

# Results for the Third Quarter of FY2019

February 14, 2020



## **AEON Financial Service**

First Section of the Tokyo Stock Exchange  
Stock Code: 8570

1. Consolidated Business Outline and Results
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# Consolidated business outline and results

(Unit: billions of yen)	Domestic				Global			
	Credit card ①		Installment sales	Housing loan ※1	Credit card		Installment sales ②	Personal loans ③
	Shopping	Cash advance			Shopping	Cash advance		
Transaction volume	4,395.8	314.2	182.6	382.8	213.5	103.3	97.1	121.7
YoY	110%	103%	102%	112%	112%	101%	127%	105%
Finance receivables ※2	1,208.7	494.3	698.5	2,256.0	104.6	106.4	199.5	255.4
Change from start of FY	+158.1	+20.2	+61.7	+232.4	+2.9	+3.6	+25.1	+25.7

※1 Fig. of Aeon Bank which includes amt for Flat 35 and studio condominium loan ※2 Fig. for domestic fin rec refer to amt before securitization

(Unit: no. of people)	No. of cardholders ④		
	Consolidated	Domestic	Global
Results	44.82mil	28.81mil	16.01mil
Change from start of FY	+2.13mil	+0.41mil	+1.72mil

(Unit: no. of accounts)	AEON Bank accounts		
	Total	Credit card linked with AEON bank acc	Debit card linked with AEON bank acc
Results	7.01mil	5.18mil	0.33mil
Change from start of FY	+0.45mil	+0.31mil	+0.09mil

(Unit: billions of yen)	Bank deposits balance			
	Total	Ordinary deposits	Time deposits	Foreign ccy deposits
Results	3,788.1	2,966.5	746.7	72.1
Change from start of FY	+304.7	+333.2	△68.5	+40.4

**① Domestic: Credit card** ( ) shows change from start of FY  
 > Shopping trx vol.: Remained weak due to the reaction to the consumption tax hike and the adverse weather conditions (typhoons and warm winters), (Quarterly year-on-year: 1Q+9.0%, 2Q+14.5%, 3Q+7.2%). The number of active cardholders\* is 18.3 million (+0.81 million). \*A member who has used a card at least once a year  
 > Cash advance trx vol.: No. of users 1.30mil (-10K), balance per user ¥340K (+¥7K)

**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.

**③ Global: Personal loans**  
 > Unifying credit lines and applications for installment sales and personal loans in Thailand and expansion of loans for middle-income earners in Malaysia.

**④ Consolidated, Domestic and Global number of cardholders**  
 Number of domestic members including debit cardholders and bank account holders increased by 0.53mil to 30.64mil since start of FY  
 > Domestic: Promote the acquisition of digital IDs (WEB members) through membership campaigns and web-based statement. New cardholders is 1.5 million (124% compared to the same period of the previous year)  
 > Global: Members increased mainly for installment sales and personal loans.

# Consolidated results by Segments

(Unit: Billions of yen)	Domestic total			Global total			Consol. Total ※3	
	※1	Retail ※2	Solutions ※2	※1	China Area	Mekong Area		Malay Area
Ordinary income	242.1	150.8	145.3	114.1	14.1	61.7	38.1	356.1
YoY	109%	106%	109%	111%	98%	115%	111%	110%
Change	+20.2	+8.8	+11.4	+11.4	Δ0.3	+8.0	+3.7	+31.9
Ordinary profit	25.8	9.5	17.9	18.3	4.4	0.9	4.3	43.1
YoY	97%	100%	91%	72%	83%	90%	46%	82%
Change	Δ0.8	+0.0	Δ1.7	Δ6.9	Δ0.9	Δ1.0	Δ5.0	Δ8.9
Ordinary profit ratio	10.7%	6.3%	12.4%	16.1%	31.7%	15.5%	11.3%	12.1%
YoY	Δ1.4pt	Δ0.4pt	Δ2.3pt	Δ8.6pt	Δ5.4pt	Δ4.3pt	Δ15.9pt	Δ4.0pt

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

Profit attributable to owners of parent 22.2

※2 Retail is a personal-centric business, Solutions is a business that is central to merchants

YoY 75%

※3 Include Holding company, Shared functions and elimination of Consolidated adjustments

## ■ Domestic main factors ※( ): YoY % or amount

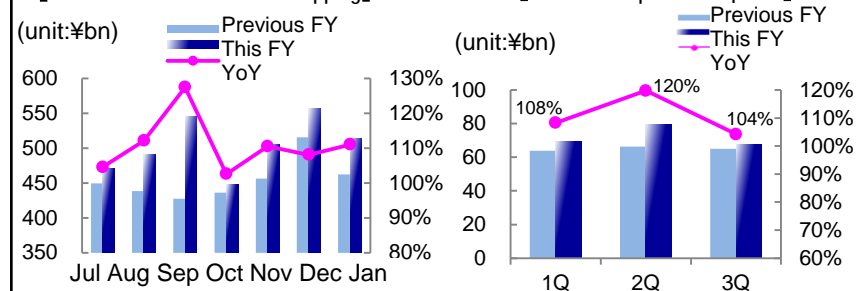
• Operating expenses for 3Q of the FY were on a restraining trend (+4.2% YoY, -14.9% compared to 2Q)

→ Fees and commissions payments (+12.6%) increased due to the expansion of business operations, promotion expenses, including point expenses, decreased (-0.7%)

→ Increase in labor costs (+8.6%) by responding to inquiries about government and the company's cashless measures

【Transaction volume of card shopping】

【Balance of operation expense】



• Impact on Consol. profit by securitization of finance receivables: ¥19.4bn (116%, +¥7.7bn)

## ■ Global main factors ※( ): YoY % or amount

• Hong Kong: Maintains earnings in a tough economic environment, but bad debt costs increased.

