ÆON CREDIT SERVICE

27TH ANNUAL GENERAL MEETING

20 JUNE 2024

Responses to Questions from Minority Shareholders Watch Group (MSWG)

via Letter dated 14 June 2024

Operational & Financial Matters

Question 1

AEONCR's total gross financing receivables recorded strong growth of 12.9% in FY2024 to RM12.23 billion (FY2023: RM10.84 billion), underpinned by robust growth of Easy Payment and Personal Financing (EPPF) business at 9.4% and 21.9%, respectively, during the year.

The total financing volume generated by EPPF business surged by 18.9% to RM5.28 billion in FY2024 compared to RM4.44 billion in FYE2023, with a 50% and 29% sales volume growth y-o-y in Auto and Personal Financing, respectively (page 29 of Integrated Annual Report 2024).

Operational & Financial Matters

No.	Question	Answer
1	Considering the inflationary impact and subsidy rationalisation, what is the management guidance on financing growth in FY2025? What are the catalysts underpinning AEONCR's financing growth in FY2025?	The Group remains cautious on the outlook in view of rising geopolitical tensions, inflationary pressures and prevailing volatility in the global financial markets. We will focus on growing quality asset and this includes expanding to the growing middle income customer segment and adoption of technology in credit assessment process. Barring unforeseen circumstances, the Group expects to be able to maintain its financing growth in FYE2025.

Operational & Financial Matters

Question 2

In FY2024, AEONCR wrote off RM660.44 million of financing receivables from its book, representing a 58.4% increase y-o-y from RM416.95 million in FY2023.

The higher bad debt written off was mainly due to the younger age group, which had lower disposable income from delinquent account movement in the first half year (page 19 of Q4FY2024 Financial Results Presentation).

Operational & Financial Matters

<table>
<tr><th>No.</th><th>Question</th><th>Answer</th></tr>
<tr><td>2(a)</td><td>AEONCR shared similar observations in last year's AGM, namely that younger customers (aged 25 and below) and those with disposable income of less than RM1,500 per month had difficulties servicing their debt obligations on time.

Has the Group seen improvement in these customers' loan repayment ability? What is the estimated total financing size extended to those aged 25 and below and customers with disposable income below RM1,500 monthly?

Please comment on the likelihood and the extent of financing receivables write-off in FY2025.</td><td>AEONCR has been gradually shifting sales acquisition strategy to improve the composition of younger age customers with higher disposable income. The Group has seen composition shift to higher disposal income on new billing customer’s age group <= 25 years old by 5% in FYE2024:

<table><tr><th></th><th>FYE2023</th><th>FYE2024</th><th>+/-</th></tr><tr><td>Disposal income <=RM1,500</td><td>63%</td><td>58%</td><td>-5%</td></tr><tr><td>Disposal income >=RM1,500</td><td>37%</td><td>43%</td><td>+5%</td></tr></table>
Meanwhile, we observed reduction in NPL from 2.89% in FYE2023 to 2.57% in FYE2024. The Group will continue to focus on portfolio management by adopting a prudent credit management approach and we expect receivables write-off trend to stabilize in FYE2025.</td></tr>
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Operational & Financial Matters

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<tr><th>No.</th><th>Question</th><th>Answer</th></tr>
<tr><td>2(b)</td><td>What is the breakdown of the written-off receivables by business segment?</td><td>The written-off receivables for FYE2024 was in proportionate with the financing receivables outstanding as shown below:

<table><tr><th></th><th>Receivables</th><th>Write-off</th></tr><tr><td>Easy Payment</td><td>64%</td><td>64%</td></tr><tr><td>Personal Financing</td><td>30%</td><td>28%</td></tr><tr><td>Credit Card</td><td>6%</td><td>8%</td></tr></table></td></tr>
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Operational & Financial Matters

No.	Question	Answer
2(c)	On page 17 of the Q4FY2024 Financial Results Presentation, AEONCR said improved collection performance q-o-q was attributed to early outsourcing of delinquent accounts to external collection agencies and reactivation of the field visit team. At which stage (1, 2, or 3) would AEONCR outsource delinquent accounts to debt collection agencies? Generally, what is the recovery rate of bad debts upon outsourcing to third-party collectors?	AEONCR normally outsources its NPL (Stage 3) and pre-NPL accounts (Stage 2) for uncontactable customers to external collection agencies in order to optimize the internal collection productivity and performance. Generally, the cumulative bad debt recovery rate is approximately 15%.

