



Results for the First Half of FY2019 November 13, 2019

 **AEON Financial Service**

First Section of the Tokyo Stock Exchange
Stock Code: 8570

AEON Financial Service Co., Ltd.

1

- My name is Wakabayashi. I am in charge of corporate management. I would appreciate your attention.

Consolidated business outline and results



(Unit: billions of yen)	Domestic				Global			
	Credit card ①		Installment sales	Hotel & loan ④	Credit card		Installment sales ②	Personal loans ③
	Shopping	Cash advance			Shopping	Cash advance		
Transaction volume	2,887.3	211.6	123.8	266.4	139.8	68.6	64.1	82.8
YoY	+11.8%	+4.5%	+5.3%	+19%	+11.8%	+1.3%	+28.2%	+13.2%
Finance receivables (¥B)	1,184.6	497.1	682.6	2,180.4	99.4	101.6	182.7	238.6
Change from start of FY	+134.0	+22.9	+45.9	+156.8	▲2.2	▲1.1	+8.8	+9.0

※ 1 Fig. of Aeon Bank which includes am for Fiat25 and studio condominium loan ※ 2 Fig. for domestic in recenter to am before securitization

(Unit: no. of people)	No. of cardholder ①		
	Consolidated	Domestic	Global
Results	43.96mil	28.65mil	15.31mil
Change from start of FY	+1.27mil	+0.25mil	+1.02mil

① Domestic: Credit card
 ↳ Shopping: Tx vol.: Transaction vol. and customer acquisition growth mainly due to cashless initiatives (10% point campaign within AEON group, 20% cash back campaign for new customer).
 No. of active users: 17.51mil (+0.42mil)
 ↳ Cash advance: Tx vol.: No. of users 1.32mil (+20K), balance per user ¥230K (+¥20K)

(Unit: no. of accounts)	AEON Bank accounts		
	Total	Credit card linked with AEON Bank account	Debit card linked with AEON Bank account
Results	6.90mil	5.11mil	0.30mil
Change from start of FY	+0.34mil	+0.25mil	+0.06mil

② Global: Installment finance
 ↳ Expansion of installment finance business due to the strong sales of automobiles and motorcycles in Malaysia, auto loans in Thailand and other countries we operate businesses.

(Unit: billions of yen)	Bank deposits balance			
	Total	Ordinary deposits	Time deposits	Foreign-cy deposits
Results	3,636.9	2,794.7	772.8	65.6
Change from start of FY	+153.5	+161.4	▲42.4	+33.8

③ Global: Personal loans
 ↳ Expansion of new lending services using installment credit line in Thailand and loans for middle-income earners in Malaysia.

④ Consolidated, Domestic and Global number of cardholder
 Number of domestic members including debit cardholders and bank account holders increased by 0.34mil to 30.44mil since start of FY
 ↳ Domestic: the number of new credit card members registered is 1.01mil (+30% YoY) by promoting the elimination of nonactive users and the acquisition of digital IDs (Web users).
 ↳ Global: Members increased mainly for new premium cards to target the middle- to high-income segments

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2

- Let me begin by explaining consolidated business results and situations by area.
- In domestic business, credit card shopping transaction volume increased 9% from a year ago, driven by measures to promote cashless payment, including a 10 times-point program within the AEON Group and a maximum 20% cash-back program targeting new registrants.
- In terms of cash advances, transaction volume grew 4% from a year ago while finance receivables increased 22.9 billion yen from the beginning of the fiscal year thanks to an increase in the number of users.
- Global business remained strong. Transaction volume of installment finance increased 28% from a year ago to 64.1 billion yen and its finance receivables rose 8.8 billion yen from the beginning of the fiscal year to 182.7 billion yen, thanks to an increase in transaction volumes for automobile and motorcycle in Malaysia and a growth in auto loan business in other countries, including Thailand.
- Transaction volume of personal loans increased 13% from a year ago to 82.8 billion yen and their finance receivables grew 9.0 billion yen from the beginning of the fiscal year to 238.6 billion yen due to expansion of new lending services using installment credit line in Thailand and loans for middle- to high-income earners in Malaysia.
- In terms of consolidated cardholder number, we won 1.01 million new credit card holders through campaigns and focused on leading them to shift to online membership, while continuing efforts to eliminate dormant cardholders at time of membership renewal in the domestic business. As a result, we have been able to improve utilization rate. In global business, customer base has grown, led by increases in members of premium cards targeting the medium- to high-income bracket and installment payment users.

Consolidated results by Segments



(Unit: Billions of yen)	Domestic total			Global total			Consol. Total ※2	
	※1	Retail	Solutions	※1	China Area	Mekong Area		Malay Area
Ordinary income	161.1	100.0	98.1	75.2	9.5	40.0	25.5	235.9
YoY	+10%	+6%	+12%	+12%	+0%	+14%	+12%	+11%
Change	+15.3	+5.8	+10.4	+7.8	+0.0	+5.0	+2.8	+22.9
Ordinary profit	12.5	5.1	9.1	13.3	3.0	6.7	3.4	24.9
YoY	△20%	△25%	△18%	△23%	△16%	△8%	△45%	△24%
Change	△3.0	△1.7	△1.9	△4.0	△0.6	△0.6	△2.8	△7.8
Ordinary profit ratio	7.8%	5.2%	9.3%	17.7%	32.3%	16.8%	13.6%	10.6%
YoY	△2.9pt	△2.2pt	△3.3pt	△8.1pt	△6.3pt	△4.2pt	△14.2pt	△4.8pt
								Profit attributable to owners of parent
								YoY
								△33%

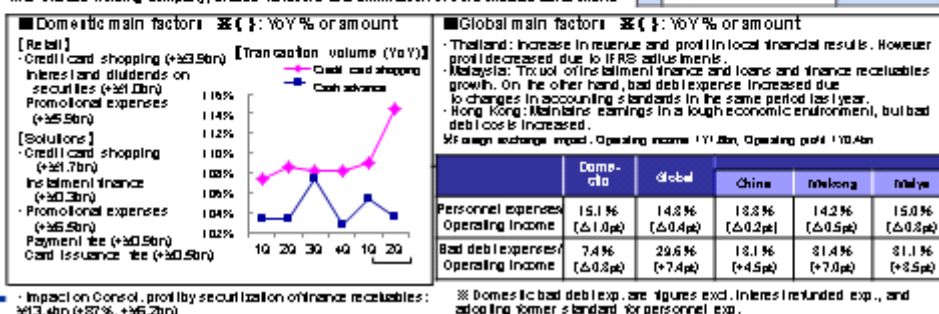
※1 Domestic total and global total represent amounts after elimination of transactions between business segments

※2 Include holding company, shared functions and elimination of consolidated adjustments

Profit attributable to owners of parent

YoY

△33%



- Let's move on to the consolidated and segment results.

