

Results for the Third Quarter of FY2022: Script and the QAs

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FY2022 Third Quarter IR Presentation Material

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AEON Financial Service

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Contents

1. Financial Highlights
2. Overview of Domestic Business
3. Overview of Global Business
4. Future Directions
5. Earnings and Dividend Forecasts
6. APPENDIX

• Today, Tomoyuki Mitsufuji in charge of Group Corporate Management will brief you on the following:

First, the financial highlights of the second quarter;
second, the overview of our domestic businesses;
third, the overview of our global businesses;
fourth, our future directions;
fifth, our earnings and dividend forecasts.

1. Financial Highlights

The Highlights of the Consolidated Results

- Progress against full-year forecasts is roughly on plan

Consolidated		Domestic		Global	
Operating revenue	(YoY) (compared to the 3Q of FY2019)	Operating revenue	(YoY) (compared to the 3Q of FY2019)	Operating revenue	(YoY) (compared to the 3Q of FY2019)
¥331.1_{bn}	(95%)	¥206.3_{bn}	(84%)	¥125.1_{bn}	(121%)
<small>[comparison with before the application of accounting standards for revenue recognition]</small>	(103%)	(95%)	(96%)		(110%)
Operating profit	(YoY) (compared to the 3Q of FY2019)	Operating profit	(YoY) (compared to the 3Q of FY2019)	Operating profit	(YoY) (compared to the 3Q of FY2019)
¥41.5_{bn}	(94%)	¥10.1_{bn}	(56%)	¥31.9_{bn}	(118%)
	(96%)	(39%)		(173%)	
Ordinary profit	(YoY) (compared to the 3Q of FY2019)	<small>※ Domestic and Global results include figures after elimination of set-offs in transactions between business segments.</small>			
¥44.5_{bn}	(98%)	Performance progress rate (compared to full-year forecast)			
¥22.3_{bn}	(100%)	Consolidated operating revenue	Consolidated operating profit	Consolidated operating profit	Profit attributable to owners of parent
<small>※ From this fiscal year, accounting standards for revenue recognition is applied.</small>	(101%)	74.4%	69.3%	74.3%	77.2%
			to 75.6%	to 81.0%	to 82.9%

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- I would like to start by discussing the consolidated results for the third quarter.
 - Operating revenue was 331.1 billion yen, down 5% year on year.
 - Please note that the year-on-year change is up 3% when the effect of applying the Accounting Standard for Revenue Recognition is excluded.
 - Operating profit was 41.5 billion yen, down 6% year on year, and down 4% from fiscal year 2019.
 - Ordinary profit was 44.5 billion yen, down 2% year on year, and up 2% from fiscal year 2019.
 - Profit attributable to owners of parent was 22.3 billion yen, the same as the previous year, and up 1% from fiscal year 2019.

These results show that while operating profit and ordinary profit were lower than the previous year, profit attributable to owners of parent was higher than the previous year and in 2019 before the pandemic.

Please refer to the Appendix for the details of the effect of applying the Accounting Standard for Revenue Recognition.

- The consolidated results have been progressing toward full-year forecasts mostly at the planned rates, as shown in the bottom-right box.

1. Financial Highlights

The Highlights of the Consolidated Results -3Q 3 Months

- Domestic : The recovery of credit card receivables was lower than planned, and operating profit was negative
- Global : Performed well with operating revenue and net income exceeding the previous year's level

Consolidated		Domestic		Global	
Operating revenue	(YoY) (compared to the 3Q of FY2019)	Operating revenue	(YoY) (compared to the 3Q of FY2019)	Operating revenue	(YoY) (compared to the 3Q of FY2019)
¥109.5_{bn}	(99%)	¥65.1_{bn}	(85%)	¥44.5_{bn}	(131%) (114%)
<small>(comparison with before the application of accounting standards for revenue recognition)</small>					
	(107%) (99%)		(97%) (92%)		
Operating profit		Operating profit		Operating profit	
¥9.7_{bn}	(88%) (53%)	-¥0.2_{bn}	(-%) (-%)	¥10.0_{bn}	(113%) (197%)
Ordinary profit		Ordinary profit		Ordinary profit	
¥10.1_{bn}	(91%) (55%)				
Profit attributable to owners of parent		Profit attributable to owners of parent		Profit attributable to owners of parent	
¥4.1_{bn}	(99%) (41%)				
<small>※From this fiscal year, accounting standards for revenue recognition is applied.</small>		<small>※Domestic and Global results include figures after elimination of set-offs in transactions between business segments.</small>			
<outline>					
<ul style="list-style-type: none"> • Operating revenues continued to be strong in HK (152%, YOY) and other Global businesses • Operating profit was driven by TH (+¥1.6bn, YoY), followed by HK (+¥0.4bn) • Overseas unlisted companies in Cambodia and other countries also contribute 					

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3

- This slide shows the consolidated results for the three months over the third quarter.
 - Operating revenue was 109.5 billion yen, down 1% year on year. Please note that the year-on-year change is up 7% when the effect of applying the Accounting Standard for Revenue Recognition is excluded.
 - Operating profit was 9.7 billion yen, down 12% year on year, and down 47% from fiscal year 2019.
 - Ordinary profit was 10.1 billion yen, down 9% year on year, and down 45% from fiscal year 2019.
 - Profit attributable to owners of parent was 4.1 billion yen, down 1% year on year, and down 59% from fiscal year 2019.

