

## Management Message

We aim to achieve a “second founding” of AEON Financial Service by accelerating the pace of digitalization and innovation, while maintaining our focus on contribution to communities.

### Adapting to a Changing Business Environment

AEON Financial Service was established in 1981 as a comprehensive financial services provider within the AEON Group. Its founding mission to enhance the convenience of shopping for consumers has continued to define the company’s activities following its expansion into Southeast Asia, starting with Hong Kong in 1987. Through our financial services, we help consumers to leverage their future potential and credit status to optimize their lifestyles. By actively pursuing new challenges that lead to accelerated growth, we have contributed to the improvement of living standards for consumers in each country and region.

Our business environment has changed dramatically in recent years. The nature of competition in the external environment has been transformed by new products and services brought into the financial sector by companies from other industries. There has also been a significant increase in online shopping transactions during the COVID-19 pandemic, which limited people’s opportunities to engage in activities outside of the home. Other changes include the growth of cashless transactions, and the increased use of online financial services. Obviously, this transformation is being further accelerated by advances in digital technology.

Our management priorities are also changing in step with shifts in the external environment, and our most important and urgent task now is to restructure our schemes, systems, and resources to reflect current needs. The impact of these changes has been especially significant in the area of human resources, and we have prioritized the recruitment and training of IT personnel to support our digital transformation (DX) initiatives. Another key focus is the development of people who can create new financial services and businesses based on perspectives that transcend traditional areas, such as banking and insurance, so that we can compete with fresh new ideas created by emerging companies.

### Review of Year One of the Medium-Term Management Plan

Our core theme for the current medium-term

management plan, which covers the period from fiscal 2021 to fiscal 2025, is value chain transformation and new network creation. We are implementing a range of reforms with the aim of achieving growth for the Group.

In the year ended February 2022, which was the first year of the plan, we pursued three main initiatives. The first was the development of an AEON Living Zone encompassing the entire AEON Group. We are working to create a seamless payment network for products and services offered by AEON Group companies, and to drive the transition to cashless lifestyles by providing convenient payment methods designed to maximize the resources of the AEON Group.

The second initiative was the restructuring of our points system. Points systems have become an integral part of consumer lifestyles. However, individual AEON Group companies were each issuing and administering points separately, and we saw the integration of these systems as essential for the future development of the AEON Living Zone. In September 2021, we converted AEON Card Points to WAON POINT and began work on the restructuring and integration of points systems administered by individual AEON Group companies. As of February 2022, there were 30 million AEON Card holders, 90 million WAON e-money cards, and 30 million WAON POINT cards with cash payment functions. By leveraging this user base, we aim to extend the WAON POINT system by developing partnerships with companies beyond the AEON Group.

The third initiative was the addition of AEON Pay functions to our smartphone app. In September 2021, we added the AEON Pay barcode payment capability to the iAEON integrated AEON app. This means that users now have a simple way to make payments linked to registered credit cards or debit cards via their smartphones. In October 2022, a similar capability was added to the AEON Wallet, the official app for the AEON Card, enabling even more customers to use this convenient function. We are now developing a platform by progressively expanding the number of affiliated merchants, both within and outside of the AEON Group.

Digital financial inclusion has become an important issue in many overseas countries. I was previously president of our subsidiary in Thailand, and I returned



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## Kenji Fujita

President and CEO

to Japan in 2020 shortly after the start of the COVID-19 pandemic to take up my new appointment as president of AEON Financial Service. Through my experience of frontline crisis management, I realized that other countries have an even more urgent need for restructuring through digitalization than Japan. In Asia, lockdowns and other restrictions were imposed more tightly than in Japan, with the result that people rapidly became accustomed to accessing various services via mobile devices. We have long been working to improve financial inclusion by making financial services accessible to a wider range of customers. Today we are taking that commitment a step further by working to promote digital financial inclusion.

Among the achievements to emerge from our digital financial inclusion initiatives was the approval of our first application for a digital banking license in Malaysia in April 2022. We plan to use our new digital banking business to provide a full range of financial services, including credit, loans, deposits, remittances, investment, and asset management, to a wide spectrum of customers, ranging from people who have never used banks before to high-net-worth individuals, and from young people to the elderly. We aim to launch this business in fiscal 2023.

Our subsidiary in Thailand has invested in Rabbit Cash, which in May 2022 obtained a license to provide nano finance services to small and medium enterprises and self-employed people. We are also using a digital platform for this business, which is a practical example of the progress that we are making toward digital financial inclusion.

### Challenges along the Path to Our “Second Founding”

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We launched our current medium-term management plan amidst major changes in the business environment, including escalating competition across industry boundaries, and rapid advances in digital technology. We are determined to implement decisive reforms under this plan, which we see as the path to our “second founding.” We believe that we will need to overcome three key challenges in order to achieve our goal—further acceleration of digitalization, the redevelopment of our financial infrastructure, and the capture of overseas markets.

Our first challenge—further acceleration of digitalization—will require changes to our business models. Traditionally, we have excelled in the provision of fine-tuned services on a face-to-face basis, primarily through bricks-and-mortar outlets. However, more and more customers are opting for online financial services, in part because of restrictions on activities outside of the home due to the COVID-19 pandemic.

## Management Message

In addition, the use of digital technology has brought various benefits, including enhanced services and efficiency improvements. We will need to modify our business models to reflect these changes.

AEON Financial Service has a significant advantage compared with our competitors thanks to the real-world channels maintained by the AEON Group throughout Japan. By adopting a more market-focused approach, including the introduction of new services reflecting our increased commitment to the “online merges with offline” (OMO) strategy, and the identification of the types of products and services sought by customers, we aim to move closer to our customers through composite business models created by the AEON Group and its business partners.

