


Results conference call for third quarter of year ending February 2020:


Transcript and questions and answers

Kazuyoshi Suzuki, director in charge of corporate planning, Aeon Financial Service Co., Ltd.



**Results for the Third Quarter of FY2019**

**February 14, 2020**

 **AEON Financial Service**

First Section of the Tokyo Stock Exchange  
Stock Code: 8570

*AEON Financial Service Co., Ltd.*

- Thank you so much for taking the time out of your busy schedule to participate in our results briefing conference call.
- My name is Kazuyoshi Suzuki, and I am in charge of corporate planning.
- I would appreciate your attention.

- 1. Consolidated Business Outline and Results**
- 2. Consolidated Results by Segments**
- 3. Initiatives until the 3Q**
- 4. Priority Implementation Matters**

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- Today, we will go over the results briefing documents.
- I will start off by discussing situations of business and results in the third quarter.
- Then I will discuss our plans going forward and earnings forecast for the current fiscal year.  
Later on, we will take questions from you.

Consolidated business outline and results								
(Unit: billions of yen)	Domestic				Global			
	Credit card ①		Installment sales	Hoteling loan ②	Credit card		Installment sales ③	Personal loans ④
	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 (1/3)	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 am1 for Fiat35 and studio condominium loan. ※ 2 Fig. for domestic in rec center loan before securitization.

(Unit: no. of people)	No. of cardholder ⑤		
	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 account	Debit card linked with AEON Bank account
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 currency 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 ① shows change from start of FY  
 ▶ Shopping: Tx 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 reused a card at least once a year  
 ▶ Cash advance: Tx vol.: No. of users 1.30mil (-10K), balance per user 2340K (+25 K)  
 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 30.6mil 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 (12% compared to the same period of the previous year)  
 ▶ Global: Members increased mainly for installment sales and personal loans.

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- Let me begin by explaining consolidated business results and situations by area.
- In domestic business, credit card transaction volume was slightly slow, increasing just 7.2% from a year ago in the third quarter, affected by a sharp drop in demand after a last-minute surge before the consumption tax hike in October and bad weather conditions, including typhoons and a warm winter. The cumulative figure for the first nine months of the fiscal year was up 10% from a year ago.
- In terms of cash advances, transaction volume grew 3% from a year ago while finance receivables increased 20.2 billion yen from the beginning of the fiscal year as a usage amount and balance per person increased.
- Global business was brisk, with transaction volume of installment finance increasing 27% from a year ago and finance receivables rising 25.1 billion yen from the beginning of the fiscal year, driven by transaction volume increases in automobile and motorcycle in Malaysia and a growth in auto loan business in other countries, including Thailand.
- Transaction volume of personal loans increased 5% from a year ago and finance receivables grew 25.7 billion yen from the beginning the fiscal year, as credit lines and applications for installment sales and personal loans were unified in Thailand and loans targeting middle to high income earners increased in Malaysia.

- In terms of consolidated effective cardholder numbers, new credit card holders increased 24% from a year ago to 1.5 million in domestic business driven by an enrollment solicitation campaign. We introduced web-based statement starting with the November withdrawals.
- In global business, membership has grown, led by increases in members of installment finance and personal loans.

### Consolidated results by Segments

(Unit: Billions of yen)	Domestic total			Global total				Consol. Total
	※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
	Profit attributable to owners of parent							22.2
	YoY							75%

※1 Domestic total and global total represent amounts after elimination of transactions between business segments.  
 ※2 Retail is a personal-centric business, Solutions is a business that is central to merchants.  
 ※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, -0.5% compared to 2Q).
- Fees and commissions payments (+8.4%) increased due to the expansion of business operations, promotion expenses, including point expenses, decreased (-4.1%).
- Increase in labor costs (+6.4%) by responding to inquiries about government and the company's business measures.
- Transfer subsidies on shipping.

Impact on Consol. profit by securitization of finance receivables: 369.4bn (116%, +36.7bn)

