

Final Results for the Fiscal Year 2017

May 10, 2018



AEON Financial Service

First Section of the Tokyo Stock Exchange
Stock Code : 8570

Consolidated results and business outline:

Record high results and increase in ordinary income & ordinary profit for six consecutive terms



(Unit: Billions of yen)	1Q		2Q		3Q		4Q		FY2017	
	Results	YoY	Results	YoY	Results	YoY	Results	YoY	Results	YoY
Ordinary income	94.0	+4%	100.4	+11%	102.1	+9%	111.2	+11%	407.9	+9%
Ordinary expenses	82.0	+7%	83.9	+9%	85.9	+9%	90.2	+11%	342.2	+9%
Ordinary profit	11.9	-13%	16.5	+21%	16.2	+9%	21.0	+9%	65.7	+7%
Profit of securitization receivables	-	-	4.0	+81%	2.5	+10%	9.0	-0%	15.5	-6%
Depreciation of securitization receivables profit *	16	-	1.4	-	1.4	-	2.0	-	6.4	-
Income before taxes	13.2	-3%	16.3	+20%	16.1	+9%	20.8	+19%	66.5	+12%
Income taxes	3.8	+41%	3.8	+2%	5.1	+23%	4.8	+249%	17.6	+47%
Profit attributable to non-controlling interests	2.3	-	2.3	-	3.0	-	2.4	-	10.1	-
Profit attributable to owners of parent	7.0	-22%	10.1	+26%	8.7	-1%	12.7	-4%	38.6	-2%

*Amount of depreciation for cumulative securitization receivables profit

*Domestic total and global total represent amounts after elimination of transactions between business segments

■ **Ordinary income:** ¥407.9bn (YoY +9%, +¥5.4bn due to exchange rate effect)

• **Domestic:** Increase in no. of active users of cash adv. to 1.26mil (+26K from start of FY2017) led to rise in cash adv. bal. to ¥329K per person (+¥14K from start of FY2017)

■ **Ordinary profit:** ¥65.7bn (YoY +7%, +¥1.0bn due to exchange rate effect)

• **Domestic:** ① Up-front investments of ¥7.7bn related to restructuring projects related to integration of HQ functions etc led to improvement of Personnel exp./Ordinary income to 16.4%(YoY -0.5pt). ② Favorable growth in card shopping txn led to increase in transaction income +¥10.2bn and point exp. +¥4.0bn. ③ Bad debt exp. +¥2.8bn, Refund of interest claims -¥1.1bn, fall in refund of interest claims (YoY-41.5%). ④ Securitization implemented to compress level of risk assets, to increase capital turnover and improve yield. Impact on ordinary profit of ¥15.5bn(YoY -1.0bn)

• **Global:** Improvement in efficiency e.g. reduction of personnel costs etc due to system/IT investments seen in screening and collection management, enabling focus in topline growth. Main KPIs - Personnel exp./Ordinary income: 14.8%(YoY -0.1pt), Bad debt exp./Ordinary income: 24.1% (YoY -2.2pt), showing favorable progress in investment efforts. Improvement in bad debt exp. (¥29.7bn, YoY +2%, +¥1.2bn due to exchange rate effect) attributed to shift from financing to sale of goods.

■ **Net income attributable to owners of parent:** ¥38.6bn (-2%)

• Deferred Tax Asset classification change in AEON Bank since FY2016(reduction of expenses) resulted in tax expense+¥5.6bn
• Non-controlling shareholders profit +¥2.0bn attributed mainly to strong expansion of profits in global business

Consolidated results of business scale

	FY2016 4Q		FY2017 1H		FY2017	
	Results	YoY	Results	Change from start of FY	Results	Change from start of FY
① No. of cardholders	38.94 mil	+1.72 mil	39.84 mil	+0.90 mil	40.64 mil	+1.70 mil
No. of domestic cardholders	26.92 mil	+1.04 mil	27.39 mil	+0.47 mil	27.75 mil	+0.83 mil
② No. of active cardholders	16.61 mil	+0.68 mil	16.87 mil	+0.26 mil	17.02 mil	+0.41 mil
③ AEON Bank accounts	5.55 mil	+0.62 mil	5.80 mil	+0.25 mil	6.05 mil	+0.50 mil
No. of AEON Card SELECT members	4.08 mil	+0.52 mil	4.30 mil	+0.22 mil	4.48 mil	+0.40 mil
④ No. of debit cards	0.06 mil	+0.06 mil	0.10 mil	+0.04 mil	0.14 mil	+0.08 mil
Finance receivables	¥4,427.2bn	+569.5bn	¥4,806.6bn	+379.4bn	¥5,223.6bn	+796.4bn

① No. of cardholders

- Successful cardholder recruitments efforts in Domestic and Global businesses attributed to new Minions Card (JP), Kojima Bic Camera Card (JP) and Big C (TH) co-branded cards led to favorable trend in number of cardholders.
- Total no. of domestic cardholders and debit cards: +910K

② No. of active cardholders

- Double point program at AEON stores led to increase in card usage
- Web statements: 5.33 mil users registered (YoY +1.17 mil, active users rate: 57% per month)
⇒ FY2017 postage cost reduced by approx. ¥2.3bn (※comparing to when paper statements are used)
- Card shopping txn vol. ¥4.955tn (YoY +10%)

③ AEON Bank accounts

- Increase in number AEON Card SELECT and Debit card members.
- Favorable interest rates contributed to increase in ordinary deposits balance to ¥2.022tn (+¥577.3bn from start of FY)

④ Finance receivables (incl. securitization)

- Domestic: ¥4.684tn (+¥722.8bn from start of FY)
*Growth in card shopping (+¥77.8bn), housing loans balance (+¥203.7bn) and hire-purchase contracts balance (+¥142.9bn).
- Global: ¥544.5bn (+¥73.5bn from start of FY)
*Accounts receivable installment (+¥34.3bn), Loans and bills discounted (+¥39.2bn)

Results by segment

(Unit: Billions of yen)	Domestic total			Global total			Adjustments	Total	
	※1	Retail	Solutions	※1	China Area	Mekong Area			Malay Area
Ordinary income	279.1	177.3	171.0	123.7	19.4	63.9	40.3	-64.1	407.9
YoY	+7%	+8%	+6%	+11%	+3%	+13%	+14%	+5%	+9%
Change	+19.2	+13.2	+9.8	+12.6	+0.5	+7.1	+4.9	-2.8	+32.8
Ordinary profit	33.5	9.2	27.5	28.3	6.0	12.5	9.8	0.6	65.7
YoY	-6%	-17%	+2%	+22%	+22%	+31%	+12%	+158.7%	+7%
Change	※2 -2.1	-1.9	+0.5	+5.0	+1.0	+2.9	+1.0	+0.3	+4.1
Ordinary profit ratio	12.0%	5.2%	16.1%	22.9%	30.9%	19.6%	24.3%	-	16.1%
YoY	-1.7pt	-1.6pt	-0.6pt	+2.0pt	+4.8pt	+2.7pt	-0.4pt	-	-0.3pt

※1 Domestic total and global total represent amounts after elimination of transactions between business segments
 ※2 Domestic inter-company eliminations include securitized receivables profit of ¥3.6bn. Please refer to slide 5 for more details.

① Domestic main factors ※() YoY

【Retail】

- Interest income+¥8.0bn: Cash adv.+¥4.0bn
- Other operating income: Profit of securitization receivables of housing loan -¥1.1bn
- Fees and commissions +¥4.9bn: increase in guarantee fees payable to solutions segment +¥3.0bn due to growth in finance receivables
- G&A exp.: Exp. related to reward point program +¥4.8bn
- Up-front investments for improving usability of point program etc

【Solutions】

- Fees and commissions: card shopping revenue +¥5.6bn, Installment sales income +¥1.4bn
- Other operating income: Profit of securitization receivables -¥0.2bn where sale to external investors -¥2.9bn, internal(AEON BK) -¥2.6bn
- Fees and commissions payment +¥4.0bn: consulting fees etc
- Amort. exp. +¥1.5bn, Advert. exp. excl. point program exp. -¥0.6bn
- Other ordinary exp.: Bad debt exp. +¥1.0bn, Refund of interest claims -¥1.1bn

② Global main factors ※() YoY

【China Area: ↑ income ↑ profit for ACS(A)*】

- ACS(A): Increase in card shopping txn due to ONE PIECE Mastercard, revamped mobile app and cooperation with AEON Stores Hong Kong (campaigns etc)
- Personnel expenses/Ordinary income: 14.6%(-1.2pt)
- Bad debt allowance/Ordinary income: 17.8%(-3.6pt)

【Mekong Area: ↑ income ↑ profit for AEONTS*】

- AEONTS: Strong receivables growth due to credit usage enhancement strategy for personal loans
- Personnel expenses/Ordinary income: 14.3%(+0.5pt)
- Bad debt allowance/Ordinary income: 24.8%(-3.9pt)

【Malay Area: ↑ income ↑ profit for ACS(M)*】

- ACSM: Increase in hire purchase contracts for bikes, and favorable trend in credit card transactions
- Personnel expenses/Ordinary income: 15.6%(-0.6pt)
- Bad debt allowance/Ordinary income: 25.9%(+0.9pt)