- Please take a look at the consolidated figures on the far-right column in the upper table. We achieved the eighth straight fiscal half of increase in operating income, while operating profit and profit attributable to owners of parent decreased.

- In domestic business, operating income increased 10% from a year ago, driven by a solid increase in credit card shopping and cash-advance transaction volume. On the other hand, operating profit decreased 20% from a year ago as promotion expenses increased, mainly for measures to promote cashless payment.

- Cashless payment users increased more than the target, which we believe indicates we have steadily increased new members who we expect will remain in the membership for a long time. Mr. Kawahara will give you more detailed explanation later about this.

- In global business, ordinary income remained flat in the China area due to negative impact from the US-China trade friction and the pro-democracy protest in Hong Kong, but respective figures for the Mekong and Malay areas grew two digits. On the other hand, ordinary profit of the global business decreased 23% from a year ago to 13.3 billion yen as bad debt expenses increased.

- Please note that the results for the Malay area include impact from inappropriate accounting practice at the Philippine subsidiary that we disclosed on Nov. 1. We would like to offer our sincere apologies to our investors for causing concerns and trouble for this incident. I would like to take this opportunity to express our apology.

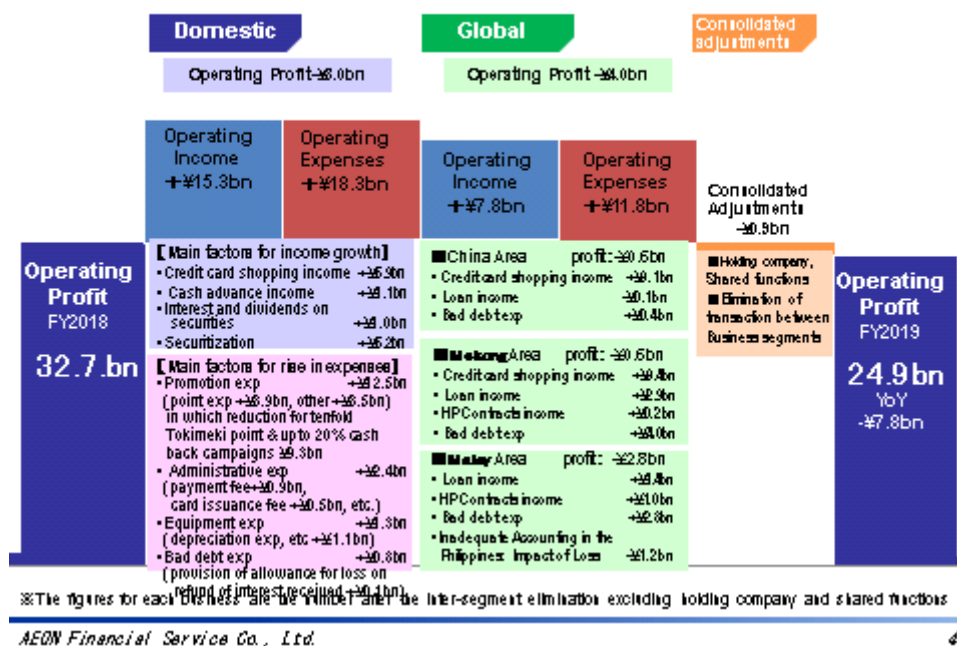
- Let me give you details of the inappropriate accounting practice. It can be divided into three parts.

- First, there was an underassessment of delinquency in accounts receivable—installment. For customers in arrears due to shortage in payment for small-amounts, such as bank fees, we have a set procedure in which such short amounts are added to the next month's bill as a way to reduce workload of collection and costs of account transfers, but we found a practice of partially stopping increases in delinquency degrees as the rules on short amounts were relaxed. On the other hand, amortization of delinquent receivables was conducted according to the rules. As a result, loss ratio was estimated lower than it actually was as the Philippine subsidiary introduced the IFRS in the last fiscal year, which resulted in a lower bad debt allowance than it

actually was. The impact from this amounted to about 200 million yen (90 million pesos = 190 million yen).

- Second, there was erroneous recognition of income due to advance deduction of deferred installment profit. Accounting method for hire purchase transactions is designed so that the total interest amount over the entire length of the hire purchase contract period is capitalized by booking it as accrued income in a batch at the time of contract signing and the same amount of debt was booked as deferred installment profit, from which corresponding interest amounts are deducted monthly to recognize income at each monthly billing. On the other hand, there was a gap between incomes estimated monthly by the local management team and income amounts calculated monthly by the accounting division. As the accounting division changed figures to the management estimates, deferred installment profit was deducted ahead of schedule, resulting in excessive income being booked. Impact from this amounted to about 700 million yen (350 million pesos = 740 million yen).
- Third, profit was booked in excessive amounts due to capitalizing of outsourcing service expenses. Impact from this amounted to about 300 million yen (130 million pesos = 270 million yen).
- We therefore booked a total 1.2 billion yen as adjustment in the income statement. We aim to introduce preventative measures against recurrence of similar issues, as well as measures to address a delay in the recognition of deteriorated business performance.

