

Results for the FY2021 Q3: Script and QAs

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FY2021 Q3
IR Presentation Materials

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- Today, we will be briefing you on the following:

First, we will discuss financial highlights of the third-quarter and earnings forecasts.

Second, we will touch on Covid-19 situations up to the third quarter.

Third, initiatives taken and business developments in the third quarter.

Fourth, planned initiatives in the fourth quarter.

Lastly, we will focus on ESG-related efforts.

So, that is how we will proceed.

1. Q3 financial Highlights・Financial Highlights (Consolidated results)

The highlights of the consolidated results for Q3

- Consolidated results for the cumulative Q3 decreased revenues and increased profits. Operating revenue is at the same level as the same period of the previous year, excluding the impact of insurance revenue
- Operating profit is driven by improvements in bad debt-related expenses especially in Malaysia and Thailand
- Revised consolidation results in view of progress rate against earnings forecast

Consolidated	Domestic	Global						
Operating revenue	Operating revenue	Operating revenue						
(YoY) (YoY excluding insurance revenue)	(YoY) (YoY excluding insurance revenue)	(YoY)						
348.7 bn (97%) (100%)	245.8 bn (95%) (100%)	103.5 bn (100%)						
Operating profit	Operating profit	Operating profit						
(YoY excluding insurance revenue)	(YoY excluding insurance revenue)							
44.2 bn (178%) (183%)	18.1 bn (109%) (112%)	27.0 bn (307%)						
Profit attributable to owners of parent	■ Earnings forecast progress rate <table border="0"> <tr> <td>Operating revenue</td> <td>Operating profit</td> <td>Profit attributable to owners of parent</td> </tr> <tr> <td>67.1%~71.2%</td> <td>86.7%~96.2%</td> <td>86.0%~97.2%</td> </tr> </table>		Operating revenue	Operating profit	Profit attributable to owners of parent	67.1%~71.2%	86.7%~96.2%	86.0%~97.2%
Operating revenue	Operating profit	Profit attributable to owners of parent						
67.1%~71.2%	86.7%~96.2%	86.0%~97.2%						
22.3 bn (222%)								

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- I would like to start by discussing year-to-date consolidated results through the third quarter.

Operating revenue came to 348.7 billion yen, down 3% year on year.

Operating profit totaled 44.2 billion yen, up 78% year on year.

Profit attributable to owners of parent was 22.3 billion yen, up 122% year on year.

So, that is the results.

- Operating revenue declined as existing contracts expired at AEON Allianz Life Insurance, which was consolidated in the previous year, but, excluding this impact, remained largely unchanged from a year earlier.

- Operating profit increased driven mainly by improvements in bad debt-related expenses, especially in Malaysia and Thailand.

- Rates of progress against earnings forecasts released with the second-quarter results are shown on lower right area of the page.

Operating revenue reached 67.1% to 71.2%,

operating profit reached 86.7% to 96.2%,

and profit attributable to owners of parent reached 86.0% to 97.2%.

As revenue growth has been slow while profit progressed very solidly, we decided to revise the full-year earnings forecasts. We will discuss the details of the revision with the next slide.

1. Q3 financial Highlights · Annual earnings forecast

Annual earnings forecast

- Operating revenue revised downward to ¥460 bn due to sluggish growth in receivables and a decrease in insurance revenue due to the expiration of existing insurance contracts of AEON Allianz Life Insurance
- Operating profit is expected to be ¥51 bn due to continued improvement in bad debt-related expenses
- Profit attributable to owners of parent is expected to be ¥25 bn as a result of the increase in the profit composition ratio of Global business

	Earnings forecast	Cumulative Q3 results	Revised earnings forecast
Operating revenue	490.0 ~ 520.0 _{bn}	348.7 _{bn}	460.0 _{bn}
Operating profit	46.0 ~ 51.0 _{bn}	44.2 _{bn}	51.0 _{bn}
Profit attributable to owners of parent	23.0 ~ 26.0 _{bn}	22.3 _{bn}	25.0 _{bn}
Dividends per share	Interim : 19 Year-end : 26 (Annual 45)	Progress rate against revised earnings forecast Operating revenue 75.8% Operating profit 86.7% Profit attributable to owners of parent 89.4%	Interim : 19 Year-end : 26 (Annual 45)
Payout ratio	37.4% ~ 42.2%		38.8%

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- We have revised operating revenue downward to 460.0 billion yen, reflecting the impact of sluggish growth of receivables and a revenue decrease associated with the expiration of AEON Allianz Life Insurance's insurance contracts.
- We have revised operating profit to 51.0 billion yen, the upper limit of the range announced in the second quarter, as it has grown steadily thanks to an improvement in bad debt-related expenses that continued through the third quarter.
- Profit attributable to owners of parent has been revised to 25.0 billion yen in response to an increased share of the Global business in the profit.
- We expect to pay out annual dividends of 45 yen, combining an interim payout of 19 yen and a year-end payout of 26 yen, as we announced in the second quarter.
- As a result, payout ratio is expected to come to 38.8%.

1. Q3 financial Highlights・Financial Highlights (Consolidated results)

The 3rd Quarter 3 Months Consolidated Performance Highlights

- Domestic business : Operating profit of ¥2.6 bn is due to delayed recovery of receivables, decrease in insurance revenue point costs due to increased transaction volume and increased system costs for business expansion
- Global business : Achieved an increase in profits by recovering the external environment and continuously strengthening screenings and collections

Consolidated	Domestic	Global
Operating revenue <small>(YoY) (YoY excluding insurance revenue)</small> 110.7 _{bn} (85%) (96%)	<small>(YoY) (YoY excluding insurance revenue)</small> 76.8 _{bn} (79%) (94%)	<small>(YoY)</small> 34.0 _{bn} (99%)
Operating profit <small>(YoY excluding insurance revenue)</small> 10.9 _{bn} (64%) (67%)	<small>(YoY excluding insurance revenue)</small> 2.6 _{bn} (25%) (28%)	8.8 _{bn} (115%)
Profit attributable to owners of parent 4.1 _{bn} (49%)	<p>■ Initiatives for FY2022</p> <ul style="list-style-type: none"> • Domestic business : Work to reform the business model and improve productivity • Global business : Expand business and further improve efficiency while considering the situation of infectious diseases 	

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- This slide shows the results for the three months of the third-quarter.

Operating revenue came to 110.7 billion yen, down 15% year on year.

Operating profit totaled 10.9 billion yen, up 36% year on year.

Profit attributable to owners of parent was 4.1 billion yen, down 51% year on year. Thus, both revenue and profit decreased.

- Operating profit of the Domestic business came to 2.6 billion yen due to sluggish recovery in the balance of receivables and a decrease in insurance revenue, as well as increases in point costs due to increased transaction volume and increased system costs for business expansion.

