



Our goal is to build a financial platform focused on the economies of Asia and become a corporate group that enriches the daily lives of customers.

Kenji Kawahara
President and CEO

Overview

Fiscal 2016 in Retrospect and Fiscal 2017 Initiatives

In fiscal 2016, with regard to our priority initiative of promoting digitalization, we worked to offer customers even more convenient and user-friendly services through initiatives including the development of services delivered via smartphone applications, and actively drew on external expertise and technology through the AEON Financial Service Innovation 2016 hackathon.* We also placed particular emphasis on speed and simplicity. For example, we were the first bank in Japan to field test a fingerprint authentication system that uses only biometric data to authenticate the identity of customers at ATMs, and switched to paperless credit card applications through the use of tablet devices. Our measures to enhance productivity through digitalization, and to ensure profitability in a low interest rate environment, have steadily enhanced customer convenience. Nevertheless, we still need to further accelerate productivity improvements.

We have announced that we will invest a total of ¥100 billion in IT systems and digitalization during the three years from fiscal 2017 through fiscal 2019 to address the rapidly changing external environment. We have partially funded this investment with ¥60 billion, consisting of ¥30 billion raised by way of public offering and ¥30 billion from the issuance of convertible bonds.

During fiscal 2017, the first year of this investment plan, we will build a framework that can better address individual customer needs through means such as upgrading Group databases and utilizing AI technologies. In these ways, we will further raise convenience and productivity and improve return on assets through organizational changes and other measures.

* A portmanteau of "hack" and "marathon" that refers to competitive events during which teams of software developers work intensely within a designated timeframe, vying to develop the best programs or service designs.

Medium-Term Management Plan

(Initiatives for Fiscal 2017 and Beyond)
Toward the Creation of New Value

Our mission is to be the financial services company in Asia that customers feel closest to, through provision of comprehensive services that enrich the daily lives of our customers.

As a comprehensive financial group with roots in the retail sector, we will harness the AEON Group's sales network, which is our greatest strength, and make maximum use of databases using cutting-edge technology, to provide timely, appropriate financial products and services suited to each customer.

Although the rate of credit card usage is anticipated to continue to increase, plastic cards may cease to exist in the future. Smartphones equipped with credit card settlement functions and services that enable trouble-free, easy payment are expected to gain popularity.

Fiscal 2016 Results

	Fiscal 2016	
	Results	YoY Change
Ordinary income	¥375.1 billion	+4%
Ordinary profit	¥61.6 billion	+4%
Profit attributable to owners of parent	¥39.4 billion	+10%
Earnings per share	¥189.75	+5%
Payout ratio	35.8%	-3%
Dividend per share ¹	¥68	+¥2

1. Includes commemorative dividend celebrating 20 years since stock listing

We have approximately 40 million cardholders in Japan and other Asian countries/regions. Furthermore, we have a deep relationship with the AEON Group and its huge retail store network, through which we can acquire cardholders and promote the use of cards. Harnessing blockchain technology, and based on big data covering cardholder purchasing behavior and financial assets, we will build a financial platform spanning the Asian economic sphere that seamlessly conveys the benefits of an AEON Card to customers. As we go about enriching the daily lives of our customers we will thus continue to deliver unique, innovative services.

Our operating environment is potentially subject to the impact of the following risks associated with political conditions, technological evolution and other factors.

- An unfavorable economic environment or financial market turmoil
- Legal or regulatory restrictions
- Intensified competition
- Natural disasters
- Sudden fluctuations in financial market conditions or economic trends
- System operations
- Other risks

Please visit our website for further information regarding risk:
<http://www.aeonfinancial.co.jp/eng/ir/strategy/risk.html>

Management Indicators

The consolidated equity ratio (domestic standard) as of March 31, 2017 increased to 8.5% from 7.4% at the end of the previous fiscal year, taking into account approximately ¥30 billion raised by way of public offering. We intend to raise our share price through the following measures: improving capital productivity by revising our receivables portfolio; compressing risk assets by obtaining credit ratings