**Global main factors** (¥): YoY % or amount

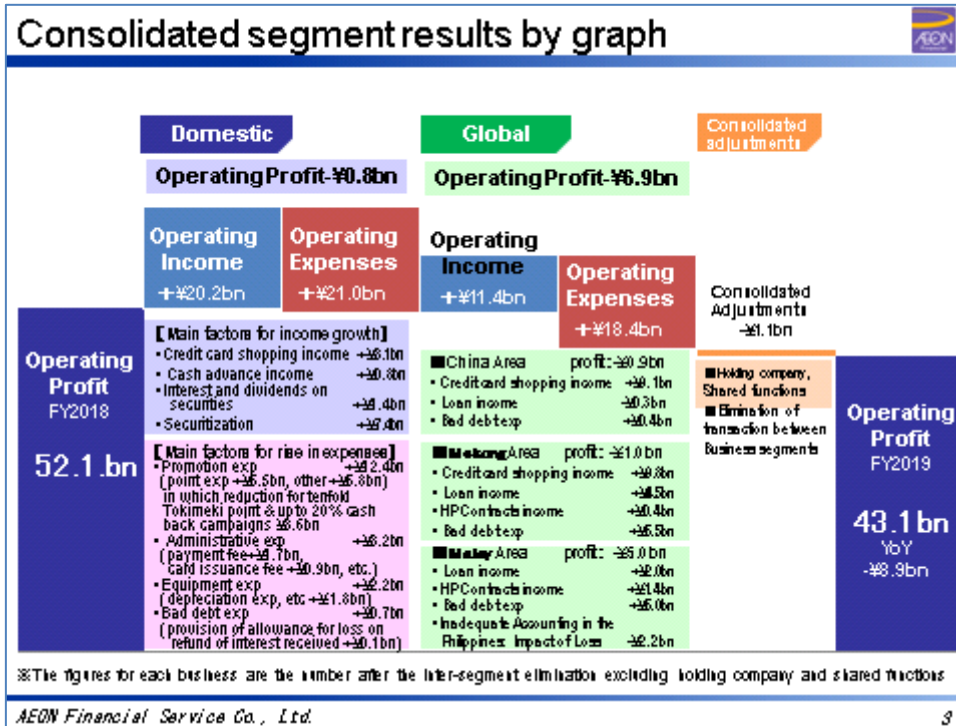
- Hong Kong: Maintains earnings in a tough economic environment, but bad debt loss is increased.
- Thailand/Malaysia: Income increased due to the use of installment finance and loans and finance receivables increased steadily. However bad debt expenses increased due to the impact of IFRS application in the same period of the previous year. The Malays' performance includes the impact (62.2bn) for the past FY, 36bn for this FY) of improper accounting in the Philippines.
- Foreign exchange impact: Operating income +10.1bn, Operating profit +10.0bn.

	Domestic	Global	China	Mekong	Malay
Personnel expenses	15.1%	14.4%	13.5%	14.0%	15.5%
Operating Income	(Δ0.7pt)	(Δ0.4pt)	(+0.2pt)	(Δ0.7pt)	(Δ0.8pt)
Bad debt expenses	6.9%	8.3%	13.6%	23.4%	22.5%
Operating Income	(Δ0.4pt)	(+3.2pt)	(+3.2pt)	(+7.1pt)	(+11.0pt)

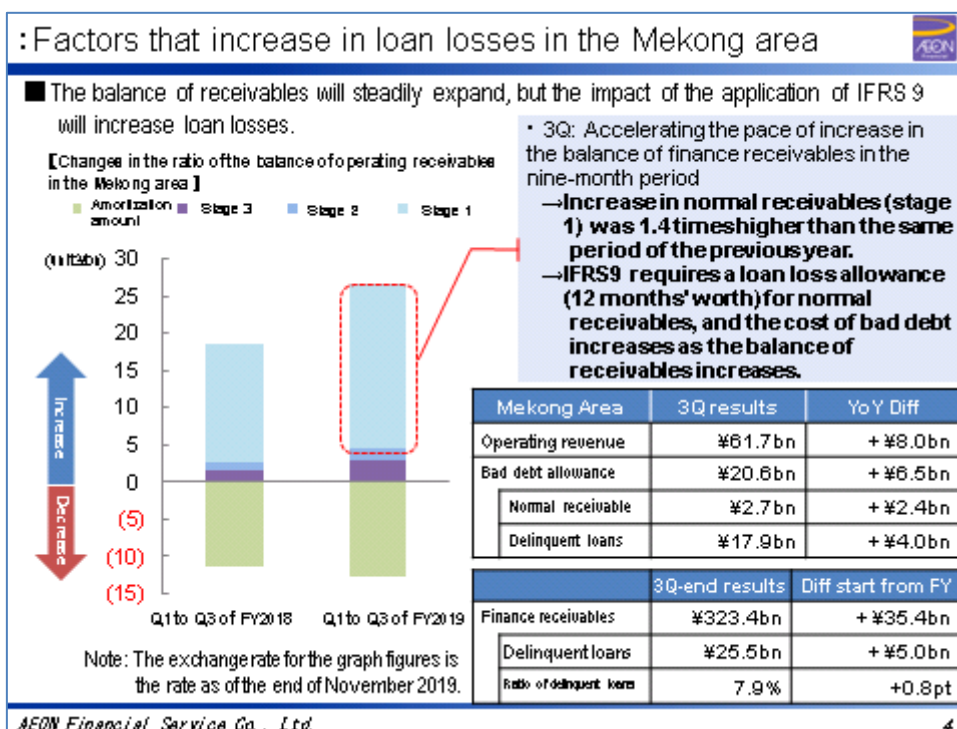
Domestic bad debt exp. are figures excl. interest refund exp., and adopting former standard for personnel exp.