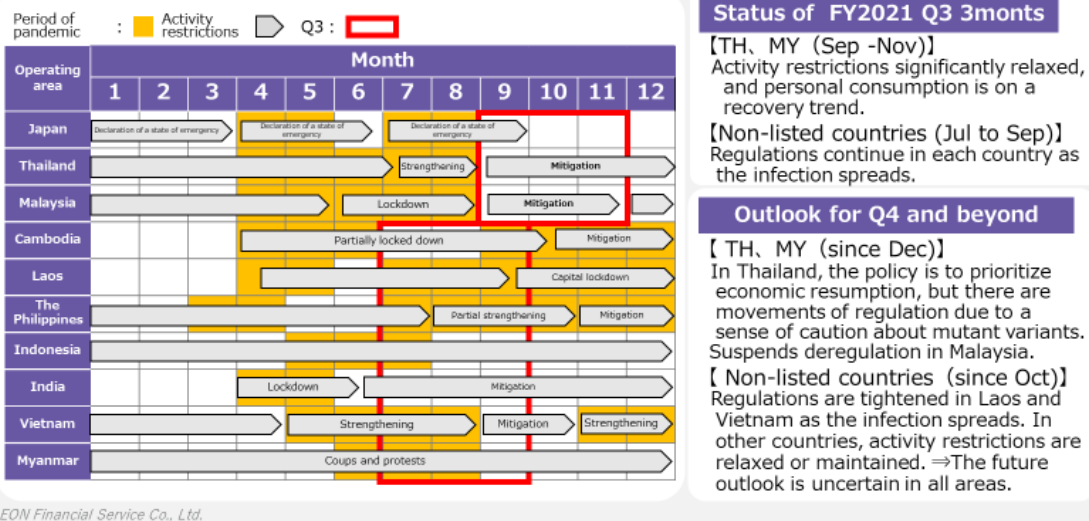
- The Global business, on the other hand, achieved a profit increase, driven by a recovery in the economic environment and continued effort to step up screening and collection.

- In view of these results, during FY2022, we plan to reform the business model for the Domestic business to improve productivity.

In Global business, we aim to expand business and further boost efficiency while taking into consideration of the pandemic situation.

2. Covid-19 situation through Q3·Operating countries situation

Spread of infection and restrictions on activity in the operating countries



- Next, we will explain the situation of spread of the Covid-19 pandemic and restrictions on our business activity.

- The areas highlighted in yellow indicate the periods in which infections spread and the arrows show the periods in which activities were restricted. The red boxes are periods that fall in the third quarter under review.

- Let me discuss the situation during the three months of the third quarter.

In Thailand and Malaysia, personal consumption led a recovery trend after activity restrictions were significantly relaxed.

During the three months to September, or the consolidated period for unlisted companies, regulations remained in place in the respective countries as infections spread.

- As regards the outlook for the fourth quarter and beyond, the sense of alert is growing against the potential spread of omicron-variant infections.

In Thailand, activity restrictions have been relaxed since October last year and the government plans to prioritize resumption of economic activity, but more recently tightened restriction on operation of restaurants and commercial facilities, in addition to tighter restrictions on entry into the country.

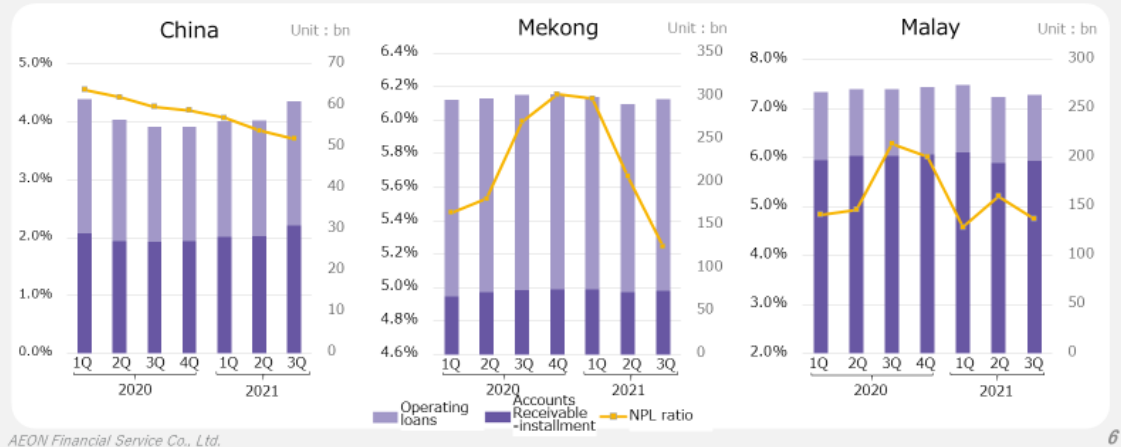
Malaysia has suspended measures to relax regulations and tightened restrictions on entry into the country.

- Outlook remains uncertain in all areas of the countries where we operate unlisted companies. For example, restrictions were strengthened in response to a spread of infections in Laos and Vietnam, while activity restrictions are either relaxed or maintained as is in the other countries.

3 . Q3 Initiatives・Receivables balance, NPL ratio (Global business)

Receivables balance, NPL ratio (Global business)

- The balance of operating loans and accounts receivable-installment is reversed in each area
Especially in China area, the recovery of balance is remarkable
- Continued improvement of loan quality and amortization of non-performing loans by strengthening screening and debt collection. NPL ratio improved in all areas



- I am going to discuss the balance of receivables and NPL ratios of the Global business, taking into account such a situation.
- From left, the graphs show the trends in outstanding receivables and NPL ratio in China area, Mekong area, and Malay area. In all areas, the balances of operating loans and accounts receivable-installment have come back up. In particular, in China area, recovery of the balances is prominent as the impact of Covid-19 infection has remained small.
- In Mekong and Malay areas, where the balances also rebounded in the third quarter, we aim to bring them back to the levels before the pandemic as early as possible.
- Furthermore, NPL ratios improved in all areas thanks to the efforts to enhance precision of credit screening and strengthen collection and continued effort to increase high-quality loans and amortize non-performing loans.

