



AEON CREDIT SERVICE

26TH ANNUAL GENERAL MEETING

21 JUNE 2023

**Responses to Questions from Minority Shareholders Watch Group
(MSWG)**

via Letter dated 14 June 2023

Operational & Financial Matters

Question 1

After two years of contractions, AEONCR's total gross financing receivables rebounded strongly in FY2023 with a 9.9% growth to RM10.84 billion (FY2022:RM9.86 billion), underpinned by exemplary growth of Easy Payment and Personal Financing business (EPFF) during the year.

Total financing volume generated by EPFF business increased by 42.0% to RM4.44 billion in FY2023 (FY2022: RM3.13 billion), with all product segments registering stellar growth of between 29.4% and 52.2% in FY2023.

Operational & Financial Matters

No.	Question	Answer
1	How likely is the Group to replicate similar financing growth in the future with the full opening of the economy? Are mid to high double-digit overall financing growth rates recorded in pre-COVID-19-pandemic (FY2020: 19.6%, FY2019: 13.3%) a realistic expectation?	Bank Negara Malaysia (“BNM”) has projected Malaysian economy to expand between 4% and 5% in 2023 driven by robust domestic demand amid the weaker global growth momentum. We have continued to see an uptick in demand for consumer financing and is expected to achieve our targeted performance for the first quarter of 2023. With the implementation of instant conditional approval, launch of risk based credit scoring using Artificial Intelligence (“AI”) tools, and barring unforeseen circumstances, we are working towards achieving our targets set for financial year ending 29 February 2024 by putting in place the appropriate measures.

Question 2

On asset quality, AEONCR's non-performing loans (NPL) ratio increased to 2.9% from 2.66% in FY2022, with a higher net credit cost of 2.6% in FY2023 (FY2022:1.47%).

The deteriorating NPL (which is also the highest in the past five years) was mainly due to lower collection performance caused by the weaker debt servicing capacity of certain customer segments.

Operational & Financial Matters

No.	Question	Answer
2 (a)	Which customer segments are facing debt servicing issues?	We noted that younger customers (age 25 and below) and those with disposable income of less than RM1,500 per month generally show difficulties in servicing their debt obligations in a timely manner.
2 (b)	Among AEONCR financing and payment products (Personal, Motorcycles, Auto, Objective and Credit Card), which product registered a higher NPL ratio? What is the management guidance on NPL and net credit cost for FY2024?	Among the financing and payment products, Motorcycle and Objective financing have registered higher NPL ratio in comparison with other financing products and services. We are not in the position to provide NPL and net credit cost guidance. However, we will continue to enhance our credit assessment framework, implement efficient and effective collection strategies with diligent credit monitoring to mitigate credit loss and improve the quality of our portfolio.

Operational & Financial Matters

No.	Question	Answer
2 (c)	In view of upticks in NPL and credit cost, how does AEONCR further improve its asset quality?	AEON Credit is reviewing its credit policies and adopting a more stringent credit assessment criteria where necessary, by revising the credit limits offered to credit risk sensitive groups, i.e. low income groups, age groupings, employment segment differentiation, etc. The Company will also closely monitor the inherent credit risks in its financing portfolios, and focus on growing quality receivables with the adoption of risk based collection scoring using AI to focus on high risk accounts.

Operational & Financial Matters

Question 3

For FY2023, AEONCR focused on strengthening its digital capabilities by implementing various digitalisation initiatives across its operations (page 68 of IAR2023).

Operational & Financial Matters

No.	Question	Answer
3 (a)	One of the key digital initiatives implemented in FY2023 was Easy Payment (EP) self-e-KYC which allows customers to perform their application digitally and receive instant conditional approval in just 15 minutes. How does the cost of KYC verification per customer differ before and after the digital onboarding process?	KYC costs before digital onboarding process comprised mainly: i. Manpower cost (manual calls for verification); ii. Telephone cost; and iii. Credit bureau fee. After digital onboarding process, KYC verification cost comprised facial recognition/biometric cost (e-KYC cost) and credit bureau fee, which enable faster assessment turnaround time and improve productivity.

Operational & Financial Matters

No.	Question	Answer
3 (b)	The overall digital onboarding initiative is expected to reduce end-to-end application time by 99%, and the Group's credit assessment operations and manpower cost by up to 50%. What are the total cost savings to be generated from this initiative?	We are projecting a total cost savings from the credit assessment operations of approximately RM20 million over 5 years.

Operational & Financial Matters

Question 4

A consortium comprising AEONCR, AEON Financial Service Co., Ltd. and MoneyLion Inc. has successfully obtained approval from the Minister of Finance and Bank Negara Malaysia (BNM) for an Islamic digital banking licence on 29 April 2022.

Operational & Financial Matters

No.	Question	Answer
4 (a)	However, it was reported in May 2023 that MoneyLion Inc. had withdrawn itself from the digital bank venture. Why did MoneyLion pull out of the consortium? What arrangement was made for MoneyLion's 10% stake in the consortium? Are AEONCR and AFS actively seeking new partners following MoneyLion's exit?	MoneyLion Inc. ("ML"), has made a strategic decision to withdraw its participation driven by their commitments to prioritize their business in the United States. Consequently, we have taken steps to revise the shareholding structure related to ML's 10% stake in the consortium. We are pleased to announce that AEON Credit, in collaboration with AFS, will be entering into a mutual agreement to assume the stake previously intended for ML. This strategic adjustment not only reinforces the stability of our digital bank's readiness preparations but lays a solid foundation for the Joint Venture to move forward. Our dedicated team is working toward the targeted launch within the timeline determined by BNM. We are open with potential collaborations with like-minded partners who share our mission and vision for the success of the digital bank.

