

Management Discussion and Analysis

For 1st Quarter 2024 ended May 31, 2024

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated audited the 1Q/2024 financial statements ended May 31, 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 first quarter of 2024 expanded by 1.5%, continued growing with decelerating rate from 1.9% in the previous year, due to the delay of government's budget allocation. Hence, the NESDB has cut down its growth forecast for the Thai economy in 2024 to the range of 2.0%-3.0%, 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 0.1%-1.1%. The unemployment rate in 1Q/2024 was 1.01%. However, the K-shape recovery causes household debt (seasonal adjusted) to continue climbing up from 90.7% in the 1Q/2023 to 91.4% in 1Q/2024.

For the 1Q/2024 consolidated financial results, the Company has total revenues stable compared to the same period of last fiscal year due to the current economic situation which is in an improved trend but the risks to asset quality remained in concerns. The Company, therefore, proceeds with high-risk financial products with caution, as well as, expands the target group to customers with more stable incomes.

As of May 31, 2024, the Company had business distributions as below;

Number of Networks and Merchandise Partners	Feb 28, 2023	Feb 29, 2024	May 31, 2024
Branches	104 branches	101 branches	101 branches
Bangkok	31%	29%	28%
Other Provinces	69%	71%	72%
ATMs (machine)	146	73	-
Affiliated Dealers	5,846	5,276	5,463

Summary of Consolidated Financial Results

1. Operating Results

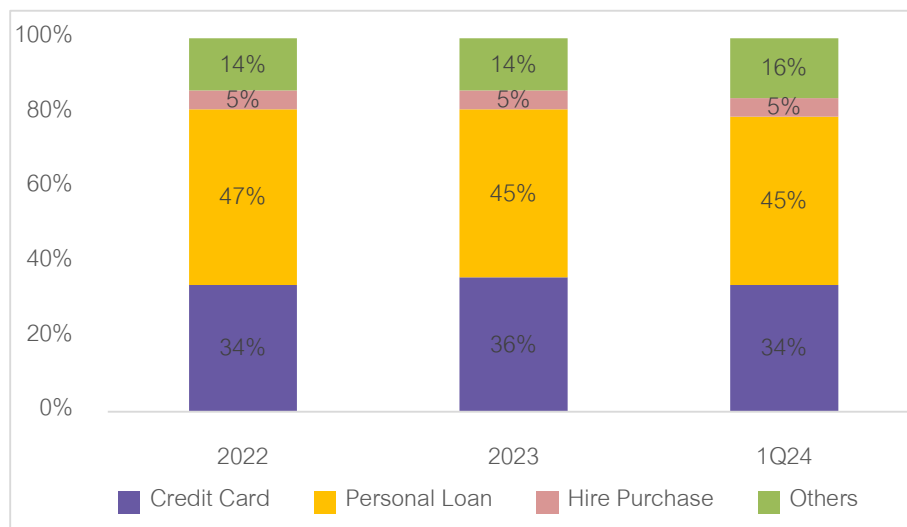
Profit and Loss Statement Unit : Million Baht	Consolidated			Separated		
	1Q23	1Q24	%YoY	1Q23	1Q24	%YoY
Credit card income	1,951	1,898	(3%)	1,910	1,852	(3%)
Loan income	2,534	2,475	(2%)	2,512	2,409	(4%)
Hire-purchase income	240	283	18%	61	81	33%
Other income	734	851	16%	765	883	15%
Total Revenues	5,459	5,507	1%	5,248	5,226	(0.4%)
Operating and administrative expenses	2,029	2,187	8%	1,856	2,000	8%
Expected credit loss	2,094	2,089	(0.2%)	2,044	1,992	(3%)
Finance costs	527	558	6%	541	531	(2%)
Other expenses	5	2	(65%)	5	2	(66%)
Total Expenses	4,654	4,836	4%	4,446	4,524	2%
Profit before tax income	805	672	(17%)	802	702	(12%)
Income tax expenses	161	132	(18%)	132	111	(16%)
Net profit for the period	617	524	(15%)	670	591	(12%)
Earnings Per Share (Baht per share)	2.47	2.10	(15%)	2.68	2.36	(12%)

Revenues

For the 1Q/2024 financial results, the total consolidated revenues were 5,507 million baht, similar to last year, and there is no sale of written-off receivables in the first quarter per usual. However, the revenue from hire purchase and other income surged significantly, especially the 19% increase in bad debt recovery.