Initiatives for the 3rd Quarter of FY2021 (ACS Asia)

October 1st-31st
Points 10 times campaign
(Use of restaurants)



July 21st-November 10th
Credit card shopping & cash advance
Utilization Promotion campaign
(Amusement park special treatment)



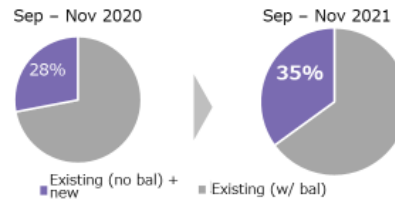
• Credit card shopping txn vol expanded mainly for revenue consumption by strengthening sales promotion at restaurants and amusement parks. Online shopping txn vol continues to expand

■ Credit card shopping trends by business type (VISA brand card)

Sep - Nov 2021 (YoY)	ACS Asia	VISA as a whole
Restaurant	+58.7%	+27.6%
Entertainment, entertainment facilities	+61.5%	+16.7%
Online shopping	+35.3%	+22.4%

• For personal loans, the txn vol during September to November increased **1.6 times** (yoy) by digging up dormant members and refinancing measures from other companies

• The ratio of existing members (no balance) and new members to the txn vol increased from 28% to **35%**



- Next, I will discuss initiatives in the Global business in the third quarter.
- ACS Asia in Hong Kong, where the impact of Covid-19 remained minimal, aggressively worked on promotional measures targeting revenue consumption, which included a campaign offering 10 times the usual incentive points for use at restaurants and an incentivizing campaign offering vouchers for Ocean Park, a popular theme park.
- Thanks to the success of these measures, transaction volume of each business type increased from a year-earlier levels at a pace exceeding that of the overall Visa brand in Hong Kong. Similarly, online shopping transaction volume exceeded the pace of increase for the overall Visa brand.
- Personal loans transaction volume increased 60% in a period during a period between September and November thanks to efforts to dig up dormant members and measures to boost refinancing from other companies. The portion of members with no existing balances and new members represented 35%, up from 28% year earlier, of this increase, proving we succeeded in expanding the scope of membership.

Initiatives for the 3rd Quarter of FY2021 (AEON Thana Sinsap)

- Conduct online and travel-related product campaigns
Credit card shopping txn vol recovered to **102%** yoy in Q3 (3 months)
- As a result of steadily capturing the recovery of eating out and travel demand, the txn vol of food and drink and restaurant-related products in Q3(3 months) recovered to **1.8 times**, the txn vol of hotel-related products recovered to **1.4 times** (compared to Q2 (3 months))
- The ratio of online to credit card shopping txn vol increased to **19.0%** in November (17.9% in 1H)
- As for personal loans, the txn amount per person also increased due to the effect of expanding the credit line to excellent customers in July. In November, it increased **1.1 times** from the same month of the previous year

August 1st-September 30th
Online shopping promotion



November 1st-December 31st
Travel-related product campaign

- Airplane
- Hotel
- Travel agency
- Rent-a-car, etc.



- Credit card shopping transaction volume of AEON Thana Sinsap in Thailand rebounded 2% from the year-earlier level in the three months of the third-quarter, driven by campaigns targeting online users and another involving travel-related products.
- Thanks to focused efforts to capture recovery in demand from diners and travelers, as in the case of ACS Asia, restaurant-related transaction volume grew 80% compared to the second quarter, while hotel-related transaction volume increased 40% over the same period.
- The share of online transaction volume increased 19.0% of the credit card shopping transaction volume in the latest month of November.
- In personal loans, transaction amount per person increased 10% year on year in the latest month of November, supported by the effect of expanding the credit line to excellent customers.

Initiatives for the 3rd Quarter of FY2021 (ACS Malaysia)

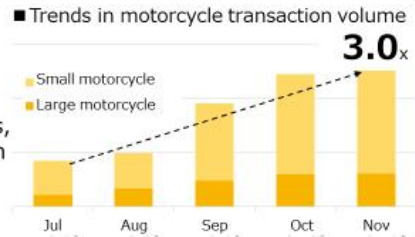
October 1st-
November 30th
Use of financial
products campaign
(Granting e-money)



November 26th-November 28th
Black Friday
campaign



- In addition to small motorcycles, installment finance strengthen the txn of large motorcycles, which are popular in domestic touring demand



- For personal loans, reviewed the credit standards of high-quality customers, which have become stricter due to pandemic
- The no. of applications increased **2.0 times** in Nov (compared to Jul), and the txn vol increased



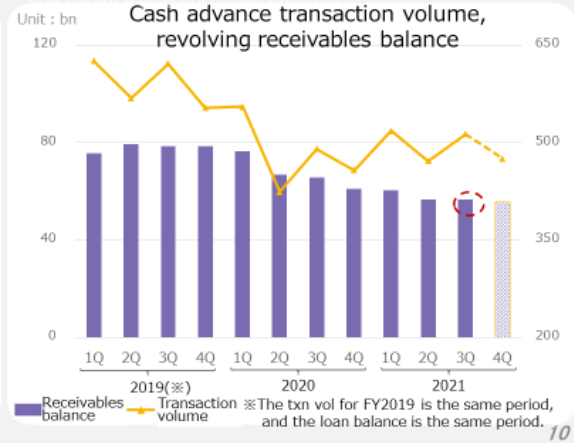
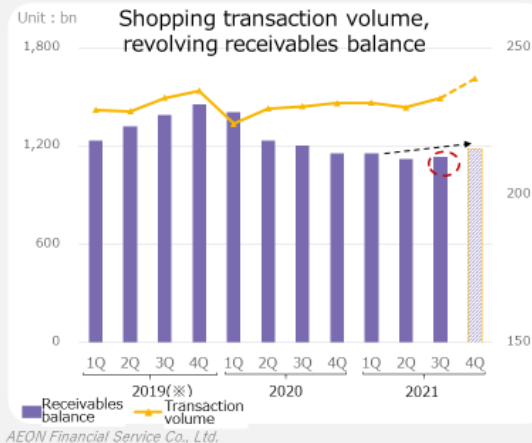
- ACS Malaysia, the last topic in the discussion of the Global business, worked on measures to expand transaction volumes, including a campaign to promote financial products by offering electronic money and a Black Friday campaign.
- Transaction volume of motorcycle installment finance, the mainstay product for the company, tripled over the four months from July, driven by increased handling of large motorcycles, supported by demand from increased popularity of motorcycle touring in the country.
- The number of applications doubled and transaction volume increased 160% for personal loans after the company relaxed credit screening standards for high-quality customers, which had been tightened in response to the pandemic, over the four months from July.

3 .Q3 Initiatives · Card shopping and cash advance (Domestic)

Credit card shopping and cash advance

- Credit card shopping txn vol reached a record high of ¥4.4 tn in the cumulative Q3, and is expected to continue expanding in the future
- Revolving balance is expected to reverse in Q3 and exceed the beginning of the term in Q4

- Cash advance txn vol is on a recovery trend
The balance also bottomed out in Q3
- On the other hand, full-scale recovery of balances is expected to be delayed in FY2022 due the uncertainty about consumer activity



- Next, I would like to discuss the situations of credit card shopping and cash advance of the Domestic business in the third quarter.

- The chart on the left shows credit card shopping transaction volume and revolving receivables balance.

Credit card shopping transaction volume reached an all-time-high 4.4 trillion yen year-to-date in the third quarter and the expansion is expected to continue going forward. The balance of revolving receivables, which had decreased, rebounded in the third quarter and is expected to rise above the level at the beginning of the fiscal year in the fourth quarter.

- The chart on the right shows cash advance transaction volume and revolving receivables balance.

The transaction volume is on a recovery trend while the balance has bottomed out.

However, full-scale recovery of cash advance is expected to be delayed into FY2022 due the uncertainty about consumer activity due to such factors as the omicron variant.