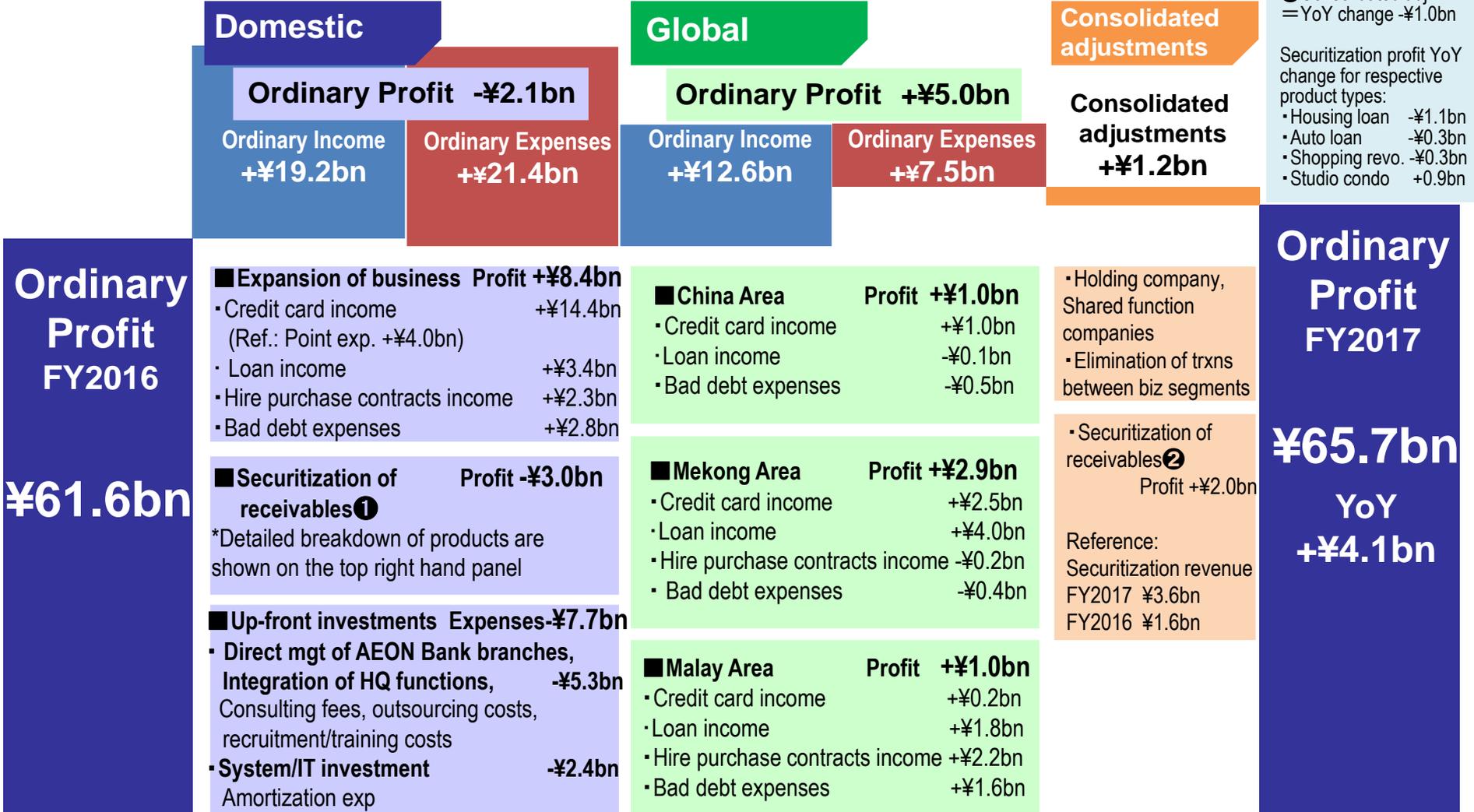
*in yen and in local currency

Domestic/Global area results by graph

■ During the period, securitization of receivables arising from inter-company transactions between domestic subsidiaries (APF&AHLs→ABK) was recorded on the BS. For the purpose of compressing level of risk assets, these securitized receivables were sold to external parties (revenue recorded under consolidated adjustments).

Securitization's effect on consolidated results:
 ① Domestic +
 ② Consolidated adj.
 = YoY change -¥1.0bn

Securitization profit YoY change for respective product types:
 • Housing loan -¥1.1bn
 • Auto loan -¥0.3bn
 • Shopping rev. -¥0.3bn
 • Studio condo +0.9bn



※Figures for the above respective areas represent amounts after elimination of transactions between business segments (excl. holding companies and shared function companies.)

Consolidated balance sheet

Consolidated results (Unit: Billions of yen)	FY2017	Change from start of FY
Cash and deposits	650.4	+115.8
Loan and bills discounted	2,271.6	+406.7
Accounts receivable – installment	1,294.6	+112.4
Allowance for doubtful accounts	-58.8	-8.4
Other Assets	694.8	+39.0
Total assets	4,852.8	+665.5
Deposits	3,049.7	+507.6
Interest-bearing debt	804.1	+45.1
Allowance for loss on refund of interest received	3.1	-0.6
Other liabilities	558.0	+76.8
Total liabilities	4,415.0	+628.9
Total equity	437.7	+36.6
Total liabilities and equity	4,852.8	+665.5
Shareholders' equity ratio (domestic standard)	8.33%	-0.26pt

Topics ※(): Change from start of FY

• Domestic balance: ¥616.7bn (+¥111.6bn)
→ increase in funds due to securitization of receivables

• Domestic balance: ¥1.985tn (+¥367.5bn)
→ unsecured loan: ¥533.3bn (+¥25.8n),
in which cashing: ¥455.8bn (+¥24.1bn)
※ Securitization balance: ¥1.004tn (+¥112.3bn)
※ Housing loan (incl. securitization): ¥1.611tn (+¥203.7bn)
• Global balance: ¥291.4bn (+¥39.2bn)

• Domestic balance: ¥1.041tn (+¥78.0bn)
※ Securitization balance: ¥484.5bn (+142.7bn)
→ increase in installment sales
• Global balance: ¥253.1bn (+¥34.3bn)
→ increase in card shopping and installment sales

• Ordinary deposits: ¥2.022tn (+¥577.3bn)
• Time deposits: ¥1.029tn (-¥67.7bn)

• Domestic balance: ¥397.3bn (+¥27.9bn)
→ Long-term loans payable: ¥29.3bn (+¥5.7bn)
Increase due to expansion of installment sales biz
• Global balance: ¥406.8bn (+¥17.1bn)

• Prevent increase of risk assets

Improve profitability of asset ~capital efficiency by securitization~

■ Improvement of yield and duration gap as well as compression of risk asset through funding by securitization continues in view of increasing transactions volume and thus finance receivables

	FY2016				FY2017				(Unit: billions of yen)
	Housing loan + Studio condo	Hire purchase	Card shopping	Total	Housing loan + Studio condo	Hire purchase	Card shopping	Total	YoY Change
Transaction volume	375.3	234.6	4,515.7	5,125.6	329.4	253.7	4,955.4	5,538.7	+413.0
① Receivables bal (incl. off-bal)	1,511.2	406.8	898.3	2,816.4	1,719.1	549.8	976.1	3,245.1	+428.7
Amt of funds received	310.2	69.6	※ 20.8	400.7	247.5	167.0	※ 10.7	425.3	+24.5
Profit from securitization	10.2	3.8	2.7	16.5	6.3	6.8	2.3	15.5	-0.9
② Receivables bal (Off-bal amt)	892.5	96.5	245.2	1,234.3	1,054.9	240.4	244.0	1,539.4	+305.0
Ratio (② ÷ ①)	59%	24%	27%	44%	61%	44%	25%	47%	+3pt
Receivables bal. (BS)	618.6	310.2	653.1	1,582.0	664.2	309.4	732.0	1,705.7	+123.6
Effect on compression of risk asset	-170.5	-51.5	-14.7	-236.7	-153.7	-133.8	-14.4	-301.9	

※Amt of funds received from card shopping represents funds from revolving credit payments

Implementation of IFRS9: Change in calculation method for allowance for doubtful accounts

- IFRS9 to be implemented in key overseas subsidiaries with respect to finance receivables in the consolidated earnings results
- Shift from 'incurred loss' model to 'expected credit loss' (ECL) impairment model

Present: Incurred loss model

$$\text{Allowance for doubtful accounts} = \text{BS Balance} \times \text{Uncollected rate} \times \text{Loss given default}$$

IFRS 9: ECL model

Purchase info to be analyzed on top of customer attributes to maximize lifetime value

$$\text{Allowance for doubtful accounts} = \text{BS Balance at point of default} \times \text{Probability of default} \times \text{Loss given default}$$

Note: in 12 mths' period for normal receivables; all periods for delinquent receivables

- Portfolio shift from financing receivables to receivables related to sale of goods to control risk
- Improve screening quality via advance data analysis

- Reduce collection costs by implementation of credit management system
- Reduce delinquent receivables by improving collection process

● Balance of allowance for doubtful accounts as of FY2017 year-end will be adjusted in FY2018 Q1

Progress and schedule of system/IT investments

KPI for system/IT Investments	FY2015 Results	FY2016 Results	FY2017 Plan	FY2017 Results	FY2018 Plan
Consolidated ordinary income (YoY)	+9%	+4%	+4% <small>Outperform</small>	+9%	(Revised) +10% → +8%
Consolidated ordinary income	¥359.6bn	¥375.1bn	¥390.0bn	¥407.9bn	¥440.0bn
Bad debt exp./Ordinary income (Global)	25%	26%	23%	24%	20%
Personnel exp./Ordinary income (Domestic) (Global)	18%	17%	15%	16%	16%
	15%	15%	13%	15%	11%