Consolidated segment results by graph



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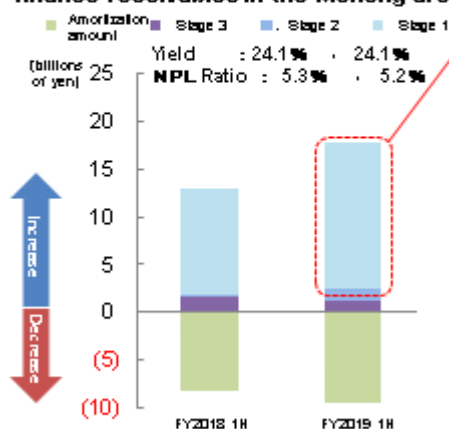
4

- Next, we will take a look at a diagram showing the performance of domestic and global businesses.
- It shows key factors driving increases and decreases in operating profit. In domestic business, one of the leading cost driver was a year-on-year increase of 12.5 billion yen in promotional expenses, of which 9.3 billion yen was for measures to promote cashless payment.
- In terms of measures taken, we successfully stimulated public interest in the campaign, thanks to its appeal as well as the impact of an idol group used in it, which resulted in a number of campaign participants significantly exceeding the target and increased costs, but we at the same time significantly expanded the customer base.
- Note that a 6.2 billion yen increase in securitization is shown as a factor increasing the income. This was mostly securitization of cash-advance receivables, which was aimed at paying for the amount of campaign costs in excess of the target. We have been successful in expanding a segment of customers who are expected to use shopping ribo and cash advance services, and we think we will be able to recover what we have spent by encouraging continued use.
- In global business, as mentioned before, key profit-reducing factors are increases in bad debt expenses of 4.0 billion yen and 2.8 billion yen in the Mekong and Malay areas, respectively, and 1.2 billion yen in negative impact from the inappropriate accounting practice at the Philippine subsidiary.



■ The balance of finance receivables steadily expanded, but the impact of the application of IFRS 9 increased loan losses.

【Fluctuations in the balance of finance receivables in the Mekong area】



• Accelerating the pace of increase in the balance of finance receivables in the first six months
→ **Increase in normal receivables (stage 1) was 1.4 times higher than the same period of the previous year.**
→ IFRS9 requires a loan loss allowance (12 months' worth) for normal receivables, and the cost of bad debt increases due to an increase in the balance of receivables.
→ **Yield and NPL ratio were flat**

Mekong Area	1H results	YoY Diff
Operating revenue	¥40.0bn	+ ¥5.0bn
Bad debt allowance	¥12.5bn	+ ¥4.0bn

【Reference】	1H results	Diff start from FY
Finance receivables	¥302.0bn	+ ¥12.9bn
Normal	¥280.0bn	+ ¥10.3bn

Note: The exchange rate of the NPL ratio and graph figures is applied to the spot rate at the end of August, 2019.

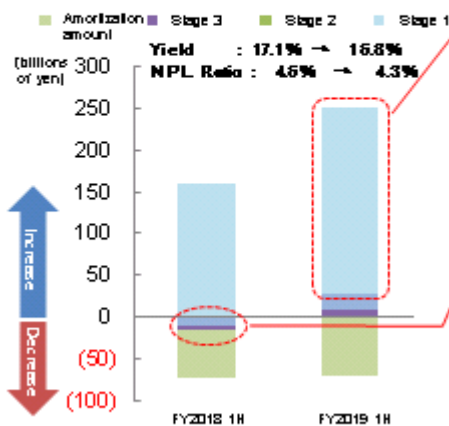
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- Next, let me discuss the factors that drove bad debt expenses in the Mekong area.
- This chart compares changes in the balance of finance receivables for the Mekong area in the first six months of this fiscal year and the year-earlier period.
- The outstanding balance of finance receivables in the present period increased significantly from the year-ago level, led by an increase in normal loans, and this resulted in an increase in bad debt expenses.
- Gross rate of return and NPL ratio remained flat.
- Going forward, our local operation will introduce the IFRS. We aim to improve efficiency in preparation of this.



■ Due to changes in the situation in the previous fiscal year and the current fiscal year, loan losses increased significantly from the same period of the previous year.

【Fluctuations in the balance of finance receivables in the Malay area】



Note: The exchange rate of the NPL ratio and graph figures is applied to the spot rate at the end of August, 2019.

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< Topics for this fiscal year >

- Accelerating the pace of increase in the balance of operating receivables in the first six months
- Increase in normal receivables (stage 1) was 1.4 times higher than FY2018 1H
- NPL ratio improves due to lower yields due to increased approach to good customers

< Previous Period Topics >

- In Malaysia, recovery rates improved in the 1H of the previous year, partly due to government support measures for low-income earners
- The balance of delinquent loans decreased in the first half of FY2018
- Loss of allowance for loan losses due to decrease in the balance of delinquent loans

Malay Area	1H results	YoY Diff
Operating revenue	¥25.5bn	+ ¥2.8bn
Bad debt allowance	¥7.9bn	+ ¥2.8bn

【Reference】	1H results	Diff start from FY
Finance receivables	¥253.2bn	+ ¥6.6bn
Normal	¥226.4bn	+ ¥6.2bn

- Next, let me discuss the factors that drove bad debt expenses in the Malay area.
- In the first half of the previous fiscal year, we adjusted the initial balance of bad debt expenses due to the application of IFRS 9. In terms of collection environment, collection rate of delinquent finance receivables improved in Malaysia in the first quarter of the previous fiscal year, thanks in part to the government measures to support the low-income bracket. In relation to this, increase in bad debt expenses was limited thanks in part to the impact of writing off allowance for doubtful accounts related to the delinquent loans.
- On the other hand, the outstanding balance of normal loans increased significantly from a year ago in the first half, which resulted in an increase in bad debt expenses.
- Due to an increase in low-risk loans with relatively long lending periods, including auto and motorcycle loans, gross rate of return dropped somewhat, but NPL ratio remained flat.