3 . Q3 Initiatives・ Q3 Initiatives (Domestic)

Initiatives for the third quarter of FY2021 (Domestic)

- The number and amount of AEON Pay payments increased significantly after the WAON POINT 20x campaign was implemented
- Continued campaigns will lead to higher payment frequency

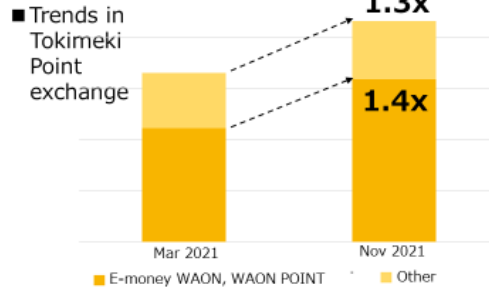
November 5th-9th WAON POINT 20x grant campaign



AEON Pay usage trends after the campaign (October average)

The number of payments per day	6.6x
Settlement amount per day	7.9x

- Promote the consolidation of sales promotion plans into WAON POINT
- In addition to the progress of exchanging Tokimeki Points, the exchange for e- money WAON and WAON POINT has also increased



- Monthly shopping transaction volume in December is expected to exceed the record high of December 2019 (¥556.9 bn)

- Next, I am going to discuss our new initiatives.
- The number of instances and amounts of transactions using the bar code-based AEON Pay service available on iAEON, an app common across the AEON Group released September last year, increased significantly after we ran the WAON POINT 20x campaign beginning in November last year. The number of daily transaction instances and the transaction amount increased 560% and 690%, respectively, compared to the levels before the campaign.
- We aim to boost usage frequency of the service by continuing to introduce campaigns.
- As regards WAON POINT, which succeeded the Tokimeki Point in September last year, the amount of Tokimeki Points exchanged with WAON e-money or WAON POINTs increased 40% from March 2021, indicating a steady increase in their recognition thanks to the effect of consolidating sales promotion planning.
- We expect credit card shopping transaction volume in December to exceed the record high reached in December 2019, thanks to these initiatives.
- So, I have discussed business results and initiatives in the third quarter.

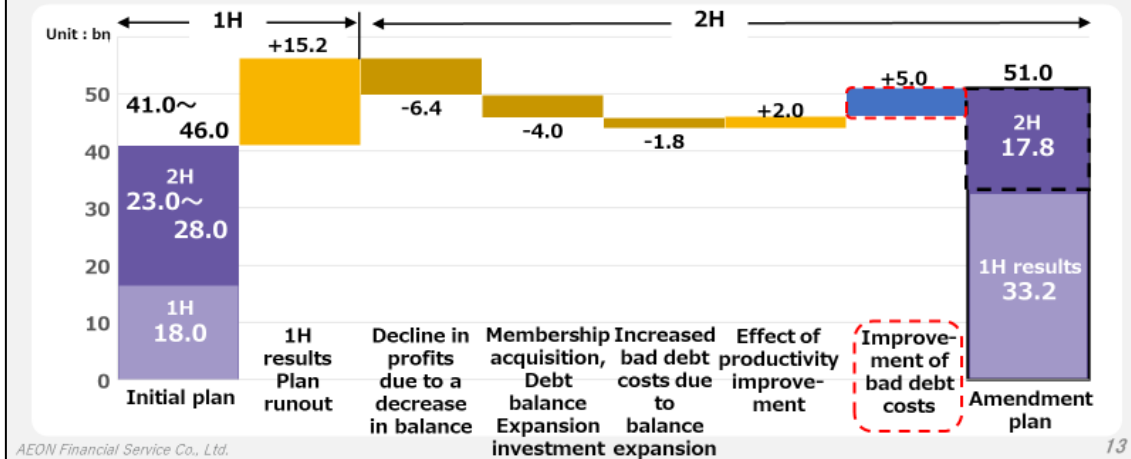
Q4 Initiatives

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- Next, I would like to move on to initiatives in the fourth quarter and ESG-related initiatives.

About the profit and loss impact in the second half

- Continued to work on refinement of screenings in Global business although the recovery of the balance of receivables was delayed in Domestic business. Annual operating profit is expected to be ¥51 bn as a result of bad debt-related expenses improving more than expected



- Here is the diagram used to explain the factors behind the full-year operating profit of 51.0 billion yen.
- We did not change the forecasts we announced in the first half of a fall in revenues due to decreased balances, membership growth, investment to increase receivable balances, increases in bad debt costs due to higher balances, and the impact of improved productivity.
- As regards the membership expansion and the investment to increase receivables balances, we released iAEON and AEON Pay in September and carried out consolidation into WAON POINT. On the other hand, we began full-blown promotion activities using incentive points in November as the pandemic situation remained either unchanged or aggravated in September and October, and continued to step up the efforts through the Black Friday season and then the year-end.
- As the spending for these efforts initially increases expenses, it creates a negative factor totaling 4.0 billion yen on the fiscal second-half profit, but we expect a positive impact from membership expansion and credit card shopping on the top line in the next fiscal year and beyond.
- Increases in bad debt costs due to expanded balances are caused mainly by balance recovery in the Global business.
- We expect the impact of improved productivity will help boost profit. This includes expected improvements of 1.0 billion yen in labor costs in overseas operations and 1.0 billion yen in Japan thanks to expansion of use of web-based statements, for a total improvement of 2.0 billion yen.
- In addition, we expect a total 5.0 billion yen of profit boost in the second half, combining 4.0 billion yen overseas and 1.0 billion yen in Japan, in view of a more than expected improvement mainly in the Global business supported by continued efforts to strengthen credit screening and collection

operations.

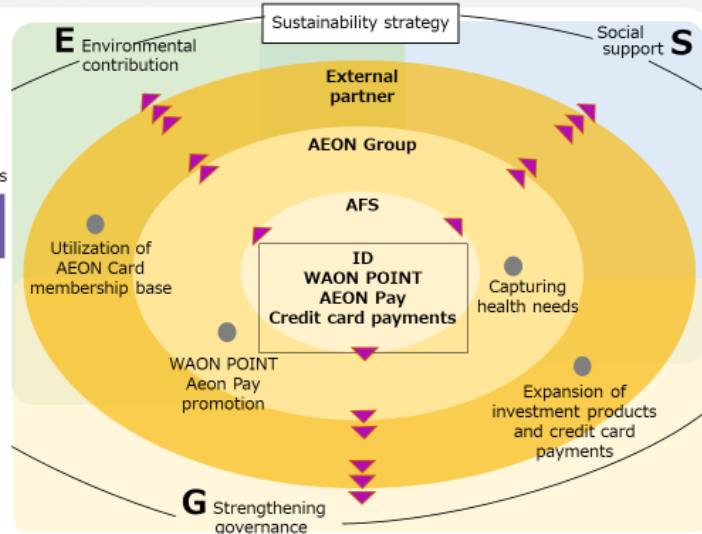
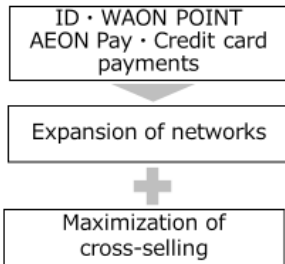
- As a result of this, full-year operating profit is expected to reach 51.0 billion yen, the upper limit of the target range between 46.0 billion yen and 51.0 billion yen we had disclosed.