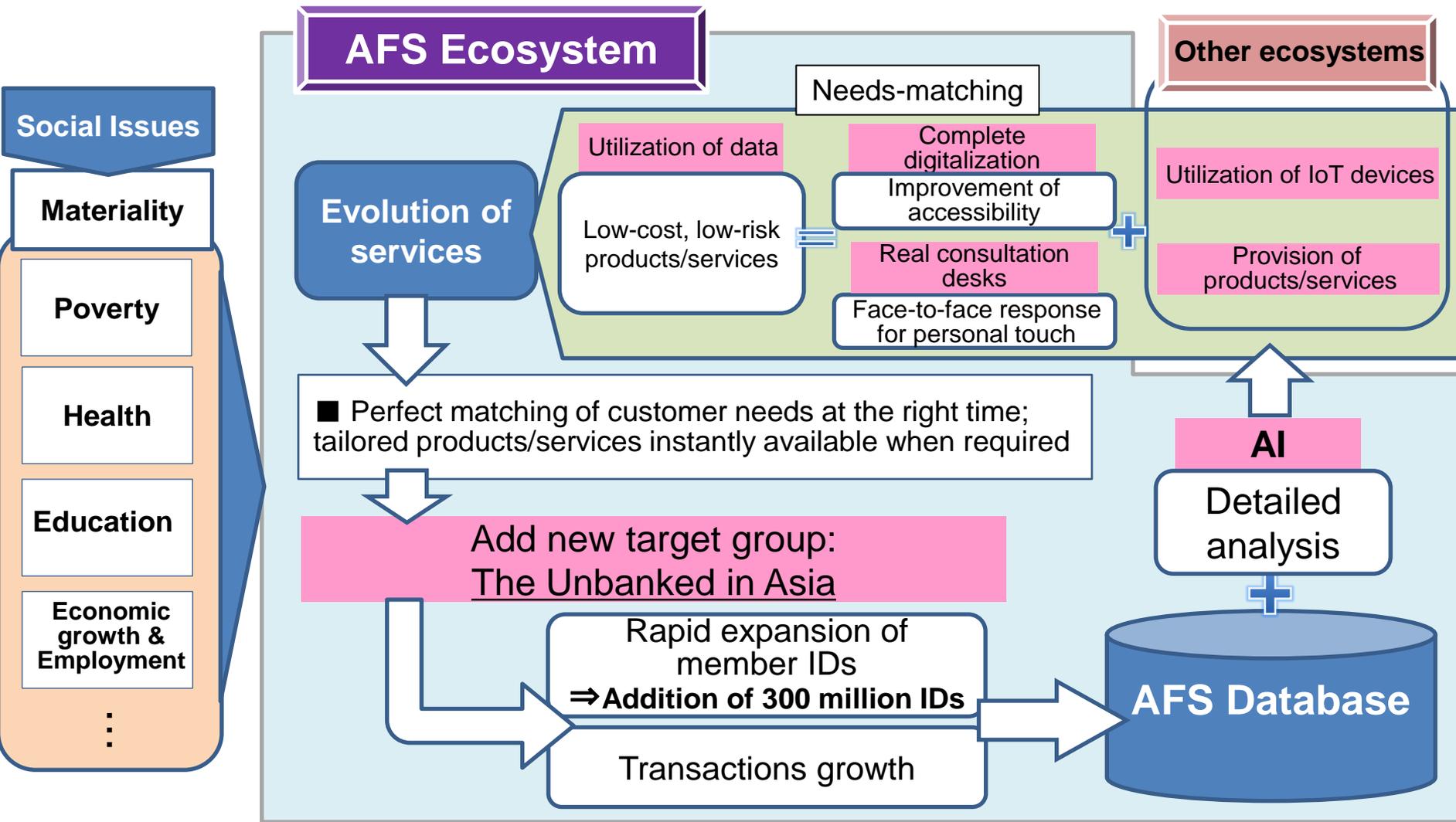
Purpose	Results	Main investments in FY2017 (Total amount ¥35.3bn, 88% of plan)	
Improve convenience level of products/services and labor productivity	Improvement of customer-service quality (Quality of proposals, Speed)	Domestic ¥26.0bn	<ul style="list-style-type: none"> • Digitalization of physical customer touch-points such as in-store branches and counters etc • Initiatives for improvement of operation efficiency (going paperless, introduction of RPA) • Infrastructure preparation for actual implementation of new products/services
	Responding to the financial needs of our customers anytime and at any place		
Improve profitability of assets	Efficiency of collections Reduce risk of defaults Refinement of screening		
		Efficiency ¥5.3bn	<ul style="list-style-type: none"> • Development of new products/services (smartphone app, fingerprint/pulse biometric identification, promotion of e-money and auto loan business) • Operational efficiency improvement restructuring projects related to AEON Bank direct management and integration of HQ functions
			<ul style="list-style-type: none"> • Call-center (voice recognition system, predictive dial) • Improving quality of credit screening and analysis, development of a collections data foundation • Introduction of new scoring model and management accounting system

Future Direction

— Construction of AFS ecosystem —

Our Vision “Asia’s No. 1 Retail Financial Service Company”

- Aim: To build the most recognized ecosystem in Asia and promote rapid expansion of customer base by 2025
- Increasing transactions volume, provision of low-cost & low-risk products through data analysis



Domestic: Reformation of business model

■ Strengthening asset management services: Provision of convenient products/services which are of good value

Customer's needs	% of households in Japan※1	Net savings※2
Age: 20~40 yrs Preparation for the future	24%	20-40 yrs: -¥5.24mil
Age: 41~60 yrs Preparation for the future, inheritance income	33%	41-49 yrs: ¥180K 50-59 yrs: ¥12.11mil
Age: 61 yrs & above Increase in pensioners	42%	61-69 yrs: ¥20.92mil 70 yrs & above: ¥23.56mil

Present

- Insufficient products/ services which are suited to individual needs
- Unsure of where and who to seek consultation with
- Contents are difficult to understand as there are too many professional terms



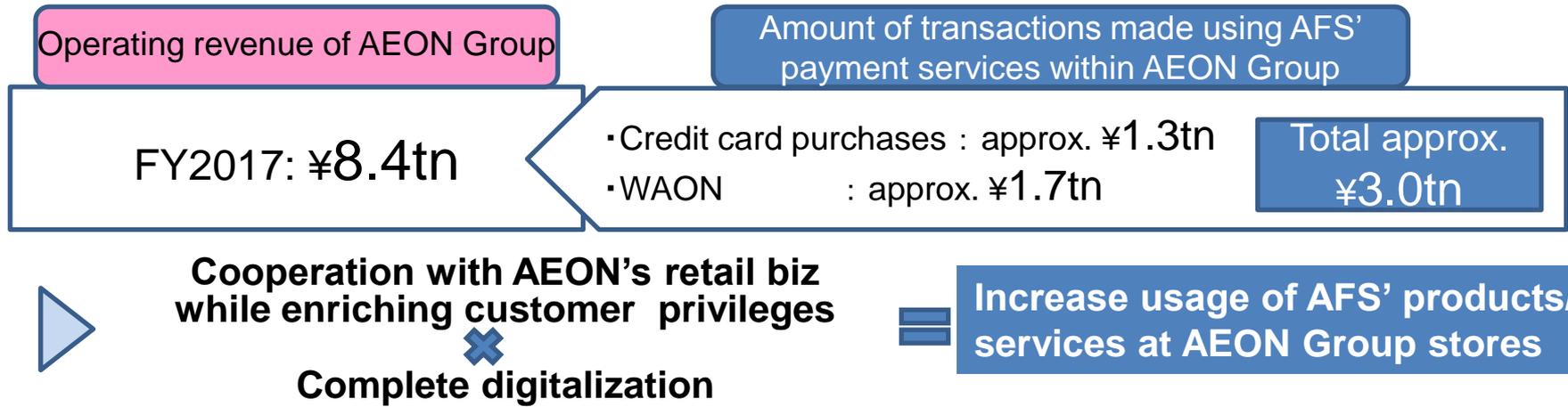
Solution

Our Strengths

- Low cost
- Low risk
- Easy to consult
- Easy to understand

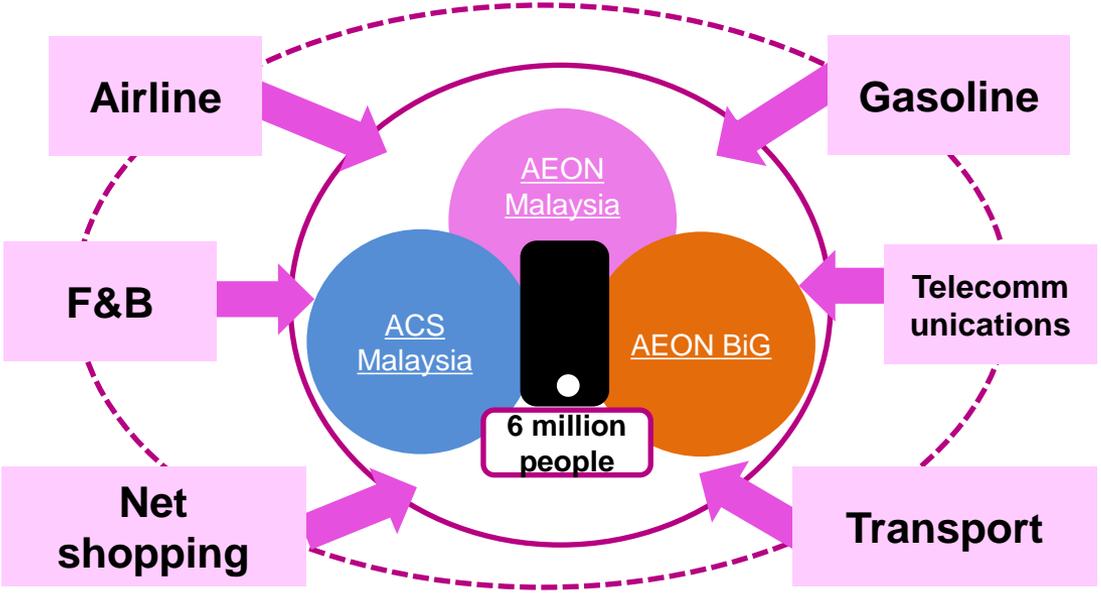
※1 National Institute of Population and Social Security Research: Projection of the future number of households in Japan
 ※2 Ministry of Internal Affairs and Communications: Year 2016 Savings and debt balance of two-person and above households by age

■ Further expansion of usage within AEON Group: Enriching services that are closely attuned to the lifestyles of our customer



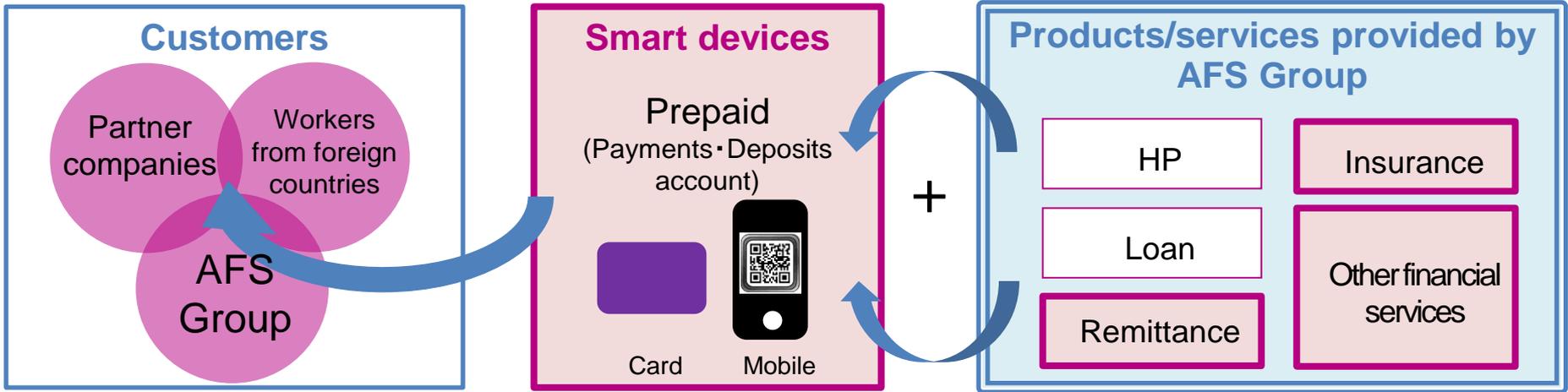
Global: Expansion of customer ID base through prepaid/smartphone payment services

