

## Results for the First Quarter of FY2023: Script and the QAs

Date & Time: Tuesday, July 11, 2023, 17:00-18:00

Presenter: Tomoyuki Mitsufuji, Director and Managing Executive Officer in charge  
of Group Corporate Management

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# FY2023 First Quarter IR Presentation Materials

July 11, 2023



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Thank you very much for taking time out of your busy schedule to attend our financial results briefing for the first quarter of the fiscal year ending February 2024.

I am Tomoyuki Mitsufuji, Director and Managing Executive Officer in charge of Group Corporate Management. I will be explaining the financial results today.

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This will be the flow of today's briefing.

First, I would like to outline the financial results for the first quarter, second, the measures that we are focusing on, finally, earnings and dividend forecasts.

# 1 Financial Results Highlights

I would like to start by outlining the financial results for the first quarter.

## Financial Results Highlights

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### (1) Increased transaction volume

Domestic: Revenues increased due to expansion of business, mainly credit cards.

Global : Operating revenue in all three areas reached a record high, with double-digit sales growth in global business

### (2) Increase in the balance of trade receivables

Domestic: Cash advances bottomed out due to user expansion, and moving into expansion phase

Global : Receivables expand, mainly in China area  
In Thailand and other countries, the increase in outstanding loans pauses due to stricter screening

### (3) Increased bad debt-related expenses

Domestic : Expenses increased, but remained flat compared to outstanding operating receivables

Global : In addition to special factors in the same period of the previous year, the recovery rate declined due to an increase in the payment burden due to soaring prices

### **Merged with AEON Credit Service on June 1**

**We will continue to reorganize our domestic business to optimize the allocation of management resources, speed up decision-making, and maximize group synergies**

Before going into the detailed figures, I will briefly explain the key points of the financial summary.

First is the increase in transaction volume.

In our domestic businesses, we saw revenue increase due to business expansion particularly in the credit card business.

As for global businesses, operating revenue marked a record high in all three areas of China, Mekong, and Malay, and as a result achieved double-digit growth in the total revenue of global businesses.

Second is the increase in the balance of operating receivables.

With the increase in users in the domestic market, the balance of cash advances bottomed out and returned to a growth phase.

In overseas markets, the level of receivables increased particularly in the China Area.

In Thailand, however, as a result of tightened screening standards in consideration of the recent economic environment, the increase in outstanding receivables seems to have slowed down for the time being.

The third point to take note of is the increase of bad debt-related expenses.

In the first quarter, bad debt-related expenses increased from the previous year both in domestic and global businesses.

However, the ratio of bad debt-related expenses to the balance of operating receivables has remained mostly flat in the domestic businesses, indicating that there has been no significant deterioration in the credit quality of receivables.

In the global businesses, the increase of bad debt-related expenses compared to last year is partly due to special factors such as specific measures taken by the respective governments during the same period of the previous year. At the same time, it is also true that the collection rate has been declining recently due to the increased payment burden from rising living costs.

As already announced, AEON Financial Service merged with AEON Credit Service as of June 1.

We will continue efforts to restructure our domestic businesses toward optimizing allocation of management resources, further speeding up decision making, and maximizing synergy across the Group.

## The Highlights of the Consolidated Results

- Both in the domestic and global business, operating revenue in increased year on year
- Operating profit decreased because of up bad debt expenses in both area

	Consolidated		Domestic		Global		FY2023 Forecast	Progress
	YoY		YoY		YoY			
Operating Revenue	109 %	¥116.6 bn	105 %	¥71.3 bn	116 %	¥45.3 bn	¥480.0 bn	24 %
Operating Profit	60 %	¥9.1 bn	51 %	¥1.3 bn	63 %	¥8.1 bn	¥61.0 bn	15 %
Ordinary Profit	59 %	¥9.5 bn	-	-	-	-	¥61.0 bn	16 %
Profit attributable to owners of parent	45 %	¥3.5 bn	-	-	-	-	¥27.0 bn	13 %

Here are the consolidated results for the first quarter.

As you can see,

- Operating revenue was 116.6 billion yen, up 9% year on year.
- Operating profit was 9.1 billion yen, down 40% year on year.
- Ordinary profit was 9.5 billion yen, down 41% year on year.
- Profit attributable to owners of parent was 3.5 billion yen, down 55% year on year.

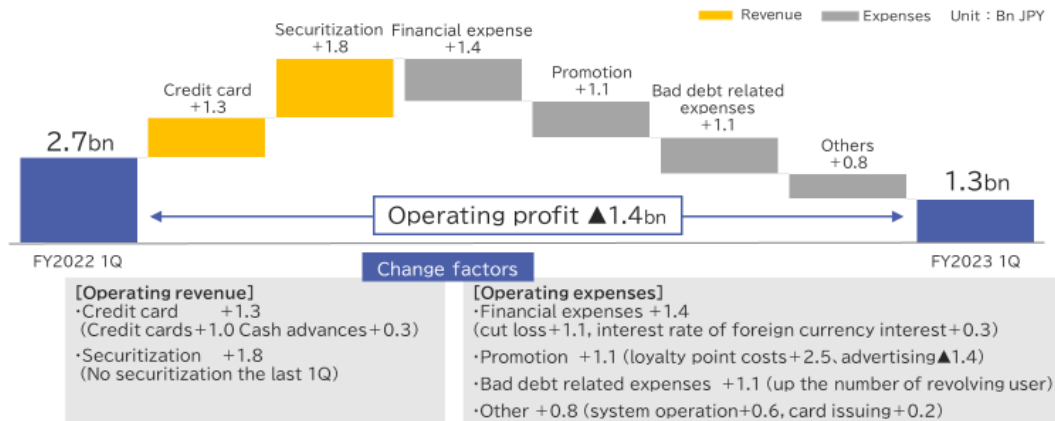
The results show that the first quarter saw an increase in revenue but decline in profits.

The main cause of the profit decline in domestic businesses was such factors as the increase in financial expenses associated with switching of securities in the banking business in addition to bad debt-related expenses.

As for global businesses, the results have been largely affected by special factors that occurred in the previous fiscal year. In the context of our plans for the full year, however, the results have been basically in line with the plan.

## [Domestic] Breakdown of operating profit year-on-year

- Although business expanded mainly on credit cards, profit decreased due to the replacement of securities in the banking business, sales promotion to acquire customers, and an increase in bad debt-related expenses due to the expansion of the outstanding balance of receivables



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This slide shows the breakdown of the year-on-year changes in the operating profit of domestic businesses.