4 .Q4 Initiatives · What we should aim for (Domestic)

What the domestic business should aim for

- Utilizing the base of AEON Card members, expanding the places where points and payments can be used, and working on new businesses with partner companies
- Expanding the network from the AEON Group to external partner companies and connecting to cross-selling
- Contributing to the realization of a sustainable society through business activities

To the most valuable living area for customers



- Let me move on to what the Domestic business should aim for.
- In the Domestic business, in September we began efforts to consolidate incentive points into WAON POINT, launched the Aeon PAY smartphone payment service available on the iAEON app, and have since worked to increase accounts and promote cashless payments.
- Taking advantage of the AEON Card membership base, we have worked to expand opportunities where points can be used and payments can be made, and worked on a new business with a partner company.
- As the above diagram shows, we aim to expand the user base and increase cross-selling opportunities for our products and services by expanding the network from the AEON Group to external partner companies and making the special offers more attractive and improving convenience.
- Furthermore, we aim to firmly incorporate in our business strategies the goal of contributing to making our society sustainable and maintain sustainable business.

4 .Q4 Initiatives・Priority measures for Q4 (Domestic)

Initiatives with the AEON Group

■ **Sales promotion utilizing WAON POINT and AEON Pay**

- For card shopping, continued to carry out WAON POINT grant campaigns for the year-end and New Year sales season, revenge consumption, and expansion of e-commerce
- From December, AEON Pay is available for "My Basket" and "Ministop" Continue to expand the places of use and improve convenience
- Full-scale release of healthcare app "ROUTY" started In addition to accumulating WAON POINTs according to usage, planned to expand paid content such as online lessons in the future
- In the use of shopping revolving and cash advance, strengthen banners and pop-up advertisements in the app, and strengthen telemarketing to promote the use of existing customers at the outbound center with an expanded number of staff



WAON POINT campaign



Healthcare app "ROUTY"



■ **Started sales of "Genki Passport", a health-promoting whole life medical insurance**



- From November 26th, the whole life medical insurance "Genki Passport" started to sale (AEON Allianz Life Insurance)
- Health support money will be provided according to the results of annual health examinations, etc
- Promote health promotion activities with the health promotion app "Wellness Palette" for contractors, and present "Wellness Coins" that can be exchanged for coupons that can be used by the AEON Group according to the activities

Health promotion app "Wellness palette"



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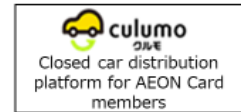
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- Let me move on to areas of focus in the fourth quarter. First, our joint initiatives with the AEON Group.
- For WAON POINT, we plan to run campaigns targeting revenge consumption and e-commerce in credit card shopping operations, which we did over the year-end.
- To expand balances, we plan to step up efforts to promote revolving credit and cash advance through the AEON Wallet app and bolster telemarketing, for which we plan to increase staff, aiming to promote use of the app.
- We released the ROUTY health care app in earnest on January 7.
We aim to increase the attractiveness of this app through special offers that add WAON POINTs and, in the future, by introducing paid contents, such as online lessons, aiming to grow it into a new revenue source.
- Furthermore, AEON Pay was made available to use at My Basket and Ministop outlets in December.
- We aim to improve convenience of locations where AEON Pay is available by increasing member stores within the AEON Group as well as outside.
- As a step to address health care demand, AEON Allianz Life Insurance began selling the "Genki Passport" whole life medical insurance policies on November 26.
- The company offers health support money according to the results of health examinations and operates an app for policyholders to support their health promotion activities.
- We plan to make group-wide efforts to take advantage of the app through measures such as offering of coupons that can be used for AEON Group services.
- Through the sale of life insurance policies, we aim to build on long-term relationship with customers and carry out initiatives to increase well-being of customers throughout their lifetime.

Initiatives with the outside of the AEON Group

■ Utilization the base for AEON Card member

- ・ AEON Product Finance and Sojitz Corporation conclude a strategic partnership on November 25
- ・ As the first step, Provide an auto loan with the used car sales brokerage service "culumo" (only for AEON Card members) provided by Sojitz
- ・ In addition to BtoC, it is a platform that enables a wide range of trading transactions such as CtoB and CtoC. Will aim to match in the future



■ Expansion of credit card payment locations



- ・ AEON Credit Services and WealthNavi conclude a business alliance agreement on December 20
- ・ In addition to operating with an AEON Bank account, we plan to start using WealthNavi's discretionary investment service by AEON Card payment in FY2022
- ・ WAON POINTs will be given according to the amount of reserve, which will lead to promotion of card usage

- Let us now turn to our initiatives to work with partners outside the AEON Group.
- On November 25, AEON Product Finance, which operates installment finance, and general trading company Sojitz Corporation concluded a strategic partnership.
- The first initiative to come out of this is an auto loan service available to AEON Card members through “culumo,” a used car sales brokerage service by Sojitz.
- This scheme allows us to not only establish connection between dealers and AEON Card members but also to match members, which we expect will enhance our support for car life of customers.
- On December 20, AEON Credit Services concluded a business alliance agreement with WealthNavi, a fintech company operating individual asset management service.
- In addition to operating with an AEON Bank account, this will begin in fiscal 2022 to allow AEON Card members to operate with credit cards, which we believe will help improve convenience and contribute to promoting use of cards.
- Through these initiatives, we aim to expand networks and create cross-selling opportunities outside the AEON Group so that users in the AEON Living Zone will increase.

4 .Q4 Initiatives·Priority measures for Q4 (Global)

Expansion of top line

■ **Year-end and New Year sales season, revenge consumption promotion**

[Hong Kong, Thailand, Malaysia]

- Cashback campaign implemented according to the amount of card usage in HK
- Gift campaigns implemented according to the smartphones amount usage in TH

[Thailand]



Dec 1st-Feb 28th Present campaign

■ **Accumulation of loan receivable balance**

[Hong Kong, Thailand, Malaysia]

- Continue to strengthen refinancing loans and promote loans for high-income earners in HK
- Cashback campaigns implemented in Thailand and Malaysia
- Aim to expand credit lines and increase the balance of excellent customers while maintaining the quality of receivables

[Malaysia]



October 1st-December 31st
Loan cashback campaign

■ **Strengthening cooperation with AEON**

[Hong Kong]

- Introduced an acquiring terminal to AEON Stores Hong Kong
All stores are scheduled to be completed by the end of FY2021

[Malaysia]

- Implementation of a point granting campaign that can be used with AEON by charging the e-money issued by ACSM
- Offering cardholder-only benefits by using AEON Online Supermarket

[Hong Kong]



December 6th-January 2nd
AEON store usage campaign

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- Next, initiatives in the Global business.
- The fourth quarter includes the year-end and the Lunar New Year holiday, which falls on February 1. As the consumption environment is on a recovery mode, we will work to steadily capture demand by continuing to run campaigns.
- As regards loan balances, which have continued to recover, we will take flexible measures to bring the credit screening criteria, which were tightened in response to the pandemic, to the prior level to expand credit lines, and expand balances of high-quality receivables by continuing to work to increase precision of screening.
- In addition, we will work to strengthen collaboration with AEON in Hong Kong and Malaysia, aiming to expand credit card shopping transaction volumes.