- Let us 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 an increase in the 10th straight increase in terms of ordinary income for a cumulative third quarter figure, while ordinary profit and profit attributable to owners of parent decreased.
- In domestic business, ordinary income increased 9% from a year ago, driven by a steady increase in credit card shopping transaction volume and cash-advance balance. On the other hand, ordinary profit decreased 3% from a year ago as promotion expenses increased, mainly for measures to promote enrollment and service use in the fiscal first half.
- Growth in operating expenses was less than the increase in ordinary income in the third quarter, as promotion expenses, including point expenses, decreased from a year ago.
- In global business, income decreased in the China area due to negative impact from the U.S.-China trade friction and the pro-democracy protest in Hong Kong, but respective figures for the Mekong and Malay areas grew by two digits.
- On the other hand, profit decreased in the Mekong and Malay areas due to an increase in bad debt expenses, which I will explain later.

- Note that the results for the Malay area includes an adjustment of 2.2 billion yen, combining the 1.2 billion yen in the previous fiscal year and 1.0 billion in the current fiscal year for inappropriate accounting practices found at a Philippine subsidiary, which we announced last November.

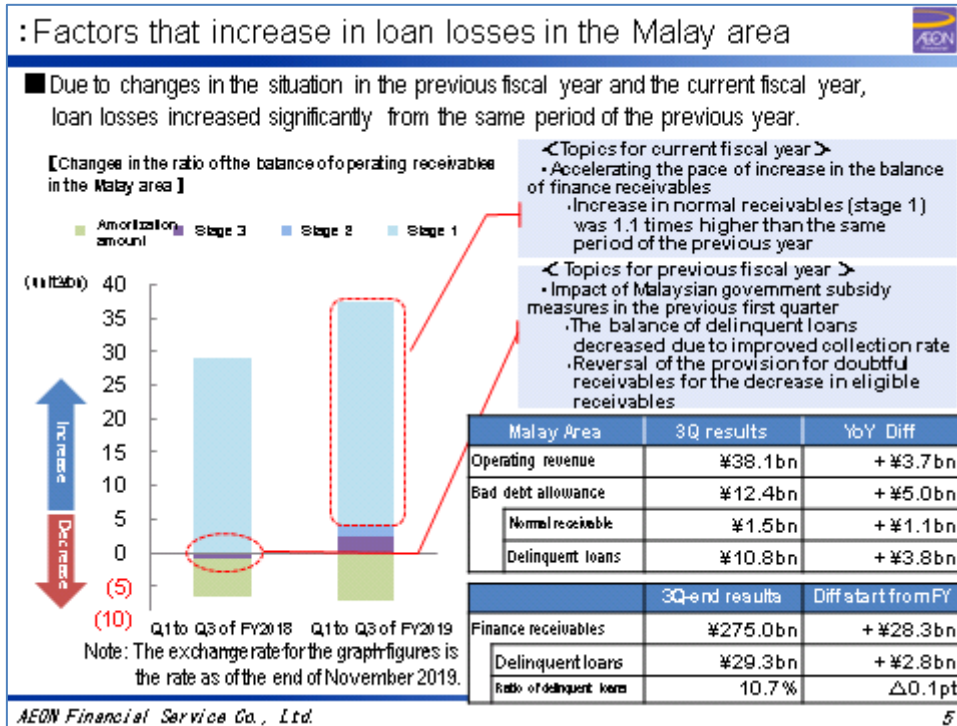


- Next, take a look at a diagram showing the performance of domestic and global businesses by business area.
- It shows key factors driving increases and decreases in operating profit. As the diagram is self-explanatory, I will skip the explanation of this.




- Next, let me discuss the factors that drove an increase in bad debt expenses in the Mekong area.
- This chart compares changes in the balance of finance receivables for the Mekong area in the first nine months of the previous and the current fiscal years. The percentage of delinquent loans rose in Thailand, as seen in the balance of delinquent loans and their ratio shown in the right-hand table.
- As total lending limits were introduced in Thailand in September 2017, we believe this has resulted in a decrease of lenders for individual customers and a drop in their repayment capacity.
- Under these circumstances, delinquency of our customers is in a gradual uptrend, which has led to increased bad debt expenses.
- Our Thai subsidiary has sorted out and analyzed customer attributes and types of credits extended to customers, looked into reasons for delinquency and implemented measures to address them, and we expect the impact of these efforts will start to show in the fourth quarter or later.