These results show that we made less revenue for this quarter.

- Our domestic businesses saw operating profit turn negative because the recovery of credit card receivables was lower than planned.
- Our global businesses made more revenue and profit than the same period of the previous year and fiscal year 2019, driven by strong performance in Hong Kong and Thailand and contributions from unlisted companies in Cambodia and other countries.

2. Overview of Domestic Business

Breakdown of Operating Profit YoY (Cumulative 3Q)

• Credit card business covers negative cash advances due to recovery in shopping

	Contents	YoY Change (Unit : billions of yen)	
Credit Card Business	■ Card Shopping Recovery - Transaction volume : 109%(YoY) / Revolving balance: +¥11.3bn (YoY), +¥12.2bn compared to the beginning of the FY ■ Cash advance transaction volume increased, balance narrowed by negative difference from the previous quarter, and reversed the difference at the beginning of the period - Transaction volume : 106%(YoY) / Balance: -¥11.8bn (YoY), +¥3.1bn compared to the beginning of the FY ■ Promote settlement of long-term delinquent loans and improve debt-related costs	Shopping Revenue	+7.6
		Increase in points and promotional expenses	▲4.9
		Total	+2.7
		Cash advance	▲2.6
		Decrease in bad debt-related expenses	+0.5
	Operating Profit	+0.5	
Insurance Business	■ AEON Allianz Life Insurance -Operating expenses associated with business development (personnel exp., depreciation and amortization, sales promotion exp., etc.) +¥1.3bn	Operating Profit	▲1.2
Other	■ Increase in interest on banking loans - Expansion of the balance of operating receivables such as housing loans ■ Increase in variable costs due to business expansion - Card issuance fee, international brand fee, etc. ■ Decrease in interest dividends on investment securities - Decrease due to changes in the market environment ■ Decrease in securitization income - In view of the market environment, curbing the securitization of installment finance receivables ■ Consolidation of head office functions - Relocation and consolidation of offices, etc. ■ Other expenses - Other expenses for business expansion		+1.1
			▲3.2
		Operating Profit	▲2.0
			▲1.2
			▲0.9
			▲1.0
	Total	▲7.9	

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4

- This slide shows the overview of our domestic businesses. Cumulative operating profit for the third quarter dropped by 7.9 billion from the previous year.
- The credit card business earned 2.7 billion yen more than the previous year in total from shopping transactions owing to the recovered transaction volume and balance of revolving credit receivables.
The cash advance transaction and balance of receivables reversed, and the year-on-year decrease in the balance shrank. Nevertheless, revenue dropped by 2.6 billion yen from the previous year due to the negative figure for the first half of the year.
The increase in shopping transactions and improved bad debt-related expenses made up for this decrease, and consequently, operating profit was up 0.5 billion yen compared to the previous year.
- In regard to the insurance business, operating profit was down 1.2 billion yen due to upfront investments that had to be made for the full launch of AEON Allianz Life Insurance.
- Other changes are as shown in the slide. The total of year-on-year changes in operating profit was down 7.9 billion yen due to an increase in variable costs required for business expansion, coupled with our future-oriented investments. Recovery in the domestic business is our immediate and highest-priority issue. I will discuss our future directions later.

2. Overview of Domestic Business

Renewal of Card Design and Membership Acquisition Measures

- In conjunction with the renewal of AEON Card tickets, we will conduct a winter enrollment campaign at stores and on the Web. Gained approx. 200,000 new members in November

New Card Design



Monthly Trends in the No. of New Members



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- I will discuss the topics concerning the domestic businesses.
- In last November, we launched redesigned AEON credit cards. The fronts of these new cards are simple in design in hopes of attracting new members of all generations and gaining lasting favor with all customers. With the launch, we also started a campaign to win new members.
- The graph at the bottom right shows the numbers of new members sorted by month.
Each month of this fiscal year enjoyed a greater number of new members than the same month of the previous year. November, in particular, saw this year's highest number, about 200,000, 133% up compared to the previous year.