Cultivating new sources of revenue

■ **Strengthening insurance business**

【Thailand】

- Completion of transfer of Thailand subsidiary insurance business
- Started sales of insurance products such as cancer and travel
- Apply from the app and promote the convenience of AEON Card payment and expand

【Malaysia】

- Insurance broker acquisition completed
- Utilizing customer data to expand cross-selling



Cancer insurance



Travel insurance (domestic)

■ **Issuance of health-specialized alliance cards**

【Thailand】

「AEON Wellness Card」

- Providing health-specific benefits (scheduled to be issued in January 2022)
- Discounts on payments at affiliated hospitals, health facilities, insurance companies, and cash back benefits at hospitals, pharmacies, and insurance
- Give benefits such as donating part of the card usage to the Thailand Red Cross Society to capture health needs



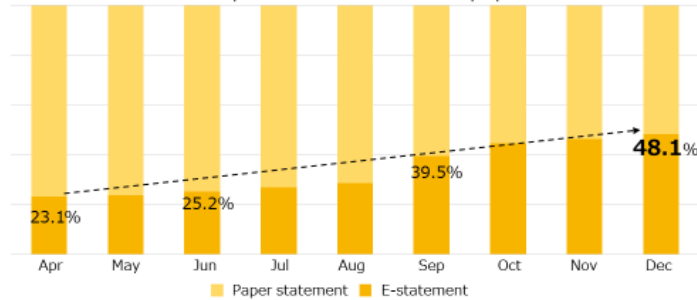
- In terms of efforts in the insurance business, we consolidated insurance businesses into a single company and are promoting cross-selling with AEON Card members in Thailand.
- In Malaysia, we completed the acquisition of an insurance broker. We aim to step up sales of insurance products that use existing-customer data.
- In Thailand, we plan to issue the AEON Wellness Card, with which health-specific benefits are available.
The card offers discounts at hospitals and health-related facilities through tie-ups, cash-back offers and a special offer of donating portions of card use amounts to the Thailand Red Cross Society. We began addressing health-related demand.
- As awareness about health is increasing in the areas where we operate, we aim to establish a business model as early as possible and expand business to related areas.

Digitization Initiatives

■ Promotion of cardless and paperless offices by using apps (Thailand)

- From June 2021, the application for new member card members completely was switched to app members. At the same time, we do not issue paper invoices, only e-statements
- From Sep 2021, started attracting to the app for existing members. Issuance of renewal cards was suspended after Jan 2022 and issuance of paper invoices was suspended in principle
- Aim to complete the transition to app membership by May 2022 and aiming for cardless and paperless

Trends in suspension of issuance of paper statement



- Due to the suspension of issuance of paper invoices for new members after Jun 2021, the ratio of e-statement only is gradually increase
- The ratio increased significantly since the attraction of existing member apps after Sep
- December 2nd billing progresses to 48.1%

- Next, we are working to realize cardless and paperless operation by shifting to apps through digitalization.
- We have issued plastic cards for the membership cards targeted under this measure. But in January 2022, we plan to terminate issuance of physical cards and printed bills, aiming to make all members to shift to apps by the end of May 2022.
- We will take measures to reduce not just costs but also environmental load in the countries and regions we operate.



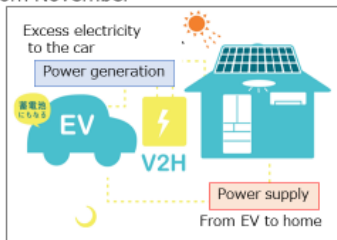
Efforts to realize a carbon-free society (Domestic)

■ Promotion of clean energy (AEON Product Finance)

- AEON Product Finance supports the shift to a "decarbonized lifestyle" by providing solar loans
- The company's living space-related transaction volume accounts for more than 70%, and its domestic market share is more than 20% (※), which is one of the highest in the industry.

※Estimated by the company based on the shipment value of solar power generation systems for general housing

- Started a loan that allows to apply for a decarbonized housing (ZEH) and an electric vehicle (EV) as a package in collaboration with a housing maker from November



Contract campaign

■ Supports power saving of AEON Group (ACS Lease)

- ACS Lease promotes the introduction of energy-saving equipment to AEON Group stores through the leasing business
- Providing services that reduce power consumption without replacing existing equipment by installing energy-saving equipment (Benefits for both the company and stores due to a performance-based fee structure that earns commissions according to the amount of power reduction)

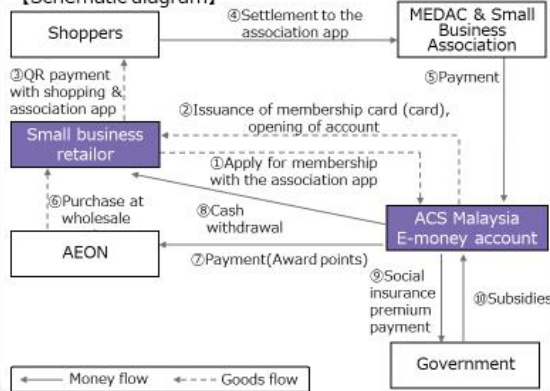
- I will now go on to discuss initiatives to help realize a carbon-free society.
- AEON Product Finance supports the shift to a decarbonized lifestyle by providing solar loans. The company is promoting this initiative on the belief that it will have a significant impact as it is expected to command a domestic market share totaling 20%.
- In November, the company launched a loan that allows customers to apply for a decarbonized housing (ZEH) and an electric vehicle (EV) as a package in collaboration with a housing maker.
- ACS Lease promotes the introduction of energy-saving equipment to AEON Group companies and working to help reduce power consumption.
- The company aims to contribute to environmental conservation by developing products and services that help accelerate initiatives to decarbonize our society.



Support for small businesses (ACS Malaysia)

- Started a tie-up with the Small Business Association (1.8 million members) that small businesses retailer that run food stalls, etc. when acquiring a license
- E-commerce payment and account functions are added to the membership card, and it is possible to settle sales and purchase materials at wholesale prices with AEON

[Schematic diagram]



- Support the sustainable business activities of small businesses by paying social insurance premiums and setting up subsidy deposit accounts

[Card face]



[Small business]



- Moving on to the next slide, ACS Malaysia has launched a membership card that comes with e-commerce payment and account functions through a tie-up with the Small Business Association formed by small businesses retailers that operate street food stalls.
- The membership card allows holders to settle sales and purchase materials at wholesale prices with AEON outlets. It can also be used to pay social insurance contributions and receive subsidies. The company operates the card with the expectation that it can lead to sustainable business activity support.
- ACS Malaysia aims to continue promoting initiatives that support local communities in all of the areas of its operation.