Our second challenge—the redevelopment of our financial infrastructure—relates to the characteristics of the AEON Group, which is engaged in business areas ranging from retailing and specialty stores to shopping malls. We need to rebuild our financial infrastructure so that we can make more effective use of the various resources offered by AEON Group companies. The creation of the AEON Living Zone will also be an important priority in this context. We took the first steps in this direction in fiscal 2021 with the creation of WAON POINT as a common points system for the AEON Group, and the introduction of the AEON Pay code payment system. We are currently thinking about our next steps.

In the first half of fiscal 2023, we announced the absorption of our consolidated subsidiary, AEON Credit Service. This restructuring will speed up decision-making and allow us to utilize management resources strategically across the entire Group, leading to further acceleration of various initiatives, such as the expansion of our payment network.

Our third challenge is to fuel our growth by capturing a substantial share of overseas markets. Despite the growth of the Asian economies, many people still lack adequate access to financial services. We will work to improve digital financial inclusion by developing and offering easy-to-use financial services that match local needs in each country and region. We believe that this approach will allow us to contribute to local communities while achieving growth. Compared with Japan, the environment in these overseas markets is more conducive to the introduction of digital services. Businesses tend to be smaller, and financial sector regulation is less stringent. For example, there is often no demarcation between banking and non-bank services. Another reason for the growing importance of our overseas business is the opportunity to accumulate digitalization success stories that we can use when introducing the knowledge gained through these activities into Japan.



### Business Model Transformation

Among our new initiatives toward our “second founding” is the integration of customer data from all AEON Group companies as part of the digitalization process.

By combining retail and financial data, we can ascertain each customer’s lifestyle and life stage in greater detail, allowing us to offer the right financial products and services at the right times. In this context, I believe that we will be able to capitalize on the competitive advantage created by the AEON Group’s involvement in a wide spectrum of consumer-facing businesses. From the customer’s perspective, data integration eliminates the inconvenience of having separate IDs for each business. In the past, customers had to use separate IDs for different supermarkets, drug stores, and shopping malls, even though they were all part of the same AEON Group. Customers also had to struggle with complex procedures concerning points and other aspects. As noted earlier, we have already mitigated these problems through the introduction of the WAON POINT and iAEON systems. By enabling customers to use a single ID across the entire AEON Living Zone, we will be able to offer new products and services that further enhance customer convenience and satisfaction.

We have identified three pillars for the future transformation of our business models: digital transformation (DX), health and wellness, and ESG.

DX is not simply the introduction of digital technology. It also encompasses business creation and business process innovation. We are already achieving significant improvements in customer service, cost structure changes, and efficiency improvements through business process reforms

based on the use of AI. Specifically, we have improved the speed and accuracy of loan screening procedures by introducing AI technology. We are also using AI to remind customers about late payments. This system facilitates repayment while maintaining customer trust by classifying customers into categories based on their attributes, so that we can contact them using the most appropriate method, including not only traditional telephone calls, but also e-mails or text messages.

The AEON Financial Service Group has a strong commitment to health and welfare, and we already help our customers to maintain good health and enjoy peace of mind through our involvement in the insurance business. Traditionally our insurance activities focused mainly on the reduction of uncertainty. However, we have responded to a continuing rise in health-awareness by launching "Genki Passport" health insurance, which is designed to promote health by using lower insurance premiums and AEON Group benefits to encourage disease prevention and health improvement activities. We are also expanding our insurance services in overseas countries in response to expanding health-related demand.

Environmental, social, and corporate governance (ESG) factors have become an essential aspect of business activities. There are many ways in which AEON Financial Service can contribute to the environment and society. For example, we can help our customers to reduce their environmental footprints by providing loans for housing or vehicles. We also make a significant environmental contribution by leasing energy-saving equipment used by around 300 AEON Group companies at a substantial number of business sites. In addition, we are helping to find solutions to social issues by prioritizing financial inclusion in the provision of financial services in overseas markets. We have also made financial inclusion a priority in Japan, albeit from a slightly different perspective. People today see investment as more attractive than saving, but many find traditional financial institutions and securities companies intimidating. We aim to use the unique capabilities of AEON Financial Service to create financial services for people in this situation.

I believe that AEON Financial Service has always shown greater originality than other financial institutions. However, the attribute that most distinguishes us from other financial institutions is our extremely strong ties with local communities. I see this is a unique characteristic of the entire AEON Group, which places a high value on communities in its business operations in Japan and overseas. We will continue to cherish our links to local communities even if our "second founding" results in changes to our business models.

## Building a Better Future through Sustainability Management

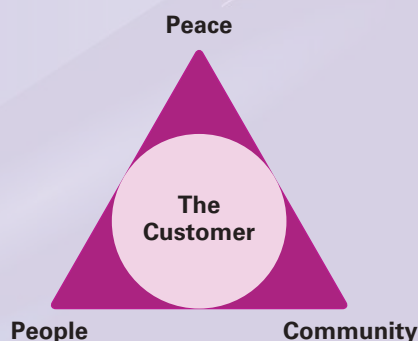
In November 2021, we adopted the AFS Sustainability Policy. At the same time, we identified material issues that we aim to solve through our business activities. The AEON Financial Service Group has always sought to achieve business growth by ensuring that our activities are sustainable at the regional level and contribute to regional growth. Our ideal is to establish cyclical business models. My own commitment to sustainability was strengthened during my time as president of our subsidiary in Malaysia, where there is wide acceptance of sustainability approaches that have become the norm in British business management. Diversity is expected, and in our company, people were able to participate actively at all levels, including senior executive positions, regardless of gender or ethnicity. Our Board of Directors consisted of four internal and six outside directors. Our board deliberations were energized by the presence of members with diverse mindsets, and we were able to make timely decisions about diversification into new business areas, such as digital banking. I felt that this culture also helped to raise employee motivation.