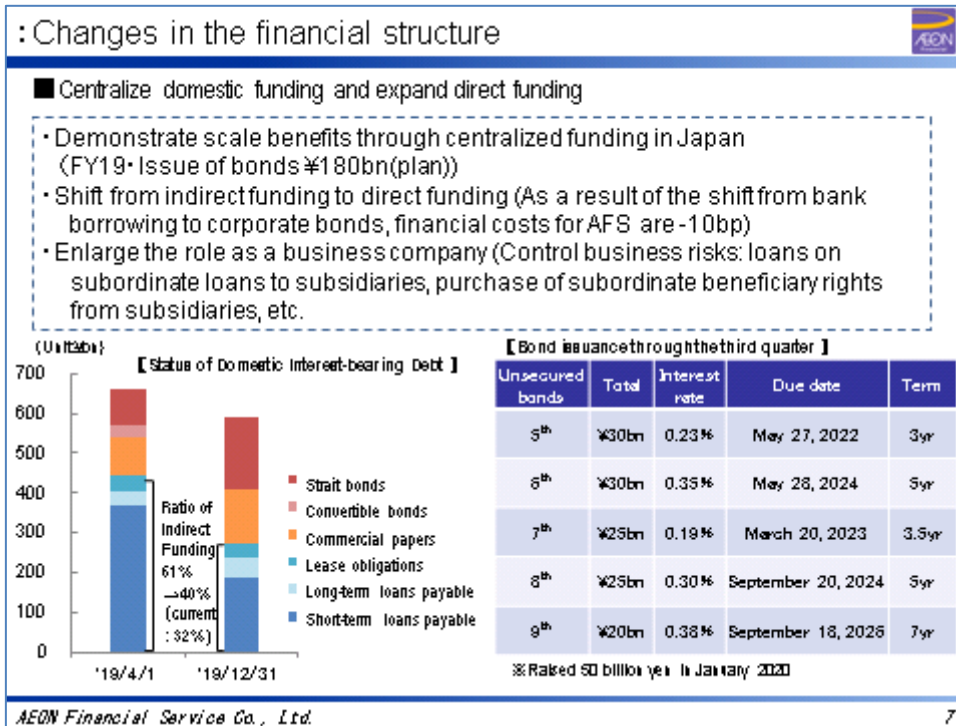




- Next, let me discuss the factors that drove bad debt expenses in the Malay area.
- The balance of normal receivables increased at a faster pace in the present period compared to the year-earlier period, which resulted in an increase in bad debt-related expenses.
- Percentage of delinquent loans improved from the beginning of the period, which we believe is a positive trend, but bad debt-related expenses for delinquent receivables increased significantly. This is due to reversal of the provision for doubtful receivables in response to an improvement in the collection rate of delinquent loans, helped by the Malaysian government's support measures for low-income earners, which limited an increase in bad-debt expenses.
- We think the change from the year-ago period has come to this level as the tailwind has died down and the situation has come back to normal in the present fiscal year.

Consolidated balance sheet			
Consolidated results (Unit: Billions of yen)	Results	Change from start of FY	Topics ※○:Change from start of FY
Cash and deposits	864.3	+219.8	- Domestic balance: ¥316.8 bn (+¥609.2bn) * (Treasury holding securities) → Increase due to sale of securities and securitization
Operating Loans	884.1	+33.6	[Operating Loans and Loan and bills discounted for banking business] - Balance Incl. securitization: ¥3,917.5bn (+¥154.5bn) In which, Domestic balance: ¥3,528.0bn (+¥52.1bn) In which, Global balance: ¥391.3bn (+¥29.3bn) - Securitized amount (Domestic only): ¥1,371.0bn (+¥43.1bn)
Loan and bills discounted for banking business	1,662.7	+77.7	
Accounts receivable – Installment	1,682.5	+229.4	- Balance Incl. securitization: ¥2,217.3bn (+¥246.8bn) In which, Domestic balance: ¥1,907.2bn (+¥219.9bn) In which, Global balance: ¥310.1bn (+¥26.9bn) - Securitized amount (Domestic only): ¥534.7bn (+¥17.2bn)
Allowance for doubtful accounts	△117.3	△14.4	
Other Assets	886.7	+62.9	Money held in trust: ¥48.0bn (+¥25.6bn)
<b>Total assets</b>	<b>5,863.1</b>	<b>+609.0</b>	[Deposit on AEO M Bank] - Ordinary deposit: ¥2,966.5bn (+¥333.2bn) - Time deposit: ¥146.7bn (+¥68.5bn) - Foreign currency deposit: ¥12.1bn (+¥40.4bn)
Deposits	3,778.7	+309.6	- Domestic balance: ¥590.5bn (+¥181.1bn) → Bonds payable: ¥180.0bn (+¥90.0bn) - Global balance: ¥504.5bn (+¥57.5bn) ※ Domestic and global amounts include figures for holding company and shared function companies
Interest-bearing debt (excl. deposits)	1,095.5	+238.7	
Other liabilities	536.2	+56.8	* In accordance with the transition to the business company, our former liabilities for acceptance and guarantees (assets) and acceptance and guarantees (liabilities) are deleted.
<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>	