■ Expansion of IDs in regions where AEON Group stores are present (e.g. Malaysia)



- Expansion of customer base by increasing alliances with various sectors
- Merging customer data within the group and provide a standardized privilege program
- Increasing transactions within the group

■ Expansion of IDs in regions where AEON Group stores are currently not present



Main initiatives in FY2018

- Promotion towards complete digital shift
- Catering a full range of products/services to meet the needs of our customers
- Speeding up the growth of our global business

Addition of smartphone application functions

■ Promote further recruitment of new cardholders through adding new functions (channels) to smartphone apps

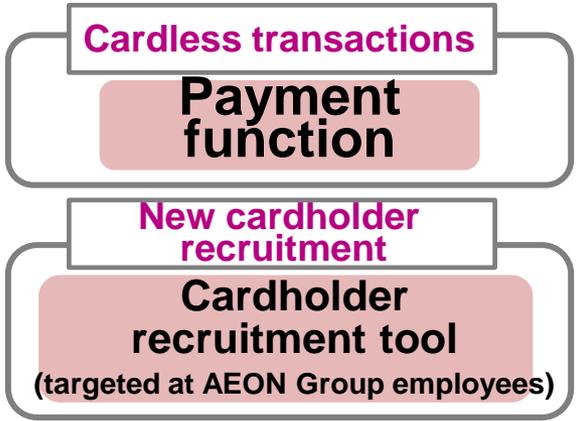
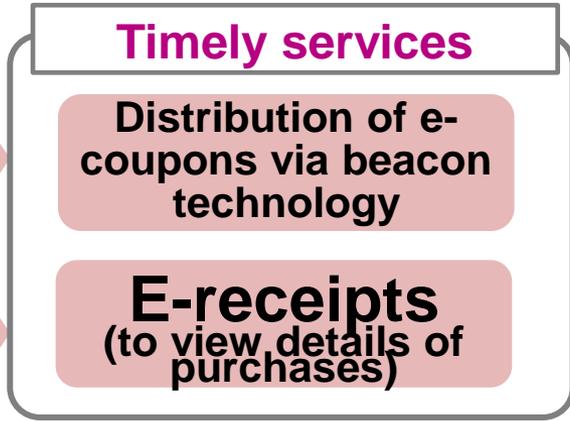
AEON Wallet

Addition of payment functions, e-receipts, timely distribution of coupons etc



Distribution of coupons

E-statements
(Viewing of card bills)



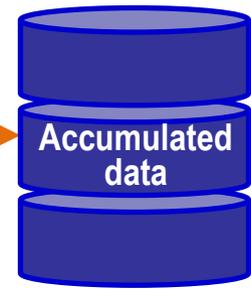
Household accounts app

Have a good grasp of household spending and savings in order to propose asset management services suited to each individual's style

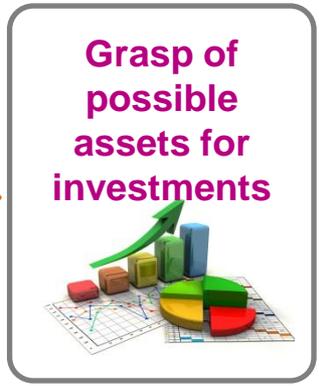


Asset information

Purchase (POS) data

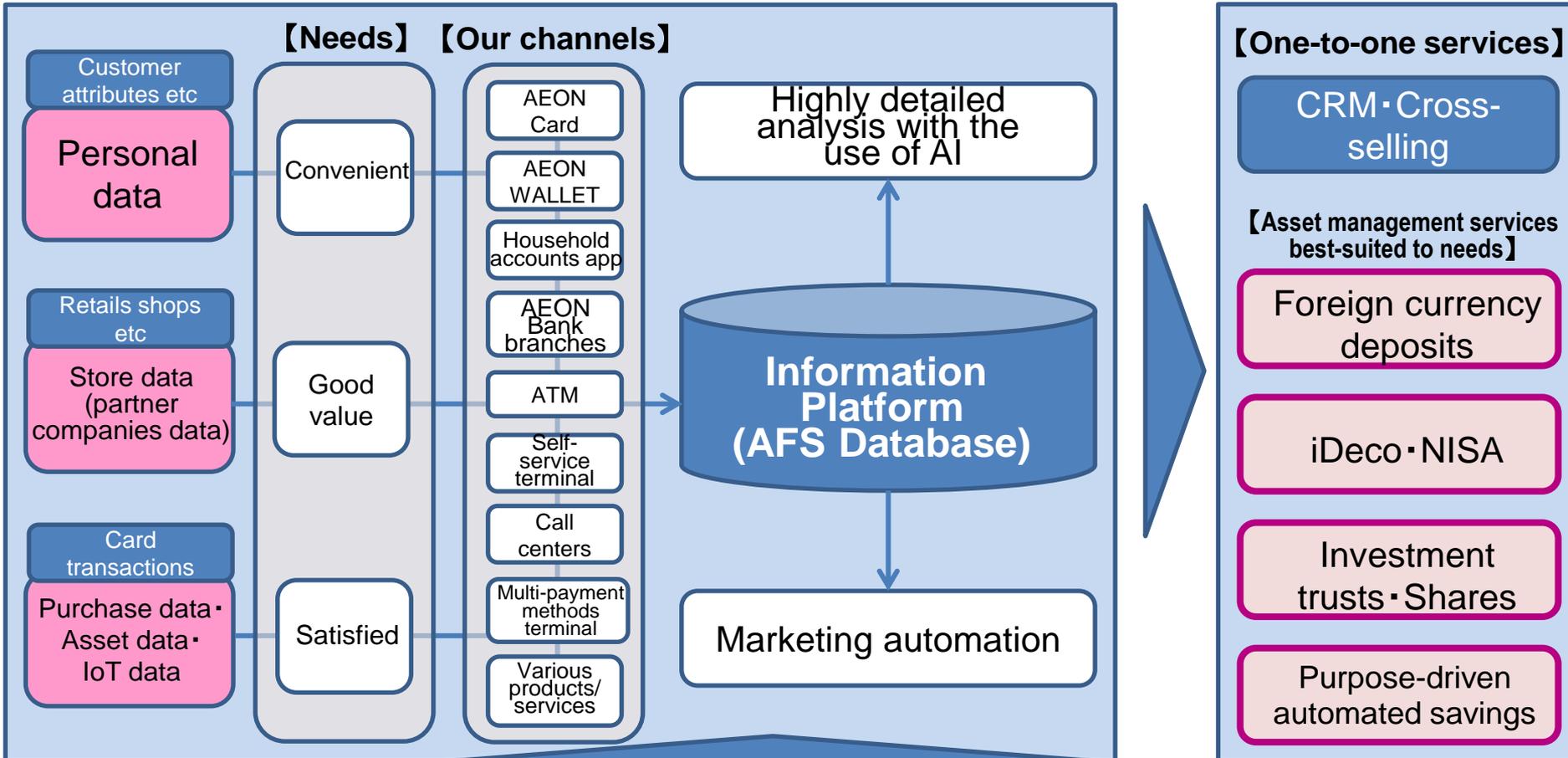


Analysis by AI



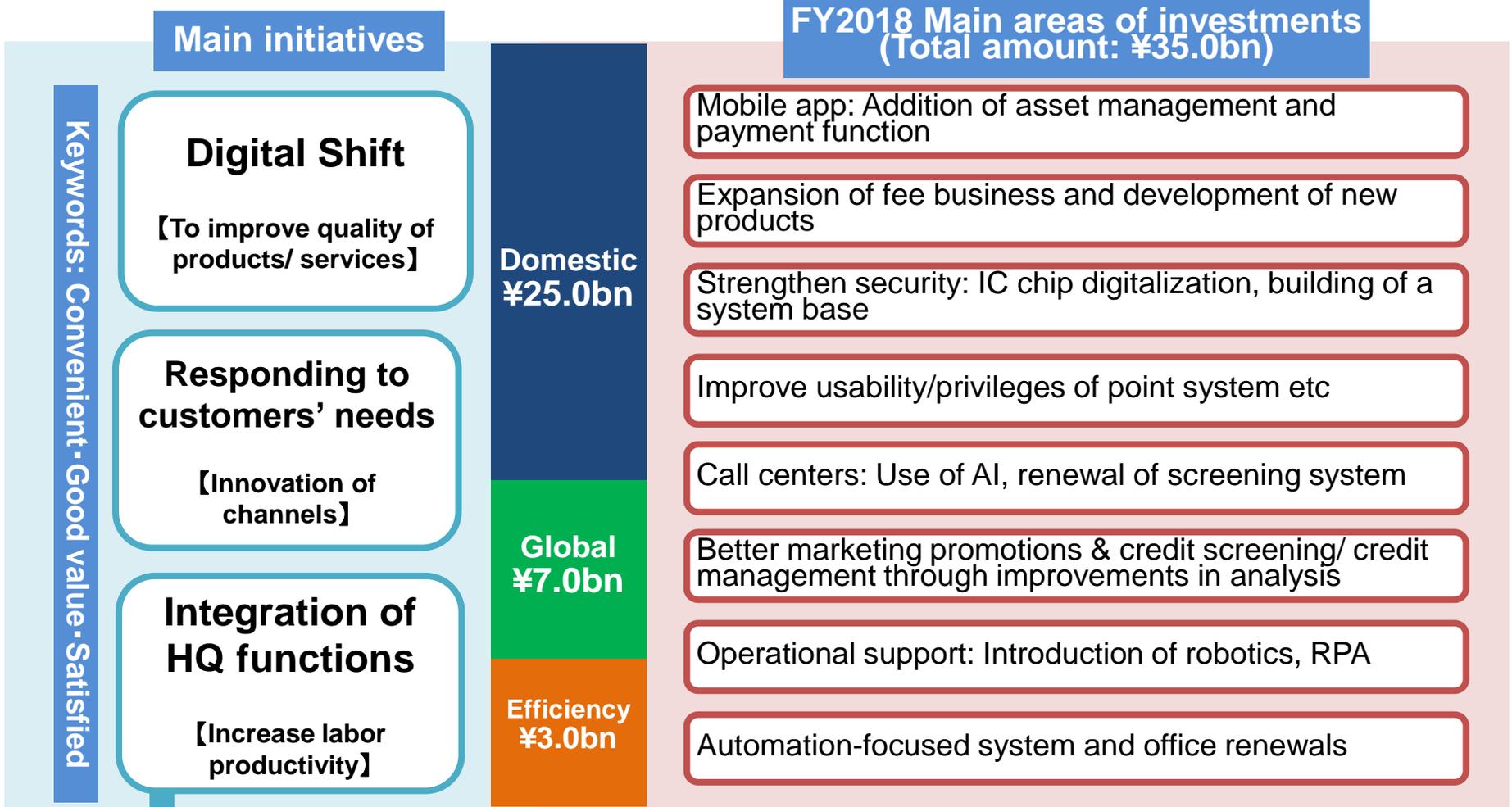
Improve internal system through utilization of data (Domestic)