A company's existence is justified by the types of value that it can provide to its customers and communities. That value can be economic or social. I believe that the creation of credit forms an important part of the economic value that we provide. Credit creation means the leveraging of customer credit to provide optimal financial products and services that will expand each customer's future potential. This is a role that only the financial sector can play. Contribution to regional development in close partnership with local communities has always been a key part of the social value that AEON Financial Service has sought to provide. Perhaps the ideal form for that contribution is the creation of social infrastructure.

We are currently planning and implementing a variety of measures toward our "second founding." AEON Financial Service has achieved growth by reading changes in the business environment and quickly providing financial products and services to meet new needs and social priorities. I believe that this continuing determination to contribute to local communities through the pursuit of innovation defines the unique importance of our role as a comprehensive financial services provider within the AEON Group. We aim to achieve continuing improvement in our corporate value by using our business activities to create solutions to the social issues that affect our customers.

We look forward to the continuing support of our customers and partners.

### AEON Basic Principles



**Pursuing peace, respecting humanity, and contributing to local communities, always with the customer's point view as its core.**

The word AEON has its origins in a Latin root meaning "eternity." The customers' beliefs and desires comprise the central core of our philosophy. At Aeon, our eternal mission as a corporate group is to benefit our customers, and our operations are thus customer-focused to the highest degree.

- "Peace"** Aeon is a corporate group whose operations are dedicated to the pursuit of peace through prosperity.
- "People"** Aeon is a corporate group that respects human dignity and values personal relationships.
- "Community"** Aeon is a corporate group rooted in local community life and dedicated to making a continuing contribution to the community.

**On the basis of the Aeon Basic Principles, Aeon practices its "Customer-First" philosophy with its ever-lasting innovative spirit.**

### Management Philosophy

## Support customers' lifestyles and enable each individual to maximize future opportunities through effective use of credit

### Basic Policies

The management philosophy of AEON Financial Service Co., Ltd. is to support customers' lifestyles and enable each individual to maximize future opportunities through effective use of credit in Japan and elsewhere in Asia. Our basic policies are to put customers first, provide financial services that are closely attuned to customers' lives, earn the trust of society and meet its expectations, and maintain a corporate culture that encourages our people to excel. We are committed to our mission of truly contributing to our customers' lives through financial services.

#### Editorial Policy

AEON Financial Service publishes the Annual Report to provide shareholders, investors, and other stakeholders with information on its initiatives to generate sustainable growth in corporate value. The report includes financial information, as well as non-financial information on environmental, social, governance (ESG) and other issues. The objectives of the Annual report are to help readers understand our ideals and maintain an ongoing dialogue with them. In addition, our website, corporate video, and other media disclose information so that readers can deepen their understanding of the Company.

#### Scope of Report

Organization: AEON Financial Service Co., Ltd. and its consolidated subsidiaries  
Period: Fiscal 2021 (March 1, 2021 – February 28, 2022)  
(Some information is more recent)

#### Guidelines Referenced

International Integrated Reporting Framework, International Integrated Reporting Council (IIRC) (December 2013)

#### Forward-Looking Notes

Note to Reader: In this report AEON Financial Service is also referred to as "AFS."

All of the matters related to our future management strategy, sales policy, business forecast, etc. described in this integrated report are assumed and calculated based on the information we have at the moment. It contains various uncertainties such as economic trends, competition in the industry, market demand, exchange rates, risks related to tax systems and various systems, etc. Therefore, it will actually be announced in the future.

The performance, etc. to be performed may fluctuate due to these various factors.

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Website Guidance

<https://www.aeonfinancial.co.jp/en/>

## Corporate Information

<https://www.aeonfinancial.co.jp/en/corp/>



## Shareholder and Investor Information

<https://www.aeonfinancial.co.jp/en/ir/>



## Sustainability Information

<https://www.aeonfinancial.co.jp/en/activity/>



# Changes in Value Creation

# 40 years

## Tackling Transformation Since 1980

In 1980, our predecessor, Nihon Credit Service Co., Ltd., was established as a company that issued proprietary JUSCO credit cards to customers of JUSCO Co., Ltd. (currently AEON Co., Ltd.). Since then, we have made use of the AEON Group's sales network to expand business as a comprehensive financial group that focuses on credit cards to provide banking, insurance, and other financial services. We will continue to grow while providing new value to customers and keeping our eyes trained on the changing times and operating environment.



**1980**

Began issuing the JUSCO Card



**1981**

Established Nihon Credit Service Co., Ltd.

**1987**

Opened Hong Kong branch, beginning overseas operations in Asia

**1990**

Established Nihon Credit Service (Asia) Co., Ltd. (currently AEON Credit Service (Asia) Co., Ltd.) in Hong Kong

**1992**

Established Siam NCS Co., Ltd. (currently, AEON THANA SINSAP (THAILAND) PCL.) in Thailand

**1995**

Shares of AEON Credit Service (Asia) Co., Ltd. listed on the Hong Kong Stock Exchange

**1996**

Shares listed on the Second Section of the Tokyo Stock Exchange

**1996**

Established ACS Credit Service (M) Sdn. Bhd. (currently AEON CREDIT SERVICE (M) BERHAD) in Malaysia

**2000**

Began issuing the AEON Card



**2001**

Shares of AEON Thana Sinsap (Thailand) Pcl. listed on the Stock Exchange of Thailand

**2003**

Began issuing the AEON Gold Card, the industry's first credit card with no annual fee