Operational & Financial Matters

No.	Question	Answer
2(d) (i)	The Group leverages AI-based solutions for collection risk assessment and utilises AI credit scoring methods as an alternative scorecard to improve decision-making accuracy. How different are the AI-driven collection risk analytics compared to AEONCR's conventional collection risk assessment framework? How has AEONCR's debt collection improved before and after adopting AI-driven analytics?	The use of AI-driven collection score enables the assignment of unique risk score for each account and prioritizing collection approach to customer with high delinquency risk, hence improve the timeliness of deploying collection treatment on targeted segment. At the same time, we are able to reduce unnecessary reminder calls to self-cure customers that increased productivity by approximately 30%.

Operational & Financial Matters

No.	Question	Answer
2 (d) (ii)	Apart from general metrics such as age, disposable income level, credit history, and payment behaviour, what other criteria fed to AI-based solutions would enable more accurate and reliable collection risk assessment?	AI-based solutions enable us to ingest more feature attributes and allow us to analyse default behavior based on more data points and explore more model algorithms for the best outcome. We select an appropriate credit score card model based on the efficiency and reliability of credit model statistical results.

Operational & Financial Matters

Question 3

AEON Bank, Malaysia's first Islamic digital bank, launched its services to the Malaysian public on 26 May 2024 with an initial savings product. AEON Bank is also a 50%-owned associate of AEONCR.

Operational & Financial Matters

No.	Question	Answer
3(a)	What are the other products in the pipeline after launching the Shariah-compliant savings and payment products?	The Bank has in place product roadmap and will continue to introduce new products and services subject to the approval of BNM.
(b)	How many depositors have opened bank accounts with AEON Bank thus far?	As of todate, the Bank has seen encouraging growth and has exceeded our expectation.

Operational & Financial Matters

No.	Question	Answer
3(c)	What are the "*cross-selling*" opportunities within the AEON ecosystem to convert AEONCR's existing customers into AEON Bank customers?	As part of the wider ecosystems within the AEON Living Zone, AEON Bank is able to leverage on the existing AEONCR's customers to build up the initial deposit base. By integrating these offerings within the AEON Group, we can provide comprehensive and convenient financial and banking services to our customers and business partners.
3(d)	AEONCR recognised RM16.58 million shares of losses from AEON Bank in Q4FY2024 (page 143 of IAR2024). What is the guidance on AEON Bank's profitability and earnings impact on AEONCR in FY2025?	AEON Bank hopes to achieve break-even within 5 years from the commencement of operations.

Sustainability Matters

Question 1

One mechanism AEONCR leveraged in FY2024 to reduce GHG emissions was the consumption of electricity sourced from renewable sources in the form of Renewable Energy Certificates (RECs). This offset AEONCR's GHG emissions by 877.5 tonnes of CO_2.

With that, AEONCR significantly reduced its GHG emissions by 31% or 723.5 tonnes of CO_2 in FY2024, compared to 2,363 tonnes of CO_2 in the baseline year FY2022 (page 88 of IAR2024).

Sustainability Matters

a) The practice of purchasing RECs to offset GHG emissions is debatable. Critics are concerned that this has become a “guilt-free” way for corporations to continue emitting GHG without reducing carbon emissions via reduction measures.

Without the purchase of RECs, AEONCR’s gross GHG emissions would have been 6.51% higher at 2,517 tonnes of CO_2 compared to 2,363 tonnes of CO_2 in FY2022, thus not achieving the 15% targeted reduction for FY2024 (page 88 of IAR2024).

At the same time, emissions reduction is the second Sustainability Performance Target (SPT2) under the RM1.2 billion Sustainability-Linked Loans (SLL), which has a three-year tenure from four local and foreign banks.

(continued on the next page)

Sustainability Matters

No.	Question	Answer
a)	Is the procurement of RECs sustainable for AEONCR in order to reduce GHG emissions and meet the SLL target? Will AEONCR continue to use this method to achieve the 25% reduction in Scope 1 & 2 emissions in FY2025? What is AEONCR's view on this matter?	The higher GHG emissions in FYE2024 was mainly due to the economic growth that increased the demand for energy including petrol use and electricity within our operations compared to the baseline year FYE2022, after the economic recovery from Covid-19. AEONCR will continue pursuing actions on multiple fronts that focus on energy conservation and energy efficiency, exploring the application of renewable energy with solar panels and expanding biodiversity afforestation projects.

