 are as follows:

Credit Rating Agency	Credit Ratings
Fitch Ratings	A-/Stable
Japan Credit Rating Agency	A/Stable

Shareholders' Equity

As of February 29, 2024, total equity attributable to owners of the parent amounted to 24,472 million baht, increasing 7% from the end of fiscal year 2022, Book value (attributable to the owners of the parent) as of February 29, 2024 was 97.9 baht per share, increased from that of 91.3 baht per share as of February 28, 2023.

Debt to Equity ratio as of February 29, 2024 was at 2.7 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 fiscal year 2023 are 13.8% and 3.5%, respectively.

Key Financial Ratio	FY2021	FY2022	FY2023
Net Profit Margin (%)	17.2%	17.7%	15.20%
Debt-to-Equity ratio (Times)	3.5	3.1	2.7
Cost to Income (%)	37.7%	35.0%	38.2%
EPS (Baht)	14.21	15.26	13.04

Key Financial Ratio	FY2021	FY2022	FY2023
Allowance for Expected Credit Loss/ Total Receivables (%)	12.0%	10.8%	9.1%
NPL Coverage Ratio (%)	247%	190%	183%
Book Value per Share (attributable to owners of the parent) (Baht)	79.6	91.3	97.9

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 2040

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.