Overseas Operations

**1987**



Hong Kong

**1992**



Thailand

**1996**



Malaysia

External Environment

**1980s**

- ▶ Bubble economy and consumption expansion
- ▶ Accelerated proliferation of credit cards

**1990s**

- ▶ Economic recession and contraction of domestic market
- ▶ Asian currency crisis

## First Founding

### Card Shopping Business Launch

"From just spending money before, I now want to spend it conveniently and advantageously." At the dawn of Japan's financial service era, the first to pick up on this kind of sentiment among customers were the sales floor employees of JUSCO (currently AEON) general merchandise stores. Working together with them, we came up with ideas and implemented a series of measures, such as issuing cards that did not require signatures for purchases at food counters and combined postal savings cards as well as the giving of benefits on Customer Appreciation Days. In this way, we gradually increased transaction volume and the number of card members.

### Acceleration of Overseas Business Expansion

Focusing on the economic growth of Asian countries, we quickly started to expand business overseas. We have been developing the nonbank market by providing financial services to people who find it difficult to source services from local financial institutions in their country or region. Including Japan, we are currently operating in 11 countries and are listed on the local stock exchanges in Hong Kong, Thailand, and Malaysia.

**2007**

Shares of AEON CREDIT SERVICE (M) BERHAD listed on the Malaysian stock exchange

**2007**

Began operations of AEON Bank, Ltd.



**2009**

Began issuing AEON Card Select, a single card that functions as a credit card, cash card, and e-money

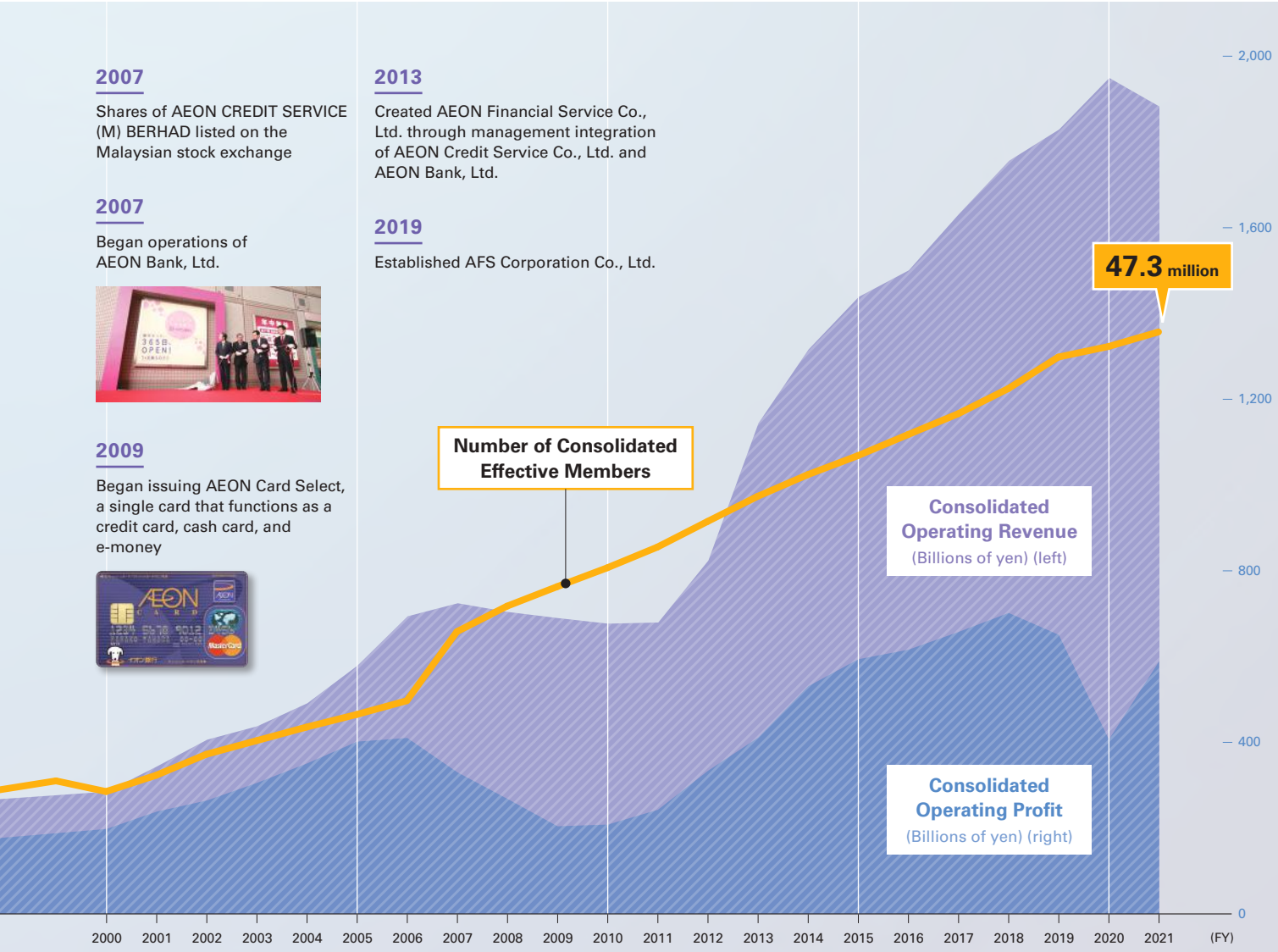


**2013**

Created AEON Financial Service Co., Ltd. through management integration of AEON Credit Service Co., Ltd. and AEON Bank, Ltd.

**2019**

Established AFS Corporation Co., Ltd.