Consolidated results by Segments - Consolidated balance sheet



Consolidated results (Unit: Billions of yen)	Results	Change from start of FY	Topics ※○: Change from start of FY
Cash and deposits	712.1	+67.5	- Domestic balance : 3671.5bn (+3664.3bn) * (including holding company) → Increase due to sale of securities and securitization
Operating Loans	850.1	Δ0.3	[Operating Loans and Loan and bills discounted for banking business]
Loan and bills discounted for banking business	1,718.3	+133.3	- Balance Incl. securitization : 33,970.2bn (+3307.4bn) In which, Domestic balance : 33,532.5bn (+3197.0bn) In which, Global balance : 3340.3bn (+36.5bn) - Securitized amount (Domestic only) : 31,402.3bn (+314.4bn)
Accounts receivable – installment	1,622.9	+169.7	- Balance Incl. securitization : 32,155.2bn (+3185.1bn) In which, Domestic balance : 31,267.3bn (+3175.5bn) In which, Global balance : 3232.2bn (+36.1bn) - Securitized amount (Domestic only) : 30,532.5bn (+315.4bn)
Allowance for doubtful accounts	Δ111.6	Δ.88	Call loans : 352.6bn (+322.1bn)
Other Assets	633.1	+15.0	[Deposit on AEO N Bank] - Ordinary deposits : 32,794.7bn (+3161.4bn) - Time deposits : 3772.2bn (+362.4bn) - Foreign currency deposits : 365.6bn (+333.2bn)
Total assets	5,648.3	+394.2	- Domestic balance : 3556.2bn (+3150.0bn) → Bonds payable : 3130.0bn (+360.0bn) - Global balance : 3674.6bn (+367.5bn) ※ Domestic and global amounts include figures for holding company and shared function companies
Deposits	3,635.0	+165.8	* In accordance with the transition to the business company, customer's liabilities for acceptance and guarantees (assets) and acceptance and guarantees (liabilities) are deleted.
Interest-bearing debt (excl. deposits)	1,074.4	+217.6	
Other liabilities	493.8	+14.4	
Total liabilities	5,203.3	+397.9	
Total equity	445.0	Δ3.6	
Total liabilities and equity	5,648.3	+394.2	

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7

- Let's move on to the consolidated balance sheet.

- Cash and deposits increased 67.5 billion yen from the beginning of the fiscal year due to borrowing related to consolidation of funding functions into the headquarters, sale of securities, and securitization of finance receivables, among other factors. Loan and bills discounted for banking business grew 133.3 billion yen and the total assets came to 5,648.3 billion yen, increasing 394.2 billion yen from the beginning of the fiscal year.

- Total liabilities increased 397.9 billion yen from the beginning of the fiscal year to 5,203.3 billion yen as deposits increased 165.8 billion yen, led by ordinary deposits, as their use as transaction accounts grew due to increased corporate bond issuances and issuance of cash cards combining credit-card or debit-card functions in Japan.

- Allowance for loss on refund of interest received decreased 0.3 billion yen from the beginning of the fiscal year to 3.8 billion yen as 0.7 billion yen was added to, and 1.0 billion yen—down 0.1 billion yen from a year ago—was drawn from, the allowance.

- The net result of these changes in assets and debts was a 3.6 billion yen decrease from the beginning of the fiscal year in total equity to 445.0 billion yen.

- This concludes the results presentation. Thank you very much for your attention.

First Half Initiatives

- I am Kawahara of AEON Financial Service.
- I will start by reviewing developments to the first half of fiscal 2019.

1H Initiatives – Acquire new ID/Promote card usage

■ Promote cashless through campaigns and issuing new credit cards

【 Card enrollment and use measures 】

【Newly issued】

Tenfold Tokimeki Points Campaign in AEON group stores
 AEON Card (Toy Story Design) Maruetsu card



Up to 20% cashback campaign on card usage



【Add credit card instant issuance to smartphone apps】



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8

- In domestic business, we focused on sales promotion campaigns aimed at expanding the customer base and promoting use of cards in the first half.
- Key initiatives included a 10 times-point campaign at AEON Group outlets and an up to 20% cash-back campaign targeting new cardholders, both of which were started in July.
- During the period, we also introduced the AEON Card (Toy Story Design) and the Maruetsu Card.
- The AEON Card (Toy Story Design) is the second card to feature Disney characters after the Mickey Mouse design card that has remained popular since its debut in 2014. The new card has been very well received by young people and family users.
- The Maruetsu Card is a tie-up card with Maruetsu, which operates about 300 supermarkets mainly in the Tokyo metropolitan area. It features AEON Card special offers as well as original special offers specific to it. We aim to boost membership in the metropolitan area with these cards.
- We also expanded the functions of the AEON WALLET smartphone app so that signing up for card membership and immediate issuance is now available through the app.

1H Initiatives – Effects of Cashless Promotion ①



- The number of new cardholder acquired was strong, mainly in the 20s and 30s.
- Confirm usage trends leading to continuous use after the end of the promotion

【 Status of membership acquisition on the 1H(Apr. to Sep.) 】

New cardholder	590,000	YoY 1.5 times
(Reference) 1H results	1,010,000	
AEON Bank Account Withdrawal Setup Rate	41%	YoY 2.1 times
20~30s composition ratio	37%	All cardholder base ratio 2.1 times

【 Status of up to 20% cashback campaign for new cardholders 】

- The number of newcardholder (the person who is eligible for the reduction) and AEON Bank account setting rate (20% reduction rate) increased more than expected.
- During the reduction period (21 days in total), used more than expected, mainly high-value items
- The utilization rate outside the period to be reduced was the same level as within the period of the reduction target period

Reference-Usagetrends of 20~30s (New cardholder from Apr. to Sep)	
Number of people using shopping ribo	YoY 135%
Number of people using cash advance	YoY 120%

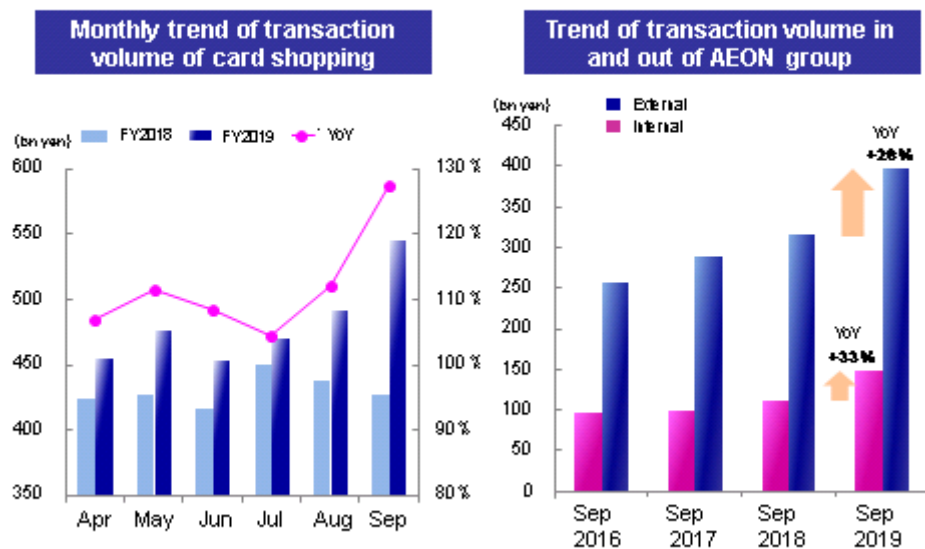
The use as a card of everyday use is promoted in the wake of the reduction measure