Cash Advance Measures

- Measures tailored to member attributes have led to an increase in cash advance transaction volume

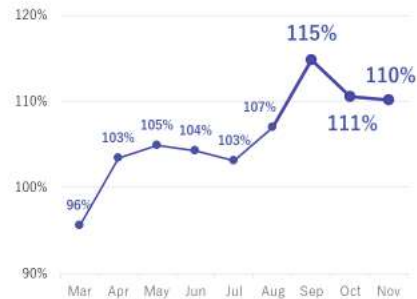
"Revitalization of existing and dormant members"

Appeal for online cash advances by DM
For members with high sales promotion effects, outbound calls are also conducted

"Promotion of use by new members"

Tendency for new members to use online cash advances to be high
Appeal the use of online cash advances through online advertising and digital distribution

Year-over-year change in cash advance transactions



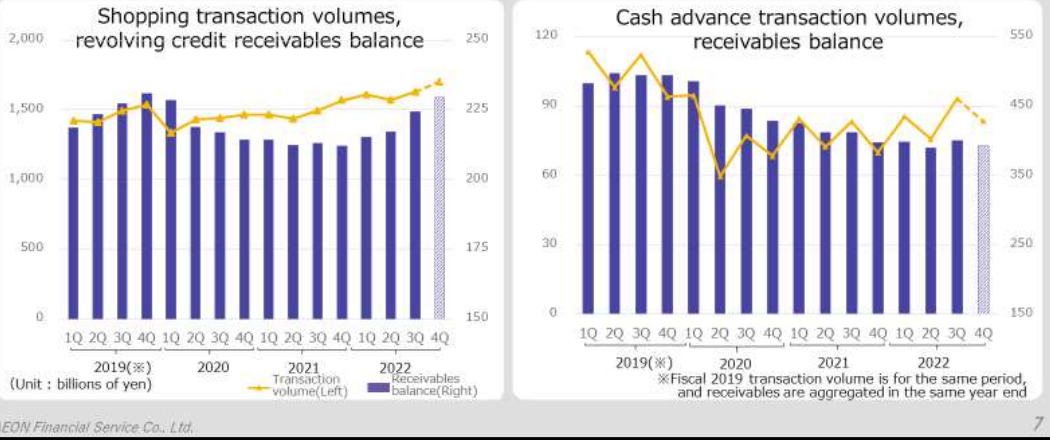
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- This slide is about cash advance transactions.
- Cashless payments, including those with AEON credit cards, have rapidly grown over the last few years, which has led to changes in customers' needs for cash. Cash advance transactions and balances of receivables across the credit card industry have not recovered to the pre-pandemic levels in 2019. AEON credit cards are no exception.
- Given this reality, we launched initiatives to reinvigorate transactions by existing and dormant members in order to create more needs for cash advances. We sent out direct mail to encourage the use of online cash advances, and we also made outbound calls to members who responded well to sales promotions.
- Furthermore, we urged new members who frequently use online cash advances to take advantage of online cash advances by running online ads and offering the service through digital distribution.
- As a result of all these efforts, each month since April of this fiscal has seen greater cash advance transactions than the same month of the previous year. In particular, the three months over the third quarter enjoyed two-digit monthly increases.

2. Overview of Domestic Business

Credit Card Transactions Volume and Outstanding Receivables

- Strengthened sales promotion to increase household spending and stimulate consumption, and re-expanding the amount outstanding of revolving after bottoming out at the end of the previous fiscal year



- These graphs show Japan's credit card transaction volumes and outstanding receivables over these given periods. The left graph shows the volumes of shopping transactions and the balances of revolving credit receivables, and the right graph shows the volumes of cash advance transactions and the balances of receivables.
- The volume of shopping transactions with credit cards reached a record high owing to increased household spending, coupled with enhanced sales promotions designed to invigorate consumer spending. The balances of revolving credit receivable are also clearly on the rise again after hitting bottom at the end of the last quarter.
- As explained while we were at the previous slide, the volumes of cash advance transactions achieved two-digit year-on-year increases. The balance of receivables at the beginning of the fiscal year also increased from the beginning of the last fiscal year.

3. Overview of Global Business

Asset Management Business (AEON Bank)

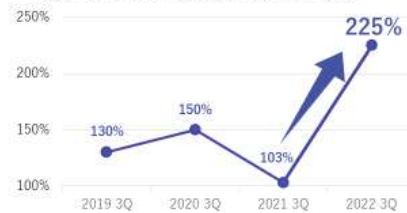
- Establishing a sales process for asset management products that leverages AEON Bank's strengths in customer service at branches

Financial instrument sales channels



Financial instruments transaction volume (YoY)

(Financial products: Cumulative sales of investment trusts, foreign currency deposits, and insurance in 3Q)