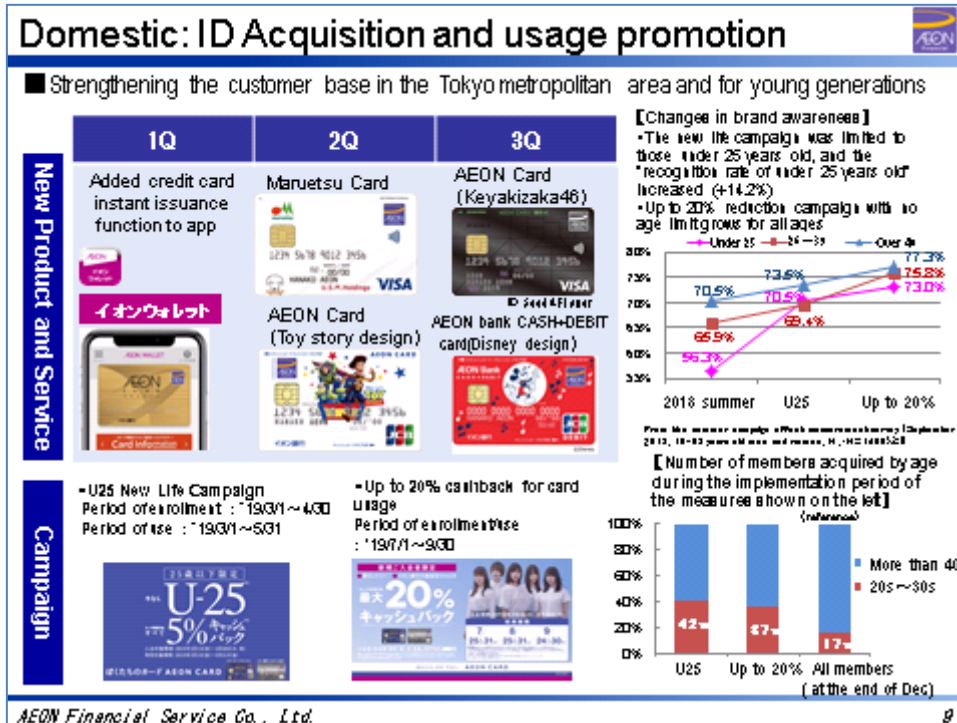
- Let's move on to the consolidated balance sheet.
- Cash and deposits increased 219.8 billion yen from the beginning of the fiscal year due to a temporary increase in borrowing related to consolidation of funding functions into the headquarters, sale of securities and securitization of finance receivables, among other factors. Loan and bills discounted for banking business grew 77.7 billion yen and the total assets came to 5,863.1 billion yen, increasing 609 billion yen from the beginning of the fiscal year.
- Total liabilities increased 605.1 billion yen from the beginning of the fiscal year to 5,410.5 billion yen as deposits increased 309.6 billion yen, led by ordinary deposits, thanks in part to an increased popularity of Aeon Bank deposits in Japan, driven by the superior convenience of cash cards combining credit-card or debit-card functions and preferential interest rates and fees offered on use of services.
- Total equity decreased 3.9 billion yen from the beginning of the fiscal year to 452.6 billion yen due to cancellation of treasury shares.



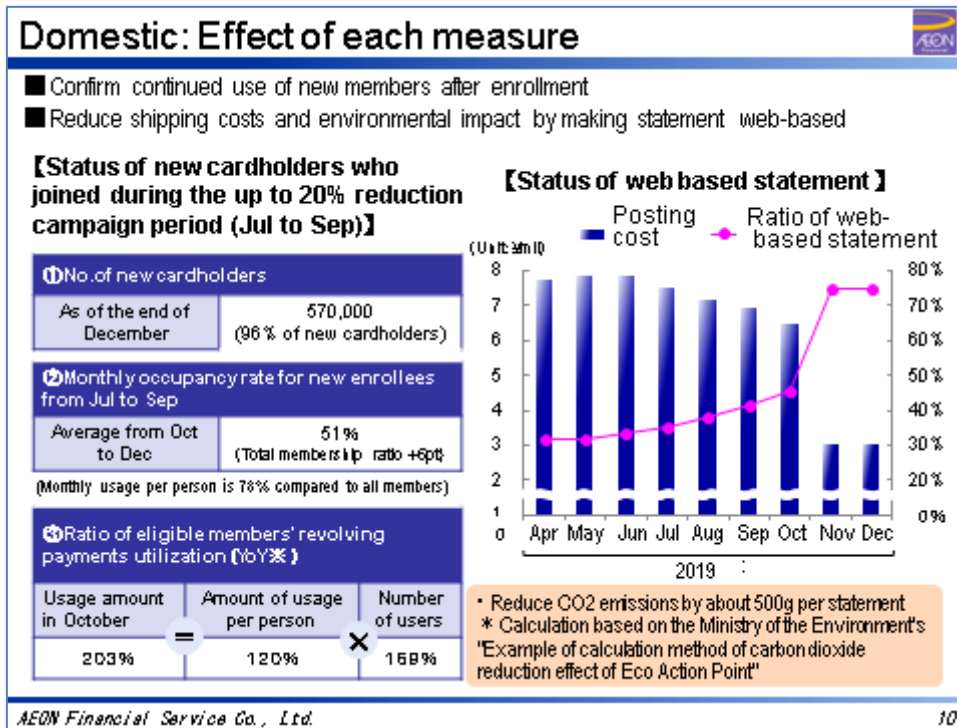
- Let's move on to our financial measures.
- Since our transition to an operating company in last April, we have consolidated funding functions of the group companies into Aeon Financial Service's headquarters and worked on measures to shift to direct funding.
- An example of specific detail is funding through bonds, which is shown here.
- In the present fiscal year, we aim to issue bonds worth 180.0 billion yen in total. Although some of these extend into the future, financial expenses have declined 10 bp so far.
- We aim to maximize our roles as an operating company, including lending of funds that are capital in nature to subsidiaries and purchase of debts that have strong risk asset-reducing impact from subsidiaries.