Fiscal 2017 Forecast

	Fiscal 2017	
	Forecast	YoY Change
Ordinary income	¥390 billion	+4%
Ordinary profit	¥65 billion	+6%
Profit attributable to owners of parent	¥40 billion	+1%
Earnings per share	¥185.43	-2%
Payout ratio	36.7%	+1%
Dividend per share ²	¥68	±¥0

2. Previous year's commemorative dividend has been rolled into the ordinary dividend

for the beneficiary rights we hold at the time of securitization; and increasing earnings per share and return on equity by generating returns from investments. By raising our share price, we expect to maintain our equity ratio at the 8% level through the infusion of approximately ¥30 billion from the conversion of convertible bonds.

In addition, we will securitize receivables to raise capital efficiency, thereby reducing our capital requirements, improving asset turnover, and allowing a shift to high-yield products.

Dividend Policy

Returning profits to shareholders is one of our management priorities. Our basic policy is to distribute an appropriate amount of profits to shareholders while maintaining internal reserves to expand our businesses, improve productivity and enhance corporate competitiveness. Our target payout ratio is 30% to 40%.

Dividends for fiscal 2016 totaled ¥68 per share and consisted of an interim dividend of ¥29 and a year-end dividend of ¥39. The interim and year-end dividends each included a ¥1 commemorative dividend, which represented a ¥1 increase each. We plan to increase the ordinary dividend by ¥2 in fiscal 2017 to replace the fiscal 2016 commemorative dividend and maintain dividends for the fiscal year at ¥68 per share.

Key Strategies and Investment Policy

Given the rapid progress of digitalization worldwide, there is a growing need for both AEON Financial Service and the financial industry as a whole to adapt to IT developments in the form of fintech. Moreover, the birthrate is low and society is aging in Japan while minimum wages are rising overseas, trends which are expected to make hiring more difficult and increase personnel expenses. We have therefore formulated an investment policy that emphasizes IT systems and digitalization

to increase operating efficiency and improve our ability to generate earnings. We will focus on three issues: 1) **Product and service innovations to implement a strategic shift**; 2) **Streamlining credit screening and collection**; and 3) **Initiatives to improve labor productivity**.

1) Product and service innovations to implement a strategic shift

We will implement the common AEON Group strategy of shifting to the four growth areas of Asia markets, urban markets, senior-oriented markets and digital markets by promoting smartphone-based cardless services in Japan and diversifying settlement functions both domestically and overseas. Specifically, we will increase convenience through cardless settlement and deploy our Japan-grown expertise to Asian countries, where smartphones are making inroads. We will also focus on cardholders, who make up the core of our customer base, by implementing strategies to increase market share in the densely populated Greater Tokyo area, where our overall household share is low, especially in Tokyo Prefecture.

2) Streamlining credit screening and collection

We will review our receivables portfolio, analyze data on operating receivables with greater sophistication using AI, and subsequently deploy business models we have developed in

Japan to our overseas operations. Specifically, we will revise our receivables portfolio to maintain an appropriate risk profile by shifting from loan receivables to product sales receivables overseas. Looking beyond, in Japan, we will use AI to analyze operating receivables with greater sophistication and use the results to streamline credit screening and collection. We will then roll out such Japan-grown business models internationally, adapting them to local characteristics.

3) Initiatives to improve labor productivity

We will improve our business processes by promoting digitalization and automation, and aggregate functions to strengthen our financial service capabilities. Specifically, we are making progress with paperless operations such as handling credit card enrollment with tablet devices and using digital signage to advertise at bank branches. We are accelerating these initiatives as we go about simplifying business processes through automation and systematization. Currently, each Group company provides installment products, including credit cards, insurance and auto loans, on a separate basis. We will improve our financial service capabilities by building mechanisms that enable us to be a one-stop source. In addition, we will further raise efficiency by consolidating redundant functions with a focus on back office operations such as those carried out at the head office.