<p><b>2006</b></p> <p>Indonesia</p>	<p><b>2008</b></p> <p>Philippines Vietnam</p>	<p><b>2011</b></p> <p>India Cambodia</p>	<p><b>2012</b></p> <p>Laos Myanmar</p>
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<p><b>2000s</b></p> <ul style="list-style-type: none"> <li>▶ Multiple Debt Problem and revised Money Lending Business Act</li> <li>▶ Lehman Brothers bankruptcy crisis</li> </ul>	<p><b>2010s</b></p> <ul style="list-style-type: none"> <li>▶ Financial deregulation and market entrants from other industries</li> <li>▶ Development of fintech</li> </ul>	<p><b>2020s</b></p> <ul style="list-style-type: none"> <li>▶ COVID-19 pandemic</li> <li>▶ Lifestyle transformation</li> </ul>
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**Second Founding**

**Origins of AEON Financial Service**

AEON Bank Co., Ltd. and AEON Credit Service Co., Ltd. merged to establish AEON Financial Service and integrated customer databases, including attribute, purchase history and asset information. AEON Financial Service used the diverse customer contact points, and product development and proposal capabilities of the two companies to establish a comprehensive financial business unique to the AEON Group that supports a wide array of secure, convenient, and fulfilling lifestyles.

**Tackling Business Model Transformation**

To reform the business portfolio and management system of the entire Group, we formulated a medium-term management plan covering the period from fiscal 2021 to 2025. We are aiming to build a platform that will bring about the fusion of the digital and the real in a well-balanced manner while providing services that are "safe, secure, and convenient, anytime, anywhere." We are working to maximize the corporate value of and demonstrate the synergies within the AEON Group through collaboration with AEON Group companies and external partners.



# Concentrating on Needs

At all times. In all places. In all situations.

AEON Financial Service will continue to improve the quality of life for consumers by providing comprehensive services to meet every need.

## SOCIAL ISSUES

### External Environment and Social Issues

#### External Environment

- Japan's declining birthrate and aging population
- Economic growth in Asian countries
- Inflation, rising interest rates
- Diversification of consumption
- Shift toward cashless payments
- Responding to climate change
- Increasing focus on health
- COVID-19 countermeasures

#### Social Issues

##### Domestic

- Labor shortages
- Rising life expectancies
- Growing social disparity

##### Overseas

- Expanding inequality as wages rise in step with economic development
- Unstable employment opportunities
- Inadequate accessibility to financial services

## INPUT

### Capital Usage



#### AEON Brand Strength

Group employees **Approx. 560,000**

Stores **Approx. 20,000**

Operating revenue **¥8,715.9 billion**

#### Network

Countries served **11**

Sales offices **636**

#### Financial Capital

Consolidated total assets **¥6,278.5 billion**

Consolidated equity **¥424.2 billion**

#### Human Capital

Employees **16,089**  
(Ratio of global Group employees: 67%)

#### Customer Base

Cardholders **47.3 million**

## BUSINESS MODEL

### Business Activities

An integrated financial group with roots in the retail sector



- Credit Card Business
- Installment Finance Business
- Banking Business
- Insurance Business
- Leasing Business
- Collections Business

### Company Strengths and Competitive Advantage

- Access to AEON Group Networks
- Active Overseas Development
- The Fusion of Digital and Real
- Comprehensive Financial Services for Any Lifestyle

## DIRECTION

### Management Strategies

#### Our Second Founding— Value Chain Transformation and New Network Creation

Build a living area (marketplace) by connecting the services of the AEON Group and its partners with financial services such as payment and point systems

### Materiality

#### Human Resources

Pursuing happiness through innovative financial services

Exerting diversity and the potential of our people

Establishing organizational resilience

Addressing climate change

## OUTPUT

### Products and Services



#### Expenditure

Credit cards, debit cards, WAON electronic money and AEON Pay



#### Investment

Investment trusts, foreign currency deposits, etc.



#### Saving

Deposit services



#### Preparation for the Future

Insurance services, etc.



#### Borrowing

Cash advances, various types of loans, etc.



#### Asset Management

AEON WALLET, bankbook app, etc.

## OUTCOME

### Our Value

**As a company committed to lifestyle support, we provide comprehensive services that customers need—beyond finance.**

#### Enhancing the Quality of Life for Consumers

- Responding to the diverse lifestyle needs of our consolidated customer base of 47 million cardholders
- Wide-ranging customer benefits through financial services unmatched by competitors

#### International Job Creation

- Approximately 47% of consolidated operating profit earned overseas
- Business operations in 11 Asian countries

#### Improvement of Access to Financial Services

- Provision of credit card services, installment payment services, and personal loan services in Greater China, the Mekong Basin, and the Malay area

# Well Positioned

We continue to grow and provide our unique value by making full use of the strengths we have cultivated since our founding in 1980 to the present day, including a store network in Japan and other Asian countries belonging to the AEON Group, Japan's largest retail group with consolidated operating revenue of over ¥8 trillion.

**AEON Group**

> The AEON Group is a corporate group consisting of eight businesses that support customers' daily lives under the pure holding company, AEON Co., Ltd.



Operating Revenue	¥8,715.9 billion
Stores	20,000
Countries Served	14

\*The Financial Services Business includes 33 Group companies of the AEON Financial Service Group, in addition to AEON Reit Management Co., Ltd. and FeliCa Pocket Marketing Inc.