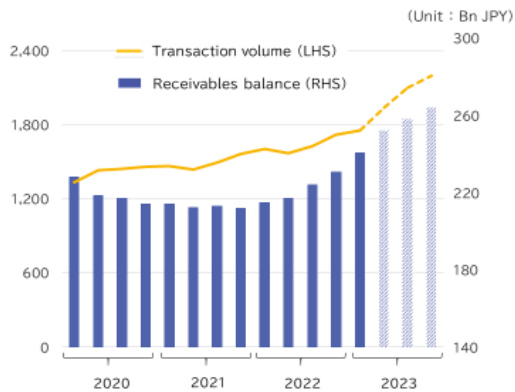
Operating revenue (indicated by the yellow bars) has increased by 3.1 billion yen thanks to such factors as increase in revenue of the credit card business and gain on securitization of receivables.

Nevertheless, the profit declined because the costs/expenses (indicated by the gray bars) increased by 4.5 billion yen due to switching of securities in the banking business, increase in promotional costs for customer acquisition, and bad debt-related expenses associated with the increase of outstanding receivables.

We are planning to offset this profit decline by the end of the fiscal year through various measures I will explain in the following section. The measures will be centered on those to expand transaction volumes and balance of operating receivables.

## [Domestic] Shopping transaction and revolving credit balance

- Number of users is steadily expanding even though more people are cutting down on their spending
- Revolving credit balance growth rate shows above the industry average



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### Shopping Transaction Volume

- > 1Q Result: 1,757.2bn (YoY 109%)
- > Even though there is a trend of consumption polarization, thanks to focusing payment registrations for public utilities and other services, users is increasing continuously.

### Revolving Credit Balance

- > 1Q Result: 240.6bn (YoY 112% / YTD +9.7bn)
- > User is expanding due to introducing "repayment simulation feature" that allows customers to confirm the number of repayments and the total expected payment amount after changing to Revolving payment.

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This slide shows the trends in credit card shopping transactions and outstanding balance of receivables.

Look at the figure on the left. The yellow line shows shopping transaction volumes and the blue bars show the balance of revolving credit receivables.

Shopping transaction increased by 9% year on year to 1,757.2 billion yen.

There is a polarizing trend in recent consumer behavior: in response to rising commodity prices consumers are becoming more budget-minded in their everyday consumption, whereas demand for extraordinary consumption (such as going on a trip) is expanding.

In response to this situation, we have been enhancing measures designed to capture different consumption behaviors and have also promoted application for utility payments. Thanks to these efforts, the number of users is continuously increasing.

The balance of revolving credit receivables for the first quarter was 240.6 billion yen, up 12% year on year. This represents an increase of 9.7 billion yen from the beginning of the fiscal year, delivering growth faster than the industry average.

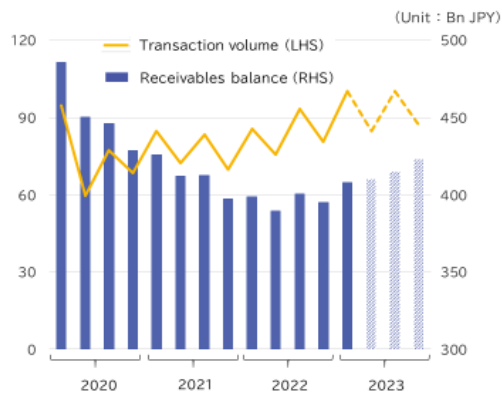
In addition to the implementation of ongoing measures, in May we started to provide a function for repayment simulation which allows users to check in advance the number of payments and expected total amount of payment after switching to revolving payment. This ensured peace of mind of users, which led to further user increase.



We will continue to expand usage by further enhancing user convenience.

## [Domestic] Cash advance transaction volume and receivables balance

- By approaching new and inactive cardholders, the number of users has increased by double digits, and the balance has also turned positive compared to the same period of the previous year



### Cash Advances Transaction Volume

- > 1Q Result: 100.4bn (YoY 117%)
- > In addition to the recovery of individual fund demand, during the Covid-19, rationalization of tightening the credit line and a reactive approach to inactive members were successful.

### Cash Advances Balance

- > 1Q Result: 407.8bn (YoY 102% / YTD+12.5bn)
- > In addition to the increase in transaction volume, we provide convenience to customers by offering the function of changing the cash advance repayment method online, and therefore, the balance has been shifted towards an expanding trend.

This slide shows the transaction volume and outstanding balance of receivables in cash advances.

Cash advance transaction volume increased by 17% year on year to 100.4 billion yen.

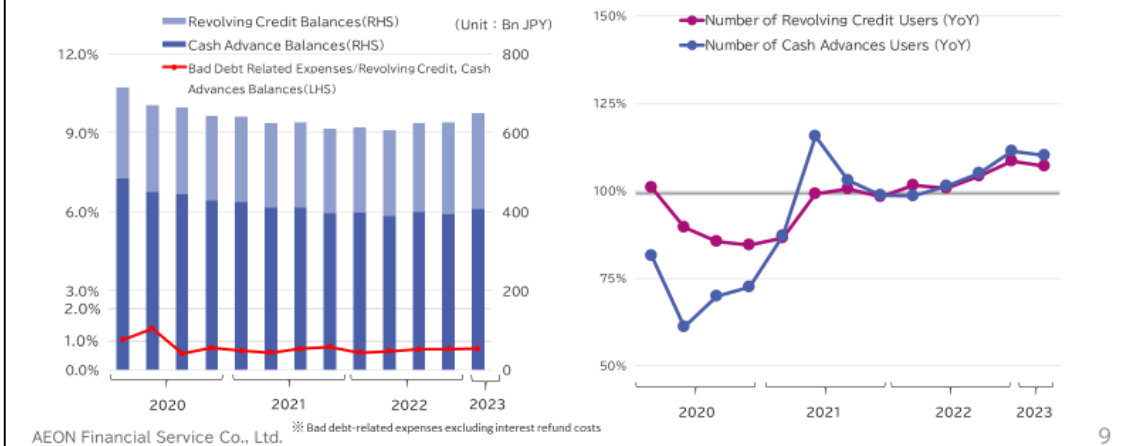
In addition to recovery of personal credit demand, measures such as optimizing credit lines (which had been tightened during the COVID-19 crisis) and re-engaging inactive members proved effective.

The balance of cash advances was 407.8 billion yen, representing an increase of 12.5 billion yen from the beginning of the fiscal year and returning to a positive growth year-on-year.