- Aim: To provide one-to-one asset management services best-suited to our customers through the utilization of information platform
- Responding to the needs of our customers through effective use of our various channels
- Building of a resilient security base by cooperation with our partners



Security measures (IC-chip, PCIDSS, 3D Secure technology etc)

Initiatives for improving labor productivity (Domestic)



- FY2018 (March) Decide on redundancy in operational processes and creation of spare capacity in personnel through improving efficiency in respective departments
- FY2018 (after April) Integration of HQ functions and reassignment of personnel to strategic investment divisions continues

Enhancing the current business (Global)

- Encourage more usage of our credit cards through issuing premium cards and promotions for co-branded cards
- Promote cross-selling through adding new functions in the current mobile apps and stronger marketing efforts

Encourage credit card usage	Issuance of new premium cards & promotional efforts	<ul style="list-style-type: none"> New: Start issuance in Hong Kong, Malaysia Promotion of: Thai Airways Royal Orchid Plus Card
	Promotional efforts for co-branded cards	<ul style="list-style-type: none"> New: Issuance of Yamaha Card and new corporate cards Promotion of: Big C Card (Thailand), ONE PIECE Mastercard (Hong Kong)
Promote cross-selling	Addition of new functions for current mobile apps	Payments: E-money function in Malaysia and Cambodia, Samsung Pay function in Thailand
		Financing: Loan application via app in Thailand and Hong Kong
		Insurance: Promote more sign-ups in Hong Kong and Malaysia
Improve labor productivity	Strengthening of marketing efforts	Analysis of card transactions data through cooperation with AEON's retail biz
	Improvement of personnel expenses' ratio to total income	Introduction of RPA, going paperless, integration of HQ functions

FY2017

Creating employment opportunities to boost income of locals



Philippines



Cambodia

Auto loan business which utilizes IoT
 (offering products to unbanked)
 • Remote control of engine with IoT device
 • Repayment of loan by drivers is guaranteed by the taxi association
 → such drivers have the ability to pay but are screened out by banks

FY2018

Services closely attuned to customers' lifestyles



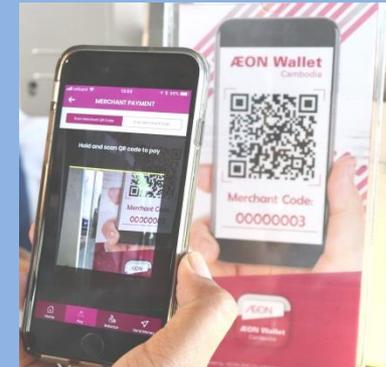
Cambodia



Philippines

Introducing e-money payment app
 • Reduce cost of holding cash

Alliance with other sectors
 • Joint promotions to increase customers for our group as well as our partners



Utilization of AEON's platform



Indonesia



Malaysia

Partnering with sharing services
 • Financing for providers of sharing services

Issuance of prepaid cards
 • Merge customers of finance business and retail business and partnering with other sectors to promote card usage at our group as well as partner companies

Forecast of Results for FY2018

- Evolution of AFS ecosystem with the construction of a strong customer base and business foundation
- Revamp business model in view of improving receivables portfolio and profit structure

	FY2018	
	Forecast	YoY
Ordinary income	¥440.0bn	+7.0%
Ordinary profit	¥72.5bn	+10.3%
Net income attributable to owners of parent (Net income per share)	¥42.0bn (¥194.66)	+8.6%

	Interim		Year End		Full Year		Payout Ratio	
	Plan	YoY	Forecast	YoY	Forecast	YoY	Forecast	YoY
Dividend forecast	¥29	±¥0	¥39	±¥0	¥68	±¥0	34.9%	-3.0%

・Commemorative dividend “¥2” on previous fiscal year is replaced by the dividend

Aeon Credit Service Malaysia BHD

Financial Performance and Key Policy

Financial Performance, FYE2018

(RM Million, %)	1HY		2HY		Total	
	Actual	vsLY	Actual	vsLY	Actual	vsLY
Credit card	585.7	109	660.6	116	1,246.3	113
Hire Purchase	1,018.5	99	920.5	93	1,938.9	96
Personal Finance	475.2	114	387.1	83	862.3	97
Sales Total	2,079.4	105	1,968.2	97	4,047.5	101
Operating Income Total	671.8	115	686.8	108	1,361.6	111
Operating Expense Total	474.8	111	489.1	109	963.3	110
Operating Profit	197.7	126	200.7	104	398.3	113
Net Profit	147.2	125	152.9	104	300.1	113
(JPY100 Million, 1RM=27.72)	40.8	-	42.4	-	83.2	-

<Sales Growth>

- Credit Card : New card issue by 40,000
- Motor bike : Shift to higher price segment, growth by 19%

<Sales decline>

- Super Bike : 69% against last year due to slump of superbike market
- General EP : 99% against last year due to slump of consumer electronics market
- Car EP : 88% against last year due to exercise to improve asset quality
- Personal Finance: 97% against last year due to tightening of credit assessment criteria

- Credit Card : 107% against LY
- Hire Purchase : 109% against LY
- Personal Finance : 123% against LY

- Operating Expense : 70.7% of Revenue (-0.2% vs LY)
- Impairment Loss : 24.8% of revenue (-0.3% vs LY)
- Personnel Expense : 14.6% of revenue (-0.3% vs LY)
- Funding Cost : 16.5% of revenue (+0.2% vs LY)