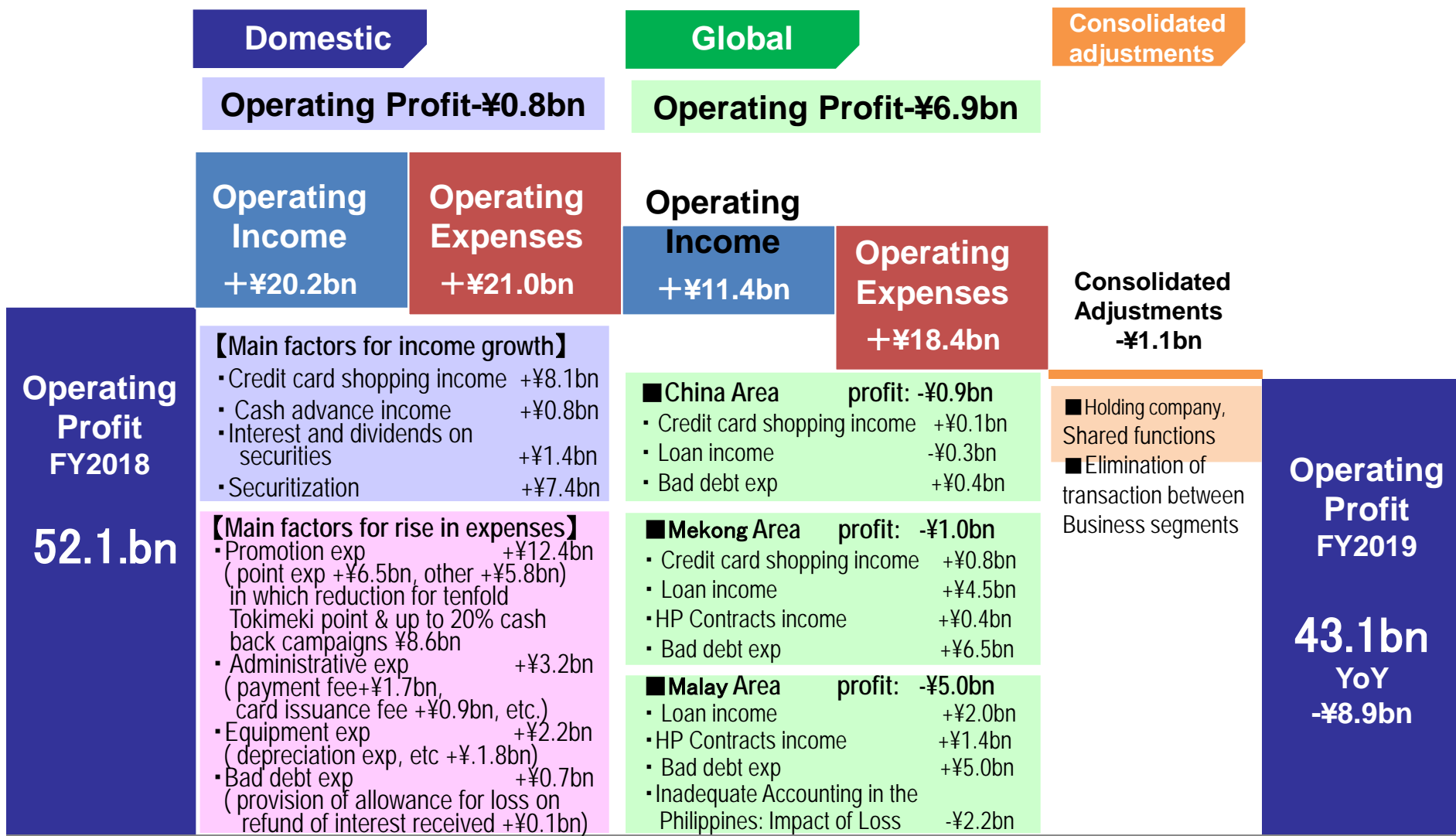
• Thailand/Malaysia: Income increased due to trx vol of installment finance and loans and finance receivables increased steadily. However bad debt expenses increased due to the impact of IFRS9 application in the same period of the previous year. The Malays' performance includes the impact (¥2.2bn(¥1.2bn for the past FY, ¥1bn for this FY)) of improper accounting in the Philippines.

※ Foreign exchange impact: Operating income +¥0.16bn, Operating profit -¥0.01bn

	Dome- stic	Global	China	Mekong	Malay
Personnel expenses/ Operating income	15.1% (Δ0.7pt)	14.4% (Δ0.4pt)	13.5% (+0.2pt)	14.0% (Δ0.7pt)	15.5% (Δ0.3pt)
Bad debt expenses/ Operating income	6.9% (Δ0.4pt)	31.3% (+8.2pt)	18.6% (+3.8pt)	33.4% (+7.1pt)	32.5% (+11.0pt)

※ Domestic bad debt exp. are figures excl. interest refunded exp., and adopting former standard for personnel exp.

