

Management Message

**We are constructing
the most customer-oriented
ecosystem in Asia.**

Kenji Kawahara

President and CEO

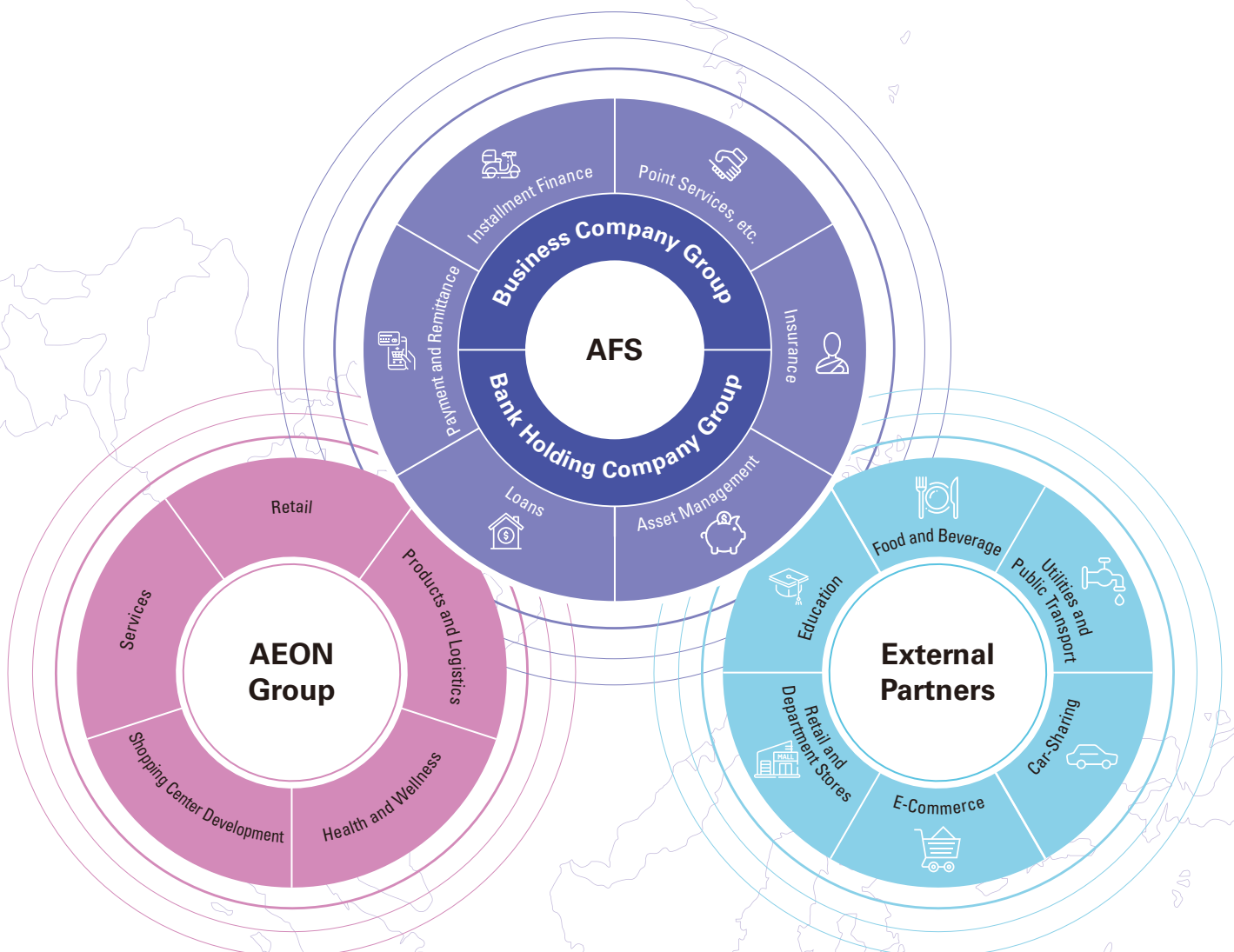


Vision for 2025

The AFS Ecosystem

The unique AEON Financial Service economic sphere linking the AEON Group's retail-centered economic sphere, customers across 11 countries in Asia, including Japan, that use our financial services, and external partners

- Offer services that only a group with roots in the retail sector can provide
- Grow larger and stronger through alliances with companies in other industries to be the number one retail financial services company in Asia



1

AEON Financial Service's Near-Term Vision

AEON Financial Service is a comprehensive financial group with roots in the retail sector. It leverages the AEON Group's brand equity and store network to deliver a unique range of financial services.