Both the transaction volume and outstanding balance of receivables in cash advances have returned to an upward trend, thanks to improvements in customer convenience realized by making it possible to complete the process online when switching from a lump-sum payment to revolving payment.

## [Domestic] Revolving Credit and Cash Advances, and Bad Debt Related Expenses

- The bad debt related expenses rate for receivable balance is staying below 1%
- With the increase users for revolving payment and cash advances, the receivable balance has also increased



This slide shows the trends in the outstanding balance of revolving credit and cash advance receivables and the ratio thereto of bad debt-related expenses.

The graph on the left shows revolving credit receivables in light blue bars and cash advance receivables in dark blue bars, while the red broken line indicates the ratio of bad debt-related expenses to the outstanding balance of receivables.

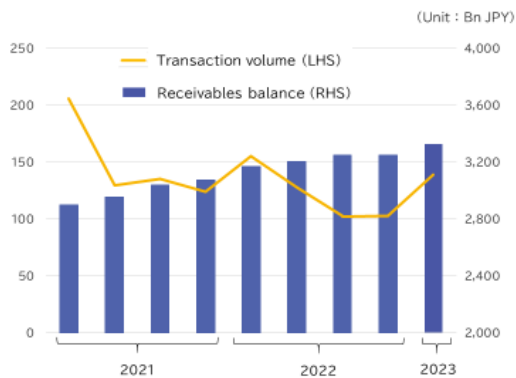
As you can see, the red line has remained below 1%, indicating that the credit quality of the receivables has stayed stable without any notable variation.

The graph on the right shows the year-on-year growth in the number of revolving credit users and cash advance users with the red line and blue line, respectively.

You can see from these graphs that the number of users is growing steadily in both revolving credit and cash advances without recording a significant increase in the outstanding balance of receivables per customer. This means we have been able to expand our high-quality receivables.

## [Domestic] Housing loan transaction and receivables balance

- Pre-application has increased due to a revision of benefits for mortgage borrowers



### Housing loan transaction volume

- > 1Q Result: 138.8bn (YoY 90%)
- > With the changes in the interest rate environment, the number of refinancing has decreased, and due to the increase in new applications, the time from application to execution has been extended.
- The pre-application have increased by over 20% due to a revision of benefits.

### Housing loan balance (including securitization)

- > 1Q Result: 3,393.2bn (YTD+73.0bn)
- > The receivables balance has steadily accumulating despite the YoY decrease in transaction volume.

This is the last slide from our domestic businesses. It shows the transaction volume and outstanding balance of receivables in our housing loan business.

The transaction volume was 138.8 billion yen, down 10% from the same period of the previous fiscal year.

With the recent changes in the interest-rate environment, demand for refinancing is shrinking. While the number of applications for new financing is increasing, the period from initial application to execution of loans is getting longer. It takes around six months now.

Reflecting such circumstances, the amount of housing loans executed during the first quarter was less than that of the same period of the previous year, but the number of advance applications has increased by more than 20% year on year, following the revision in March of benefits under AEON Select Club, which provides a discount on purchases at AEON Group stores to those customers who have taken out a housing loan.

We are expecting a steady increase in transaction volume from the second quarter and onward.

## Highlights by segments of Global Business

- While operating revenue has increased in all three areas, the Mekong and Malay areas have decreased in operating profits due to the increase in bad debt related expenses
- In the China Area, operating profit has achieved a record-high in 1Q due to the successful capture of inbound tourist demand to Japan

	China Area	YoY	Mekong Area	YoY	Malay Area	YoY
Operating Revenue	¥6.7 bn	146 %	¥21.6 bn	107 %	¥16.9 bn	120 %
Operating Profit	¥2.1 bn	141 %	¥2.7 bn	52 %	¥3.2 bn	54 %
(Reference) Bad Debt Related Expenses	¥1.1 bn	203 %	¥8.5 bn	148 %	¥5.2 bn	407 %

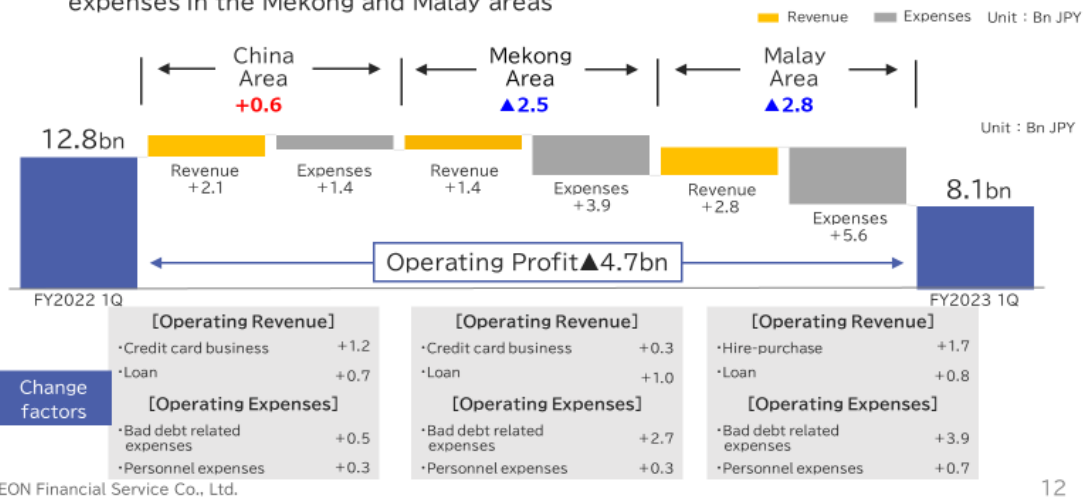
From here, I would like to explain the results of our global businesses.

As you can see on the slide, operating revenue expanded for all three areas of China, Mekong, and Malay, but operating profit decreased in Mekong and Malay areas due to increased bad debt-related expenses.

In the China Area, especially in Hong Kong, we were able to effectively capture the needs of people visiting Japan, which contributed to achieving a record-high operating profit for the first quarter.

## [Global] Breakdown of operating profit year-on-year

- The main factor behind the decrease in OP YoY is the higher bad debt related expenses in the Mekong and Malay areas



This slide shows the breakdown of the year-on-year changes in the operating profit of global businesses.

Bad debt-related expenses increased year on year by 2.7 billion yen in Mekong Area and 3.9 billion yen in Malay Area, which led to a 4.7 billion yen decline in total operating profit of global businesses.