## Initiatives until the 3Q

- Next, we will take a look at major initiatives in the period up to the third quarter.



- In domestic business, we have strived to expand the customer base, mainly in the metropolitan area and the younger brackets, and promoted use of our cards and strengthened measures to attract mainly younger customers through promotional measures.
- During the fiscal first half, we introduced the Aeon Card (Toy Story Design) and the Maruetsu Card. Then in the third quarter, we launched the Aeon Bank Cash+Debit Card (Disney Design) and Aeon Card (Keyakizaka 46).
- We have successfully increased enrollment of target younger customers in their 20s and 30s through the "new life enrollment campaign" targeting individuals aged 25 or younger and "maximum 20% cash back campaign" conducted in the fiscal first half.
- Brand recognition of the Aeon Card has improved especially among young people in their 20s, thanks especially to increased ad exposure of campaigns.



- Next, let me discuss other measures and their impact.

The left side of the slide shows situations of continued use by members who enrolled during the maximum 20% cash back campaign conducted in the fiscal first half.

- Majority of the 590,000 newly registered members in the fiscal second quarter, when the campaign was run, have remained in the membership. Monthly ratio of active members for this group has been slightly above that for existing members.

- Use of revolving payments for shopping was solid in October, the first month after the campaign was over, thanks in part to the increase in younger members.

We do think the measures were slightly costly, but these results have led us to believe they have led to winning new customers and ensuring continued use.

- The right side of the slide shows situations after the introduction of the web-based statements that started to apply from the account withdrawal date of Nov. 5, 2019, separately from the measures, a measure introduced separately from the measures to boost membership.


Mailing expenses decreased, as expected, especially in November and December as many customers shifted to the web-based statement service, except for users of some co-branded cards and those who opted for mailed, printed statements at cost.

- As we went paperless, CO2 emissions have decreased. We believe the impact of a paperless office, as well as cost reduction, will be further felt going forward.

## 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

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- Let me discuss our initiatives in banking business during the third quarter.
- In December, we opened the Osaka Umeda branch of Aeon Bank, our first urban-style branch in the Kinki region. We expect the branch to attract customers from wide areas as it is directly linked to Umeda Station, a key railway terminal.
- We have created an environment where customers can use the branch with ease so that customers working at nearby offices can drop by for consultation or signing contracts for housing loans or consultation on asset formation services during their break times or on their way back home.
- The branch has introduced Port Navi, Aeon Bank's original asset simulation tool, and has model portfolios for more than 60 scenarios that include not just investment trusts but foreign currency deposits so that it can offer services through which it makes optimum suggestions that best suit customers' asset formation needs and future plans.
- Thanks to our continued effort to strengthen asset formation services, etc., including the above-mentioned efforts, the contract amounts of "Tsumitate" and the balance of "foreign currency deposits" have increased about 50% and 120%, respectively, from the beginning of the fiscal year.