Operational & Financial Matters

No.	Question	Answer
4 (b)	MoneyLion was initially roped into fitting the technology partner role. Has its withdrawal hindered the progress of achieving operational readiness by the first quarter of 2024? Who are the technology partners appointed for the systems development of the digital bank currently?	The withdrawal by MoneyLion did not hinder the progress of achieving the operational readiness of the digital bank. AFS and AEONCR are in control of the critical decisions of the digital bank and continue to leverage on the expertise of our own skilled workforce in collaboration with various solution providers to establish the digital bank. The digital bank is currently in the build phase and is on track to meet the targeted launch date within the timeframe of 24 months set by BNM. In this regard, we are working with a US based technology company, Oliver Wyman, to build the technology stack for the digital bank.

Operational & Financial Matters

No.	Question	Answer
4 (c)	What are the parameters agreed upon between AEONCR and AFS regarding the nomination and appointment of directors and senior management positions?	For the appointment of directors and senior management, we adhered to a rigorous due diligence process and ensuring the highest standards of corporate governance in accordance with AEONCR and AFS's internal Corporate Governance framework. Each candidate has undergone evaluation and endorsement by the Board of Directors from AEONCR, in collaboration with AFS, and would need to satisfy a stringent fit and proper criteria. The appointments are also subject to the clearance from BNM.

Operational & Financial Matters

Question 5

AEONCR aspires to be Malaysia's leading innovative retail Fintech Company with a significant e-Wallet user base by 2025. One of the key initiatives to achieve this is via AEON Living Zone, which offers one-stop access to all the Group's product and service offerings, from AEON Group membership benefits and financing to digital banking and insurance (page 25 of IAR2023).

Operational & Financial Matters

No.	Question	Answer
5 (a)	Please elaborate in detail and illustrate with examples how AEON Living Zone integrates AEONCR's products, services and benefits.	AEON Living Zone is the term used to describe the platform to connect customer traffic within the AEON ecosystem network, comprising all the businesses operated by AEON Group of companies in Malaysia, by providing financing solutions, in-store shopping experience and loyalty privilege functions to customers and potential customers through their mobile devices. With the use of common ID, all AEON members will be consolidated onto one loyalty point platform via AEONCR app, an embedded financial services and retail solution with E-wallet/QR payment functions that will also feature marketing campaigns and product and service offerings. As a result, we aim to increase transaction volume and member base for cross selling our products and services within the AEON Living Zone.

Operational & Financial Matters

No.	Question	Answer
5 (b)	On the other hand, AEONCR is targeting to complete the end-to-end digital transformation and introduce a new AEON mobile app that will provide customers seamless access to products and services by this year (page 25 of IAR2023). Will the new AEON mobile app replace existing apps such as AEON Wallet? How many of the 1.63 million registered e-wallet users are active users? How engaged are these registered users, and what is the level of stickiness of the app?	i. The existing mobile app will be enhanced and new financial services and retail solutions will be embedded into the AEON Wallet app. With the use of data analytic tools, we are able to provide instant credit line to our customers. ii. The monthly recurring active users of the AEON Wallet is about 27%. iii. We have improvised the current UI/UX and simplify the member on-boarding process at our AEON Wallet home screen, which provides easier navigation of the app. We have deployed several functions to increase user stickiness such as easy payment financing details, repayment function, etc..

Sustainability Matters

Question 1

During FY2022, the Group secured a three-year Sustainability-Linked Loan (SLL) of RM600 million (page 24 of IAR2023).

Sustainability Matters

No.	Question	Answer									
1	What are the sustainability performance targets (SPTs) imposed by lenders upon AEONCR for the SLL? What is the extent of interest rate adjustment if AEONCR achieved the SPTs imposed? How does the Group utilise the SLL to support and promote the wider adoption of sustainability practices among borrowers?	The SPTs for the SLL loans are set out below: <table border="1"> <thead> <tr> <th>SPTs</th><th>FYE2024</th><th>FYE2025</th></tr> </thead> <tbody> <tr> <td>1. Social and Green Financing</td><td>RM 5 mil</td><td>RM 20 mil</td></tr> <tr> <td>2. Carbon Emission Reduction</td><td>15%</td><td>25%</td></tr> </tbody> </table> Interest rebate for the SLLs ranging from 3 bps to 5 bps for achieving each SPT. The proceeds raised from the SLLs will be utilised for working capital purposes including for implementation of our 3-year Sustainability initiatives.	SPTs	FYE2024	FYE2025	1. Social and Green Financing	RM 5 mil	RM 20 mil	2. Carbon Emission Reduction	15%	25%
SPTs	FYE2024	FYE2025									
1. Social and Green Financing	RM 5 mil	RM 20 mil									
2. Carbon Emission Reduction	15%	25%									



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Thank You