# Consolidated segment results by graph

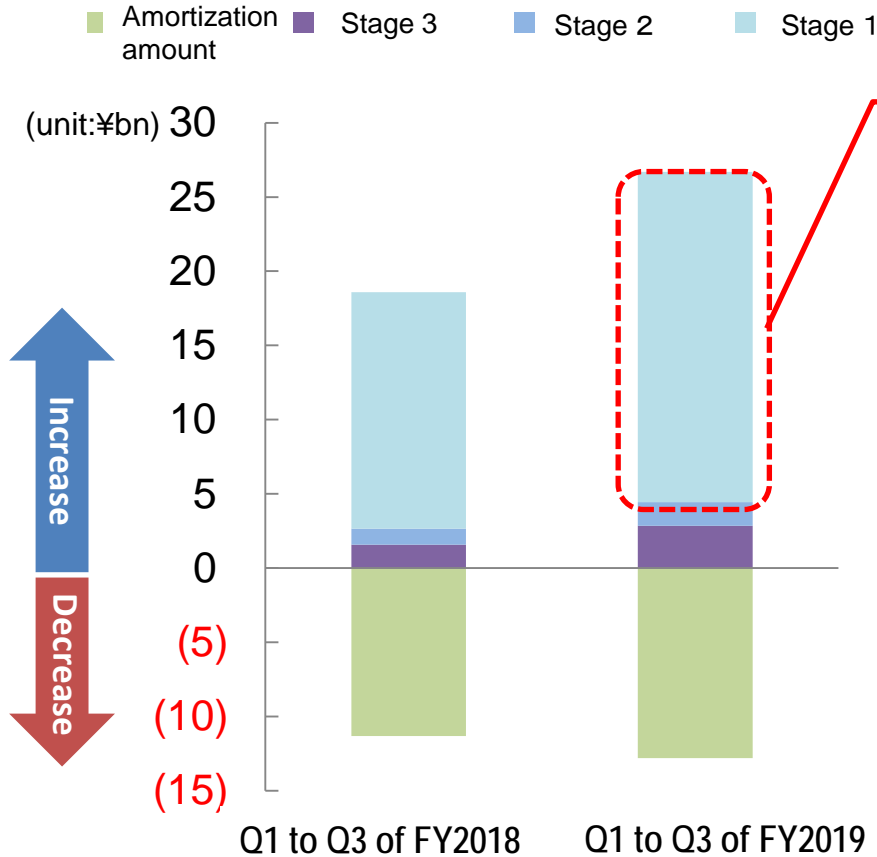


※The figures for each business are the number after the inter-segment elimination excluding holding company and shared functions

# : Factors that increase in loan losses in the Mekong area

■ The balance of receivables will steadily expand, but the impact of the application of IFRS 9 will increase loan losses.

【Changes in the ratio of the balance of operating receivables in the Mekong area】



- 3Q: Accelerating the pace of increase in the balance of finance receivables in the nine-month period
  - **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 as the balance of receivables increases.**

Mekong Area	3Q results	YoY Diff
Operating revenue	¥61.7bn	+¥8.0bn
Bad debt allowance	¥20.6bn	+¥6.5bn
Normal receivable	¥2.7bn	+¥2.4bn
Delinquent loans	¥17.9bn	+¥4.0bn

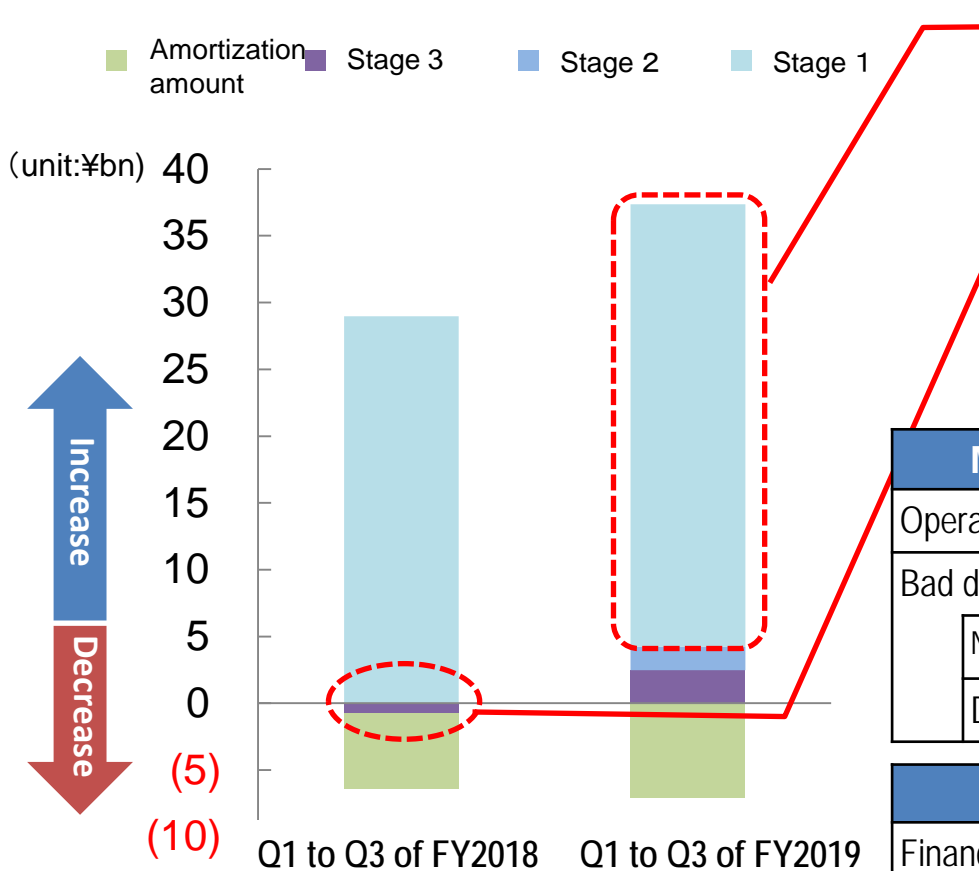
	3Q-end results	Diff start from FY
Finance receivables	¥323.4bn	+¥35.4bn
Delinquent loans	¥25.5bn	+¥5.0bn
Ratio of delinquent loans	7.9%	+0.8pt

Note: The exchange rate for the graph figures is the rate as of the end of November 2019.