**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.)



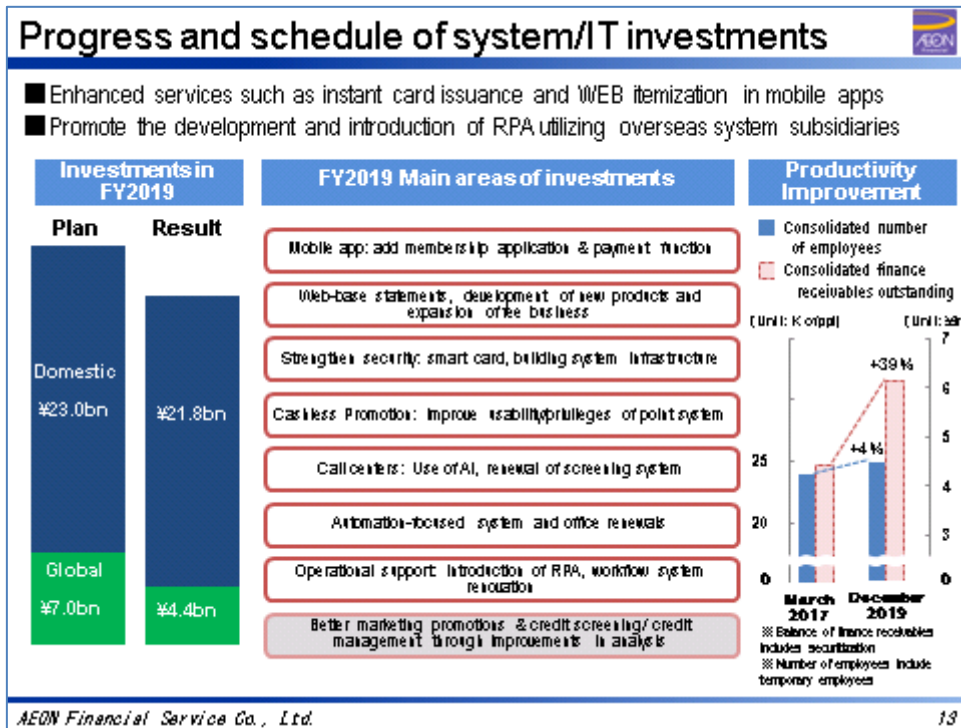
**Opened a store at AEON Group retail stores**

**【Myanmar】 Opens A Branch in the AEON Orange**  
→ Strengthening cooperative relationships



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- In global business, we focused efforts on strengthening the customer base through opening of flagship branches in Thailand and Hong Kong and issuance of new cards.
- The Tokyo Olympic Card, which was launched in September by Aeon Thana Sinsap, sports gym discount offers, targeting a new, health-conscious customer segment.
- In Myanmar, we strengthened collaboration with Aeon by, for example, opening a branch of our local subsidiary inside Aeon Orange, an Aeon group retail outlet.



- Let me move on to the progress of our systems and IT investments.
- In terms of initiatives in Japan during a period through the third quarter, we added a card membership enrollment and instant issuance functions to the Aeon Wallet smartphone app, introduced web-based statements, strengthened digitalized services and worked on the introduction of RPA development for the Japanese operation, using an overseas systems subsidiary.
- Overseas, we carried out investments related to infrastructure development, including on strengthening mobile app services, introducing credit screening and management systems that use the artificial intelligence technology and shifting the structure for collecting finance receivables. As a result, the total investment during the first nine months of the fiscal year came to 26.2 billion yen.
- The chart on the right is an example showing the impact of our initiatives. The consolidated number of employees increased 4% from the level a little over three years ago at the end of December of last year. On the other hand, the growth of our business was 39% as measured in the increase in the outstanding finance receivables. Although we did work to reduce the number of employees, the IT infrastructure developed during the period also contributed to reducing

the number to an extent.


- That said, we are in the process of preparing investment for marketing promotion and credit screening/management through improvements in analysis in the overseas operation, and yet to complete it as of the third quarter. We think it remains our key challenge for us to speed up the growth investment and development for controlling human resources overseas.

## Priority Implementation Matters

- Now let me go on to the plans for future initiatives.

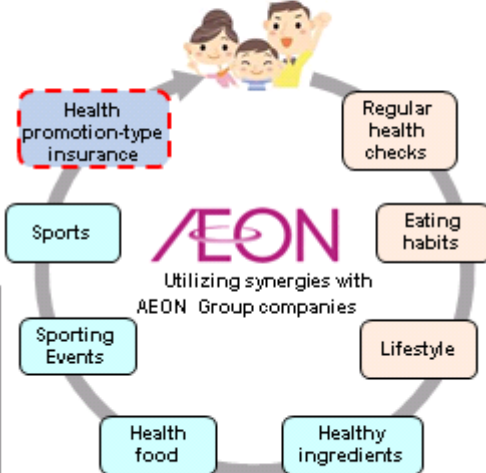
**Domestic:**

**■ 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.



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- First, let me talk about our entry into the insurance business, which is a new area for us.
- On Feb. 4, we announced a plan to make Allianz Life Insurance Co., Ltd. a subsidiary through the acquisition of shares in the Japanese subsidiary of Germany's Allianz Group through third-party allocation.
- We are considering entering into the life insurance business with an aim to extend healthy life expectancy in Japan where society's aging is a problem. We believe the joint effort with Allianz Life Insurance, which has global and sophisticated financial expertise and know-how in the insurance and risk management areas, will provide us with precious opportunities and a foundation for starting a life insurance business.
- We also plan to support customers' health promotion without disease and disease prevention through collaboration between the life insurance business and "goods, activities, and services" provided by Aeon group companies and health promotion jointly with Aeon group companies.
- As we are still working to flesh out product details, including associated services, we would like to let you know specific details when we are ready to provide products or release the information.