Our customer base is principally founded on visitors to AEON Group stores, and consists of a diverse range of individuals with differing family circumstances, living situations and values. One of our major distinguishing points among Japanese financial services companies has been our quick expansion overseas. This is the culmination of working with the rest of the AEON Group to build close relationships with customers, rolling out our business activities to communities across Japan and winning acceptance for them throughout Asia, which has enabled the smooth acquisition of credit card issuer and other licenses. In overseas markets, the synergies we have established with the AEON Group's networks and infrastructure allow us to provide products and services that are closely attuned to customers' daily lives in 11 countries across Asia.

Over the past 38 years, we have flexibly transformed our organizational structure and business model to provide the best solutions to the diverse challenges that customers face in the countries/regions we serve. All of the banking, credit, insurance, and loan products and services we have provided to date incorporate our desire to get closer to customers and enrich their daily lives.

To me, the true meaning of "enrich" is to enable households where people can live happily, regardless of their income level. By providing financial services that address the unique needs of customers, we enrich daily life and bring happiness to families. Our mission



is to enable this virtuous cycle in Japan and throughout Asia. In each country, employees working in our business divisions and at our local subsidiaries and branches apply their ingenuity to increasing access to regionally rooted financial services that are truly necessary to people in their communities.

Our goal is to be the number one retail financial services company in Asia by developing innovative services using the latest information and communication technologies and collaborating with companies in other industries to expand our customer base.

2

Achieving Our Vision by Turning Risks into Opportunities

In fiscal 2018, AEON Financial Service's consolidated operations generated steady growth in Japan, with transaction volume in the credit card business and housing loan volume in the banking business increasing in the range of 4% to 8% year on year. Overseas, sales were strong despite the impact of U.S.–China trade friction. Transaction volumes for credit card shopping and cash advances both saw double-digit growth, supported by firm consumer sentiment.

However, looking at the market over the medium-to-long term, Japan faces a declining birthrate, aging population and shrinking middle-income demographic. Meanwhile, in emerging markets in Asia, the middle-income demographic is expected to expand further due to economic development. Advances in Fin-Tech and other developments are set to drive a further increase in the number of people who use financial services via smartphones both in Japan and overseas. Customers can now enjoy great convenience via their smartphone, using it in place of their cash card, or to open accounts, make payments, buy and sell stock and investment trust products, and apply for various loans. In addition, companies that provide financial services are able to accumulate valuable data relating to consumer household and purchasing behavior. This new trend has also led companies in other industries, such as ICT platform and application development, to successively enter the financial industry. Competitors and the rules of competition have changed significantly, and even the very concept of financial services may undergo a fundamental transformation in the future. This kind of abrupt change in the competitive environment is one of the management risks we are most keenly aware of.

At the same time, I am convinced that our strength as a comprehensive financial group with roots in the retail sector is precisely what will enable us to thrive in this new era. Customers will choose AEON Financial Service because of our unique ability to combine retail and financial resources, such as the extensive and well-known network of AEON Group stores, to offer valuable products and services that traditional financial institutions and emerging competitors cannot. Our Group-wide commitment to forming closer relationships with customers and supporting their lives through our bricks-and-mortar branch network and local subsidiaries, will surely be one of our competitive advantages.

We will leverage such advantages to be the number one retail financial services company in Asia. A key milestone toward achieving our goal is constructing the most customer-oriented ecosystem in Asia by 2025.

Expansion of Customer Base through Collaboration with External Affiliated Merchants



The “AFS Ecosystem” concept expresses the unique AEON Financial Service economic sphere linking the AEON Group’s retail-centered economic sphere, customers across 11 countries in Asia, including Japan, that use our financial services, and external partners. In the process of building this economic sphere, we will integrate retail and finance in a framework that can combine and deliver functions such as investment, spending, and preparation for the future as required at each life stage from childhood to the senior years. Particularly in Asian markets outside Japan, our mission is to provide value to customers in the countries we serve that is not available from other financial institutions, such as building access to credit for middle-income and unbanked* demographics, improving circulation of local currency, and improving access to financial services.