# : Factors that increase in loan losses in the Malay area

■ 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.

【Changes in the ratio of the balance of operating receivables in the Malay area】



**< Topics for current fiscal year >**

- Accelerating the pace of increase in the balance of finance receivables
- **Increase in normal receivables (stage 1) was 1.1 times higher than the same period of the previous year**

**< Topics for previous fiscal year >**

- Impact of Malaysian government subsidy measures in the previous first quarter
- **The balance of delinquent loans decreased due to improved collection rate**
- **Reversal of the provision for doubtful receivables for the decrease in eligible receivables**

Malay Area	3Q results	YoY Diff
Operating revenue	¥38.1bn	+¥3.7bn
Bad debt allowance	¥12.4bn	+¥5.0bn
Normal receivable	¥1.5bn	+¥1.1bn
Delinquent loans	¥10.8bn	+¥3.8bn

	3Q-end results	Diff start from FY
Finance receivables	¥275.0bn	+¥28.3bn
Delinquent loans	¥29.3bn	+¥2.8bn
Ratio of delinquent loans	10.7%	Δ0.1pt

Note: The exchange rate for the graph figures is the rate as of the end of November 2019.



# :Consolidated balance sheet

Consolidated results (Unit: Billions of yen)	Results	Change from start of FY
Cash and deposits	864.3	+219.8
Operating Loans	884.1	+33.6
Loan and bills discounted for banking business	1,662.7	+77.7
Accounts receivable – installment	1,682.5	+229.4
Allowance for doubtful accounts	△117.3	△14.4
Other Assets	886.7	+62.9
<b>Total assets</b>	<b>5,863.1</b>	<b>+609.0</b>
Deposits	3,778.7	+309.6
Interest-bearing debt (excl. deposits)	1,095.5	+238.7
Other liabilities	536.2	+56.8
<b>Total liabilities</b>	<b>5,410.5</b>	<b>+605.1</b>
<b>Total equity</b>	<b>452.6</b>	<b>△3.9</b>
<b>Total liabilities and equity</b>	<b>5,863.1</b>	<b>+609.0</b>

## Topics ※():Change from start of FY

• Domestic balance: ¥ 816.3 bn (+¥209.2bn) \*including holding company  
→ Increase due to sale of securities and securitization

【Operating Loans and Loan and bills discounted for banking business】

• Balance incl. securitization : ¥3,917.9bn (+¥154.5bn)  
in which, Domestic balance : ¥3,528.0bn (+¥92.1bn)  
in which, Global balance : ¥361.8bn (+¥29.3bn)  
• Securitized amount (Domestic only) : ¥1,371.0bn (+¥43.1bn)

• Balance incl. securitization : ¥2,217.3bn (+¥246.6bn)  
in which, Domestic balance : ¥1,907.2bn (+¥219.9bn)  
in which, Global balance : ¥304.1bn (+¥28.0bn)  
• Securitized amount (Domestic only) : ¥534.7bn (+¥17.2bn)

Money held in trust : ¥48.0bn (+¥25.6bn)

【Deposit on AEON Bank】

• Ordinary deposits : ¥2,966.5bn (+¥333.2bn)  
• Time deposits : ¥746.7bn (-¥68.5bn)  
• Foreign currency deposits : ¥72.1bn (+¥40.4bn)

• Domestic balance : ¥590.9bn (+¥181.1bn)  
→ Bonds payable : ¥180.0bn (+¥90.0bn)  
• Global balance : ¥504.6bn (+¥57.5bn)  
※ Domestic and global amounts include figures for holding company and shared function companies

\*In accordance with the transition to the business company, customer's liabilities for acceptance and guarantees (assets) and acceptance and guarantees (liabilities) are deleted.