- At the beginning of the fiscal year, we said that we aimed to expand the customer base in the first half to prepare for the consumption tax hike in the second half, and we believe things have developed in the way we had hoped.
- Driven by the aforementioned initiatives, the number of new cardholders increased steadily, led by customers in their 20s to 30s, increasing about 50% from a year ago to 590,000 in the fiscal second quarter.
- There was also improvement in the ratio of customers applying for the AEON Card Select, which doubles as an AEON Bank cash card and thus can lead to cross-use of products and services other than credit-card functions. This was driven in part by the up to 20% cash back campaign for new cardholders, which offers 20% cash back for customers who designate an AEON Bank account for direct debit and 10% for those who do not.
- Of the customers in their 20s and 30s who signed up for membership in the fiscal second quarter, the respective numbers of those who used the shopping ribo increased 35% year on year and those using the cash advance service grew 20% year on year.
- Under this campaign, cash back is offered only for card use in a week per month, for a total of 21 days, in the months of July to September. As there were customers who used the card other than the specified days, we aim to continue to promote it as a card for daily use.
- We will incentivize customers through campaigns and promotional initiatives.

1H Initiatives – Effects of Cashless Promotion ②



■ Expand transaction volume of card shipping in and out of AEON group stores



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11

- Let me now discuss increased transaction volume thanks to increased use of the AEON Card as the main card.
- The chart on the left compares transaction volume of card shopping in each month of the latest and the previous fiscal first half. It shows the transaction volume significantly increased over the year-ago month especially during the fiscal second quarter.
- The chart on the right shows historic transaction volume in and outside the AEON Group in September of four years to 2019.
- As you can see, September transaction volume grew steadily both in and outside the AEON Group, with the respective figures increasing +33% and +26% from a year earlier, driven by the impact of sales promotion measures.
- We think customers who use the AEON Card as their main card have increased since we introduced the double-point campaign at AEON Group outlets in June 2016, and this, coupled with the measures to promote cashless payment, has contributed to expanding the card's use in and outside the group.

1H Initiatives – Effects of Cashless Promotion ③



■ Increase in card holders with WEB registration and AEON bank account through WEB shift of campaigns and billing statements

	FY2018		FY2019 1H	
Active cardholders	17.49mil		17.91mil	+0.42mil
WEB registered members	8.58mil		10.26mil	+1.68mil
WEB statement WEB statement ratio	About 3.8mil 32%		About 9.6mil 75%	2.5 times
AEON WALLET downloads	2.47mil		5.3mil	2.8 times
AEON Card Select members	4.86mil		5.11mil	+0.25mil

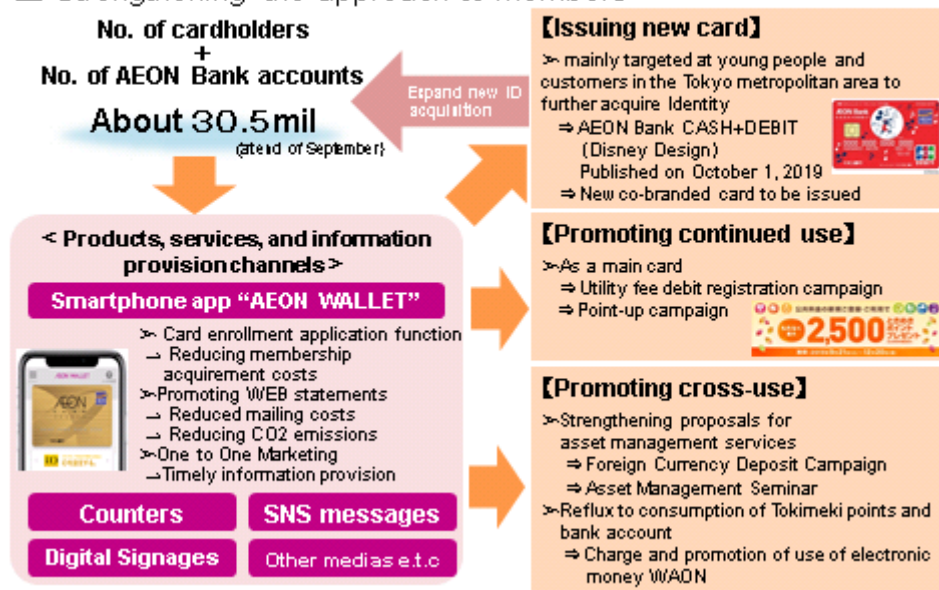
※ AEON Card Select: Credit card linked with AEON Bank card

- Next, I will discuss the impact of digitalization effort that we worked on along with campaign initiatives.
- Partly because we required customers to take part in the 20% cash back campaign through the web, the number of web-registered members increased 1.68 million in the fiscal first half to 10.26 million, exceeding the initial target of 10 million. The figure continued to increase beyond October and has exceeded 11 million.
- The download count of AEON WALLET increased 180% from the end of the previous fiscal year at the end of September and has exceeded 6 million.
- We have started to charge for issuance of billing statements with those for debiting on Nov. 5, as part of efforts to promote paperless statement and use of AEON WALLET.
- This has helped increase the number of WEB statements from 3.8 million at the debiting on May 7 mainly for payments in March to 9.6 million six months later at the Nov. 5 debiting, which was a growth of 150%. The percentage of WEB statements in the total debit instances increased to 75% from 32% over the same period.
- We thus have reduced costs and improved service through digitalization, as it facilitates direct provision of a variety of services that address customer needs and enables us to provide a variety of timely and appropriate information to customers.
- As the number of members holding cards linked to bank deposit accounts increased, we have expanded the scope of cross-use target customers to whom we aim to solicit asset management and other financial services.