## [Global] Organizing the external environment for bad debt expenses

### **Soaring prices of commodities and energy is squeezed household budgets**

- In Thailand, the consumer price index has risen for 23 consecutive months (as of July 2023), but the minimum wage has remained unchanged since October 2022
- In Malaysia, consumer sentiment deteriorated, as seen in the Consumer Confidence Index for January to March falling by 6.1 points from the previous quarter

### **End or reduction of government debtor protection measures**

- Pension withdrawal program implemented in Malaysia in the same period of the previous year
- Reduction of grace measures for minimum payments in Thailand

### **Increased payment burden of middle and low-income earners**

Now let me explain the external environment behind the increase in bad debt-related expenses.

First, as an overall situation, the rapid rise of commodity and energy prices is increasing pressure on household finance.

In Thailand, the consumer price index has been rising for 23 consecutive months, whereas the minimum wage has not been raised since October 2022, suggesting that the prices have been increasing at a faster rate than wages.

In Malaysia, consumer sentiment seems to be deteriorating, for example, consumer confidence index for January to March fell by 6.1 points compared to the same period of the previous year.

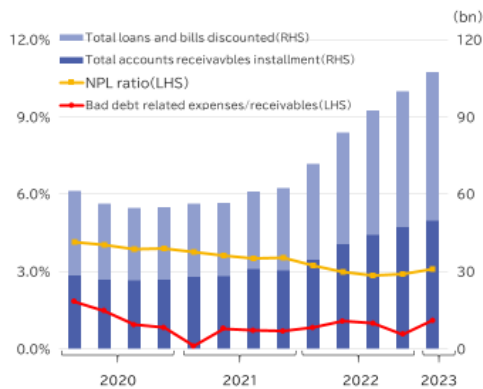
The second factor is the end or reduction of debtor protection measures by governments.

The Malaysian Government allowed early withdrawal of its pension fund as a remedy for struggling debtors during the COVID-19 pandemic. This program was temporarily resumed in the first quarter of the previous fiscal year, and therefore it may appear as if the first quarter marked a sharp rise in bad debt-related expenses compared to the same period last year. Likewise in Thailand, Bank of Thailand had reduced the so-called “minimum payment rate” for credit card debts as a remedy for struggling debtors during the COVID-19 pandemic. This reduced minimum payment rate was raised a little last year.

The combination of these multiple factors seems to be increasing the payment burden on people with middle- to low-income.

## [Global] Operating Receivables and NPL of ACS Asia (HK)

- The receivables continue to expand
- Although the bad debt related expenses has increased, the NPL ratio and the ratio to the balance outstanding receivables are stable



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### Factors influenced Bad Debt Related Expenses

#### [Summary 2022 1Q]

- The decrease in bad debts has resulted in keeping low expenses to the operating receivable.

#### [Summary 2023 1Q]

- Operating Receivables (YoY150% YTD+7.3bn)
- Due to the reassessment of ECL at the end of the previous fiscal year, bad debt related expenses have increased. However, the ratio of bad debt related expenses to operating receivables continues to remain low.

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First, let me show you the trends in the outstanding balance of operating receivables and non-performing loans (NPL) ratio for AEON Credit Service (Asia).

The graph on the left shows installment accounts receivable in light blue bars and operating loans receivable in dark blue, while the yellow broken line and red broken line respectively show the NPL ratio and the ratio of bad debt-related expenses to the outstanding balance of receivables.

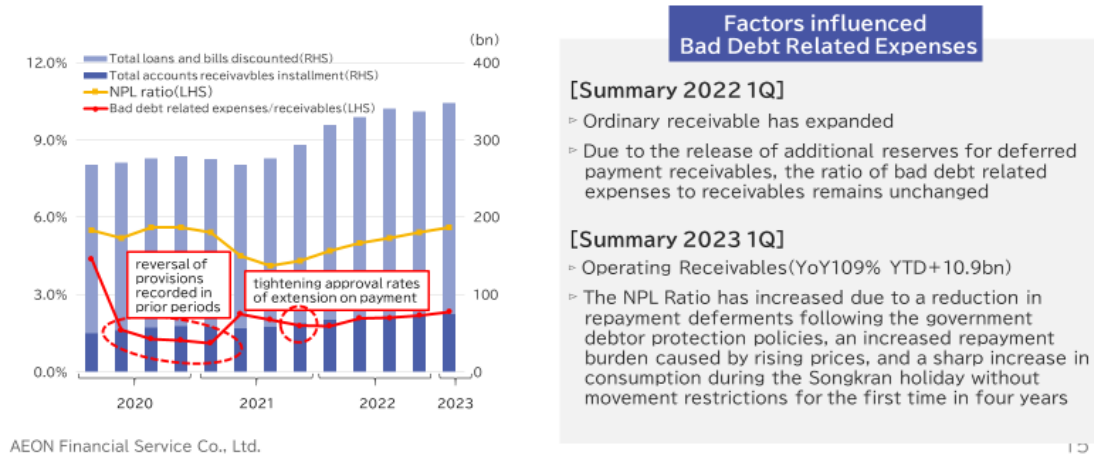
The outstanding balance of receivables has been growing at a good rate.

Bad debt-related expenses have increased because we reviewed the expected credit loss (ECL) at the end of the previous fiscal year to maintain an appropriate level of allowance for future bad debts, but the ratio of bad debt-related expenses to the outstanding balance of operating receivables has continued to remain at a low level.



## [Global] Operating Receivables and NPL of AEON Thana Sinsap (Thai)

- Due to the government's reduction in debtor protection measures, economic stagnation, and rising prices, the NPL ratio is showing an upward trend
- Due to stricter screening, the increase in receivables has slowed down



This slide shows the results at AEON Thana Sinsap in Thailand.

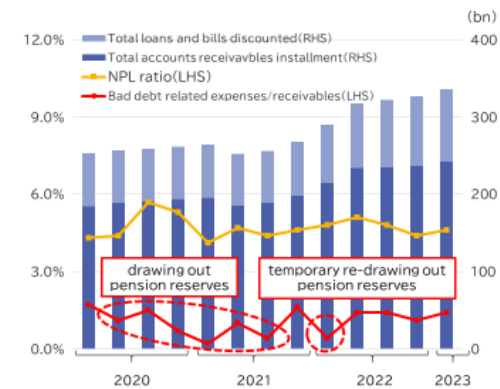
The outstanding balance of receivables continues to increase at Thana Sinsap as well, but the growth rate has settled down due to tightening of screening standards based on the recent environment.