One specific initiative toward constructing the most customer-oriented ecosystem in Asia by 2025 is increasing the number of IDs substantially to 300 million. We must achieve this figure because it represents about 10% of the 3 billion people thought to comprise the middle-income demographic in Asia by around 2025, and that will be the minimum necessary to be a significant market player. Alliances in industries other than finance and retail are key to achieving 300 million IDs. To keep pace with diversifying customer lifestyles, we must provide a diverse portfolio of services and form alliances with companies that have services and customer bases that complement our existing financial businesses. One example from our initiatives in Japan is the issuing of co-branded cards with theme parks and public transport companies in fiscal 2018, which has resulted in a steady increase in cardholders and solidified our customer base. We will build relationships with companies in other industries to expand and strengthen the AFS Ecosystem and create an environment in which our customers, our partners, and we ourselves all benefit.

* People without accounts or access to credit at banks or financial institutions for reasons including low income or migrant status.

3

Accelerating a Digital Shift in Financial Services



Priority Initiatives

Executing a Digital Shift

Enhance product and service quality

Responding to Customers' Needs

Innovation of channels

Integrating HQ Functions

Increase labor productivity

As mentioned previously, since fiscal 2018 we have been expanding our customer base, mainly in overseas markets, while at the same time making a full-scale commitment to digitalization. Cashless settlement is becoming increasingly pervasive in Japan and overseas, and in the near future, the ability to access all types of financial service from a smartphone will be universal. In anticipation of these global changes, we are developing and applying technologies such as the Internet of Things (IoT) and artificial intelligence (AI) and continuously utilizing these technologies in creative new services designed from the customer's perspective.

In Japan, we have introduced an app that allows customers to conduct certain bank transactions just by holding their smartphone over an AEON Bank ATM, and we are conducting field tests of cardless payment using biometric authentication technology. We are also enhancing customer convenience and increasing labor productivity through digital technology. Examples include Japan's first service capable of repairing credit card magnetic defects at an ATM, enhancement of call center functions through the use of an AI-automated chatbot that can handle inquiries 24 hours a day, 365 days a year, and promotion of paperless procedures.

Overseas, we provide a wide range of financial products and services such as credit cards, personal loans, installment finance, insurance, and e-money, mainly in regions where the AEON Group has retail stores. Our strategy is to provide all of these services through mobile apps. We are also enhancing credit screening efficiency using IT technology. Our subsidiary in Malaysia will structure a speedy and highly accurate screening flow by integrating AI, facial recognition, social network information and other analyses into its existing application flow. Furthermore, we are researching methods for building customer

Using Services through the Sumatto ATM Smartphone App



evaluation models that other companies cannot imitate by combining lifestyle information we infer from purchase data with customer credit history. We plan to create new services that link our data with external data. In addition, we will continue to focus on providing products and services that more closely meet the needs of each customer, such as issuing premium cards to address the expected increase in middle- and high-income earners in Asia. We will improve the quality of our loan portfolio and increase profitability through these initiatives.

We are also investing in systems and IT for our digitalization initiatives. While the total amount of system and IT investment in fiscal 2018 was as planned, investment lagged in some areas in Japan and overseas. Therefore, in fiscal 2019 we will steadily invest in additional development of payment functions for mobile apps and the use of AI in credit screening flows to further address the digital shift and customer needs. In fiscal 2019, we plan to invest approximately ¥30 billion. In addition to our increased head office productivity from the introduction of robotic process automation (RPA),* in fiscal 2019 we will unify the personnel system of AEON Financial Service and five domestic companies, including AEON Credit Service Co., Ltd. and AEON Bank to improve the efficiency of personnel and labor management.

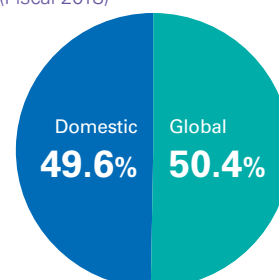
* RPA automates business operations by deploying cognitive technologies such as rule engines, AI and machine learning in software robots.

4

Increasing Earnings while Resolving Social Issues in Countries/Regions We Serve

We must further accelerate overseas business growth to secure a number one position in retail financial services markets in Asia. Consolidated ordinary profit accounted for by the Global Business exceeded 50% for the first time in fiscal 2018 as a result of our various initiatives. Given the growth potential of Asian economies, however, we recognize

Share of Ordinary Profit
(Fiscal 2018)