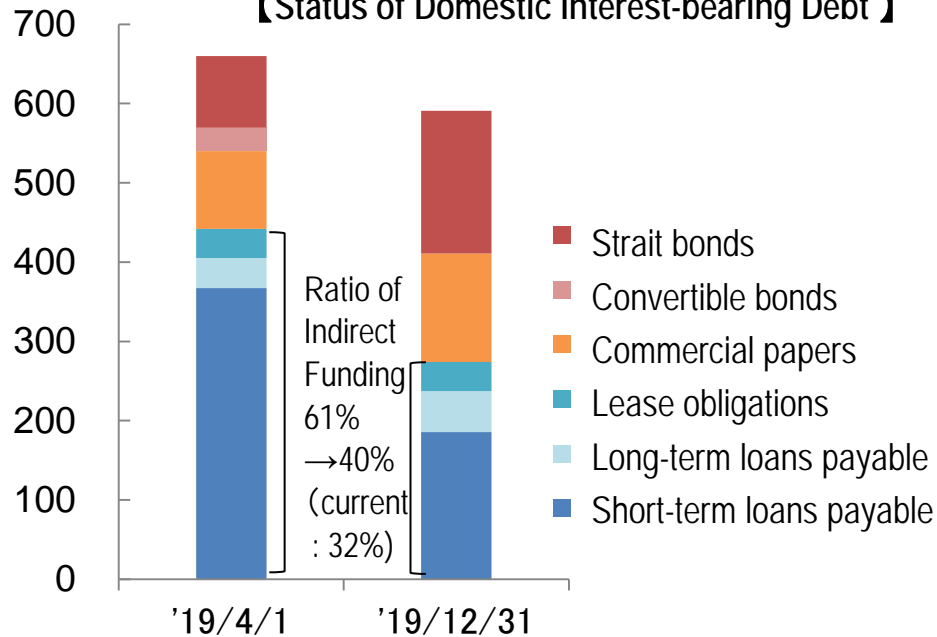
# : Changes in the financial structure

## ■ Centralize domestic funding and expand direct funding

- Demonstrate scale benefits through centralized funding in Japan (FY19・Issue of bonds ¥180bn(plan))
- Shift from indirect funding to direct funding (As a result of the shift from bank borrowing to corporate bonds, financial costs for AFS are -10bp)
- Enlarge the role as a business company (Control business risks: loans on subordinate loans to subsidiaries, purchase of subordinate beneficiary rights from subsidiaries, etc.)

(Unit:¥bn)

【Status of Domestic Interest-bearing Debt】



【Bond issuance through the third quarter】

Unsecured bonds	Total	Interest rate	Due date	Term
5 <sup>th</sup>	¥30bn	0.23%	May 27, 2022	3yr
6 <sup>th</sup>	¥30bn	0.35%	May 28, 2024	5yr
7 <sup>th</sup>	¥25bn	0.19%	March 20, 2023	3.5yr
8 <sup>th</sup>	¥25bn	0.30%	September 20, 2024	5yr
9 <sup>th</sup>	¥20bn	0.38%	September 18, 2026	7yr

※Raised 50 billion yen in January 2020

# Initiatives until the 3Q

# Domestic: ID Acquisition and usage promotion

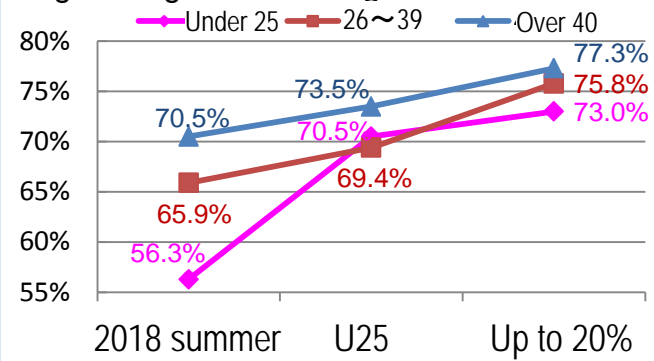
Strengthening the customer base in the Tokyo metropolitan area and for young generations

New Product and Service

1Q	2Q	3Q
<p>Added credit card instant issuance function to app</p>  <p>イオンウォレット</p>	<p>Maruetsu Card</p>  <p>AEON Card (Toy story design)</p> 	<p>AEON Card (Keyakizaka46)</p>  <p>AEON bank CASH+DEBIT card(Disney design)</p> 

### 【Changes in brand awareness】

- The new life campaign was limited to those under 25 years old, and the "recognition rate of under 25 years old" increased (+14.2%)
- Up to 20% reduction campaign with no age limit grows for all ages



From the summer campaign effect measurement survey (September 2019, 16-69 years old men and women, N . N=1400) より

Campaign

### U25 New Life Campaign

Period of enrollment : `19/3/1 ~ 4/30  
 Period of use : `19/3/1 ~ 5/31

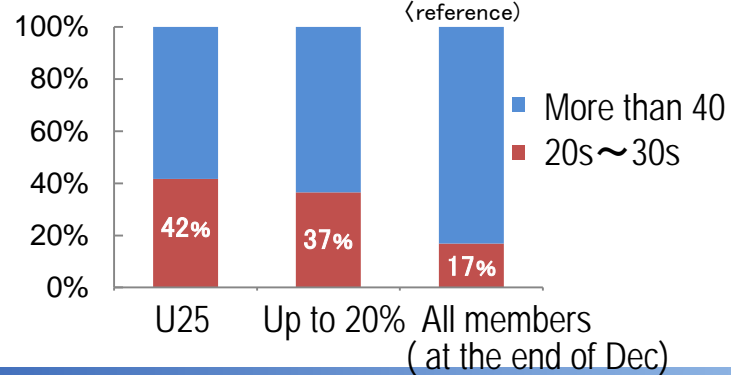


### Up to 20% cashback for card usage

Period of enrollment/use : `19/7/1 ~ 9/30



### 【Number of members acquired by age during the implementation period of the measures shown on the left】



# Domestic: Effect of each measure

- Confirm continued use of new members after enrollment
- Reduce shipping costs and environmental impact by making statement web-based

## 【Status of new cardholders who joined during the up to 20% reduction campaign period (Jul to Sep)】

① No. of new cardholders	
As of the end of December	570,000 (96% of new cardholders)