Apply to the prime market and formulate a sustainability policy

- Decided to be listed on the "Prime Market" on January 11, 2022 when the TSE market is reorganized in April 2022.
- Established the "Sustainability Policy" which is the principle of the Group. Identify the materiality (important issue) that will affect our business in the medium to long term. Contribute to the realization of a long-term sustainable society.

[Sustainability Policy (Excerpt from the beginning)]

AEON Financial Service Co., Ltd., ("the Company") and its consolidated subsidiaries ("the Group") aim to achieve both the "realization of a sustainable society" and "growth of the Group" based on AEON's Basic Principles of "Pursuing peace, respecting humanity, and contributing to local communities, always with the customer's point of view as its core."
 Recognizing that sustainable development of society is a precondition for the continuous growth of our business, the group is committed to environmental protection and social contribution activities. In addition, to ensure that the Group's business is positioned as an essential part of society's infrastructure both in Japan and overseas, we promote sustainability management that balances the economic value created through our business activities with social value enjoyed by local communities.

[Important classification of Materiality]

Contributing to peace through the creation of a sustainable society		Relevance to SDGs
Human Rights	Pursuing happiness through innovative financial services	<ul style="list-style-type: none"> Customer Responsibility Financial Inclusion and Financial Education Technological Innovation Sustainable Finance Contribution to Local Communities
	Exerting diversity and the potential of our people	<ul style="list-style-type: none"> Diversity & Inclusion Securing and maintaining human resources / human resources development Labour Practices Occupational Health and Safety
Establishing organizational resilience		<ul style="list-style-type: none"> Corporate Ethics and Compliance Information Security Corporate Governance Risk Management Business Model Resilience Supply Chain Management Stakeholder Engagement
Addressing climate change		<ul style="list-style-type: none"> Response to Climate Change Effective use of resources

- AEON Financial Service's transfer to the TSE prime market is now official, as was announced yesterday, on January 11. We aim to enhance our global governance as a company worthy of the prime market.
- In November, we established and announced the Sustainability Policy.
- The policy establishes principles our Group abides by in carrying out sustainability activities through collaboration with local communities, customers, employees, and business partners, aiming to contribute to making our society sustainable for a long term.
- Furthermore, we have identified materials issues for the Company and disclosed them on our website, along with the Sustainability Policy.
- It reflects our passion for realizing a sustainable society where anyone can live a satisfying, happy life. I hope you will have a look at it.

1. Q3 financial Highlights · Annual earnings forecast

Annual earnings forecast (Repost)

- Operating revenue revised downward to ¥460 bn due to sluggish growth in receivables and a decrease in insurance revenue due to the expiration of existing insurance contracts of AEON Allianz Life Insurance
- Operating profit is expected to be ¥51 bn due to continued improvement in bad debt-related expenses
- Profit attributable to owners of parent is expected to be ¥25 bn as a result of the increase in the profit composition ratio of Global business

	Earnings forecast	Cumulative Q3 results	Revised earnings forecast
Operating revenue	490.0 ~ 520.0 _{bn}	348.7 _{bn}	460.0 _{bn}
Operating profit	46.0 ~ 51.0 _{bn}	44.2 _{bn}	51.0 _{bn}
Profit attributable to owners of parent	23.0 ~ 26.0 _{bn}	22.3 _{bn}	25.0 _{bn}
Dividends per share	Interim : 19 Year-end : 26 (Annual 45)	Progress rate against revised earnings forecast Operating revenue 75.8% Operating profit 86.7% Profit attributable to owners of parent 89.4%	Interim : 19 Year-end : 26 (Annual 45)
Payout ratio	37.4% ~ 42.2%		38.8%

- The final slide is the reprint of the annual earnings forecast.

The economic outlook remains uncertain in the countries and regions where we operate, due mainly to the omicron variant, although more people are now vaccinated.

- We aim to make preparations in the fourth quarter to raise the top line in fiscal 2022, while working to strengthen counter-infection measures and taking measures to promote use of our products and services.

- Productivity still needs improving.

In the Domestic business, we plan to consolidate headquarters functions and carry out organizational restructuring.

In the Global business, we channel resources into priority areas to expand business, products, and areas of operation, following the digital financial inclusion initiative which is underway.

- Although only less than two months remain in the current fiscal year, we aim to achieve the revised earnings forecast by combining efforts of all officers and employees. We appreciate your continued support.

[Questions and Answers]

■Mr. Kazuki Watanabe, analyst at Daiwa Securities

Q: Regarding the balance of receivables, on page 10 of the material, I can see a small rebound in cash advance and revolving credit balances, but the outlook for the fourth quarter appears different in the feel of direction. What is the factor for this?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

Receivable balances rebounded in both Domestic and Global businesses in the third quarter, but they diverged from the targets by about 100.0 billion yen. Although we do not expect the average balance to remain 100.0 billion yen short in the fourth quarter and the next fiscal year, but should the shortfall remain, we anticipate an impact of 10.0 billion yen (later corrected to 20.0 billion yen). We expect an impact from the omicron variant going forward, but we will work to take top-line expansion measures to recover the balances so that we will not be affected by the Covid-19 impacts.

Q: Regarding the profit outlook in the next fiscal year, I would like a comment on whether you expect a potential change in the annual operating profit of at least 60.0 billion yen you target in the fiscal 2022, announced in the first half guidance, amid slow recovery of receivable balances in Japan and uncertainty in the outlook for overseas business due to the omicron variant.

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

In the first half, we explained we will aim for 60.0 billion-yen accounting for expected impacts of Covid-19 and based on the pre-pandemic level (2018-2019) of 70.0 billion yen. Our policy has not changed from that. Most recently, we have achieved a degree of success, as you have seen in our figures, even under the restrictions introduced in response to the pandemic, thanks to the efforts to maintain the collection system.

Going forward, the key will be to achieve the top line targets without being affected by pandemic impacts. We may get off to a good start in the next fiscal year, but we may also experience some delays, but at this point, we aim to steadily work to achieve recovery in the fourth quarter.

Q: What makes it easier for the revolving credit balance to recover compared to the cash advance balance?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

Customer has curtailed use of cash advance amid a restrictive environment due to the pandemic. Usage is increasing for shopping, driven by promotional measures in the third quarter, including for the WAON POINT and Black Friday. As a fair number use revolving credit, it is likely to lead to increased balances.

■ Ms. Natsumi Tsujino, analyst at Mitsubishi UFJ Morgan Stanley Securities

Q: Let me ask about the quarterly figures for the Domestic business. Deposit costs are high and returns of revolving credit fees and cash advance revenues are low when these are divided by the average balances.