FY2019 2H Main Initiatives

- Let me now discuss the planned main initiatives in the fiscal second half.

■ Strengthening the approach to members



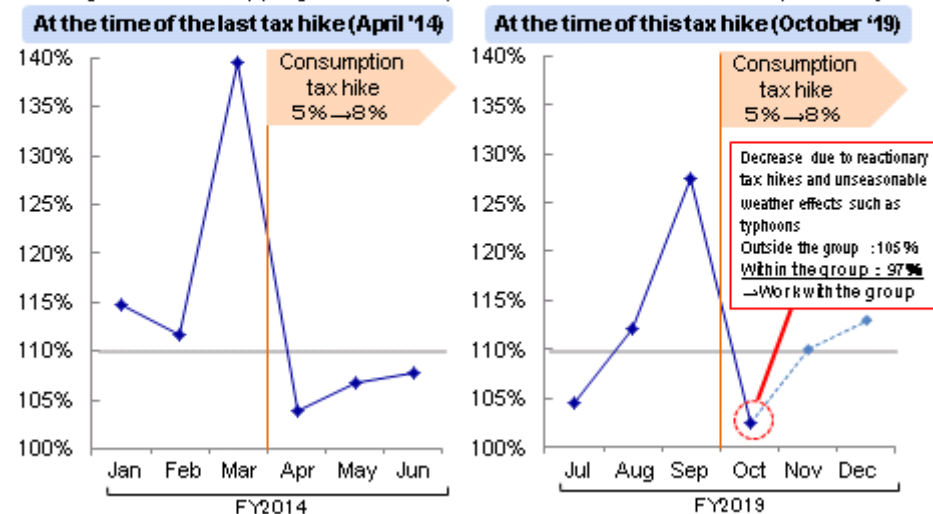
- In the second half, we aim to approach domestic cardholders and bank account holders, including web-registered members, and the about 30.5 million members using a variety of tools.
- We aim to strengthen our approach toward customers who use our digital tools, such as AEON WALLET, by practicing one-on-one marketing in a timelier manner than before.
- We also aim to promote use of our cards as customers' main cards to ensure their continued use by launching a campaign to encourage customers to register their card for monthly debiting of utility bills, etc. and a promotional campaign offering additional loyalty points on shopping using cards, etc.
- We also aim to promote cross-use of the cards by suggesting bank products and services, including asset management services, and encouraging crediting of the WAON electronic money with loyalty points for use in purchases.
- In addition, we aim to create a cycle in which we expand the membership by promoting application for membership of a planned new card that will mainly target young people and customers in the metropolitan area, taking advantage of the membership application and immediate issuance services through the app, in order to build on our ecosystem.

FY2019 2H Main Initiatives – Domestic



■ Early recovery from the effects of a rebound in consumption tax hikes and unseasonable weather

【Changes in card shopping volume compared to the same month of the previous year】



- These charts show year-on-year changes in monthly card-shopping transaction volumes before and after the consumption tax hikes in 2014 and this year.
- As the last minute demand surge before this past October's hike was not as large as the one ahead of the previous hike in April 2014, the post-hike demand drop this time was not as large either. Still, year-on-year increase in card-shopping transaction volume fell to 3% in October, affected also by a typhoon.
- In particular, card use for purchase of goods dropped. We aim to recover transaction volume levels by working closely with retailers.
- From November, we expect to be able to bring back up transaction volume growth back to two digits faster than we did after the previous hike and increase it further with the measures I discussed earlier.
- And we have focused our promotional effort in the first half and built a solid cardholder base in the first half to be able to do this.

■ New business development

Warranty Services (Started recruiting dealers) ※

Development of health-promoting products and services (planned)

Regional Collaboration Solutions utilizing data (planned)

※ Guarantee of quality and performance for products

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16

- Next, planned business development in Japan after our transition from a holding company to an operating company.
- Since the beginning of the current fiscal year, we repeatedly said that we will explain plans as soon as we are ready to announce them. So, I would like to let you know that we have started a warranty service. This is aimed at adding a warranty service to auto loans to enhance customer convenience.
- Going forward, we plan to develop health-promoting products and services and start providing regional collaboration solutions utilizing data.
- This is all I can say about these services at this point. We plan to let you know more as soon as we are ready.

Strengthening cooperation with AEON group's retail business

Countries in which we operate	China Area		Malay Area				Malay Area				
	Hong Kong	China	Thailand	Cambodia	Vietnam	Myanmar	Laos	Malaysia	The Philippines	Indonesia	India
AEON operations (SBI)	■	■	■	■	■	■		■		■	
Credit cards	■		■	■				■		■	
Personal loans	■	■	■	■		■		■	■		■
Installment credit		■	■	■	■	■	■	■	■	■	■
E-money (Pre-paid)				■				■			
Insurance agencies	■	■	■					■			
Point cards				■				■			

【Pioneering initiatives in Malaysia】



- Next, our efforts to increase membership accounts, through mobile devices, in the global business.
- Our group has operations in 10 countries or regions outside Japan. As you can see, we are providing a wide range of products and services, including credit cards, personal loans, installment credit, e-money, insurance agent, and customer loyalty point cards, centering on regions where AEON has retail outlets, though there are some exceptions. We aim to introduce all these services in our mobile apps.
- In Malaysia, where AEON operates retail outlets, we are outsourced the operation of a customer loyalty point card service that has about 4 million members combining those of AEON Malaysia and AEON BiG Malaysia. We have consolidated these members and our 2 million existing members into a unified app membership of 6 million users, which enabled us to use a unified ID number system, introduce a mobile payment service, and conduct database marketing linked to customer purchase behavior information.
- We are preparing for a plan to take similar transition for loyalty point services in collaboration with AEON retail outlets in other countries, including Indonesia, Vietnam, and Cambodia.