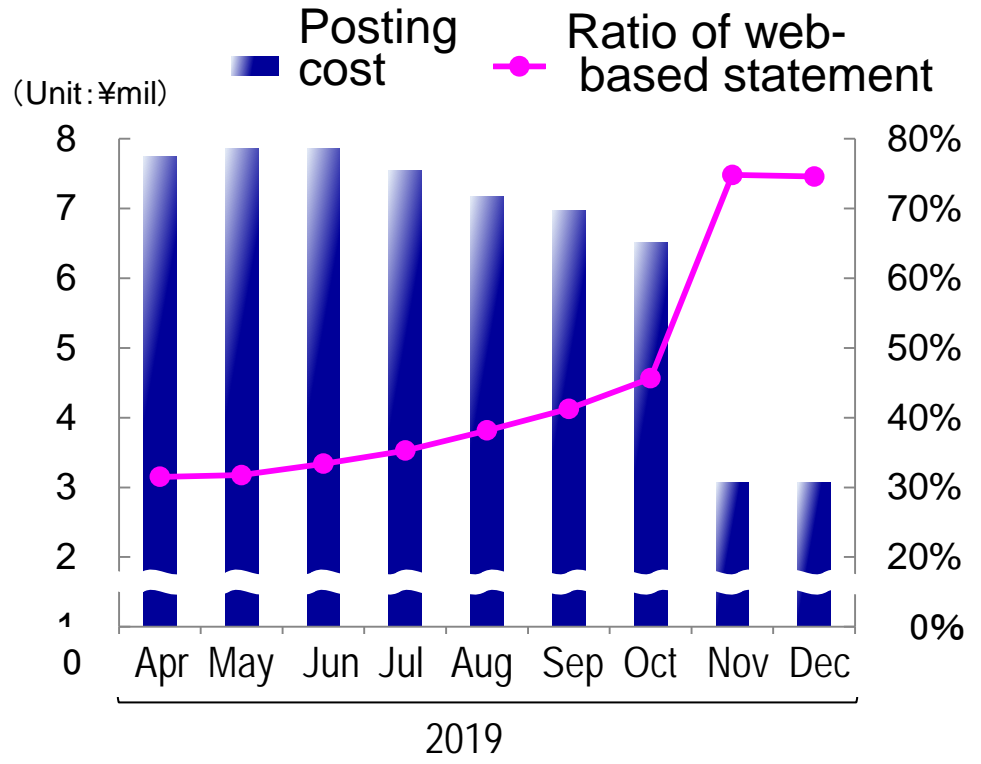
② Monthly occupancy rate for new enrollees from Jul to Sep	
Average from Oct to Dec	51% (Total membership ratio +6pt)

(Monthly usage per person is 78% compared to all members)

## ③ Ratio of eligible members' revolving payments utilization (YoY※)

Usage amount in October	=	Amount of usage per person	×	Number of users
203%		120%		169%

## 【Status of web based statement】



▪ Reduce CO2 emissions by about 500g per statement  
 ※ Calculation based on the Ministry of the Environment's "Example of calculation method of carbon dioxide reduction effect of Eco Action Point"

# Domestic: Banking Business

## Strengthening mortgage and asset management services

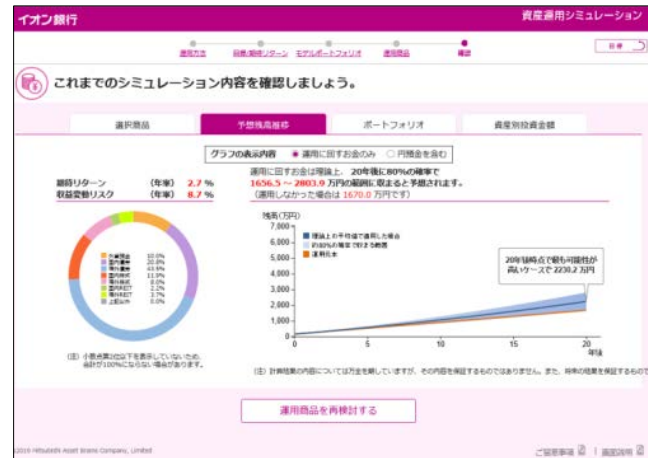
### Osaka Umeda branch of AEON Bank (Opened December 2019)



- Opening of the first urban street shop in the region
- ⇒ Located at the main terminal station (Umeda Station), easily accessible. Customers come from a wide trade area
- ⇒ Effective use of customers working around the branch (Weekday: 10:00~19:00, Weekends: 10:00~18:00)
- ⇒ In view of demographic changes in urban areas, we provide full banking services, such as the intake of mortgage demand and the proposal of asset formation services.

### Introduction of all stores of asset management simulation "Port Navi"

- AEON Bank's unique asset management simulation tool
- more than 60 model portfolios, including not only mutual funds but also foreign currency deposits.
- ⇒ more optimal proposals for our customers.



- Strengthen proposals for asset formation, including NISA, iDeCo, and foreign currency deposits
- ⇒ The contract amount of "Tsumitate" is about 1.5%. Extended by 5 times
- ⇒ The balance of "foreign currency deposits" increased by about 2.2 times from the beginning of the FY



# Global:

■ Strengthening customer base by opening flagship stores and issuing new cards

## opening flagship stores

### 【Thailand】 Central World Branch

- Introduction of self-terminals
- In addition to the interior and exterior with a sense of luxury, there is a lounge



### 【Hong Kong】 Central Branch

- Street stores along the main street



## Issuance of new co-branded cards

### 【Thailand】 Tokyo Olympic Card

- Target a health-conscious customer  
(Discounts for sports gyms, etc.)