As I explained earlier, NPL ratio is on the rise because of discontinuation or reduction of debtor protection measures such as payment concessions and increase of payment burden due to higher cost of living.

In addition, this year's Songkran holiday, which was the first in four years without any activity restrictions, caused sudden expansion of consumption leading to an increase of delinquent receivables.

## [Global] Operating Receivables and NPL of ACS Malaysia

- Bad debt related expenses in the previous 1Q improved significantly due to special factors
- In the current period, bad debt related expenses to receivables are showing an increasing trend, controlled within a certain range



### Factors influenced Bad Debt Related Expenses

#### [Summary 2022 1Q]

- Due to the special factors such as the temporary pension reserves withdrawals, expenses had significantly reduced

#### [Summary 2023 1Q]

- Operating Receivables (YoY 116% YTD +9.7bn)
- After the significant increase in consumption during the Hari Raya holiday, the collection rate worsened, resulting in an increase in bad debts
- Due to the elaborating ECL calculation, the reserve ratio for individual installment receivables has improved

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Finally, this slide shows the results for AEON Credit Service in Malaysia.

As explained earlier, the temporal resumption of early pension fund withdrawal and other special factors contributed to a significant drop in bad debt-related expenses in the first quarter of the previous fiscal year. This in turn caused a significant year-on-year increase in the bad debt-related expenses for this year's first quarter.

In Malaysia too, outstanding delinquent receivables went on the rise following the sudden surge of consumption associated with the Hari Raya holiday.

On the other hand, reserve ratio for losses on installments for individual products has been improved through elaboration of the calculation of ECL.

As we have seen, the increase of bad debt-related expenses in global businesses is impacting the performance of the Group as a whole, but we are consistently working to improve our underwriting and collection policies. I would like to explain these in more detail in the next section on the measures we are focusing on.

That's it for the financial highlights of the first quarter.

## 2 Priority Measures

From here, I would like to introduce the measures we have been and will be taking in the first and second quarter and going forward.

## [Domestic] Expanding the number of IDs (AEON Pay)

- In the 1Q, acquired 470,000 cardholders (YoY 101%)
- AEON Pay members expanded to 8.36 million, cross-selling to various services by expanding functions

### Expansion of AEON Pay membership

- From June 14, in addition to AEON Card payment, a charge payment function that can be obtained from bank accounts, etc
- Acquire new customers and approach various services through AEON Pay

#### Expansion of functions and membership



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First, let's look at our domestic businesses.

As for our efforts to boost membership, which is the basis for business expansion, we acquired 470,000 new AEON card members in the first quarter.

We have started to issue credit cards in collaboration with Welcia from this April, but the provision of benefits unique to the collaboration card did not start until June, lagging behind the initial schedule.

Meanwhile, membership expanded to 8,360,000 as a result of efforts to encourage store customers to use AEON Pay (app for smartphone payment).

With the addition of a charge payment function (function for advanced payment) in June, those customers who do not have an AEON card can now use our payment services.

Starting from June 24, we are running a promotional campaign including placement of commercial messages on TV. We will continue to expand our membership by enhancing useful functions and using AEON Pay as an entrance gate to other services such as credit card, banking, and insurance.

## [Domestic] Expanding the number of IDs (cooperation with the AEON Group)

- Depending on customer attributes and stores visited, promote effective use of channels and recruitment systems

### Promotion of affiliated cards with Welcia

- Starting with the Welcia Card, which launched its own benefits in June, promote the acquisition by strengthening alliances with our partners



Welcia members exceed 8 million



We are strengthening our approach to acquire new card members utilizing different channels according to age range and other attributes of the customers

In addition to approaching customers at our own stores and through online campaigns, we are also enhancing alliance with partner companies as an opportunity to promote the use of AEON card. We have succeeded in acquiring members through such partners as COSMO Oil and Kojima/Bic Camera.

We also hope to attract more membership by leveraging Welcia's existing customer base of eight million "Welcia Members" already registered on an app. We will encourage Welcia customers at the storefront and at the checkout counter to use the new Welcia Card we launched this year as the most attractive card used at Welcia stores.

[Domestic] Expanding the number of IDs (cooperation with the AEON Group)

- Joint promotion of membership acquisition of AEON Group's new online supermarket "Green Beans", which began full-scale operation on July 10 in parts of Tokyo's 23 wards and Chiba City



Let me introduce our initiative in cooperation with Aeon Group's new online supermarket brand, Green Beans as was reported on the Nikkei newspaper this morning.

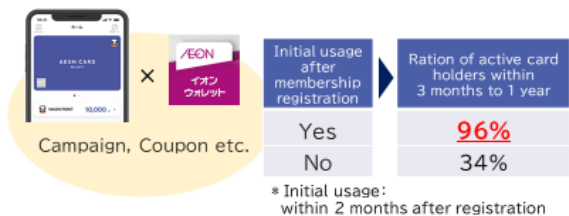
Green Beans is an online market targeting double-income couples and relatively young generations mainly in the Tokyo metropolitan area. We hope to expand our membership by actively communicating the original benefits and privileges offered to AEON card holders.

## [Domestic] Increasing the transaction volumes of credit card business

- Improve the initial operation rate by promoting virtual cards that can be issued instantly online, promote gold card membership, and strengthen measures to connect card enrollment to use

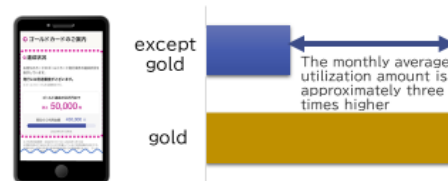
### Initiatives to improve initial usage

- Customers who use the service in the early stages of enrollment have a high continuous usage rate and promote initial operation follow-up through the app
- The virtual card application rate at stores has increased to 70%
- Immediate use leads to the conversion to a main card



### Promotion of gold card membership

- Announced the criteria for switching gold cards and added a function that allows customers to check the achievement status on the app
- Aim to become a high-quality customer with a high operation rate and usage amount



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Now let's look into our initiatives to expand our card shopping transaction volume.

First, I would like to explain the measures we are taking to improve initial usage.

As shown in the table on the right, when comparing customers who use their card within two months after membership registration and those who do not, the continued use rate of the latter is as low as 34%, whereas the continued use rate of customers who used their card shortly after registration is above 90%, showing a nearly three-fold difference. This suggests that the initial usage is an important key to continued use.