However, this year the Company will focus on fee-based income expansion.

Revenues Structure



- Credit Card

For the 1Q/2024 credit card revenue reported 1,898 million baht, decreased by 3% from previous year and accounting of 34% of total revenues, however, the shopping spending were from payment for shopping with partner traders, hypermarts, 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 AEON NextGen Digital 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, including sale promotions and campaigns and credit card revamping programs.

However, the slight reduction in credit card revenue is inline the higher minimum repayment rate increasing from 5% to 8% this year, and the number of full-payment was higher than last year.

- Loan

The income from loans in the consolidated financial statements amounted to 2,475 million baht for the 1Q/2024, which reduced by 2% 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 99% of the total personal loan sales as a result of success digitalization for the Company's sustainability development.

- Hire Purchase

The Company's incomes from hire purchase in 1Q/2024 amounted to 283 million baht, increased 18% from last year as a result of hire purchase business growth in Thailand and CLM.

In addition, the Company has directions and policies for sustainable development and well aware of the ESG impacts. Hence, in the 3Q/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. In 4Q/2023, the Company has started to offer a new financial product, title vehicle loan under the name AEON Auto Quick Cash, which is secured loan, to enable alternative financial product to available to customers, especially to the current customers of the Company as a response to social sustainability. This increases opportunities for customers to access credit more thoroughly.

- Others

In 1Q/2024, other incomes were 851 million baht. It comprised of an increase in bad debt recovery income to 525 million baht or an increase of 19% from last year, indicating a better efficiency in debt collection, expediting cases and participating in the debt mediation project of the Legal Execution Department continuously. However, in 1/2024, 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. In 1Q/2024, the Company had total consolidated expenses of 4,836 million baht. Details of expenses are shown as follows:

- Operating and Administrative Expenses

The consolidated operating and administrative expense which including director and management remuneration expense in 1Q/2024 were 2,187 million baht. As a result, the expense to income ratio (Cost-to-Income Ratio) this year increased to 39.7%, driven from the expansion of subsidiaries in overseas. However, the Company will be able to manage its efficiency in operating and administrative expenses well through the Digitalization process in the future. The separate financial statements has cost-to-income ratio at 38.3%, as there are increasing of incentives for outsourced debt collector and one-time write off for terminated system.

- Expected Credit Loss (ECL)

The Bank of Thailand (BOT) increased the minimum credit card payment rate from a rate of 5% to 8%, starting from January 1, 2024 onwards, which affects the quality of assets in Stage 3. However, the Company has set aside Management Overlays which covered the exposure from the minimum credit card payment rate adjusting. Therefore, the ECL expense in 1Q/2024 was totaled 2,089 million baht, caused by the seasonal impact in relating to many long holidays during the first quarter, but maintained from the same quarter last year.

- Finance Cost

The Company recorded consolidated finance cost in 1Q/2024 of 558 million baht, in which increased by 6% 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, along with liquidity management. The average funding cost for 3-month period of fiscal year 2024 ended May 31, 2024 was 3.07%, increased from 2.99% at the end of last year.

Net Profit

In 1Q/2024 and 3-month period of 2024 ended May 31, 2024 financial results, the consolidated profit attributable to the owners of the parent for the period was reported at 524 million baht, reduced by 15% from last year and earning per share was 2.10 Baht. Moreover, the overseas subsidiaries in Cambodia, Myanmar and Laos generated revenues and net profits for 1Q/2024 totaled 396 million baht and 26 million baht, respectively.

However, the subsidiary in Myanmar has suspended loan disbursement to new customers starting from February 24, 2024, due to the impact of the political turmoil in Myanmar.