## Opened a store at AEON Group retail stores

### 【Myanmar】

#### Opens A Branch in the AEON Orange

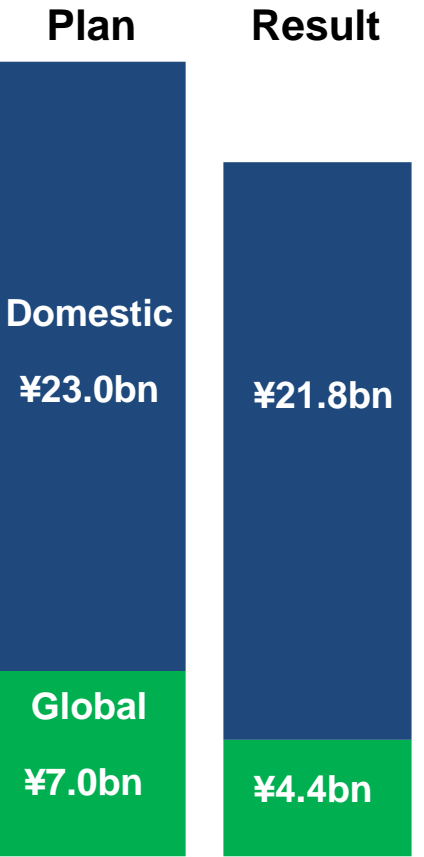
- Strengthening cooperative relationships



# Progress and schedule of system/IT investments

- Enhanced services such as instant card issuance and WEB itemization in mobile apps
- Promote the development and introduction of RPA utilizing overseas system subsidiaries

## Investments in FY2019

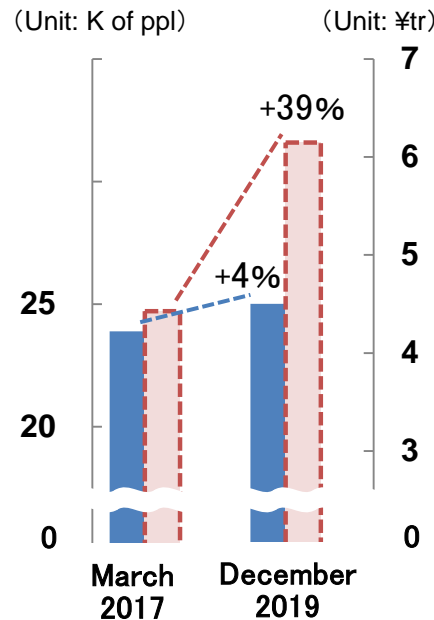


## FY2019 Main areas of investments

- Mobile app: add membership application & payment function
- Web-base statements, development of new products and expansion of fee business
- Strengthen security: smart card, building system infrastructure
- Cashless Promotion: Improve usability/privileges of point system
- Call centers: Use of AI, renewal of screening system
- Automation-focused system and office renewals
- Operational support: Introduction of RPA, workflow system renovation
- Better marketing promotions & credit screening/ credit management through improvements in analysis

## Productivity Improvement

- Consolidated number of employees
- Consolidated finance receivables outstanding



※Balance of finance receivables includes securitization  
 ※Number of employees include temporary employees



# Priority Implementation Matters

# Domestic:

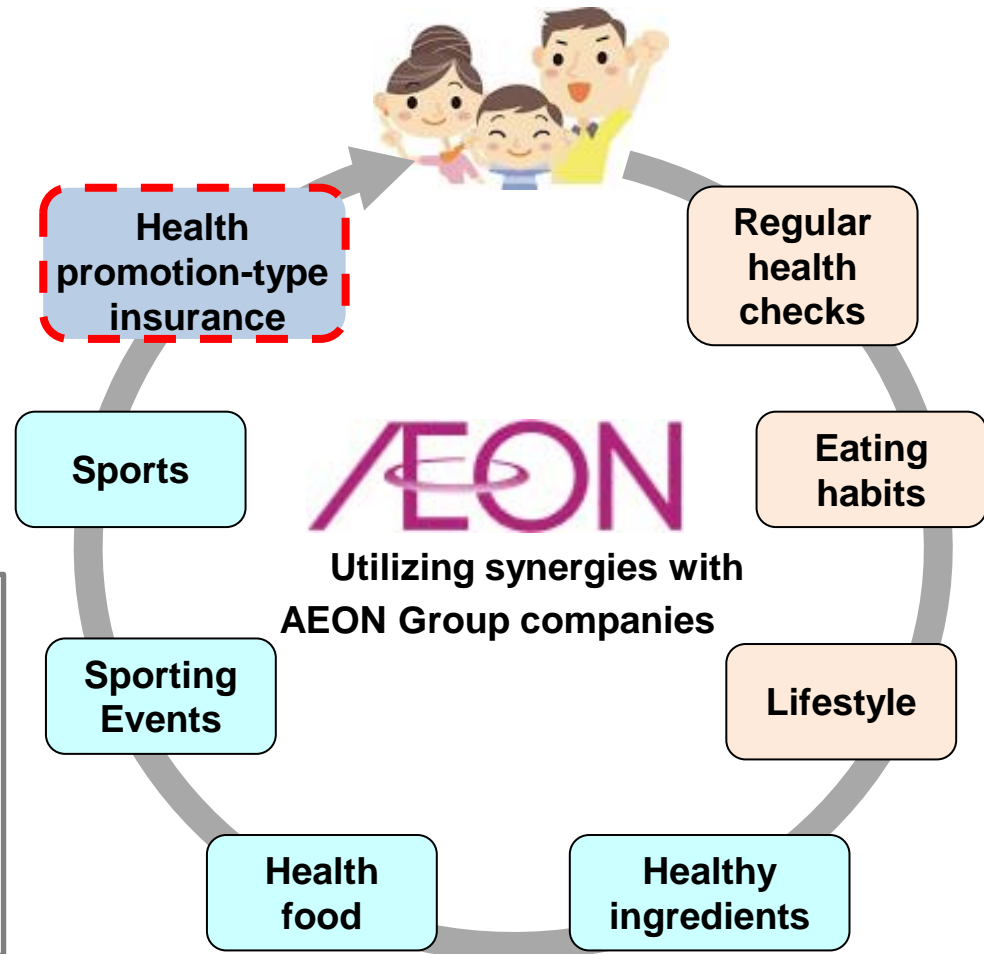
## ■ Entry into the insurance business

Acquisition of shares of Allianz Life Insurance Co., Ltd. through third-party allocation



Will work closely and in cooperation with "goods, activities, and services" provided by AEON Group companies to better understand and service the health related needs of customers

Consider selling products that contribute to customers and society  
 ⇒ ・「Health promotion-type insurance」  
 ・Protection-based products, savings-based products, services, etc.