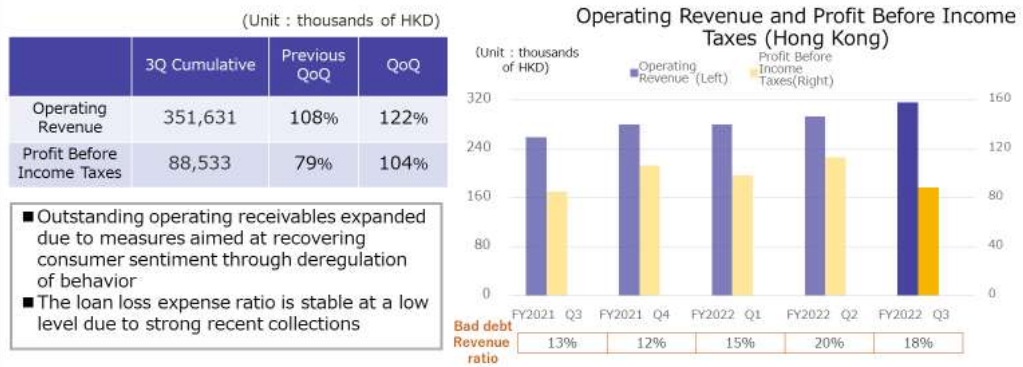
- Foreign currency deposits: Trxn vol. increased significantly due to foreign currency interest rate campaign measures
- Insurance: Strong sales on the back of rising U.S. long-term interest rates

- This slide is about the asset management business's efforts.
- Most of AEON Bank's customers are members of AEON credit cards, and many have only limited or no investment experiences. Sales teams at branches offer consulting services to these customers to increase the sales of our asset management products, including investment trusts, foreign currency deposits, and private pension insurance.
- The right graph shows year-on-year volumes of financial instrument transactions at AEON Bank. This third quarter saw a dramatic increase of 225% from the previous year.
- Foreign currency deposits and insurance subscriptions have grown successfully, owing partly to a foreign currency interest rate campaign and a rise in the United States' long-term interest rates, respectively.

3. Overview of Global Business

Cumulative Performance Progress in the Q3 (China Area, Status in Hong Kong)

- Operating revenue steadily expanded, and the bad debt ratio stabilized at a low level, resulting in profit expanding year-on-year



- Now I will discuss the overview of our global businesses.
- In Hong Kong, local travel restrictions have been gradually lifted, and we have launched initiatives that aim to restore consumers' confidence.
- The right graph shows operating revenue and profit before income taxes from local year-end closing. Operating revenue has steadily increased. The collection has also been going well recently, with the ratio of bad debt-related expenses to operating revenue remaining stable.

3. Overview of Global Business

Cumulative Performance Progress in the Q3 (Mekong Area, Status in Thailand)

- Earnings increased due to steady expansion of outstanding operating receivables, and bad debt control remained stable

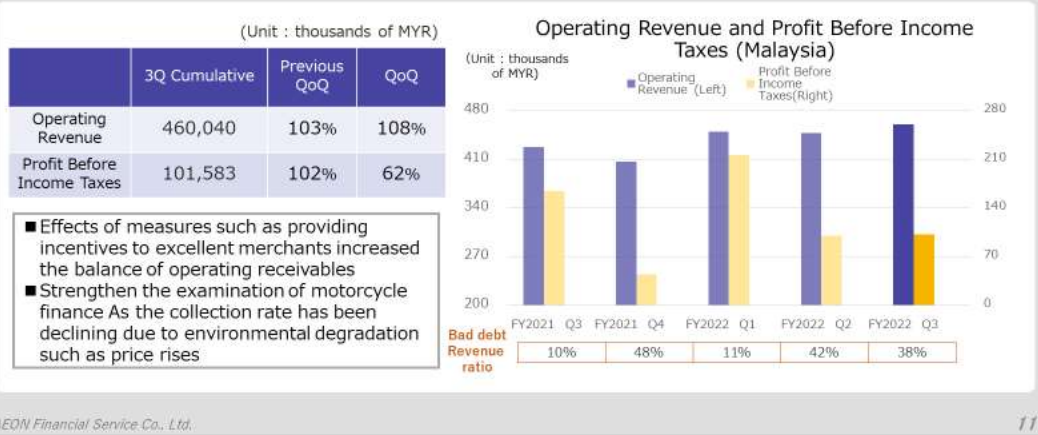


- In Thailand, sales promotions in collaboration with major e-commerce websites and other partners have boosted shopping receivables and revenues.
- As for bad debt-related expenses, when allowance for doubtful accounts was calculated for the second quarter, the economic indicator used for forecasts turned out to have worsened. Consequently, the ratio of bad debt expenses to operating revenue rose to 40%. Yet, since operating revenue has grown, profit has been remaining close enough to our plan.