We have therefore launched a campaign to promote usage leveraging smartphone apps as a customer contact point. At our stores, we are also soliciting application for a virtual card that can be issued on the customer's smartphone in as quickly as five minutes.

The ratio of customers who choose to apply for a virtual card at our stores has reached roughly 70%. As the smartphone credit card can be used on the very day of application, customers can benefit from "thanks day" and other campaigns at AEON Group stores from that day, leading to improved usage rates thereafter.

In addition, we are implementing measures to encourage card holders to upgrade to gold card status, as gold card members demonstrate high contribution to transaction volume.

Last year, we disclosed the eligibility criteria that need to be met for upgrading to gold card status, which had been previously undisclosed. We also added a function on the app so that users can check how far they are to achieving gold card eligibility.

We will build mechanisms to encourage initial and continued use leveraging contact points on the app to improve both usage rate and amount used by each user.



## [Domestic] Increasing the transaction volumes of housing loans

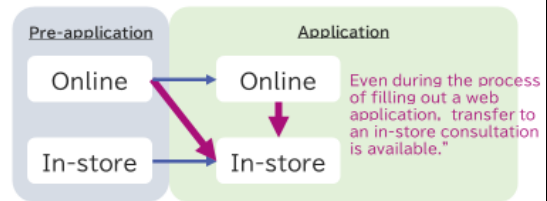
- Appealing to customers the strengths of AEON Bank, which combines online convenience with the peace of mind of physical stores, and the unique benefits of the AEON Group

### The convenience of the online & the reassurance of the real store

- > Continue to promote in-store consultations with a high execution rate by providing careful explanations and procedural support
- > About 70% of customers who applied in advance on the web finally chose to contract at the store

### Strengthen the appeal of Select Club benefits

- > Introduced a simulation function to visualize the amount of shopping discounts due to benefits incidental to housing loans



discount simulation feature on the website is to be provided

This is a slide showing our initiatives to expand our housing loan transaction volume.

AEON Bank was awarded first place overall among 108 banks in Japan in the online banking category of 2023 Oricon Customer Satisfaction Ranking.

AEON Bank offers the advantages of both an online bank and a real store, as we can provide friendly and casual consulting at AEON shopping malls and other stores located across the country, in addition to the convenience of online banking. We believe this double strength was recognized by our customers.

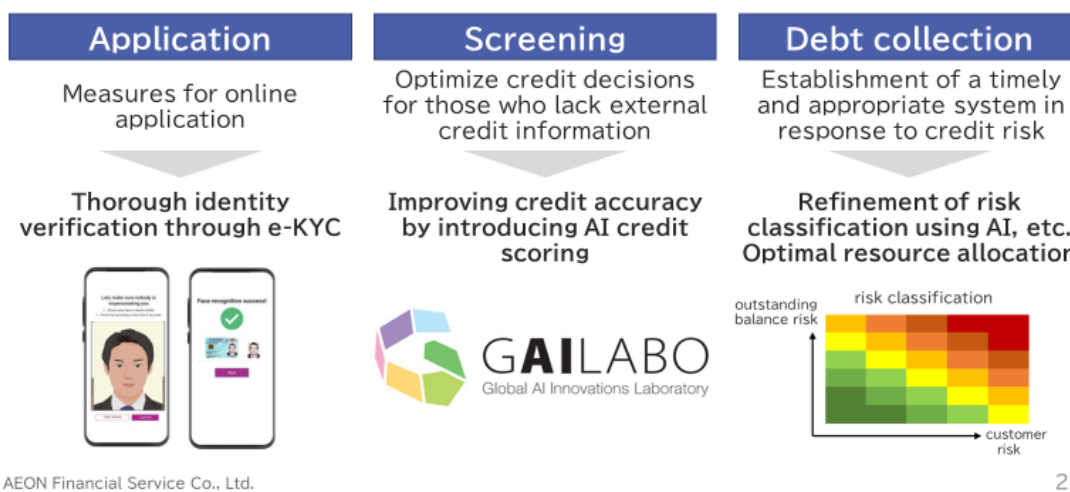
Customers who are looking for housing loans tend to make an advance application online, but in most cases wish to visit the office for the subsequent procedures because they can get more detailed explanation and support by talking to us in person. We are able to achieve high execution rates because the contract procedures are completed at the bank offices.

This March, we enhanced the benefits offered by AEON Select Club. The AEON Select Club now offers a 5% discount on everyday purchases at AEON Group stores, which led to more than 20% year-on-year increase in the number of advance applications for a housing loan.

We are also planning to provide a simulation function to help customers check the amount of discount they will be able to enjoy. By offering attractive benefits that competitors are unable to provide, we will expand the transaction volume of housing loans.

## [Global] Advancement of credit and collection methods

- Enhancing methods at each stage of transactions and strengthening control of bad debt costs



The next topic is global businesses.

As I discussed earlier, the increase in bad debt-related expenses in global businesses put downward pressure on operating profit in the first quarter.

To address this situation, we are stepping up efforts in each of the process of application, screening, and debt collection.

As a step toward improving the appropriateness of credit decisions, we plan to mandate electronic know-your-customer (eKYC) requirements to ever-increasing online applicants.

In overseas markets, there are a certain proportion of people who do not have a bank account or a credit card, and therefore lack external credit information. To improve the appropriateness of credit decisions, AI credit scoring that had been introduced at Aeon Credit Service Indonesia earlier will be introduced to Aeon Credit Service in Malaysia by the end of this fiscal year.

We will improve the adequacy and appropriateness of credit decisions through AI-enabled multi-faceted screening.

With regard to debt collection, we will refine risk categorization methods using AI and other means to build a system for timely and appropriate response according to the risk and improve collection rate through optimal resource allocation.

By ensuring thorough implementation of these initiatives, we will improve debt collection rate and streamline operational processes through digitalization, thereby reducing bad debt-related expenses.