**AEON Financial Service Co., Ltd.**

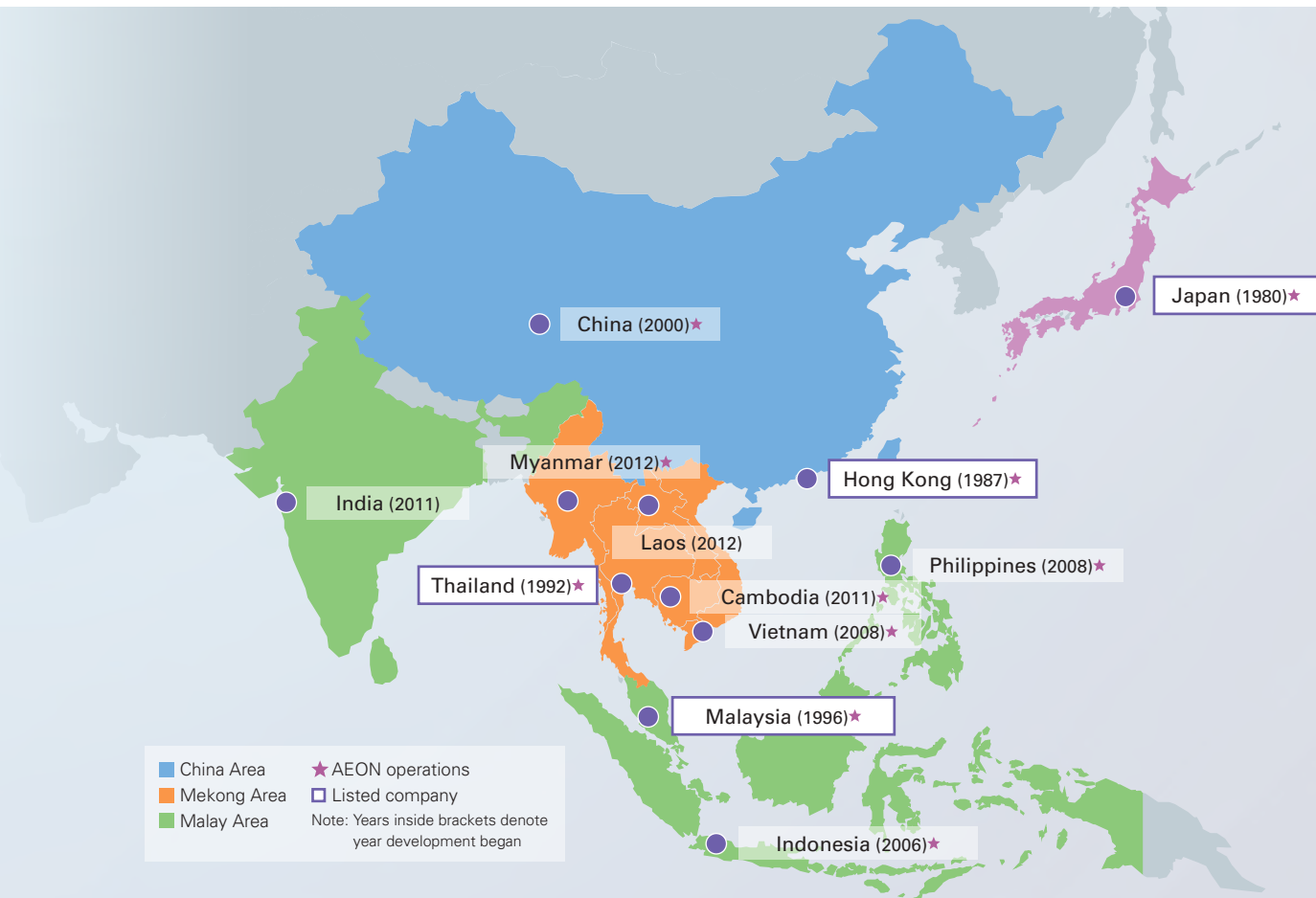
**Business Areas**

- Credit Card Business
- Installment Financial Business
- Banking Business
- Insurance Business
- Leasing Business
- Collections Business

- AEON Credit Service Co., Ltd.
- AEON Insurance Service Co., Ltd.
- ACS Credit Management Co., Ltd.
- AEON S.S. Insurance CO., LTD.
- AEON Product Finance Co., Ltd.
- ACS Leasing Co., Ltd.
- AEON Allianz Life Insurance Co., Ltd.
- AEON Credit Service (Asia) Co., Ltd.
- AEON THANA SINSAP (THAILAND) PCL.
- AEON CREDIT SERVICE (M) BERHAD
- Overseas subsidiaries

- AFS Corporation Co., Ltd. (Bank holding company)

- AEON Bank, Ltd.
- AEON Housing Loan Service Co., Ltd.
- AEON CREDIT SERVICE (PHILIPPINES) INC
- AEON SPECIALIZED BANK (CAMBODIA) PLC.



**STRENGTH**  
**01**

## Overseas Expansion

### Active, Asia-focused Overseas Development

In 1987, we began business development in Asia by opening our first overseas base in Hong Kong. Since then, we have created the ideal financial services to meet the diverse needs of customers in each country of operation.

Relationships of trust built up over  
**35** years

Countries served **11**

Contributing to resolution of local social issues  
Provision of

**financial services**

➔ P23 Sustainability of AEON Financial Service Group

**STRENGTH**  
**02**

## Comprehensive Financial Services

### Provision of Comprehensive Financial Services That Are Fusion of Digital and Real

We have combined the strength of our brick-and-mortar stores and ATMs located in AEON shopping centers, and other locations across Japan with the digitalization of our increasingly in-demand services in order to meet customer needs from a multi-faceted series of contact points. Our ability to closely tailor services to the life stages and diverse lifestyles of our customers and provide them with meticulous support also represents a major strength for the Company as a comprehensive financial group with its origins the retail industry. We will continue to create value unique to our company by linking a variety of products and services handled by the AEON Group with finance.