3. Overview of Global Business

Cumulative Performance Progress in the Q3 (Malay Area, Status in Malaysia)

- Operating revenue expands due to increased transaction volume, but controlling bad debt costs is an issue

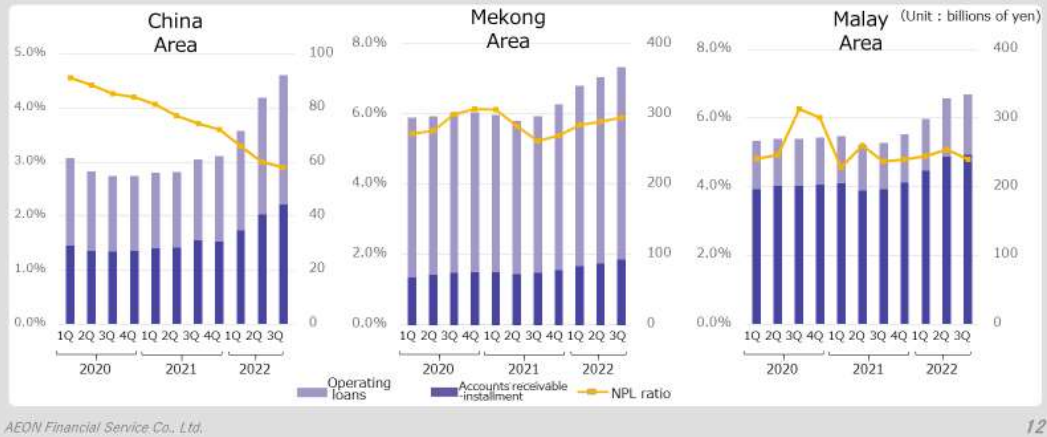


- Finally, in Malaysia, volumes of transactions and balances of receivables have grown owing to measures such as incentives given to stores with excellent performance in installments for individual products such as motorcycles.
- On the other hand, with the rising prices and the termination of government policies to protect debtors and other factors, the collection rate has been declining recently, which prompted us to take stronger measures such as making changes to screening standards for a loan to purchase motorcycles.
- Since bad debt-related expenses dramatically change every quarter in Malaysia, we work with local staff to make improvements, sharing examples in other countries.

3. Overview of Global Business

Outstanding receivables and NPL ratio

- NPL ratio rises due to expansion of operating receivables in the Mekong Area, but controlled in the normal range in each area



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12

- With these circumstances in mind, I will explain, as always, changes in outstanding receivables and nonperforming loan (NPL) ratios in each area.
- From left to right, these charts show figures in the China, Mekong, and Malay Areas, respectively. As explained earlier, all areas show accelerated growth of operating loans and installment finance receivables.
- In the China Area, our continued efforts to improve the quality of receivables have kept the NPL ratios stable at low levels.
- In the Mekong Area, the relief measures for debtors and reduced minimum payment rates ended in Thailand, which somewhat pushed up the NPL ratio.
- In the Malay Area, due to the termination of government policies to protect debtors mentioned previously, the NPL ratio rose in the first half of the fiscal year. Yet greater collection efforts turned out to be successful during the third quarter, and the ratio began to drop recently.
- In the fourth quarter, we will work to build up receivables of good quality by focusing more on screening and collection measures that are based on the latest situation.

This is the end of the presentation on the results for the third quarter.

Future Directions

- I will discuss our future directions.

4. Future Directions

Domestic Business – Expanding the No. of IDs

- Promote the use of AEON Pay and expand the merchant network to expand the number of IDs and penetration

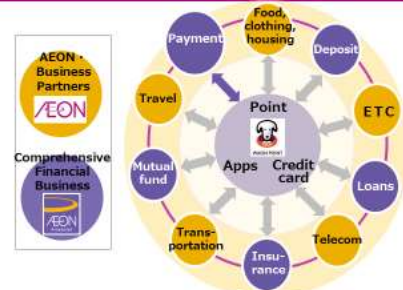
Measures to promote the use of AEON Pay

Continue to implement campaigns using points at AEON nationwide

In the 4Q, the "My Basket" campaign promoted the penetration of daily use of AEON Pay among young people in urban areas



Expansion of AEON Pay merchant network



<Major new merchants from the 3Q onwards>
JINS, EDION, Matsuya, Colowide Group, New Chitose Airport, Asahikawa Airport

- The first topic is the domestic business' efforts to boost the number of IDs.
- We are currently working to increase users of AEON Pay, the service that was launched in September 2021, in addition to AEON Card members.
- We have started with initiatives to increase service use within the AEON Group. Over the year-end and New Year holidays, we launched a loyalty point campaign to increase membership and transactions.
- In this fourth quarter, My Basket has started a campaign to encourage customers to use AEON Pay for their daily shopping. My Basket is one of our retail chains, operating more than 1,000 small supermarkets in Tokyo.
- As shown in the bottom right, member stores outside the Group are steadily increasing. We plan to build a solid network of member stores.