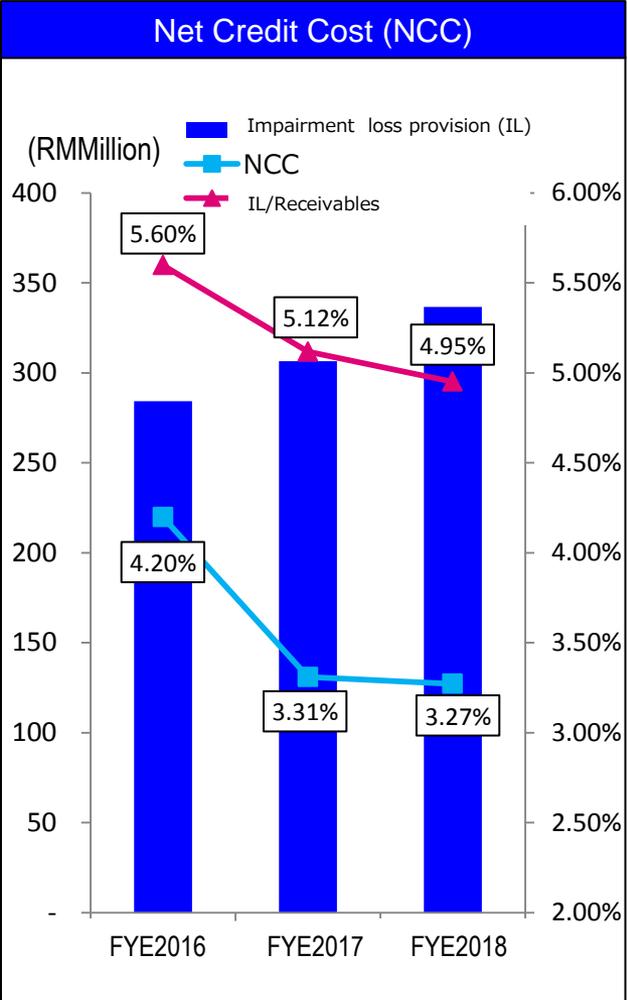
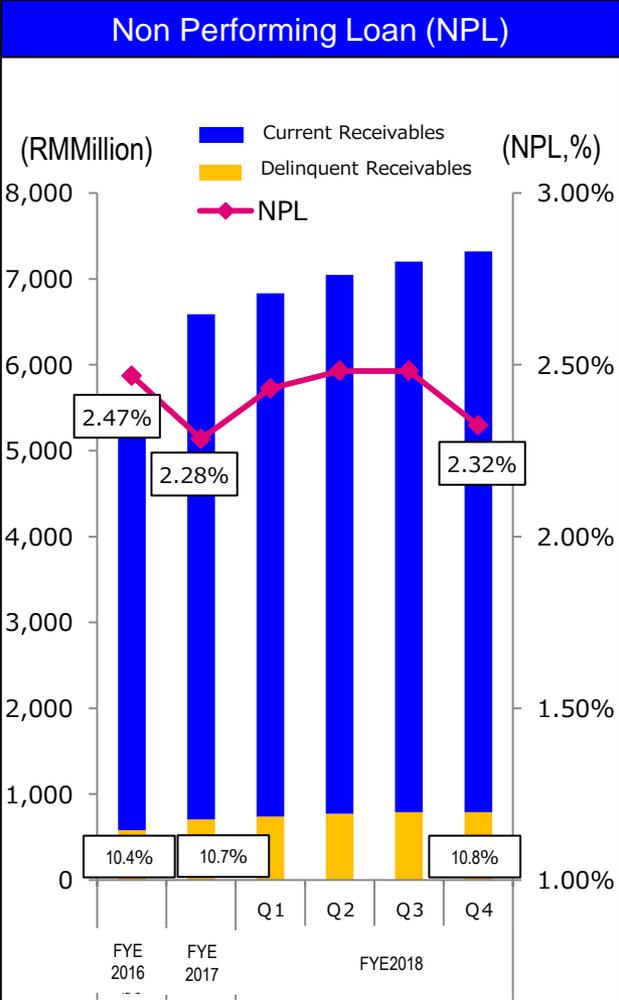
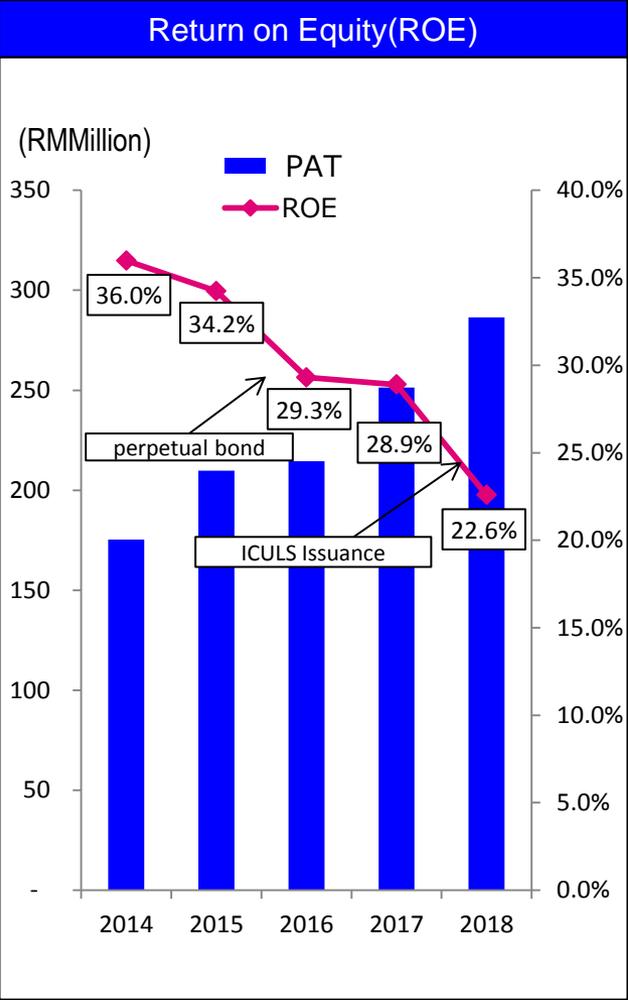
Credit Card : RM640million, 109% vs LY
 Hire Purchase : RM4,705 million, 109% vs LY
 Personal Finance : RM 1,915 million, 118% vs LY

- Issuance of ICULS of RM432 million in FY2017
- Conversion rate at 82.6% as of Feb2018
- Equity at RM508million, +RM393million vs LY

(RM Million, %)	Feb2017	Feb2018	vsLY	%
Receivables	6,438.7	7,156.3	111	92.8
Gross Asset	7,278.4	7,705.7	106	100.0
Total Liabilities	6,047.4	5,848.2	97	75.9
Total Equity	1,231.0	1,857.5	151	24.1
Total Equity & Liabilities	7,278.4	7,705.7	106	100.0

FYE2018 KPI

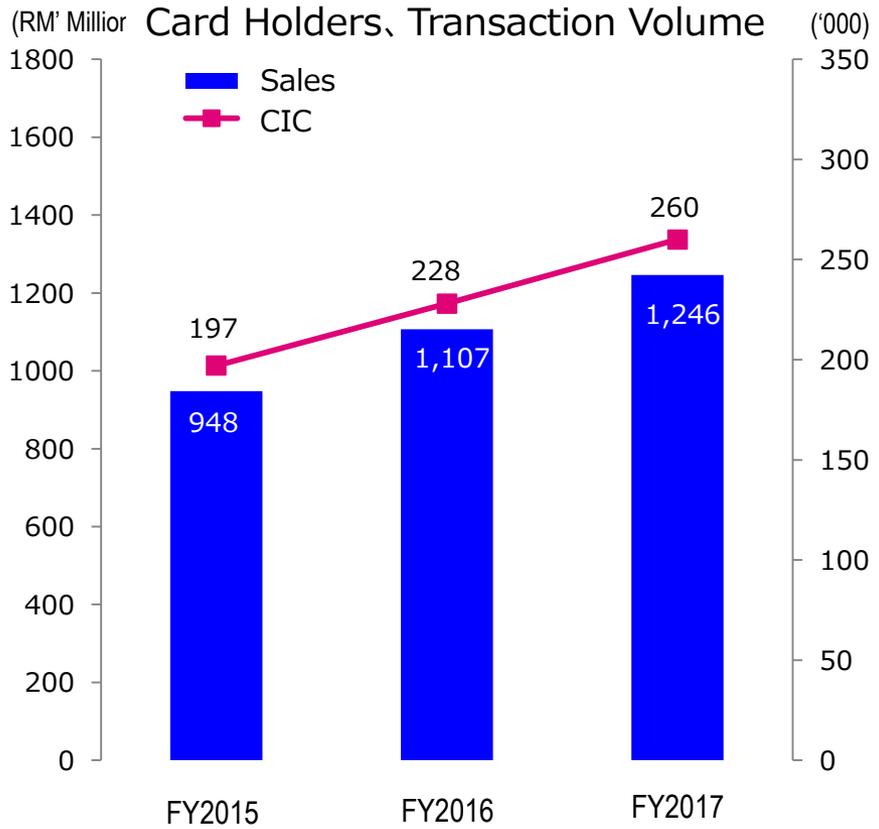
- NPL – Improvement of asset quality by tightening credit criteria contributed minimum level of NPL growth
- NCC – 111% against receivables, 110% against receivables as of LY, 103% against profit from credit loss as of LY
- Reduction of impairment loss of Motor bike easy payment and Car easy payment contributed improvement in NCC



FYE2018 Key Policy – Expansion of Settlement Business

【Credit Card business】

- Credit card members to 260,000 cards by expansion of recruitment channel
- Expansion of privilege merchant, number of acquiring device increased to 2050 units (202% vs LY)



Growth of card acquiring

Branch Transformation (Digitalization, Cashless)

AEON Mall Kuching Central Branch

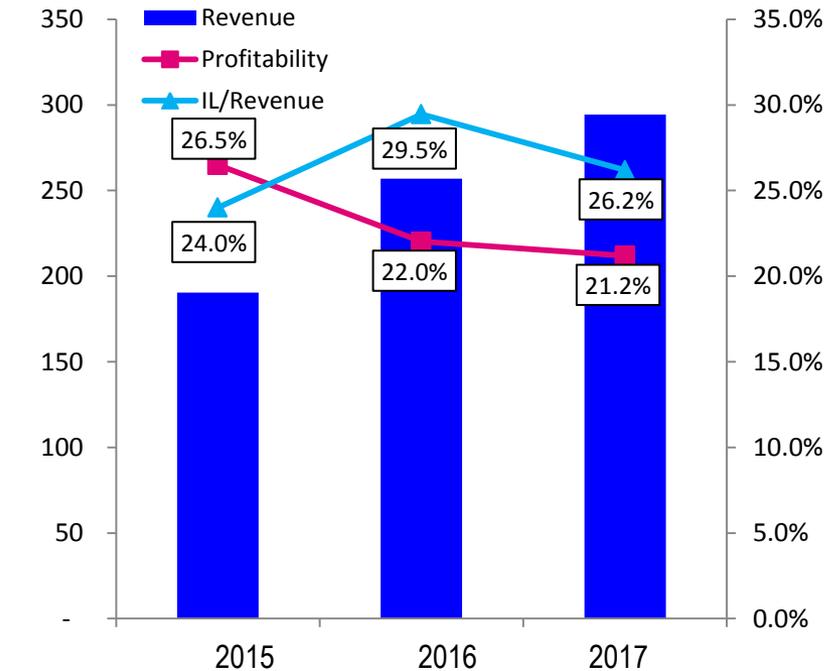
AEON MALL Bandar Dato' Onn Branch

FY2017 – Key Policy – Portfolio Shift

【MOPED / GEP】

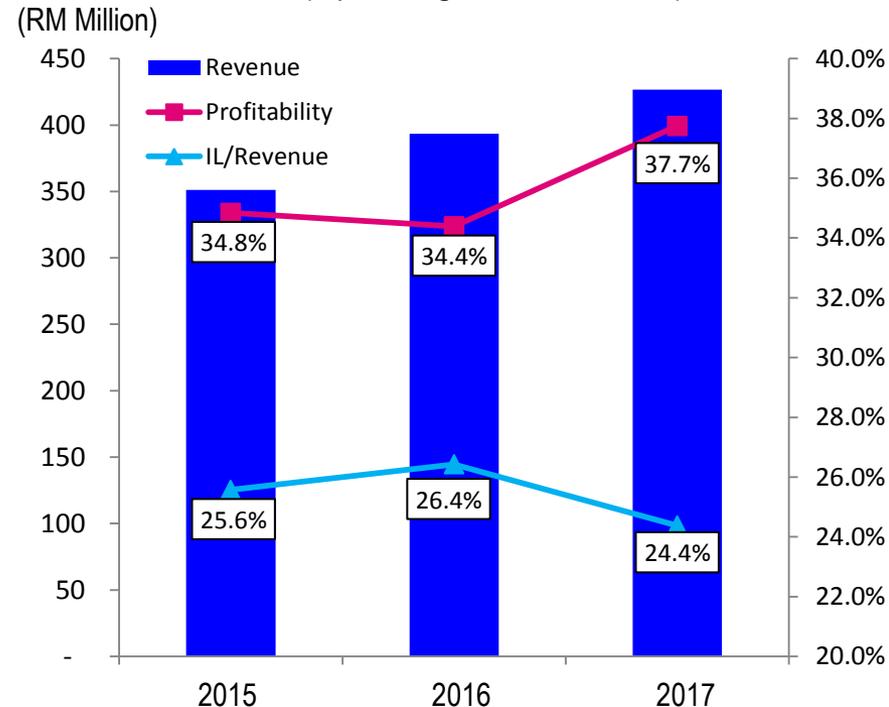
- MOPED shifting to small motor bikes higher price range and UCEP shifting to second hand cars of Japanese brand for higher income segment
- Car EP has implemented merchant management system and product portfolio to shift to better asset quality
- MOPED managed enhance operating profit rate to 37.7% by shifting to Japanese brand