Provision of  
**financial services**

tailored to life stages

**¥9,670.0** billion

Number of cardholders

**47.32** million

➔ P.03 Management Message

# Second founding: Value chain transformation and new network creation

Build a living area (marketplace) by connecting the services of the AEON Group and its partners with financial services such as payment and point systems



**Infrastructure development during the transitional phase leading to the profit expansion**

**Prioritized investment  
(ID acquisition, app development, insurance)**

**Fiscal 2021–2022  
(transitional initiative phase)**

**FY2025 Targets**

**Operating Revenue** ¥760 billion

**Operating Profit** ¥100 billion

**Domestic Business** 40%

**Operating Profit Ratio** **Global Business** 60%

**Progress**

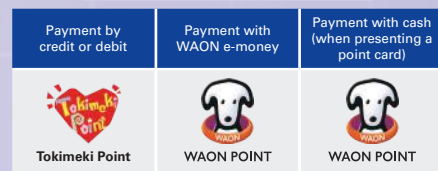
**Domestic Business** >> **Building the AEON Living Zone—Changes to Points Systems**

Under its growth strategy, the AEON Group aims to focus the strengths of its group companies toward the creation of an AEON Living Zone through which products, services, and lifestyle infrastructure with strong local characteristics can be provided seamlessly. As the company responsible for developing the financial infrastructure needed to link the AEON Living Zone, AEON Financial Service is accelerating its efforts to integrate lifestyle services with financial services.

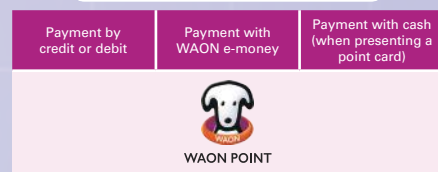
As part of this process, we replaced the Tokimeki Point system with the WAON POINT system. Points earned according to the amount spent using AEON Cards have been credited to the new system since September 11, 2021. As a result of this change, all points awarded for purchases in AEON Group stores, whether in cash or with WAON e-money, will be accumulated under a single system. In addition to enhanced convenience, clarity, and usability, the system also allows consumers to accumulate points more easily. We will implement campaigns to encourage consumers to obtain and use cards linked to the WAON POINT system, while also working to expand the AEON Living Zone through joint promotions with the AEON Group.

**Point System**

**Before Changing Point Systems**



**After Changing Point Systems**



**Global Business**

>> **Digital Financial Inclusion Initiatives**  
—Acquisition of Digital Banking License in Malaysia

On April 29, 2022, our Malaysia subsidiary, AEON CREDIT SERVICE (M) BERHAD became the first Group company to obtain a digital banking license in Malaysia. We are developing our new digital banking business with the aim of realizing our priority commitment to digital financial inclusion so that customers have continual access to financial services through all life stages, regardless of changes in their incomes and financial needs. We will expand our lineup of financial products and services and provide an environment in which financial services are readily available to a wide spectrum of customers, including unbanked people who have previously had limited access.

Following the acquisition of the license, we aim to launch our digital banking business in Malaysia in fiscal 2023. We are currently making preparations to offer a variety of financial products and services, including deposits, insurance, and small loans. We will work with AEON Group companies and other partners to help an even wide range of customers to enhance their lifestyles. We will also introduce products and services that reflect customs and practices in Malaysia, which has adopted Islamic financing principles.

**Fiscal 2023–2025**  
**(profit expansion phase)**

# We are adapting to changes in our business environment by transitioning to a new growth phase through the transformation of our business structures.

### Progress under the Medium-Term Management Plan (Fiscal 2021–2025)

Fiscal 2021 was the first year of the current medium-term management plan. Consolidated operating revenue declined by 3.4% year on year to ¥470.657 billion, while consolidated operating profit was 44.8% higher at ¥58.852 billion. The lower result for consolidated operating revenue relates to the addition of AEON Allianz Life Insurance Co., Ltd. (AALI) to the consolidation in fiscal 2020. In fiscal 2021, premium revenues from the existing policies of the former Allianz Life Insurance caused a temporary increase in operating revenue. However, some of these policies expired in fiscal 2021, and since sales of new Allianz Life Insurance policies have been halted, there was no longer a contribution to consolidated operating revenue, which declined year on year as a result. Without this transient factor, both operating revenue and operating income would have increased.

A survey of the current business environment shows that while we appear to have emerged from the worst of the COVID-19 pandemic, we still face long-term problems, such as global climate change, falling birthrates, and demographic aging. The situation has been further complicated by recent developments, including a sudden rise in uncertainty due to heightened interest rate and forex volatility, the disruption of logistics due to international conflicts, and a global inflationary trend. This uncertainty is having a major impact on the lives of consumers. I see the realization of the medium-term management plan as even more important in this context because of the need to stabilize and enhance consumer lifestyles.

We provide comprehensive financial services in Japan and other countries. Our core business areas are payments, especially credit card services, and lending, including housing loans, cardholder loans, and installment sales. In addition, we offer our customers a variety of asset investment and insurance services. To enhance the convenience and accessibility of our services, we must continually expand both the scope of our business activities and our customer and cardholder base. We took a number of steps toward the achievement of these goals in fiscal 2021, including the modification of our points systems to enhance clarity and usability. We also prioritized online recruitment of cardholders. As a result of these initiatives, the cardholder base in Japan increased to over 30 million. In fiscal 2022, the balance of operating loans is expected to emerge from the downswing caused by the COVID-19 pandemic and return to an upward trend, thanks to an increase in credit card use. There has also been growth in housing loans and sales of investment products by the AEON Bank. The value of the comprehensive financial services that we provide to our customers has increased further following the launch of whole-



**Tomoyuki Mitsufuji**

Director and Managing Executive Officer  
Group Corporate Management

life health insurance cover by AALI in November 2021.