## [Global] Initiatives to increase revenues

- "Going online" and "capturing inbound demand" will lead to new revenue opportunities

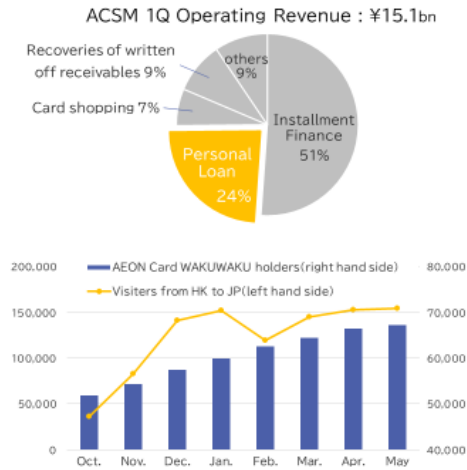
### Application completely online (Malaysia)

- For personal loans, we plan to make them completely online from application to receipt. In addition to its core business of bike clones, aims to expand personal loans

### Strengthening inbound demand (Hong Kong and Thailand)

- HK: Continue to promote "AEON Card WAKUWAKU" with cashback benefits for visiting Japan. Accounts for about 10% of credit card business transactions
- TH: Reinforcing sales promotion of the "J-Premier Platinum Card" with benefits for visiting Japan

AEON Financial Service Co., Ltd.



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This slide shows our initiatives for expanding revenue of global businesses.

Installment finance for individual products such as motorcycles is an important service in Malaysia. We have developed a system in which users can complete the entire process online, from application to product purchase by installments, offering enhanced convenience to many users.

The second largest business in Malaysia next to installment finance is personal loans which account for one fourth of the revenue in Malaysia. We are planning to build an online system in this area as well, to enable online processing of the entire process from application to transfer of money to the bank account specified by the user.

This will enable customers living in areas far from our office to use our service. We are looking to further expand our personal loan business in Malaysia.

With the lifting of travel restrictions in many countries, the number of international travelers is recovering from the drop during the COVID-19 pandemic.

The number of visitors to Japan from Hong Kong has been on the increase since the previous fiscal year, supporting continued strong performance of AEON Card WAKUWAKU that offers a cash rebate when spending in Japan.

The main users are relatively young people in their 20s to 40s with high needs for shopping in Japan, accounting for roughly 10% of the card shopping transaction volume.

In Thailand too, we are running a promotional campaign for the J-Premier Platinum Card which offers benefits for those traveling to Japan such as discounts and travel insurance to capture the demand of tourists to Japan.

## Purpose-formulation

- Formulate a common decision-making axis for the AFS Group to maximize the value provided to customers and enhance corporate value

### Our Purpose



We have recently formulated "Our Purpose" to define the aims of the AEON Financial Service (AFS) Group and our reasons for existence.

Since AFS Group started business in 1981 as Nihon Credit Service Co., Ltd., an issuer of credit cards, it has continuously expanded its business to other countries in Asia as well as into banking, insurance, and other domains. The AFS Group has now grown into a financial group that offers financial instruments and services to customers in 11 countries including Japan.

Over the past four decades, changes in society and the business environment have accelerated at an increasing pace. In the face of diversifying customer values, advance of digitalization driven by technological innovation, and entry of players from other industries into the financial sector, we have arrived at a turning point where we are challenged to think out of the box and respond with agility.

For the AFS Group to continue to grow sustainably, we need to have aspirations and values that all employees can commit to, and by embracing those aspirations and values, we must transform into a resilient organization in which employees independently consider what they can do to enrich our customers' lives and act autonomously.

"Our Purpose" is the fundamental *raison d'être* and will of the Group for all employees to always rely on as a basis for decision toward transformation.

Under "Our Purpose" and based on shared principles, we will continue to develop as a Group beyond the framework of our existing businesses through digital and green transformation and

by utilizing human capital and all other means available.

We will work together combining the goals of solving social issues and pursuing corporate growth so as to consequently maximize the value we provide to customers and improve corporate value.

## 3 Earnings and Dividend Forecasts

Finally, I will present financial performance and dividend forecasts.



## FY2023 earnings forecast, dividend forecast (unchanged)

- There is no change in earnings and dividend forecasts

	Consolidated	YoY	Domestic		Global	
				YoY		YoY
Operating Revenue	¥480.0 bn	106 %	¥290.0 bn	103 %	¥190.0 bn	112 %
Operating Profit	¥61.0 bn	104 %	¥19.0 bn	111 %	¥43.0 bn	101 %
Ordinary Profit	¥61.0 bn	99 %	Dividend per share		Payout ratio	
Profit attributable to owners of parent	¥27.0 bn	88 %	Annual: ¥53	Interim: ¥25 Year-end: ¥28	42.4 %	

The forecast figures remain unchanged from those announced in April. We believe we made a good start in the first quarter in terms of operating revenue both in domestic and global businesses.

In the domestic businesses, we have been building up revolving credit and cash advance receivables which bring high profit, and we expect continued growth into the second quarter as well.

In global businesses, the discontinuation of debtor protection measures and rising living costs increased the payment burden on people with middle- to low-income, which in turn caused an increase in bad debt-related expenses.

We will strengthen cost control through measures that I have presented today and steadily implement steps to expand revenue towards the achievement our performance targets for the full year.

We appreciate your continued support.

Thank you for your kind attention.

## Questions and Answers

### ■ Daiwa Securities / Analyst Watanabe

(1)

Q: What are the factors behind the increase in balances of Revolving Credit and Cash Advance in the card business? Also, regarding promotional expenses, there seems to be a significant increase in point costs while advertising expenses have decreased. Has there been any change in promotion strategy?

A: Tomoyuki Mitsufuji

The increase in Revolving Credit and Cash Advance was influenced by the downgrading of COVID-19 to level 5, which led to a rebound in consumption. Additionally, the convenience of changing payment methods from lump sum to revolving online has improved, which has contributed to the growth.

The increase in transaction volume and balance is mainly due to an increase in the number of users, and we believe it is better to focus on increasing the number of users rather than increasing individual usage amounts. As for advertising and promotion, the increase in point costs is the result of implementing point campaigns to acquire new customers. Going forward, we will balance advertising and point costs while continuing our promotional activities to attract new customers.

(2)

Q: Could you provide details about the replacement of securities at Aeon Bank's subsidiary? Are there any additional replacements planned?

A: Tomoyuki Mitsufuji

We had already factored in a certain level of securities replacement. The loss of 1 billion yen recorded this time was due to the suspension of securitization of Aeon Product Finance's receivables in the previous fiscal year. This year, we have been conducting securitization of Aeon Bank's receivables, leading to an increase of 1.8 billion yen compared to the previous year. The portfolio mainly consists of interest-bearing assets and includes investment trusts. Unrealized gains and losses are subject to market conditions. We will continue to make replacements while considering the profitability of the portfolio.

■ Mitsubishi UFJ Morgan Stanley Securities / Analyst Tsujino

(1)

Q: The gain on sale of receivables shows a profit of 1.8 billion yen. Could you provide a breakdown? Is it in line with the plan?