Domestic Business Restructuring

· In the 1H of FY2023, the company shifted to a business holding company whose parent company is the settlement business, and continued to reorganize its domestic business

Expected Restructuring Effects

	Restructuring Effects
Optimal allocation of management resources	<ul style="list-style-type: none"> · Elimination and consolidation of duplicate functions · Centralized allocation of resources to growth areas
Faster decision-making	<ul style="list-style-type: none"> · Faster strategy execution by reducing decision-making processes
Demonstrating Group Synergies	<ul style="list-style-type: none"> · Promotion of cross-selling and enhancement of business strategies of Group companies using payment data

Future Perspective

Optimize sales touchpoints

Organizational structure review of other non-bank businesses

Continue restructuring to become a more strategic execution organization

- The next topic is the domestic business restructuring announced in October.
- During the first half of the fiscal year 2023, the management of AEON Financial Service and AEON Credit Service, our subsidiary, will be integrated so that we will transition to a business holding company that engages primarily in the payment business.
We are looking to achieve optimal allocation of management resources, faster decision-making, and group synergy, among others, as the effects of the business restructuring as soon as possible.
- We also plan to continue our restructuring efforts to optimize our sales touchpoints, creating an organization that offers easy-to-understand and user-friendly services, that is, an organization capable of successfully implementing its strategies.

4. Future Directions

Review of housing loans rates and measures

- Strengthen measures to pursue synergies between retail and finance, such as expanding exclusive benefits for Select Club subscribers

Main measures for housing loans

- Expansion of Select Club Benefits
(Extension of discount application period and elimination of annual discount cap)
- All Disease Group Credit Life Insurance
Zero additional interest rate
- Interest rate reduction with individual preferential treatment

Expansion of AEON Select Club benefits (from March '23)

- "Discount until loan completion"
- "Annual discount limit unlimited"

Measures unique to the AEON Group
Gain a competitive advantage



- Next, I am presenting our measures to create synergy between our retail and financial businesses.
- We will expand the benefits offered by AEON Select Club that is available to customers who have taken out a housing loan from AEON Bank.
- Currently, these customers receive a 5% discount on everything they buy at AEON stores for five years. The planned new benefits include the extension of this discount period to the time they pay off their loans. Furthermore, the cap set on the annual sum of purchase to which the discount applies will be removed so that there will be no limit. We believe that these benefits will differentiate us from competitors.
- We intend to establish our competitive advantages by expanding these benefits unique to the AEON Group to offer them to customers who use our products and services other than the AEON credit cards and housing loans.

Global Business (China Area)

- Implement plans in line with the recovery in demand for tourism to Japan and strengthen the insurance business to acquire new revenue sources

Capturing demand for tourism to Japan

- Since the Japan government's easing of border measures, the number of foreign visitors from Hong Kong has increased sharply (Sep: 2,000ppl, Oct: 36,000ppl, Nov: 83,000ppl)
- AEON Card WAKUWAKU, a new card for people in 20s and 40s that increases the redemption rate by using it in Japan, exceeded 50,000 cards in the first 6 months of issuance



Started consulting business for savings-type insurance products

- Started sales of savings-type insurance products through face-to-face consulting sales in addition to telemarketing, online based medical and death protection products



Strengthening insurance business in China Area

- The next topic is our global businesses.
- Let me start from the China Area. Visitors from Hong Kong have been rapidly rising recently, and AEON Card WAKUWAKU targeting foreign visitors to Japan has been enjoying a growing membership.
The cashback benefits available for the use of the Card in Japan are particularly popular with younger tourists. Users are mostly in their 20s, followed by those in their 30s and 40s.
- We are also focusing more on the insurance business as a new major revenue source in addition to the credit card and loan businesses.
We have launched new savings-type insurance products to sell through consulting services in order to meet customers' needs.

4. Future Directions

Global Business (Mekong Area)

- Transaction volume growth in Cambodia toward the second half of the year, strengthening receivables management system in Thailand to improve bad debt costs

Growth in transaction volume (Cambodia)

- With the recovery of the domestic economy, transaction volume increased toward the 2H of the FY, mainly in the credit card business. The loan business is also recovering, and further growth is expected



Measures to Improve Bad Debts (Thailand)

Refinement of screening by analyzing attributes such as area and occupation

Increase the number of calling operators utilizing telecommuting

- ✓ Optimizing screening and credit lines
- ✓ Improving the collection rate by strengthening the system

Implement the above two points to improve bad debt costs

- This slide is about the Mekong Area.
- Other than in Thailand, our business is growing in Cambodia. With the country's economic recovery, the volumes of credit card and loan transactions have picked up again. The business there now seems capable of yielding a profit of one billion yen.
We will continue to put effort into the business in Cambodia so that it will become the fourth pillar of our global businesses.
- As for the business in Thailand, our immediate priority is improving bad debt-related expenses.
We will continue to work on measures for more rigorous screening and debt collection to achieve improvement.

4. Future Directions

Global Business (Malay Area)

- Capture growing demand for electric motorcycles in Indonesia, aim to improve its credit content in Malaysia

Started handling electric motorcycles (Indonesia)

- Started handling electric motorcycles in October
- The Indonesian government is considering introducing purchase subsidy measures to expand the spread of e- motorcycles and EVs, aiming to capture demand



Measures for the current FY against bad debts (Malaysia)

Stricter screening of small motorcycle purchasers with minimum wage or less

Improving convenience for excellent customers by introducing automatic screening for large motorcycles and automobiles

- ✓Optimizing screening and credit lines
 - ✓ attracting good customers
- Implement the above two points to improve bad debt costs

- This slide is about the Malay Area, the last one under this topic of the global businesses.
- We are also working on expanding our business into Indonesia as an area that will be an extension of Malaysia. In October, we started offering new loans for the purchase of electric motorcycles. In anticipation of the Indonesian government's policy for promoting the use of those motorcycles, we plan to boost our market share by offering a convenient application process and fast screening.
- Just as in Thailand, improving bad debt-related expenses has our immediate priority in Malaysia. We intend to achieve improvement by ensuring proper screening and credit lines and by winning reliable customers.