**Domestic:**

■ 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



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- Next, I will discuss our efforts on strengthening our customer base.
- Today, on Feb. 14, we launched the Sumitomo Real Estate shopping city AEION Card.
- This is a cobranded card with Ariake Garden Shopping City and Haneda Airport Garden Shopping City, commercial complexes being developed by Sumitomo Realty & Development. It carries original special offers in addition to regular Aeon Card special offers.
- We aim to strengthen the customer base in the metropolitan area by winning members of this card.

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)

※ 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)

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- Lastly, consolidated result and dividend forecasts for the year ending February 2020.
- We did not change any of the figures we have already announced.
- We have four local subsidiaries in the mainland China and two in Hong Kong for a total of six, but we think negative impact from the novel coronavirus epidemic is minimal, at least for now.
- Partly because of this, we do not plan to change the earning forecast at this point.
- Thank you very much for your attention.

## Questions and answers

### ■ Mr. Watanabe, analyst at Daiwa Securities

Q: Let me ask you about the default rate in global business. I see the rate has deteriorated, and I would like to know the factors and your outlook.

A: We have expressed the view that we have a major problem mainly in the Mekong Area. In particular, delinquency on card loan receivables, which increased last year in Thailand, has increased, so we have booked additional provisions. Delinquency rate held largely steady from the previous year in Malaysia, but rose slightly due to the absence of a special factor that was present in last year. The calculation is based on the data in the past one year according to the IFRS9 standards, but as the audit firm has advised us to take data from a little longer period into consideration as there are unusual factors, we plan to review the calculation process. Delinquency in Thailand appears to have been affected by the total lending limits, just like in Japan, but the situation is improving. I think the macro situation will also improve going forward.

Q: How large do you think the impact from the measures to promote cashless payment was?

A: There was a large drop in October due partly to the negative impact of the consumption tax hike and bad weather, but it recovered to the levels seen in the first quarter in November, December and January. This is reflected in transaction volume results. We think the positive impact is also from external use of the Aeon Card thanks to Aeon's special offers. We believe the government measures helped mitigate the negative impact from the consumption tax hike to a degree. We think the impact of the cashless payment-promoting measures will become apparent after the last minute demand surge before the expiration in June 2020. At this point, we do not have any plans for linkage with the My Number Card.

### ■ Mr. Otsuka, analyst at JPMorgan Securities Japan

I'd like to ask about the latest earnings results. I see you are slightly behind the nine-month targets. Discuss to what extent you expect to catch up in the remaining two months.

A: We have been very strict in calculating provisions for doubtful receivables. But our audit firm has advised us to regard provisions in a little longer horizon. We think it will positively impact ordinary profit when we do this. We cannot say we can definitely achieve the targets,



but we believe we will be at least closer.

Q: Let me ask about your entry into the insurance business. Allianz Life Insurance in Japan is a runoff company. Does it have sufficient levels of human capital and capability to operate health improvement insurance?

A: We must acknowledge that Allianz Life Insurance in Japan is in a state of runoff. The company is currently post-processing remaining policies, but has staffs with insurance industry experience and a viable number of people who can grow into viable workers, which we confirmed through due diligence. Health improvement-style insurance, which we plan to promote, has been started by other companies, but we aim to develop products unique to us. We plan to create what we aspire to by sounding out people with insurance expertise about our ideas.

■ Mr. Sato, analyst at Mizuho Securities

Q: I see you are behind the targets so far, but I would like to know how far behind you are. I see also that the cost associated with the inappropriate accounting practices and the cash back campaign was offset by the securitization to a degree. If that is the case, am I correct to understand that much of the underperformance was due to negative impact from overseas operations?

A: We have come about 60% toward the targets, and are aware that we are behind the schedule. The plan was to catch up in the period near the fiscal year-end, mainly in the fourth quarter, and we are thinking of introducing measures. I think we were about 72% to 73% toward the announced annual targets as of the third quarter. We should be about 75% at this point, and that's just about the degree of the delay. It is true that loan losses at three overseas subsidiaries have inflicted a negative impact.

Q: I would like to know quantitative impact from the introduction of web-based statements.

A: It has resulted in a significant reduction in mailing expenses. Specifically, there was a reduction of about 110 million yen in two months (November and December). This is just for the two months, but I think the impact will grow larger after a period. I think there is still room for further cost reduction from the web-based statements, as we are still sending out printed statements for some cobranded cards.

End