2. Financial Status

Statement of Financial Position	February 29, 2024	May 31, 2024	Change
Unit : Million Baht			%YTD
Accounts Receivable	91,305	91,453	0.2%
Total Assets	92,499	94,528	2.2%
Total Borrowing	62,513	63,601	1.7%
Total Liabilities	67,437	68,680	1.8%
Equity Attributable to Owners of the Parent	24,472	25,201	3.0%
ROE (attributable to owners of the parent)	13.8%	16.6%	-
ROA	3.5%	4.3%	-
D/E Ratio	2.7	2.7	-

Total Assets

As of May 31, 2024, the consolidated total assets were 94,528 million baht, increasing 2% from 92,499 million baht as of February 29, 2024. The main assets were attributed to the portfolio of net account receivables which shared 88% of total assets.

- Accounts Receivable

The Company had accounts receivable of 91,453 million baht as of May 31, 2024, increased 0.2% from the end last year as of February 29, 2024. In the past quarter, the Company focused to activate low-risk customer groups who have high spending power, high ability to repay debts. The accounts receivable consisted of credit card receivable 40,177 million baht, reducing 2% from end of last year; loan receivable 43,639 million baht, increased by 1% from end of last year; hire purchase receivable 7,567 million baht, increasing by 14% from end of last year and other receivables 71 million baht.

- Allowance for expected credit loss

As of May 31, 2024, the Company provided allowance for doubtful accounts of 8,289.19 million baht, stable from the end of last fiscal year, where the default receivables in credit risk (NPL Stage 3) in accordance with TFRS9 was 5.4% increasing from last quarter. The consolidated coverage ratio of allowance for expected credit loss to NPL (NPL Coverage ratio) was at 168%, decreased from 183% as of the end of last year, remained being at appropriate level.

Liabilities

The consolidated liabilities of the Company as of May 31, 2024 totaled 68,680 million baht, a increase of 2% from last year. There were both short-term and long-term borrowings totaled 63,601 million baht, decreasing by 2% from the end of last year. The portion of long-term borrowings was 34,053 million baht or represented 54% 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 May 31, 2024, the Company has outstanding long-term debentures, representing unsubordinated and unsecured debentures, amount 5,815 million baht, reduced from the outstanding of 5,966 million baht as of February 29, 2024, 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 11,220 million baht and committed credit facilities of 3,000 million baht with various financial institutions and cash and cash equivalent 4,286 million baht, which is sufficient for the Company's operation and debt payment.

Credit Ratings

The Company has received credit ratings and have reviewed annually by accredited credit rating agencies such as Fitch Rating and Japan Credit Rating Agency. The credit rating details as of May 31, 2024 are as follows:

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

Shareholders' Equity

As of May 31, 2024, total equity attributable to owners of the parent amounted to 25,201 million baht, increasing 3% from as of February 29, 2024, Book value (attributable to the owners of the parent) as of May 31, 2024 was 100.8 baht per share, increased from that of 97.9 baht per share as of February 29, 2024.

Debt to Equity ratio as of May 31, 2024 was at 2.7 times, stable from 2.7 times as of February 29, 2024. Return on Equity (attributable to the owners of the parent) (ROE) and Return on Asset (ROA) for the 3-month period of 2024 are 16.6% and 4.3%, respectively.

Key Financial Ratio	FY2022	FY2023	1Q/2024
Net Profit Margin (%)	17.7%	15.20%	9.8%
Debt-to-Equity ratio (Times)	3.1	2.7	2.7
Cost-to-Income (%)	35.0%	38.2%	39.7%
EPS (Baht)	15.26	13.04	2.10

Key Financial Ratio	FY2022	FY2023	1Q/2024
Allowance for Expected Credit Loss/ Total Receivables (%)	10.8%	9.1%	9.1%
NPL Coverage Ratio (%)	190%	183%	168%
Book Value per Share (attributable to owners of the parent) (Baht)	91.3	97.9	100.8

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 fuel 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, employee development, 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.