5. Earnings and Dividend Forecasts

FY2022 earnings forecast, dividend forecast (unchanged)

· In view of uncertainties in the economic environment, such as interest rates and price rises, there is no change in earnings forecasts

Consolidated	Domestic	Global
Operating revenue ^(※1) (YoY) ¥445.0bn (101%)	(YoY) ¥290.0bn (96%)	(YoY) ¥155.0bn (112%)
Operating profit ¥55.0bn (93% to ¥60.0bn (to 102%))	¥21.0bn (81% to ¥23.0bn (to 88%))	¥35.0bn (104% to ¥38.0bn (to 112%))
Profit attributable to owners of parent ¥27.0bn (89% to ¥29.0bn (to 96%))	Dividends per share (Increase in dividends) Annual ¥50(+¥4) Interim : ¥20 (+¥3) Year-end : ¥30 (+¥1)	Payout ratio 37.2% to 40.0%
<small>※1 Operating revenue is the number after the application of the accounting standard on revenue recognition.</small>		

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20

- Finally, I will present earnings and dividend forecasts.
- These projections of earnings figures remain unchanged from those announced in April, as you see.
So do the projections of dividends. The planned annual dividend is 50 yen, up 4 yen from the last year's ordinary dividend of 46 yen.
- We decided to keep the forecasts unchanged as we considered the economic uncertainty that has arisen from rising interest rates and prices, among other factors, along with the impact of measures to stem excessive yen falls and the risk of increases in bad debts overseas.
- Over the remaining two months, we will ensure that the measures presented today will be implemented in order to improve our business results.

Questions and Answers

■ Mr. Sakamaki, analyst at Nomura Securities

(1)

Q: Would you tell us how you view the present business environment in light of the next year's dividends?

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

As we see, risk factors have arisen in the overseas and domestic business environments. In overseas locations, inflation and disrupted logistics seem to have somewhat weakened customers' capacity for repayment. In Japan, we also believe that the business environment has altered because of inflation and the Bank of Japan's policy change. We have always focused on how to win more customers, how to cut costs, and how to increase the balance of receivables. We have not yielded results in some areas in Japan, yet transactions have been on the increase. We will see the effect of this increase on interest, and we believe that the effect will be a positive factor. That said, rising interest rates may have more than a limited impact on investment profit and securitization, so we are not optimistic about what the business environment will be like. Our major challenge for the next fiscal year is how we will overcome the situation with our management effort.

■ Mr. Sato, analyst at Mizuho Securities

(1)

Q: I have a question about the "increase in variable costs due to business expansion" in the itemized year-on-year changes in the domestic businesses' operating profits. What caused the change to be greater than in the second quarter?

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

It was due to the international brand fees and costs of information system maintenance that accompanied business expansion. Fees paid to external entities are proportionate to the shopping transactions. Yet, card issuance fees and postage, which come with winning new members, are incurred before the members start using the services, which has caused the increase.

(2)

Q: The medium-term management plan states that active spending will continue until the end of the fiscal year 2022 and be replaced by profit growth in the fiscal year 2023. The balance of receivables is somewhat behind in building up, especially in Japan. Do you expect the phase of active spending to continue for another year?

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

As you just pointed out, we are probably slow in monetizing our investments. We will work to yield profits from the next fiscal year on, yet, given the change in the environment as we perceive it, we will need to consider some risk factors as we plan our efforts.

■ Mr. Watanabe, analyst at Daiwa Securities

(1)

Q: Would you tell us about the year-end projected balance of receivables from cash advances and why it has dropped compared to three months ago?

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

The transaction volume achieved a two-digit increase for the three straight months of the third quarter. Yet we made this conservative projection as we considered the seasonal factor, which is a likely increase in repayments in January after customers receive their bonuses. We will continue to focus on increasing the balance.

(2)

Q: Regarding the impact of rising interest rates, what are the benefits and detriments, and how will the higher rates affect your business results?

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

Cash advances and revolving credit receivables are added to the Bank's balance sheet, which is our major feature. Interest rates on deposits in a bank are not always in line with market interest rates, and so we believe that we have a competitive advantage in financing over other companies that do not own a bank. That said, when it comes to the securitization of housing loans, investors focus more on interest rates, which creates an impact. As for securities management,

we will need to discuss risk limits as we adopt it. We do not think interest rates have stopped rising yet, so we will continue to move forward carefully and come back to the issue sometime in the summer.