Profitability of CEP
(Operating Profit/Revenue)



CEP	2015	2016	2017
Prov. Imp. Loss/Receivables	3.41%	4.27%	3.65%

Profitability of MOPED
(Operating Profit/Revenue)

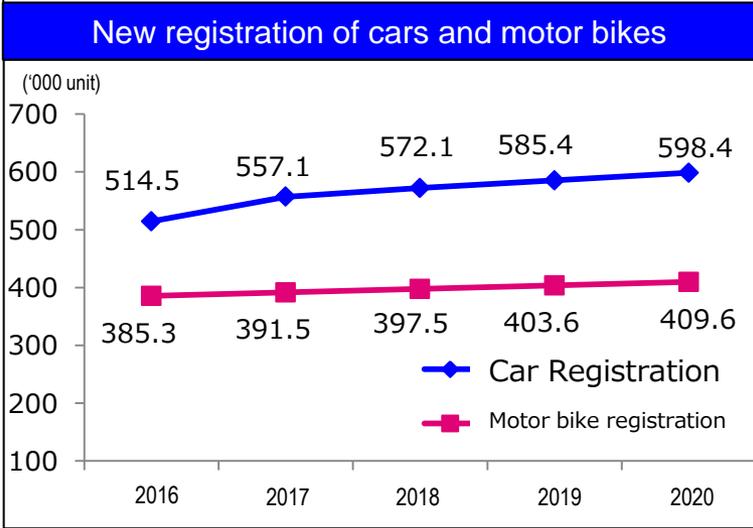
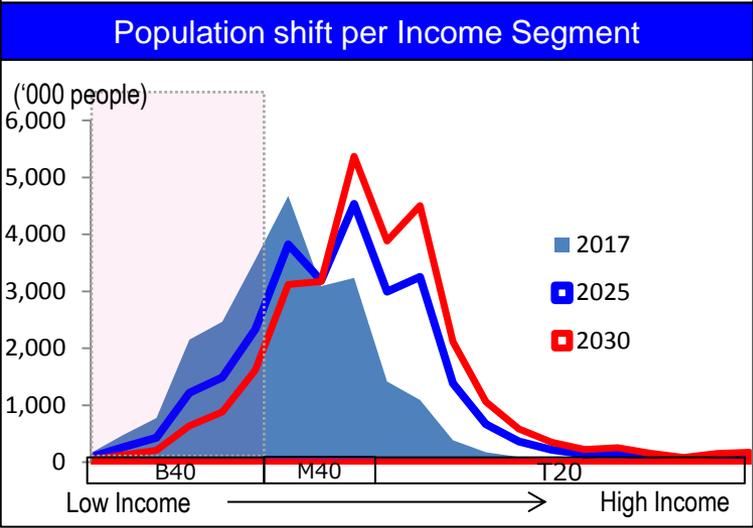
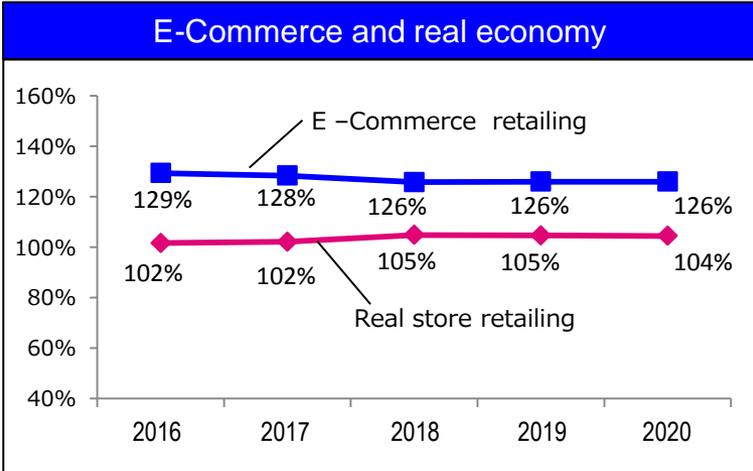
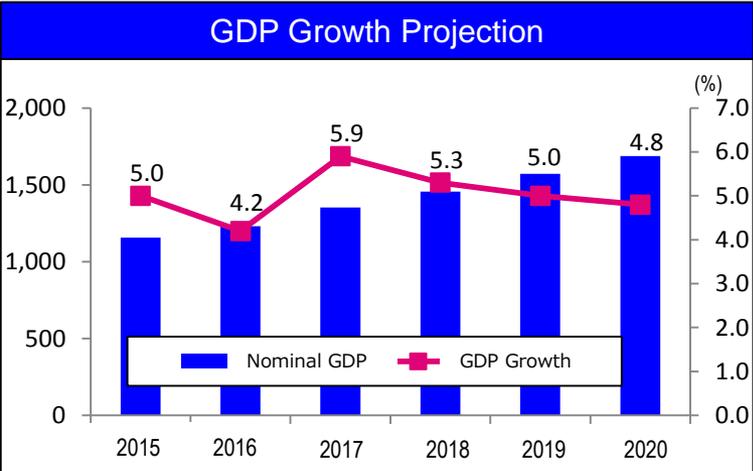


MOPED	2015	2016	2017
Prov. Imp. Loss/Receivables	4.47%	5.81%	5.24%

FY2018 Key Policy

External Environment - Market Trend

- Continued demographic shift to mid-to-high income group with sustained GDP growth of 5% level
- Overall growth rate of retail sector in year 2017 is 2%. Progress in shift from brick-and mortar stores to e-commerce.
- Motor Bike market and automobile market are expected grow 1-2% p.a. at decelerated rate



Ref:euromonitor

Challenges and corresponding policies

- Bulk of customers are in income segment of less than RM2000. Task: Acquire more customers from higher income segments
- To increase product lines to expand customer-base. To integrate customer database for effective usage
- Shift of EP business model to middle risk-middle return

Current	
Customer	<ul style="list-style-type: none"> • 70% of customers in income segment of less than RM2000 • Disintegrated group customer data
Product	<ul style="list-style-type: none"> • Product line-up skewed to EP business • Legacy business model relying on B2B model with physical retail presence • Insufficient penetration to mid to high income segment
Business model	<ul style="list-style-type: none"> • 80% of revenue is derived from EP and Loan • Business skewed to high risk high return product with low income customers
Operation	<ul style="list-style-type: none"> • Completion of digitalization of touchpoints • Collection and credit assessment involves high level of human intervention



Key Policy for FY2018	
Customer	<ul style="list-style-type: none"> • Penetration to mid income segment by new product development • Expansion of customer-base by E-money and Aeon Wallet • Integration of group customer data and cross customer referral
Product	<ul style="list-style-type: none"> • Expansion of product by E-money and Aeon Wallet • To strengthen products for mid income segment • Conversion of EP to Objective Finance • Shift to B2C model by going mobile -Penetration to EC, Mobile Credit Assessment
Business model	<ul style="list-style-type: none"> • To increase fee income such as settlement and insurance to compensate reduction of asset return by adaptation of new credit sales act • Shift to middle risk-middle return products
Operation	<ul style="list-style-type: none"> • Automation and digitization of operation – Collection System, automated and instant credit approval, AI, robotics

Expansion of customer-base and asset portfolio

- Introduction of E-Money and Aeon Wallet as common group platform
- Expansion of customer base by integration of group customer data and alliance with external parties
- Penetration into higher income and lower risk customer segment utilizing integrated group customer database
- Cross-sell through AEON Wallet

Customer Acquisition by new products

[e-Money: AEON Member Plus Card]



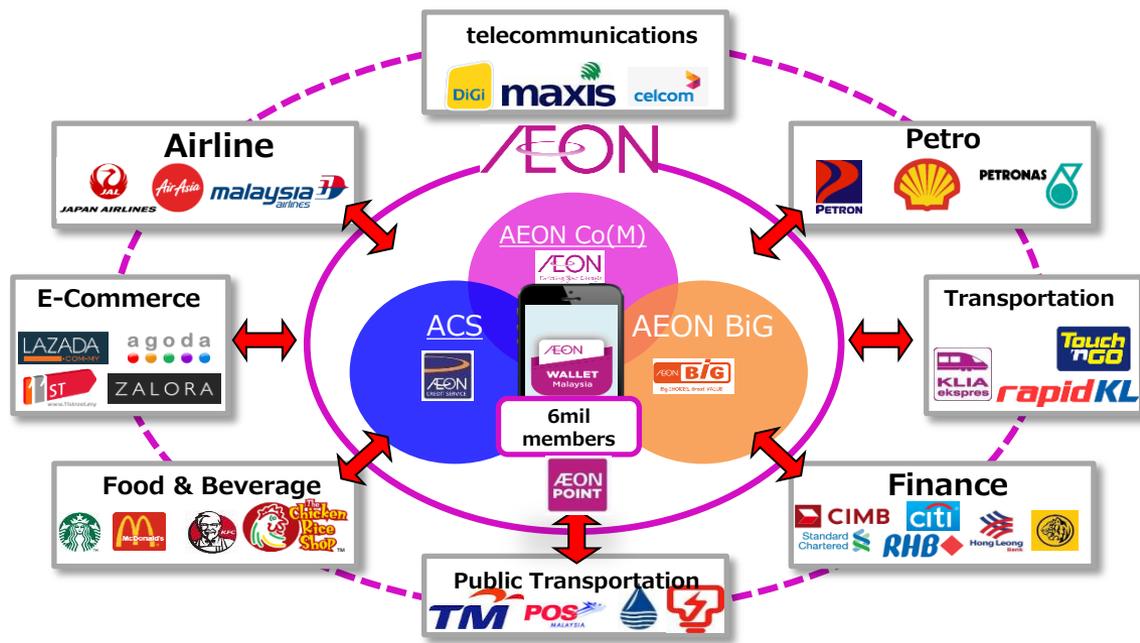
[AEON Platinum Card]