A: Tomoyuki Mitsufuji

The gain on sale of receivables appears larger due to the suspension of securitization of Aeon Product Finance's receivables in the previous fiscal year. This year, we have been conducting securitization of Aeon Bank's receivables, leading to an increase of 1.8 billion yen compared to the previous year. The environment has become more challenging, with investors demanding higher standards. However, we do not anticipate significant changes in the impact on profits for the fiscal year, and we plan to proceed as planned.

(2)

Q: The expenses for acquiring new members seem to be high. Will this situation continue in the future?

A: Tomoyuki Mitsufuji

This is an area we need to control. We aim to generate revenue without losing to the cost of points. We encourage customers to use our shopping services, and as they do, a certain percentage of them will also use revolving and cash services. This approach allows us to build up receivables more securely. We will continue to work on cost reduction as part of our efforts to secure funds for the expenses and promote group reorganization.

■ BofA Securities / Analyst Yanaginuma

(1)

Q: The progress rate of domestic operating profit is 13%. Can you share the outlook for 2Q onwards to achieve the plan?

A: Tomoyuki Mitsufuji

The progress rate shown in the materials indicates the percentage relative to the budget and is not a comparison to the plan. We consider two key points to achieve the annual plan: the contribution of profits from the increase in receivables balances since the previous fiscal year and cost control of overseas credit expenses. We plan to continue building up balances and conducting

securitization.

(2)

Q: The progress rate of international business is below 20%. Considering the pace of increasing credit costs, what is the outlook for 2Q onwards?

A: Tomoyuki Mitsufuji

In Malaysia, the increase in credit costs was included in the budget, considering the impact of the government's policies implemented last fiscal year. We will focus on strengthening collection efforts to gradually recover. The increase in credit costs is a significant challenge, and we recognize the need to control it through efforts such as refining ECL calculations as much as possible.

Please note that this translation may not be an exact word-for-word rendering, but it aims to convey the general meaning and context of the original Japanese text. ear, if possible.

■ SMBC Nikko Securities / Analyst Hara

(1)

Q: Did the domestic promotional expenses fall below expectations?

A: Tomoyuki Mitsufuji

The promotional expenses for the first quarter were below the budgeted level. Part of the advertising and promotion expenses was not utilized. While we plan to strengthen promotions, we do not expect significant fluctuations.

(2)

Q: The PBR (Price-to-Book Ratio) is consistently below 1. What discussions are being held regarding this situation?

A: Tomoyuki Mitsufuji

We are conducting discussions on the entire business portfolio internally. We have mentioned in the full-year financial results briefing that we will provide some information on this in the fall. We aim to make some announcements around the time of the second quarter financial results briefing.

■ SBI Securities / Analyst Otsuka

(1)

Q: Can you share the changes, including revenue and profit aspects, related to the group reorganization?

A: Tomoyuki Mitsufuji

As the merger was completed on June 1, there are currently no numerical figures available. However, there have been positive effects in terms of human resources mobility. The number of personnel in the head office and non-revenue departments has increased slightly due to the merger, so we plan to shift some of them to revenue-generating departments. We already feel the benefits of faster decision-making. We aim to provide numerical data in the future.

(2)

Q: The mid-term target for fiscal year 2025 is set at an operating profit of 100 billion yen. How likely is it to achieve this goal?

A: Tomoyuki Mitsufuji

The mid-term target is considered challenging from the current level. Since the time of planning, some expenses that were not included in the plan have emerged. While responding to market demands, we would like to make some announcements. However, at this point, there are no plans to change the mid-term target.

■ Mizuho Securities / Analyst Sakamaki

(1)

Q: Is it possible to implement measures (such as cost reduction in promotional expenses) to secure point costs?

A: Tomoyuki Mitsufuji

Points incur costs depending on their usage. As a significant tactic, customers who use shopping services tend to use revolving and cash services to some extent. We aim to increase shopping usage and build up receivables. Cost reduction for securing funds will be implemented as part of the group reorganization.

■ JP Morgan Securities / Analyst Sato

(1)

Q: How is the progress on the review of business reorganization and optimization of sales touchpoints?

A: Tomoyuki Mitsufuji

The review of touchpoints is steadily progressing, and we are working to achieve some results.

(2)

Q: Regarding the digital bank in Malaysia, are the expenses expected to be on track from 2Q onwards?

A: Tomoyuki Mitsufuji

As planned, we will continue to recognize expenses related to the digital bank from the second quarter onwards.

■ UBS Securities / Analyst Okada

(1)

Q: The sales growth rate in local currency for the subsidiary in Thailand seems to be stagnant. What are the reasons for this?

A: Tomoyuki Mitsufuji

The increase in credit easing after COVID-19 led to the expansion of business revenue until the previous year. However, due to rising living costs, we tightened some credit, resulting in the appearance of stagnancy. We will gradually work towards recovery.

(2)

Q: What factors will lead to an increase in the growth rate of domestic shopping transaction volume from 2Q onwards?

A: Tomoyuki Mitsufuji

A major factor is to significantly increase the number of members. To acquire more members, we will continue to promote not only the conventional in-store customer solicitation but also web-based acquisition. Additionally, promoting in-store applications for virtual cards, as well as advancing Gold member conversions to increase usage frequency, are part of our strategy to expand the number of members and increase transaction volume from high-spending customers.

■ Mitsubishi UFJ Morgan Stanley Securities / Analyst Tsujino

(1)

Q: The gain on sale of receivables shows a profit of 1.8 billion yen. Could you provide a breakdown? Is it in line with the plan?

A: Tomoyuki Mitsufuji

The gain on sale of receivables appears larger due to the suspension of securitization of Aeon Product Finance's receivables in the previous fiscal year. However, this year, we have been conducting securitization of Aeon Bank's receivables, leading to an increase of 1.8 billion yen compared to the previous year. Despite the more challenging environment with higher investor demands, we don't foresee significant changes in the impact on profits for the fiscal year, and we plan to proceed as planned.

(2)

Q: The expenses for acquiring new members seem to be high. Will this situation continue in the future?

A: Tomoyuki Mitsufuji

Acquiring new members is an area we need to control. Our aim is to generate revenue without incurring excessive costs related to points. We encourage customers to use our shopping services, and as they do, a certain percentage of them will also use revolving and cash services. This approach enables us to build up receivables more securely. We will continue to focus on cost reduction efforts to secure funds for expenses and promote group reorganization.