Sustainability Matters

No.	Question	Answer
b)	What is the price AEONCR paid for the RECs compared to the usual tariff per kWh? How different is the price paid compared to the usual tariff?	The REC charges at the rate of 0.008 sen/kWh compared to the usual tariff of 0.52 sen/kWh. Total cost for purchasing the REC amounted to RM11,351.

Sustainability Matters

c) AEONCR also achieved SPT1 for the SLL, which is about Green and Social Financing. The target is RM5 million in loans disbursed (actual loans disbursed: RM7.83 million) for the purchase of energy-efficient appliances with 4-star or 5-star efficiency labels from the Energy Commission. Also included are the purchase of solar panels, bicycles, and electric bikes (pages 32 and 77 of IAR2024).

No.	Question	Answer
c)(i)	What is the size of facilities drawn from the SLL? Apart from activities stated in SPT1, what are the sustainability-related activities that AEON extends its loans to using the SLL?	Total SLL facilities secured from various banks amounted to RM1.2 billion. As at 29 February 2024, total facilities drawn from SLL was RM1.0 billion. SLL facilities are attached with predetermined Sustainability Performance Targets ("SPTs) and AEONCR will continue to focus on offering social and green financing to our customers as part of the financial inclusion initiatives and low carbon future.

Sustainability Matters

No.	Question	Answer
c)(ii)	Under SPT1, the total financing disbursed for electric bikes amounted to merely RM13,000. When did AEONCR launch the product? Was the low financing disbursed suggesting a lacklustre reception of the product in the market? How prevalent are electric bikes in Malaysia currently?	AEONCR launched its electric bikes financing on 10 November 2023. Currently, the Malaysian electric vehicles ("EV") market is in the initial stage of ecosystem growth and market expansion. We foresee with the support of various policies and incentives launched by Malaysian Government, electric bikes sales are expected to increase in the coming years with the effective market penetration strategy.

Corporate Governance Matters

Question 1

Referring to Practice 6.1 of the Malaysian Code on Corporate Governance (MCCG), AEONCR performed the Board Effectiveness Evaluation (BEE) internally to assess the board's performance for FY2024 (page 41 of the Corporate Governance Report 2024).

Corporate Governance Matters

No.	Question	Answer
1(a)	A key area of improvement identified in the BEE is improving the Board's ability to distil sustainability-related risks faced by the Group. What are the examples or events that led to such observation? How do the Group and NRC plan to improve this area?	The key improvement areas include: i. the ability of the Board in distilling sustainability-related risks which have material bearing to the businesses and strategies; and ii. clear understanding of the time-horizons (i.e. immediate threat, emerging threat or long-term transitional threat) of sustainability-related risk. *(continued on the next page)*

Corporate Governance Matters

No.	Question	Answer
1(a)	A key area of improvement identified in the BEE is improving the Board's ability to distil sustainability-related risks faced by the Group. What are the examples or events that led to such observation? How do the Group and NRC plan to improve this area?	The action plans to improve this area include: i. To provide structured training and educational resources on ESG factors to Board members and Senior Management to ensure they are being updated with market trends, industry standards and regulatory developments relating to the Group's sustainability performance and risk exposure; and ii. To prioritise future investment and resources allocation based on identified material sustainability matters.

Corporate Governance Matters

No.	Question	Answer
1(b)	In FY2024, the Board's performance evaluation encompassed assessing how well the Board addressed AEONCR's material sustainability risks and opportunities to drive ESG strategy and implementation (Practice 4.4 of MCCG, page 24 of CGR2024). What metrics did the BEE look at in assessing the Board's effectiveness in overseeing the development and implementation of sustainability strategies? How did the Board perform on these metrics?	AEONCR has adopted a sustainability governance framework in reporting its ESG risks, sustainability targets and initiatives including the support accorded by Management Sustainability Committee and Sustainability Working Committee. Currently, the Board is overseeing and monitoring the performance in relation to the development and implementation of sustainability initiatives covering Economic, Environment, Social and Governance topics.

Corporate Governance Matters

No.	Question	Answer
2	In FYE2024, 21 reports were received on AEONCR whistle-blowing channels, which were investigated and brought to a proper conclusion (page 69 of IAR2024). What was the nature of the reports received? To whom are these reports named? To what extent do the claims hold true?	Reports received via various whistle-blowing channels were mainly related to staff grievances and there were no major cases reported. All the whistle-blowing cases were investigated discreetly to protect confidentiality and were resolved amicably.

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Thank You