■ Improving the convenience of products and services through FinTech

Enhance services with mobile apps

【Hong Kong: Online-complete Loans】

- Complete with the mobile app from application to screening
- Transfer to bank account on the same day



【Indonesia: Instant Screening App "AEON FAST"】

- The introduction of an immediate screening app Reduce the review time of the available amount
- Improvement of convenience and expansion of transaction volume



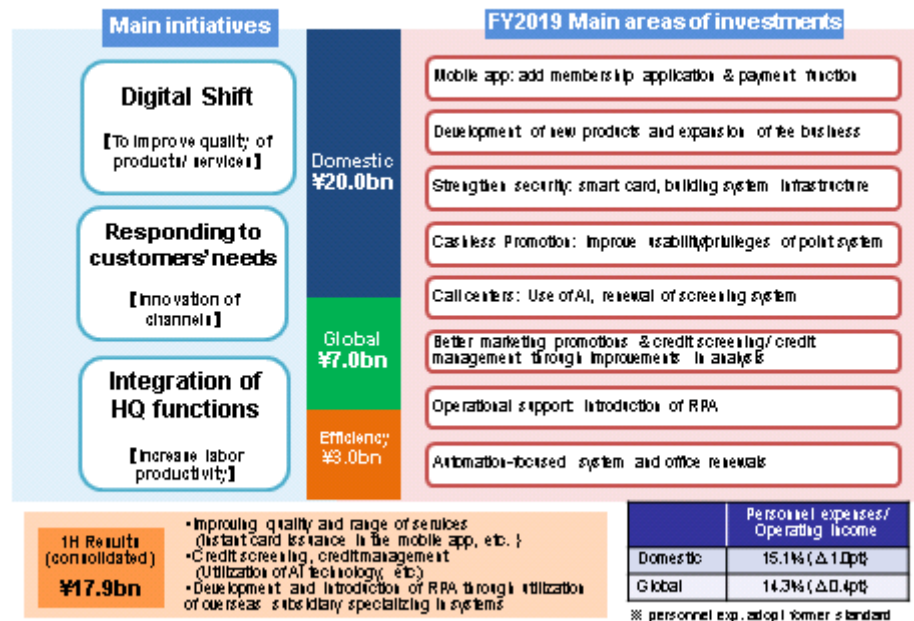
Development of auto loan business utilizing IoT

- Create creditworthiness through engine remote control using IoT devices
- A layer that has the ability to pay but does not pass the screening
- Providing products to the unbanking layer



- We are also putting efforts on use of mobile apps in existing services in overseas operations.
- In Hong Kong, we have started to provide a loan program in which all steps, from application to screening, can be completed entirely online through a mobile app.
- We introduced in Indonesia the AEON FAST immediate-credit screening app already in service in India. This helps shorten the time required for screening, and has led to improved customer convenience, winning of high-quality customers, and expansion of transaction volumes.
- And we introduced a loan program using IoT devices for tricycle drivers in Philippines under the keywords of job creation and income boost. In fiscal 2018, we follow it up with a loan program for four-wheeled taxis in Indonesia.
- In this fiscal year, we are working on providing loans for small trucks in Vietnam and loans for four-wheeled taxis in India, expanding such services into different countries.

Progress and schedule of system/IT investments



AEON Financial Service Co., Ltd.

19

- Let me move on to the progress of systems and IT investments, plans for such investments in the current fiscal year, and details of investment in the first half.
- In the current fiscal year, we are planning to spend a total of 30.0 billion yen for further digitalizing products and services, enhancing credit screening and management, and consolidating and automating back office functions.
- In the first half, we carried out investments for enhancing services. In domestic business, the main part of this was the addition of a function to join card membership to the AEON WALLET smartphone app. We also launched an immediate card issuance service, and enhanced merchant management systems and databases. We also introduced a system that mitigates the load of concentrated accesses to the digital systems.
- In global business, we made investments related to enhancing our infrastructure. These were for projects including reinforcing services using mobile apps, introducing a credit screening and management system that uses artificial intelligence, and reforming credit collection structures. Consolidated investment amount totaled 17.9 billion yen.
- As you can see in the bottom right on the page, we have set the ratio of personnel expenses to operating income as one of the KPIs for our IT investment and are trying to improve productivity by aiming to lower this figure.

FY2019 Consolidated forecasts



■ No change in earnings forecast

FY2019 Consolidated Forecasts ※1	FY2019 (from Apr 1, 2019 to Feb 29, 2020)	
	Full term (11 months)	(Reference ※2) 12 Months Conversion value
Operating income	¥430.0bn	¥470.0bn
Ordinary profit	¥70.0bn	¥73.0bn
Net income attributable to owners of parent (Net income per share)	¥38.0bn (¥176.11)	¥40.0bn (¥185.38)

	Interim		Year End		Full Year		Payout Ratio ※1	
	Results	YoY	Forecast	YoY	Forecast	YoY	Forecast	YoY
Dividend forecast	¥29	± ¥0	¥39	± ¥0	¥68	± ¥0	38.6%	+3.8%

※1 Forecast and Payout ratio : figures of for the fiscal year ending February 29, 2020 (11 months) after the change in the fiscal year

※2 Figures that adjusted the full-year earnings forecast to 12 months (from April 2019 to March 2020)

- Lastly, consolidated results and dividend forecasts for the year ending February 2020. We don't have any change in what was announced at the results announcement for the previous fiscal year.
- As Mr. Wakabayashi explained the impact on the business results in his presentation, we apologize for the inappropriate accounting practice found at the Philippine subsidiary that we disclosed on Nov. 1 for causing so much concern. We as the parent company strongly feel responsible for the incident.
- We have reached the final phase of investigation to shed light on the entire incident and are discussing measures to prevent recurrence of similar incidents.
- As you may recall, we had an inappropriate accounting practice at a Taiwanese subsidiary in 2013. Since then, we have introduced a total of 128 preventative measures and have worked on preventing recurrence of such an incident. We think we failed to detect the latest incident because some of these measures have yet to be introduced or some measures have become practiced in form only and ineffective. We also think another major cause was the failure for the local management team to look into the processes on the ground. We aim to review our governance structure once again, and rebuild it to make sure that such incident would never happen again. We are very sorry for any inconvenience we may have caused. I would like to extend my sincere apology.

This concludes my part of presentation.

Thank you very much for your attention.