[e-Wallet : AEON Wallet]



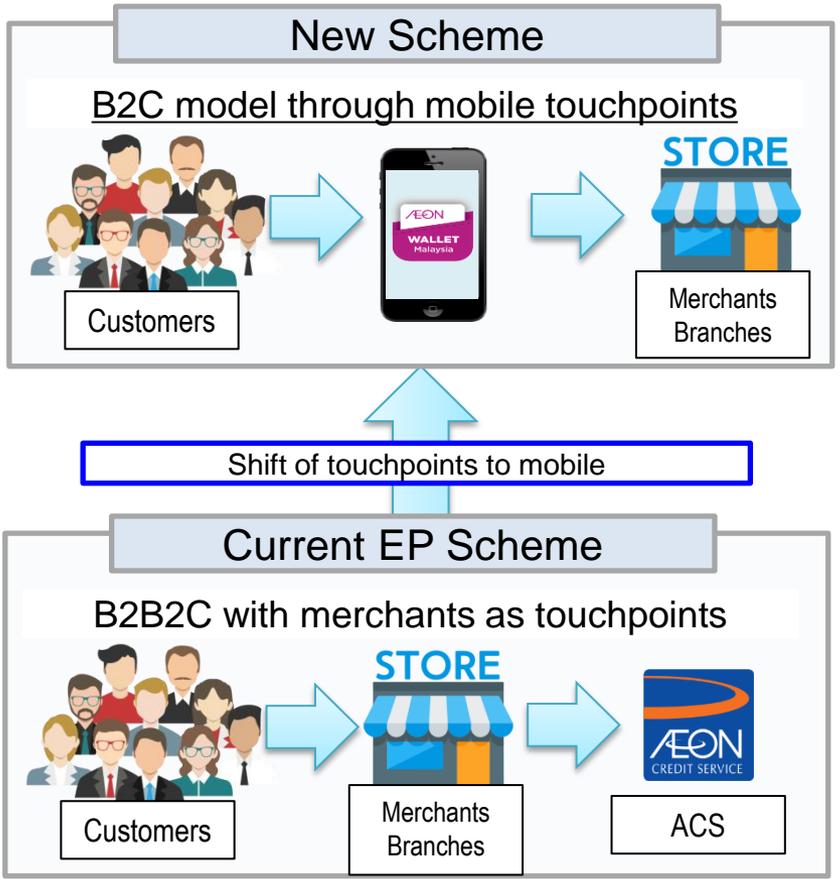
Expansion of settlement network



Business Model Transformation, IT investment

- Transformation from B2B model with physical merchant presence as touch points to B2C model with mobile touch points
- To enable pre-approval utilizing mobile touch points
- Intensive investment in IT infra to modernize touchpoints for better customer experience

Transformation of EP business



Investments for Enhanced operation

Collection	• New Collection System
	• Multiple due date, Dunning by Pool
Credit Assessment	• Automated credit assessment (AI)
	• New scoring system
	• Mobile/web pre/tem approval
Others	• Full digitization of application process
	• Adaptation of RPA for processing
	• Enhanced customer service

- RM83million is earmarked for IT investment
- Head count of collection to be reduced by maximum
- TAT for credit assessment to be reduced to 15min while upgrading assessment performance and approval ratio

FY2018 - Key Policy - Sustainability

- Paperless operation by digitalization.
- Nationwide activities for conservation of natural environment
- Engagement in local communities through CSR activities including participation to Digital Johor Project
- Adherence to Malaysian Corporate Governance Code released in 2018

Environment

Engagement in cleaning activities



Going paperless by digitalization



Society

Participation in Digital Johor



Collaboration with NGOs



Governance

New Malaysian Corporate Governance Code

Additional requirements for listed companies with Market Cap of more than RM20 Billion

- Constitution of Board member
- More than majority shall be independent directors
- More than 30% of directors shall be female

Others

Enhancement of enterprise value

- Effective governance by the Board
- Active engagement in PR and IR

Diversity in organization

- Promotion of Female management
- Employment policy that promotes diversity

(Reference) FY2017 Results (Hong Kong, Thailand, Malaysia)

		FY2016		FY2017	
		Results	YoY	Results	YoY
AEON CREDIT SERVICE (ASIA) (HK\$'000)	Total Revenue (※2)	1,309,198	99%	1,337,034	102%
	Profit before tax	367,234	120%	447,265	122%
	Profit for the period attributable to : Owners of the Company	298,796	120%	371,148	124%
AEON THANA SINSAP (THAILAND) (BAHT'000)	Total Revenues	17,791,784	102%	18,662,969	105%
	Profit before income tax expense	3,012,802	98%	3,714,354	123%
	Net profit for the period	2,418,066	98%	2,994,403	123%
AEON CREDIT SERVICE (M) Berhad (RM\$'000)	Revenue + Other operation income	1,222,192	116%	1,361,606	114%
	Profit before taxation	351,162	116%	398,355	113%
	Profit for the period	265,027	116%	300,057	113%

※1 Source: Data released by each company. Figures for Hong Kong and Thailand are consolidated.

※2 Total Revenue = Interest income + Other operating income + Recoveries of advances and receivables written-off

(Reference) FY2017 Results (Hong Kong, Thailand, Malaysia)

■ Consolidated Results of AEON Credit Service (Asia) Co., Ltd.

	FY2016	FY2017	
	Results	Results	YoY
Ordinary income	¥18.4bn	¥19.0bn	+3%
Ordinary profit	¥5.1bn	¥6.3bn	+23%
Net income	¥4.2bn	¥5.2bn	+26%

Exchange rate: HKD1
 • FY2016: ¥14.09
 • FY2017: ¥14.27

Fiscal period
 • 2016: Mar. 1 ~ Feb. 28
 • 2017: Mar. 1 ~ Feb. 28

■ Consolidated Results of AEON THANA SINSAP (THAILAND) PLC.

	FY2016	FY2017	
	Results	Results	YoY
Ordinary income	¥55.1bn	¥62.3bn	+13%
Ordinary profit	¥9.3bn	¥12.4bn	+33%
Net income	¥7.4bn	¥10.0bn	+33%

Exchange rate: THB 1
 • FY2016: ¥3.10
 • FY2017: ¥3.34

Fiscal period
 • 2016: Mar. 1 ~ Feb. 28
 • 2017: Mar. 1 ~ Feb. 28

■ Results of AEON Credit Service (M) Berhad

	FY2016	FY2017	
	Results	Results	YoY
Ordinary income	¥32.1bn	¥36.0bn	+12%
Ordinary profit	¥9.2bn	¥10.5bn	+14%
Net income	¥6.9bn	¥7.9bn	+14%

Exchange rate: MYR 1
 • FY2016: ¥26.28
 • FY2017: ¥26.46

Fiscal period
 • 2016: Mar. 1 ~ Feb. 28
 • 2017: Mar. 1 ~ Feb. 28

(Reference) Allowance for Doubtful Accounts and Allowance for Loss on Refund of Interest Received by Segment



■ Allowance for Doubtful Accounts (by Segment)

	Retail	Solutions	Domestic Total
Allowance for doubtful accounts, beginning of period	¥1.8bn	¥34.3bn	¥35.5bn
Provision of allowance for doubtful accounts	¥0.9bn	¥18.6bn	¥19.8bn
Write-off of doubtful accounts (including transferred debt)	¥0.4bn	¥12.3bn	¥12.7bn
Allowance for doubtful accounts, end of period	¥2.3bn	¥40.6bn	¥42.6bn

(Subsidiaries in domestic) Aeon Credit Service: ¥21.6bn, Aeon Bank: ¥2.3bn, Aeon Product Finance: ¥4.9bn, Aeon Housing Loan Service: ¥1.6bn

■ Allowance for Loss on Refund of Interest Received

	FY2016	FY2017
Beginning of period	¥4.2bn	¥3.8bn
Provision	¥3.9bn	¥2.7bn
Interest refunded	¥4.3bn	¥3.4bn
End of period	¥3.8bn	¥3.1bn

(Interest claims amount: Cash out + principal payout)

	China Area	Mekong Area	Malay Area	Global Total	Consolidated
Allowance for doubtful accounts, beginning of period	¥1.7bn	¥8.4bn	¥4.3bn	¥14.5bn	¥50.3bn
Provision of allowance for doubtful accounts	¥3.4bn	¥15.8bn	¥10.4bn	¥29.7bn	¥49.7bn
Write-off of doubtful accounts (including transferred debt)	¥3.7bn	¥15.0bn	¥9.7bn	¥28.5bn	¥41.3bn
Allowance for doubtful accounts, end of period	¥1.4bn	¥9.2bn	¥5.0bn	¥15.7bn	¥58.8bn

	FY 2016		FY 2017	
	Results	Change from start of FY	Plan	YoY
Number of cardholders	27.75mil	+0.83mil	28.50mil	+1.05mil

	Results	YoY	Plan	YoY
Card shopping transaction volume	4,955.4bn	+9.7%	5,500.0bn	+11.1%

	Results	Change from start of FY	Plan	YoY
Balance of cash advances	¥455.8bn	+¥24.1bn	¥480.0bn	+¥24.1bn
Balance of small consumer loans	¥77.4bn	+¥1.6bn	¥85.0bn	+¥7.6bn
Balance of unsecured loans	¥533.3bn	+¥25.8bn	¥565.0bn	+¥31.7bn

Statements contained in this report with respect to the Company's management strategies, business policies and results forecasts are forward-looking statements about the future performance of the Company, which are based on the assumptions and beliefs in light of the information currently available. These forward-looking statements involve various uncertain factors including known and unknown risks such as economic trends, industry competition, market demand, exchange rates, tax and other systems that may cause the Company's actual results, performance or achievements to differ materially from the expectations expressed herein.



AEON Financial Service