■ Mr. Otsuka, analyst at J.P. Morgan

(1)

Q: The domestic businesses seem to be making progress in generating profits at a low rate. What is your company's internal view on this?

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

Our forthright view is that the domestic businesses were struggling hard. Although we made efforts to boost the balance of receivables, we have not yielded the results we aimed to have. With housing loans remaining below the planned figures, the domestic businesses struggled over these nine months. We also admit that the low balance of receivables had a negative effect during the second half of the fiscal year.

(2)

Q: What is preventing the balance of receivables from reaching the planned level?

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

We don't think we set the bar too high. We should have put a little more effort into winning members and promotions. Shopping transactions increased, and we internally evaluate the increase by comparing the growth rate with that of other companies. To make up for the balance of cash advances, we believe that measures to boost the balance of revolving credit receivables will be vital.

■ Mr. Hara, analyst at SMBC Nikko Securities

(1)

Q: Regarding costs for the fourth quarter and thereafter in Japan, what are your forecasts about the scale of prior costs for having more members and information system-related costs?

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

Since any attempts to win members push up costs, those costs will never

dramatically go down. Information systems that were written off were recorded as loss on retirement when the Bank's mission-critical system went through migration, yet this will not continue to take place in the fourth quarter or any time thereafter.

(2)

Q: Would you tell us why the balance of receivables from cash advances shows little growth? Is this because the current pressure on repayments is strong, or the number of new customers has not grown, or are there any other factors?

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

The balance has not grown because customers use cash advances less often. We plan to do something to increase the use of the service by new customers. Moreover, we believe that the challenge we should meet in the months to come is to boost the balance of revolving credit receivables.

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

(1)

Q: Regarding allowance for doubtful accounts in Thailand, would you say it may considerably increase in the fourth quarter?

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

With the termination of individual allowances and relief measures for debtors, overdue repayments have gradually been increasing. We expect the allowance for doubtful accounts will decrease when spending on travel increases during the fourth quarter, yet travel restrictions on visitors from China have been tightened recently. Hence, we don't anticipate a dramatic decrease or increase.

(2)

Q: Would you tell us about your view on securitization in the fourth quarter and about reserves related to overpayments?

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

We are planning a reasonable amount for securitization in the fourth quarter. However, it has not been finalized because we also need to consider the situations related to investors and the business environment. As for overpayments, there should be no major impact, as we expect that the built-up amount at the

beginning of the fiscal year will decrease.

(3)

Q: Would you tell us about your forecasts of costs for the insurance business?

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

There are always prior costs for information systems and personnel, among others. We believe that the insurance business needs to be supported by revenue from other fields.

■ Mr. Sasaki, analyst at BofA Securities Japan

(1)

Q: The overseas businesses are making more profits than projected. Could I assume that you use the profits to bolster the domestic businesses?

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

The domestic businesses should make unconsolidated profits. However, we are in a situation where we use extra profits from the overseas businesses for the domestic businesses. A good part of the expenses for the domestic businesses are incurred ahead of schedule in order to generate revenue. Other expenses were due to an increased cost of issuance that accompanied a greater membership, so they are not a waste.

(2)

Q: Would you tell us about the impact of inflation?

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

We believe that there is a strong likelihood that the demand for funds will increase. That said, we are also concerned that customers may grow less capable of making repayments, especially overseas. We will also need to consider greater costs, including overall personnel costs and interest rates.

■ Mr. Niwa, analyst at Citigroup Global Markets Japan

(1)

Q: Why did the number of new AEON Card members increase in November in

Japan? How many new Card members do you aim to win next year and thereafter?

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

We believe that the major factors were the greater convenience of loyalty points and the campaign and redesigned credit cards that were well received by customers. As for new Card members, we have an ambitious plan of issuing 2.5 million cards in the next fiscal year and thereafter.

(2)

Q: I would like to know the details of the Bank's securities investments and how you plan to cut your losses.

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

Those investments are mostly in long-term and super long-term government bonds, currency-hedged European bonds, and others with good interest rates. Hence, we intend to take our time to consider how to process latent losses while waiting for expiration rather than rushing to cut our losses.

■ Mr. Okada, analyst at UBS Securities

(1)

Q: The target for consolidated operating profit is set in the range of 5.5 billion yen to 60 billion yen. What is your current forecast?

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

The domestic businesses struggled in the third quarter, as the balance of receivables showed, and competition is fierce. We acknowledge that the profit may not reach the upper range.

(2)

Q: Considering the launch of Mercard by Mercari and PayPay's promotions, I suspect that the current competitive environment is intense. I would like to know how you perceive the competition.

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

With new competitors launching campaigns regardless of upfront costs,

competition is fierce. Yet we will rebuild our strong position by leveraging the foundation of the AEON brand. We will speed up our business management process and simplify our management style to adapt to this competitive environment.