In overseas markets, even before the COVID-19 pandemic there was an urgent need to move away from business models requiring large numbers of employees because of wage rises driven by economic growth, and also because of the rapid trend toward digitalization. The COVID-19 pandemic was an opportunity for dramatic acceleration of our digitalization initiatives. Today, the majority of transactions, from the filing of applications to the use of services, can be carried out using smartphones. This has brought improvements in service accessibility and the speed with which services are provided. In addition, by using AI-based data analysis and external data resources to enhance our credit screening and credit management methods, we have been able to expand our turnover and operating receivables while effectively controlling late payment and non-payment risks. The total workforce for our global business peaked out at 15,000 people at the end of fiscal 2019 and has been declining sharply ever since, reaching 10,700 at the end of fiscal 2021. Despite this, we have built a structure capable of accommodating the renewed expansion of our business operations. We will continue to use digitalization to achieve further improvements in our income structure.

### Business Environment Reflected in Financial Strategies

Our main sources of income are credit card payment commissions and interest from our lending business. Our ability to optimize the ways in which we procure and invest funds is a key factor in achieving a competitive advantage in this business area. We

monitor the financial demand and supply levels of 32 of our Group companies in Japan and overseas and advise them about the effective management of liquidity, interest rate, and forex risks. These companies have a strong need for funds because of a rising trend in their credit balance. We see this as an earning opportunity. We will work to minimize increases in the cost of funds due to rising interest rates by making appropriate use of diverse financing methods, including not only bank loans, but also bond issues, AEON Bank deposits, and securitization of receivables.

## Enhancing Corporate Value

Our basic philosophy on profit distribution is to allocate one-third each to dividends, investment funds, and internal reserves. The aim of this approach is to ensure appropriate allocation levels of shareholder returns and investment in business expansion and efficiency improvements.

We regard shareholder returns as one of our most important management priorities, and we have maintained a dividend payout ratio of around 30–40%. In fiscal 2021, we paid a total dividend of ¥50, including a ¥4 commemorative dividend to mark the 40th anniversary of the founding of AFS, bringing the total payout ratio to 35.7%. These figures reflect the recovery of our fully diluted earnings per share (EPS) to ¥139.98. We continue to regard the improvement of profitability and EPS as our top management priority.

Our approach to investment reflects the positioning of fiscal 2021 and 2022 in the medium-term management plan as a period of preparations for a transition to a growth phase in fiscal 2023 and beyond. Our investment will focus in particular on human resources and IT. We must continually improve our competitiveness in Japan and overseas, and we therefore regard the training and enhancement of our human resources at all levels from general employees to the senior executive level as a one of most vital priorities. We aim to achieve sustainable growth

by investing in the development and recruitment of talent with a heightened awareness of diversity and governance.

We will invest a total of ¥100 billion in IT over the next two years. This investment will be used primarily to update our credit card systems, which we regard as an essential step toward the realization of the bold concept of creating an AEON ecosystem through the use of financial services to link a diverse businesses, as stated in our medium-term management plan. The AEON Group has a giant platform extending across a wide range of business areas. The AEON Group and AEON Financial Service exist to provide customers with enhanced services through the group-wide sharing of customer data. We are sure that investors will recognize the enormous growth potential inherent to this approach.

## To Our Stakeholders

As the provider of comprehensive financial services in the AEON Group, AEON Financial Service regards the creation of the AEON ecosystem and contribution to the enhancement of customer lifestyles as its most important focus. For example, we have made the achievement of digital inclusion in each country a priority policy for our global business activities. No other Japanese company has made such a comprehensive commitment to financial inclusion in Asian markets. In some Asian countries, the majority of people have no bank accounts. A key benefit of our financial inclusion efforts is the fact that we are helping people in this position to improve their lives through the use of financial services. We take pride in our contribution to the provision of various financial services that are accessible to consumers in Japan and other countries. We hope that our stakeholders will recognize the potential of AEON Financial Service as a company working to enhance its corporate value by providing financial services that contribute to financial inclusion and improvement in quality of life.

## Major Financial Indicators

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2025
Operating revenue* <sup>1</sup>	4,079	4,390	4,572	4,873	4,706	7,600* <sup>2</sup>
Year-on-year increase/decrease	109%	108%	104%	107%	97%	—
Operating profit* <sup>1</sup>	657	701	650	406	588	1,000
Year-on-year increase/decrease	107%	107%	93%	62%	145%	—

\*<sup>1</sup> Ordinary revenue and ordinary profit from fiscal 2012–fiscal 2018.

\*<sup>2</sup> Consolidated operating revenue for fiscal 2025 was the planned figure before the adoption of the Accounting Standard for Revenue Recognition.

## IT Systems and Digitalization Investment Results

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Period of Medium-Term Management Plan Fiscal 2021–2025
Consolidated	353	344	333	398	340	2,100
Domestic	260	280	281	343	292	—
Global	93	65	51	54	48	—

## KPI

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2025
Ratio of bad debt allowance to operating revenue	Domestic	75%	75%	76%	66%	73%
	Global	53%	52%	52%	52%	50%
Ratio of personnel expenses to operating revenue	Domestic	17%	16%	16%	15%	16%
	Global	16%	16%	15%	14%	14%

\*From Fiscal 2017 to Fiscal 2018, the cost ratio is as a percentage of ordinary income. Operating expenses include selling, general and administrative expenses and financial expenses.

\*Figures for domestic operations for fiscal 2025 are calculated using operating revenue projections made before the adoption of the Accounting Standard for Revenue Recognition.