I imagine cash advance would be affected by fluctuations in the average balance, but I would like to know what happened for the revolving credit fees and deposit costs. (Revenues from revolving credit fees, when divided by the average balance, have trended lower in annualized figures, i.e., 14.1% for 1Q, 12.5% for 2Q, and 11.3% for 3Q.)

A: (Tetsuro Sugita, Group Corporate Planning Department Head)

I would like to look into that and come back to answer it later.

*Answer provided separately:

In calculating revenue from revolving credit fees, the figure for “revolving credit” was used for the fee and figures for the “revolving and installments payment credit card purchase” before liquidation were used for the balance. When we calculated using the balance before the liquidation, the return came to 8.1% in the third quarter and there was no fall in the return as large as pointed out in your question.

As regards deposit costs, other financial expenses in financial expenses increased and deposit costs (deposit interest in the banking business) did not increase. The factor behind the increase was valuation losses incurred on investment securities held by AEON Bank, booked as part of other financial expenses.

Q: You explained that various expenses in the second half are bringing down operating profit in the Domestic business. Tell me the expenses you expect in the fourth quarter and if they remain for a period or will end in the next fiscal year or later.

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

As regards costs in the second half, as we explained previously, we expect costs associated with the shift from Tokimeki Point to WAON POINT and sales promotion costs for expanding sales for the Black Friday and year-end seasons. There have also been one-off costs for the introduction of iAEON and AEON Pay, as well as costs in the insurance business. Regarding point expenses in the next fiscal year, we have not changed plans to spend on promotion to expand credit card shopping. One-off promotional costs for iAEON, AEON Pay, etc. will not remain into the next fiscal year, but we do plan to budget appropriate promotional expenses to expand bases and recover balances.

Q: Does it mean it will be difficult to raise the level of operating profit unless the balances and transaction volumes?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

We will put effort into bringing back up the top line and the balance, as there are limits to what can be achieved through reduced costs and improved efficiency.

■ Mr. Wataru Otsuka, analyst at JPMorgan Securities Japan

Q: I would like to ask about figures explained in the Q&A at the beginning. Am I correct in understanding that the third-quarter figure combining the revolving credit and cash advance balances on page 10 is 100.0 billion yen short, and if the impact from this remains for a long period, there will be a negative profit impact of 10.0 billion yen?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

I would like to correct an error in the explanation. We were currently 100.0 billion yen short compared to the receivable balance target in the third quarter. We expect that a negative impact on operating revenue would reach 20.0 billion yen if the average balance remains 100.0 billion yen short in the next fiscal year.

Q: Can you give me the breakdown of the 100.0 billion shortage of the balance, especially the breakdown of each of the Domestic and Overseas businesses, if you have the figures?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

There are gaps of about 80.0 billion yen, mainly in cash advance, in the Domestic business, and about 40.0 billion yen in the Global business.

Q: I can understand the Global business was affected by the Covid-19 pandemic, but I would like to know if the cash advance significantly fell short in the Domestic business because the target was too bullish or there was an unexpected factor involved.

A: (Tomoyuki Mitsufuji, Director and Senior Executive Officer in charge of Group Corporate Management)

We think it was affected significantly by the way we estimated the impact of the pandemic when we worked out the targets for the Domestic business. We did not expect the pandemic situation will turn into a very serious situation from the summer to fall when we worked out the budget. As a result, use of cash advance especially for dining and travel did not grow.

■ Mr. Koichi Niwa, analyst at Citigroup Global Markets Japan

Q: Fourth quarter profit attributable to owners of parent, if calculated backwards from the earnings forecast figures, is a little short of 3.0 billion yen, which appears a little too low, and nearly 2.0 billion yen lower than the third quarter figure. Would you talk about factors for this?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

The fall in the fourth-quarter profit attributable to owners of parent from the third quarter level was due to a more than expected increase in the profit of the Overseas business compared to the Domestic business. We revised profit attributable to owners of parent from the previously expected figure to a more accurate level by revising the non-controlling interests portion, especially the three unlisted companies in the Global business.

Q: Am I correct in understanding that you assumed only the impact of the profit balance between Domestic and Global businesses and not credit costs or additional point costs?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

You are correct. We did not assume any unexpected credit costs or point costs. Neither did we assume any special processing, such as extraordinary losses, compared with the third quarter.

■ Mr. Taiki Okada, analyst at UBS Securities

Q: Earlier, you explained that a negative profit impact of 20.0 billion yen was due to a 100.0 billion yen drop in the average receivables balance. Would you tell me the breakdown in the Domestic and Global businesses of the downward revision of 30.0 billion yen to 60.0 billion yen in consolidated operating revenue for the current fiscal year? Also, I would like to know if you did not expect the impact of AEON Allianz Life Insurance's existing insurance contracts expiring, when you revised the first half results.

A: (Tomoyuki Mitsufuji, Director and Senior Executive Officer in charge of Group Corporate Management)

The impact of the revenue fall factor on the receivables balance was about one-third to a half. The insurance revenue declined due to the expiration of AEON Allianz Life Insurance's existing insurance contracts was about 30.0 billion yen. As this exceeded our expectation, the main factor for the revenue drop was attributable to the Domestic business.

■ Mr. Koki Sato, analyst at Mizuho Securities

Q: I would like to ask about the costs for the third and fourth quarter, on page 13. I see the investment for winning new members and expanding the receivables balance was 4.0 billion yen in excess of the initial forecast for the second half. How much was invested within this framework in the third quarter? As I am under the impression that promotion expenses for the third quarter decreased slightly, let me know the items you focused investment on. Should you not have spent that much in the third quarter, did you assume operating revenue will drop due to increases in expenses in the fourth quarter?

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

Point expenses began to be included in September and are reflected in the following month

because of our internal structure. As we made large promotional spending in October and November for the Black Friday and the AEON Pay planning, December for the year-end and January, 30% to over 40% of promotional expenses were for the third quarter and the rest was for the fourth quarter.

In particular, the card transaction volume in the three months to December exceeded a year earlier or two-year earlier level and reached the all-time high. As such, costs are expected to increase significantly in the fourth quarter.

Q: Tell me the amounts of additional provision for loss on interest repayment, if there are any.

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

With regard to interest repayment, disclosure requests temporarily surged in an impact of ads during the state of emergency last year, but such an impact has not been seen during the second state of emergency and after.

Most recently, the number of requests has remained largely unchanged, and we do not expect the need to set aside the provision in the fourth quarter, compared to normal years.

Q: Domestic promotion expenses, including provision for point card certificates, were about 11.0 billion yen in the third quarter, which is lower than the levels in the year-earlier period or the first half. How can this be reconciled with your earlier explanation? The balance of provision for loss on interest repayment is now less than the amount for a year, considering the most recent reversal trends. Tell me about your assumptions going forward.

A: (Shigeto Nasu, Executive Officer and Group Corporate Management Division Head)

I believe promotion expenses that appear to be temporarily low due to the point system change was reflected in the third quarter.

We revise the target balance of provision for loss on interest repayment every fourth quarter. We do not currently expect the balance to increase significantly compared to the year-earlier level.