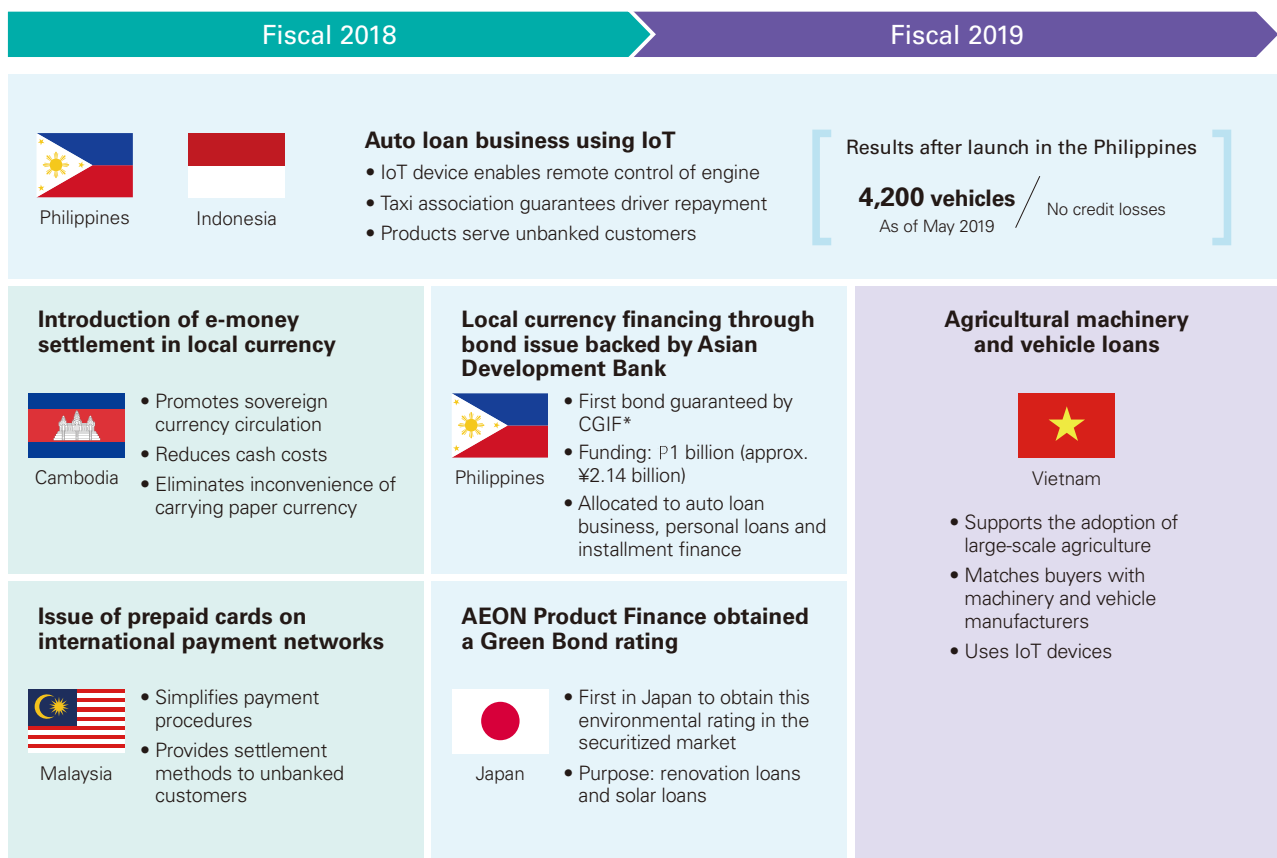


that we must allocate more human resources and IT investment to overseas operations to support additional significant growth.

The Asian countries we serve each face various social issues. Resolving these issues is the key to business opportunities that generate new earnings. In the Philippines, for example, we started an auto loan business for taxi drivers using IoT devices in fiscal 2017, contributing to job creation and income growth in that country. In fiscal 2018, we launched a similar auto loan business in Indonesia. In Cambodia, we offer an e-money service denominated in the local currency, providing a high level of convenience for settlement and remittance without cash or credit cards. In Vietnam, we started installment finance for agricultural machinery to resolve the problems of a decline in the number of agricultural workers and low productivity. Thus, we are actively creating new businesses by linking our expertise to solutions for social issues in each country/region we serve.

We must expand our market share by pivoting from a focused approach to providing a comprehensive portfolio of financial services, so as to become a major player in each country we serve. As we work toward our goal for 2025 of making the AFS Ecosystem the most customer-oriented ecosystem in Asia, over the next few years we need to establish a firm presence among Asian consumers as the provider of choice for financial products and services and the first port of call for all types of financial consultations.

Achieving Sustainable Growth by Resolving Social Issues



* Credit Guarantee and Investment Facility