## ■ Strengthen customer base

### 【Sumitomo Real Estate shopping city AEON Card】

- Sumitomo Real Estate and our first co-branded credit card
- As a discount card that can be used in large-scale commercial complexes, it will lead to the strengthening of the customer base in the Tokyo metropolitan area



#### <Privilege>

In addition to the usual ion card benefits,

- Invited to the exhibition before the grand opening of Ariake Garden in April 2020
- "Shopping and meal ticket" will be given upon the use of this card at the stores eligible for Ariake Garden and Haneda Airport Garden.

#### (Reference) Sumitomo Real Estate Shopping City Completion Forecast Diagram



Ariake Garden



Haneda Airport Garden

# FY2019 Consolidated forecasts

## ■ No change in earnings forecast

FY2019 Consolidated Forecasts ※1	FY2019 ( from Apr 1. 2019 to Feb 29. 2020)	
	Full term (11months)	(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)

※The impact of new pneumonia in China on our business performance is minor.

	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)

(Reference) FY2019 2Q Results (Hong Kong, Thailand, Malaysia)

		FY2018 3Q		FY2019 3Q	
		Results	YoY	Results	YoY
AEON CREDIT SERVICE (ASIA) (HK\$'000)	Revenue	979,911	103%	974,565	98%
	Profit before tax	398,732	120%	336,630	84%
	Profit for the period	333,487	122%	278,864	83%
AEON THANA SINSAP (THAILAND) (BAHT'000)	Total Revenues	15,335,291	113%	17,136,042	115%
	Profit before income tax	3,394,620	133%	3,774,487	115%
	Net profit for the period	2,728,540	133%	3,021,799	114%
AEON CREDIT SERVICE (M) Berhad (RM\$'000)	Revenue	1,006,307	109%	1,185,496	113%
	Profit before tax	357,068	122%	272,409	73%
	Profit for the period	267,011	123%	203,657	73%

※Source : Data related by each company. Hong Kong and Thailand are consolidated.

# (Reference) FY2019 3Q Results (Hong Kong, Thailand, Malaysia)

## ■ Consolidated Results of AEON Credit Service (Asia) Co., Ltd. (Unit: Billions of yen)

	FY2018 3Q		FY2019 3Q	
	Results	Results	YoY	
Operating income	13.8	13.5	98%	
Operating profit	5.6	4.6	84%	
Net income	4.6	3.8	83%	

Exchange rates: HKD 1

• FY2018 3Q : ¥ 14.09

• FY2019 3Q : ¥ 13.94

Fiscal period

• Third quarter of each year

: Mar. 1 ~ November. 31

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

	FY2018 3Q		FY2019 3Q	
	Results	Results	YoY	
Operating income	52.2	60.3	115%	
Operating profit	11.5	13.2	115%	
Net income	9.3	10.6	114%	

Exchange rates: THB 1

• FY2018 3Q : ¥ 3.41

• FY2019 3Q : ¥ 3.52

Fiscal period

• Third quarter of each year

: Mar. 1 ~ November. 31

## ■ Results of AEON Credit Service (M) Berhad

	FY2018 3Q		FY2019 3Q	
	Results	Results	YoY	
Operating income	27.5	31.2	113%	
Operating profit	9.7	7.1	73%	
Net income	7.3	5.3	73%	

Exchange rates: MYR 1

• FY2018 3Q : ¥ 27.35

• FY2019 3Q : ¥ 26.34

Fiscal period

• Third quarter of each year

: Mar. 1 ~ November. 31

# (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, balance at beginning of period	¥2.7bn	¥47.9bn	¥50.1bn
Provision of allowance for doubtful accounts	¥0.3bn	¥16.4bn	¥16.7bn
Write-off of doubtful accounts (including transferred debt)	¥0.0bn	¥13.7bn	¥13.8bn
Allowance for doubtful accounts balance at end of period	¥3.0bn	¥50.5bn	¥53.0bn

(Subsidiaries in domestic) Aeon Credit Service : ¥32.1bn, Aeon Bank : ¥2.9bn, Aeon Product Finance : ¥7.2bn, Aeon Housing Loan Service : ¥1.7bn

## ■ Allowance for Loss on Refund of Interest Received

	FY2018 3Q	FY2019 3Q
Beginning of period	¥3.1bn	¥4.1bn
Provision	¥0.8bn	¥1.0bn
Interest refunded	¥1.5bn	¥1.7bn
End of period	¥2.3bn	¥3.4bn

(Interest claims amount : Cash out + principal payout)

	China Area	Mekong Area	Malay Area	Global Total	Consolidated
Allowance for doubtful accounts, balance at beginning of period	¥3.6bn	¥30.5bn	¥17.6bn	¥51.8bn	¥102.8bn
Provision of allowance for doubtful accounts	¥2.6bn	¥20.6bn	¥12.4bn	¥35.6bn	¥52.4bn
Write-off of doubtful accounts (including transferred credit)	¥2.4bn	¥12.8bn	¥8.8bn	¥24.1bn	¥3.79bn
Allowance for doubtful accounts, balance at end of period	¥3.8bn	¥38.4bn	¥21.2bn	¥63.4bn	¥117.3bn



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**