Investment Approach

Investment criteria:	Profitability benchmark to enable us to achieve our goals = ROI of 30% or higher (average for fiscal 2016 through fiscal 2018)
Effect of investment:	Reduce bad debt allowance by increasing asset profitability, and reduce the ratio of labor costs to earnings

Priority Initiatives	Effect of Investment (Forecast for Fiscal 2018)
Be a one-stop source of financial services, introduce new products, and share cardholder benefits across the regions we serve	Year-on-year growth in consolidated ordinary income of 10% or more
Reduce bad debt allowance (ratio of bad debt allowance to ordinary income)	Global: 20% (decrease of 5 pts. from fiscal 2015)
Lower the ratio of labor costs to earnings (ratio of personnel expenses to ordinary income)	Domestic: 16% (decrease of 2 pts. from fiscal 2015) Global: 11% (decrease of 4 pts. from fiscal 2015)

Reference

Factors Affecting Ordinary Expenses	Change in Depreciation Expenses (Forecast for Fiscal 2018)
Increase in depreciation expenses due to IT system and digitalization investment of ¥100 billion (fiscal 2017 through fiscal 2019)	+¥14 billion compared with fiscal 2016
Decrease in depreciation expenses due to turnover of existing investments	-¥7 billion compared with fiscal 2016

Note: Forecast for fiscal 2019: Increase of ¥20 billion and decrease of ¥10 billion compared with fiscal 2016

Priority Initiative: AI in Action

(1) Receivables management and collection

We will maintain a high collection rate by rigorously analyzing three key points: screening (projected defaults), collection (phone call timing for routine collections), and customer attributes (including age, family structure, income and job). We will apply analysis results from Japan to overseas operations, leading to a reduction in bad debt allowance.

(2) Call centers

We are taking measures to address the shortage of call center personnel. Nevertheless, actual conversational ability is a must for AI to be able to make phone calls, so we will aggregate and use recorded conversations in text form as big data.

(3) Increasing the number of affiliated merchants

We will focus on increasing the number of affiliated merchants and stores that accept AEON Cards so that cardholders can use their cards anytime, anywhere. We will also use databases to enhance sales and marketing functions.

Investment Areas

We are investing ¥100 billion from fiscal 2017 through fiscal 2019. By region, we will invest 70% of the total in Japan and 30% internationally. By area, we will invest 40% of the total in existing businesses and 60% in new businesses.

Schedule

Our investments in IT systems and digitalization will take place during the three years from fiscal 2017 through fiscal 2019. We expect some investments to come online quickly in fall 2017 and begin producing results. The amount we will invest in each project is small, and therefore we intend to bring these investments online in rapid succession.

To Our Stakeholders

By executing initiatives to improve productivity through digitalization and further strengthen our ability to generate earnings, we will further evolve as a financial services company with roots in the retail sector. We also intend to become the financial services company in Asia that customers feel closest to by building an organization that can offer a one-stop source of financial services, and creating an environment that offers an attractive lineup of common benefits across the AEON Financial Service Group.

Investment in IT Systems and Digitalization: Progress and Plans

Objectives	Outcomes	Key Plans	Investment Amount ¥100 billion over three years				
Improve convenience and productivity	Greater responsiveness (proposal capabilities and speed)	<ul style="list-style-type: none"> Promote database sharing Stay abreast of next-generation credit systems Paperless operations through the use of tablet device enrollment 	Fiscal 2017	Fiscal 2018	Fiscal 2019		
	Address customers' financial needs anytime, anywhere	<ul style="list-style-type: none"> Establish digital marketing Introduce mobile payment services Development toward unmanned branches 				¥40 billion	¥30 billion
Improve return on assets	More efficient collection Suppress bad debt risk More sophisticated credit screening	<ul style="list-style-type: none"> Build a target-driven collection process Analyze voice data mining Enhance credit scoring system 					