



AEON CREDIT SERVICE

Responses to Questions from Minority Shareholders Watch Group (MSWG)



Questions from MSWG

Strategy & Financial Matters

Question 1 – Business Segments performance

AEONCR recorded a 22.7% growth in total transaction and financing (T&F) volume in FY20 across all segments. Some of the strongest growing segments were Auto Financing (32.2%), Credit Card (25.6%), Motorcycle Financing (25.4%), and Objective Financing (20.5%)

(Source: AEONCR's Q4/12M FYE20 Results Update dated 9 April 2020).



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
1 (a)	How will the business segments above perform in FY21, amid the prolonged COVID-19 pandemic and cautious consumer spending?	<p>The recent COVID-19 pandemic and the MCO has disrupted our operations nationwide to some extent and had also affected our customers and business partners. Loan applications from customers resumed during CMCO and RMCO.</p> <p>For FYE2021, the Company will continue to support its targetted customer needs while setting a solid foundation for revenue resilience and growth opportunity post COVID-19 without compromising portfolio quality.</p>



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
1 (b)	<p>Almost all products of AEONCR recorded year-on-year gain in T&F volume in FY20 except the SME Financing segment which posted a 49.2% decline to RM15 million from RM30 million in FY19. Given the insignificant contribution of the segment, what is AEONCR's plan for the division?</p>	<p>The SME Financing segment of AEONCR is focussed on supporting the growth opportunities of our business partners and customers.</p> <p>The Company has always been taking a prudent approach on the SME Financing business model, which differs from the Company's established consumer financing business model to avoid underwriting bigger ticket risk.</p> <p>The SME Financing segment shall remain an insignificant contributor to the T&F volume of the Company.</p>



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
1 (c)	Is there a rise in loan application and approval for the Personal Financing products especially among the B40 and M40 segments since the financial distress among Malaysians is exacerbated by loss of income during Movement Control Order (MCO) and Conditional MCO period?	Movement restrictions have resulted in the drop in applications during this period. However, there is an increase in customer application counts for PF during CMCO.



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Strategy & Financial Matters

Question 2 – COVID-19 counteractions

AEONCR has offered several measures to help customers affected by COVID-19, including a two-month loan deferment measure from 1 April to 31 May, and the option to convert outstanding credit card balances into term loans for up to 36 months.



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
2 (a)	What is the take-up rate of the loan deferment and conversion measures among eligible cardholders and eligible borrowers in Objective, Personal, Motorcycle and Auto Financing segments?	<p>Since April 2020, about 3,500 eligible cardholders have converted their credit card balances to 36-monthly installment plan.</p> <p>For our Objective Financing, Personal Financing, Motorcycle and Auto Financing segments, accounts which are not in arrears of 90 days as at 1 April 2020 are automatically eligible for the two-months loan deferment.</p>



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
2 (b)	What is the size of the total deferred and converted loans to AEONCR's total receivables?	<p>For Easy Payment portfolio, total loan deferment amount is about 4.8% of the total receivables.</p> <p>For our credit card portfolio, about 2.6% of the customers have converted their outstanding balance to fixed installment plan as per BNM guideline.</p>



Questions from MSWG

Strategy & Financial Matters

Question 3 – Asset Quality

Asset quality is expected to be negatively impacted by the pandemic and it is likely AEONCR will see a rise in the provision of expected credit losses (ECL) in FY21.



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
3 (a)	Please comment on the possible increase in provision of ECL based on the Stage 1, 2, 3 assessment.	<p>The ECL provision is computed based on the three-stage approach which reflects the change in credit quality of the receivables in accordance to MFRS 9.</p> <p>We acknowledge that the COVID-19 pandemic will affect customer's delinquency status and hence ECL provisions is expected to increase accordingly. The Company has in place solid measures to ensure effective collections and recovery activities such as AEON Relief Programme to mitigate this potential risk.</p>



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
3 (b)	Based on the assessment done by AEONCR, how well-capitalized is the Company to absorb such potential impact?	<p>As at FYE2020, the capital adequacy ratio (“CAR”) of the Company stood at 18.87%. On 12 March 2020, the Company has issued a RM200 million subordinated sukuk which can be recognised as capital for the purpose of meeting the minimum CAR as set by BNM.</p> <p>We will continue to maintain sufficient buffers by tapping into equity and subordinated sukuk to support our business growth.</p>



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
3 (c)	Does AEONCR foresee a sharp rise in non-performing loans (NPL) which stood at 1.92% as at end of FY20?	<p>NPL remains relatively stable during MCO period mainly due to the loan deferment provided to our customers.</p> <p>As mentioned earlier, we will continue to focus on implementing effective collection and recovery strategies besides enhancing the new assets quality.</p>



Questions from MSWG

Strategy & Financial Matters

Question 4 – NIM and M40

Considering the rate cuts by Bank Negara Malaysia (BNM) and the strategy to improve asset quality by expanding income from the M40 segment, the net interest margin (NIM) of AEONCR is likely to trend lower.



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
4 (a)	To what extent is the NIM expected to decline due to the above factors?	<p>The rate cuts by Bank Negara will benefit the Company in terms of lower funding cost.</p> <p>We do not foresee a significant decline in NIM based on our existing portfolios.</p>



Questions from MSWG

Strategy & Financial Matters

No.	Question	Answer
4 (b)	Has the strategy to grow the M40 segment, by introducing targeted products in FY20, managed to yield significant result?	<p>The Company has been continuously offering various products that cater to the middle income group (M40 customers segment).</p> <p>For FYE2020, total T&F growth of 22.7% were supported by the following sales and promotional activities which were targetted at M40 customers:</p> <ul style="list-style-type: none">• Launch of Executive Personal Financing scheme• Premium MOPED financing• Premium bicycle for Objective Financing• New car and Japanese used car financing• Platinum credit card



Questions from MSWG

Corporate Governance Matters

Based on the Corporate Governance (CG) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (MCCG), please provide clarification on the following:

Practice 11.2: Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

AEONCR's response: Applied

AEONCR's response: In FYE2020, the Company has adopted the GRI* framework for its Annual Report. The current year (FYE2020) shall be the transition period before the Company fully adopts Integrated Reporting in the next financial year (FYE2021).



Questions from MSWG

Corporate Governance Matters

No.	Question	Answer
1	MSWG's comment: AEONCR will only adopt Integrated Reporting in the next financial year which is FY21. Application of the Practice should be "Departure" along with the stating of the implementation timeline for Integrated Reporting in FY21 (on the Explanation for Departure).	<p>The Company has received the Board's approval to adopt Integrated Reporting based on the International Integrated Reporting Council (the IIRC) - Integrated Reporting Framework <IR>.</p> <p>It is an ongoing journey to improve quality of information disclosures to the stakeholders. The Company is undertaking staggered approach in its Integrated Reporting journey including implementing integrated thinking, which will lead to the issuance of the first Integrated Report in FYE2021.</p>