Questions and answers

■ Mr. Watanabe, analyst at Daiwa Securities

Q: The ratio of bad debt allowances rose to 29.6% in the global business. You attributed it to an increase in finance receivables, but the balance of finance receivables increased in both the first and second halves in the last fiscal year and the IFRS was introduced. What made it increase that much, then? Do you expect the ratio of bad debt expenses to remain high as long as high growth rate continues in the next fiscal year?

A: In the Mekong area, Thai regulations were tightened in September last year in response to a large balance of cumulative debts held by individuals. We have a large number of cardholders, and lending limits for many of them were small amounts (15,000 baht or less) that would not breach the threshold. We worked to increase the limits mainly for high-quality customers and promoted the use of the cards, and the balance increased significantly. Some of this lending soured in the current fiscal year, however, aggravated in part by an economic slowdown. But as the amount of nonperforming loans held steady even as the balance of normal loans increased significantly, we think that the impact emerged in the current fiscal year was the result of the increased balance. Therefore, we think we will be able to maintain the ratio by strengthening monitoring of credit. As the IFRS will start to be introduced in Thailand in the next fiscal year, we aim to continue monitoring and managing credit in connection with it to ensure improvement in profitability and efficiency. Our Thai operation has started auto loans, and it uses default risks for motorcycles. In Thailand, values of used cars have not fallen as much as in Japan and used cars are sold at relatively high prices. We think the ratio will improve, buoyed by this. Therefore, we have a buffer conservatively, at least for now.

Q: In terms of promotional expenditures in Japan, you have carried out a large scale campaigns. Let me know positive and negative outcomes. I would also like to know how you plan to spend on promotions going forward.

A: From the get-go, we adopted the strategy to boost cardholders by making large expenditures in the first half. This time, we for the first time ran a 20% cash back campaign. The expenditures exceeded the budget by over 4 billion yen, but we were able to win a satisfactory number of digital members and especially young members. We were also able to add more members than the initial target, and they have used shopping ribo and cash advances. We think we have achieved the targets of "raising utilization rate," "increasing cardholders in the younger bracket," and "increasing digital cardholders." We need to continue to step up sales activity, but we do not plan to introduce promotions on as large a scale as we did this time.

■ Mr. Sato, analyst at Mizuho Securities

Q: Let me ask about credit cost outlook in other regions of the global business. I think the outlook in Hong Kong will depend on how local situations may develop. Is it affected and deteriorating? Also, in Malaysia, allowances for doubtful accounts increased sharply in the second quarter. Am I correct to understand that this is just a one-off occurrence?

A: In Hong Kong, merchants have been affected badly. That said, as the AEON Card is more for daily use compared to other cards, it appears to be affected less. In terms of credit costs, IFRS was introduced in Hong Kong in the last fiscal year, but allowances for normal loans did not increase that much, as outstanding lending did not increase. If we assume that the current state of affairs will not deteriorate further, we think credit cost increase will be limited in the next fiscal year and later. In Malaysia, there was a support measures for low-income earners by the government in the first quarter of the previous fiscal year and this was used for repayment, which resulted in a very good recovery rates. This resulted in relatively low results this year. We aim to aggressively seek to boost outstanding balance of lending in the second half, but we do not expect this will fluctuate much because loan-loss provision ratio has not deteriorated. We believe efficiency of collection will improve in the medium to long term as we are making investment on systems.

Q: Let me ask about the impact of 10-times point campaign at the AEON Group. Post campaign transaction volume in October indicates a significant drop from September, when the campaign was still on. It seems to me your company has taken on the costs for increasing the AEON Group's ratio of cashless payment. Let me know what impact it had on your company.

A: It is important to have our cards used at AEON Group outlets because we think it creates a very precious asset for our plan to digitalize the cards. This platform will have the next phase of use only after customers repeatedly come to the digitalized platform. We are making investment in order to make this platform have more value. Revenue in September and October was not very good as regions where the AEON Group has strong presence were battered by the typhoon. However, the use of points with the AEON Group like this time, we think, can be recovered through the values carried by the platform.

■ Mr. Niwa, analyst at Citigroup Global Markets Japan

Q: You said users of shopping ribo and cash advances increased in the domestic card business. I would like to know average spending per customer, along with their comparison with the average level.

A: Unit prices have risen by a large margin. As those are people who joined the membership through the 20% cash back campaign, many of them have the view that they should buy expensive products to earn points. New members spent an average of about 37,000 yen per customer. As the average is about 34,000 yen, the figure has increased about 3,000 yen.

Q: In terms of the domestic business, collaboration with regional banks has started in the banking industry. Does your banking business plan to go it alone or does it plan to team up with regional forces?

A: We do not plan to have the banking business collaborate with regional banks, as SBI does. SBI envisions a regional revitalization through revitalization of small- to medium-sized companies, but the business model of our banking business is different from this, because it basically does not handle corporate lending and instead provides financial services to regional individual customers. However, we do embrace contribution to regional revitalization in our corporate philosophy and have the strong determination to continue to provide regional financial services. We thus aim to focus on improving the quality of services to individual customers. I cannot discuss the details at this point, but we do have plans to work with the region. Our approach is different from that of SBI.

■ Mr. Hara, analyst at SMBC Nikko Securities

Q: You have securitized cashing finance receivables that are likely to generate gains. Am I correct to understand that you will take a similar measure when profit is pressured by costs, going forward?

A: Usually, we take measures by thinking of the length of assets and turnover as a method for obtaining funds. The recent securitization was motivated by the fact that costs rose more than assumptions after we carried out a campaign on a level we never have taken on before. As we expect to earn future revenues mainly from shopping ribo and cashing, we securitized a portion of cashing receivables. This was, however, an exceptional measure rather than basic.

Q: I'd like to ask about adjustment in the Philippines. This time, adjustment totaled 1.2 billion yen for the past fiscal year. What level of figure do you expect for the first half of this fiscal year?

A: In the first half, some of the revenues booked in advance will be realized as time passes. In terms of allowances for doubtful accounts, Philippine receivables have very short period of about 12 months. If they remain in arrears after six months, they will be amortized. Therefore, we expect an impact of less than 1.2 billion yen, probably around 1 billion yen, as the difference. We plan to take a fundamental measures going forward, but profit levels will be lower than what we have expected until the improvement. The total amount will exceed 2 billion yen, but we think it is recoverable elsewhere.